Center Financial Corporation Summary Annual Report 2008

TOGETHER WE MAKE THE DIFFERENCE

Center Financial Corporation

2008

Corporate

PROFILE

Center Financial Corporation is the holding company of Center Bank, a community bank offering a full range of financial services for diverse ethnic and small business customers. Founded in 1986 and specializing in commercial and SBA loans and trade finance products, Center Bank has grown to be one of the nation's leading financial institutions focusing on the Korean-American community, with total assets of $2.06 billion at December 31, 2008. Headquartered in Los Angeles, Center Bank operates a total of 19 full-service branches and one loan production office. The Company has 16 full-service branches located throughout Southern California. Center Bank also operates two branches and one loan production office in the Seattle area, along with one branch in Chicago. Center Bank is a California state-chartered institution and its deposits are insured by the FDIC to the extent provided by law. For additional information on Center Bank, visit the Company's Web site at www.centerbank.com.

Working closely together with our customers,
Center Bank makes the difference that supports our mutual success.

Senior Management Team

Left right:

Lisa Kim Pai (Executive Vice President, General Counsel, Corporate Secretary and Chief Risk Officer)

Jae Whan (J.W.) Yoo (President and Chief Executive Officer)

Jason K. Kim (Senior Vice President and Chief Credit Officer)

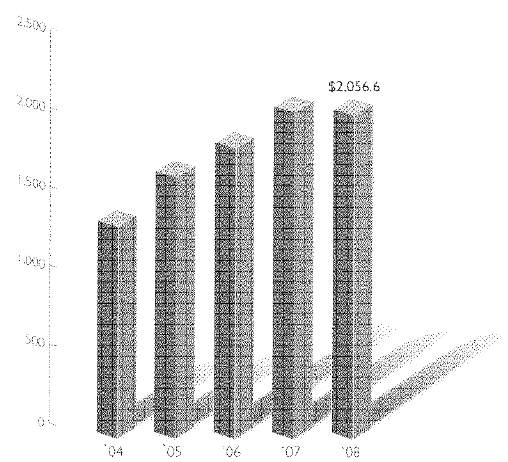
Lonny D. Robinson (Executive Vice President and Chief Financial Officer)

Financial Highlights

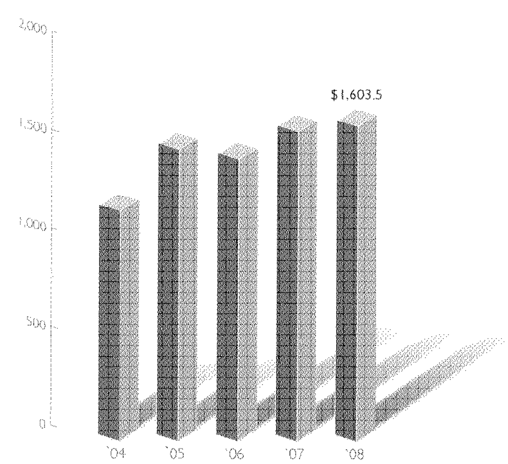
(dollars in thousands, except per share and share data)	2008	2007	2006	2005	2004
	As of and For the Years Ended December 31,				
Statement of Operations					
Interest income	$ 131,207	$ 143,241	$ 124,729	$ 92,825	$ 57,508
Interest expense	56,607	66,986	53,319	29,467	15,381
Net interest income before provision for loan losses	74,600	76,255	71,410	63,358	42,127
Provision for loan losses	26,178	6,494	5,666	3,370	3,250
Net interest income after provision for loan losses	48,422	69,761	65,744	59,988	38,877
Noninterest income	15,376	14,863	22,226	20,531	20,558
Noninterest expense	65,225	49,035	45,327	40,825	36,823
(Loss) income before income tax (benefit) expense	(1,427)	35,589	42,643	39,694	22,612
Income tax (benefit) expense	(1,647)	13,646	16,485	15,091	8,388
Net income	$ 220	$ 21,943	$ 26,158	$ 24,603	$ 14,224
Share Data					
Net income per common share					
Basic	$ 0.00	$ 1.32	$ 1.58	$ 1.50	$ 0.88
Diluted	$ 0.00	$ 1.31	$ 1.57	$ 1.48	$ 0.86
Book value per common share	$ 9.62	$ 9.62	$ 8.46	$ 6.86	$ 5.57
Cash dividend per common share	$ 0.20	$ 0.19	$ 0.16	$ 0.16	$ 0.16
Weighted average common shares outstanding:[1]					
Basic	16,525,761	16,649,495	16,535,189	16,375,823	16,157,581
Diluted	16,560,309	16,731,694	16,666,768	16,702,023	16,525,865

(1) *As adjusted to give retroactive effect to stock splits and dividends.*

Total Assets
($ Millions)



Total Deposits
($ Millions)

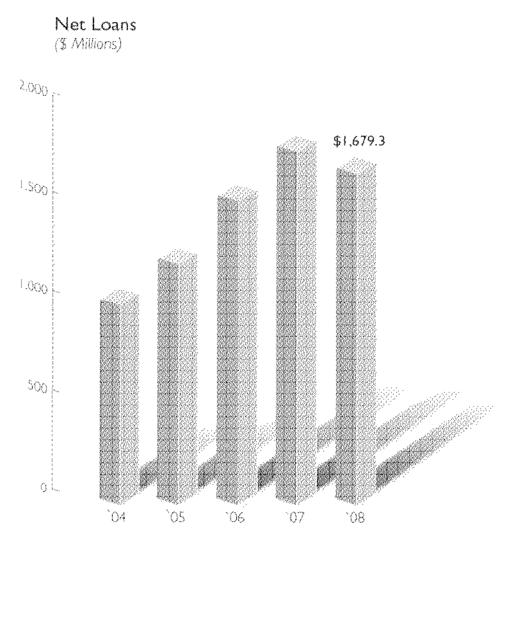


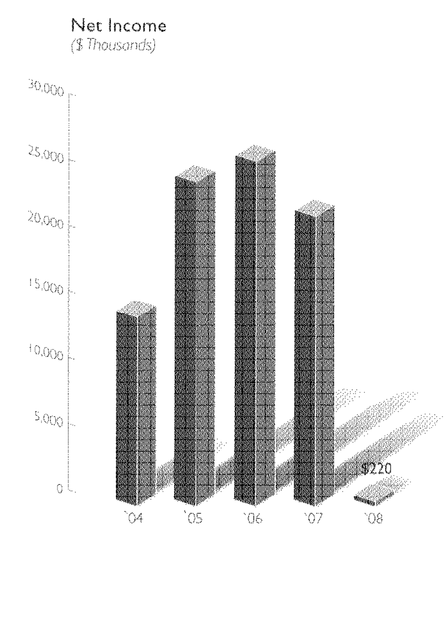
Financial Highlights

(dollars in thousands, except per share and share data)	2008	2007	2006	2005	2004
	As of and For the Years Ended December 31,				
Statement of Financial Condition					
Total assets	2,056,609	2,080,663	1,843,312	1,661,003	1,338,114
Total investment securities	182,694	139,710	159,504	236,075	168,423
Net loans (2)	1,679,340	1,789,635	1,537,176	1,219,149	1,010,473
Total deposits	1,603,519	1,577,674	1,429,399	1,480,556	1,165,536
Total shareholders' equity	214,567	157,453	140,734	112,714	90,720
Performance Ratios					
Return on average assets (3)	0.01%	1.14%	1.53%	1.69%	1.22%
Return on average equity (4)	0.13	14.33	20.66	24.04	16.89
Net interest margin (5)	3.80	4.23	4.53	4.77	3.98
Efficiency ratio (6)	72.49	53.80	48.41	48.67	58.74
Capital Ratios					
Total risk-based capital ratio					
Consolidated Company	13.84%	10.42%	10.54%	10.76%	10.62%
Center Bank	13.13	10.19	10.46	10.78	10.54

(2) *Net loans represent total gross loans less the allowance for loan losses, deferred fees, and discount on SBA loans.*
(3) *Net income divided by average total assets.*
(4) *Net income divided by average shareholders' equity.*
(5) *Represents net interest income as a percentage of average interest-earning assets.*
(6) *Represents the ratio of noninterest expense to the sum of net interest income before provision for loan losses and total noninterest income.*

Complete financial information is contained in the Company's Form 10-K included herewith and incorporated by reference as part of Center Financial Corporation's 2008 Summary Annual Report.





In 2008, Center Financial Corporation achieved three major strategic goals that undeniably will provide benefits to the Company for years to come.

Peter Y.S. Kim - *Chairman of the Board*

Message to Shareholders

In 2008, Center Financial Corporation achieved three major strategic goals that undeniably will provide benefits to the Company for years to come. We successfully deleveraged our balance sheet, improved our operational efficiencies and resolved a long-standing litigation. While made against the backdrop of an extremely difficult economic environment that spiraled downward late in the year at a pace more swift and severe than can be remembered in recent history, these achievements positioned Center Bank on more stable grounds, and we are well poised to continue working together with our customers and communities to support future growth through sound, conservative banking practices.

Deleveraging our Balance Sheet in Anticipation of a Market Downturn

Early on in the year and before deleveraging the balance sheet became a common theme in the banking industry, we set into motion strategic loan sales to mitigate our exposure to the commercial real estate market. By taking timely action, we were able to conclude these sales despite a widespread deterioration in the wholesale market in the second half of 2008. These sales effectively lessened our exposure ahead of the anticipated downturn in the valuations of commercial real estate property.

Over the course of 2008, our commercial real estate portfolio was reduced by $62.3 million, our real estate construction loan balances were down by about $6.2 million and our SBA portfolio, much of which is related to CRE, declined by $33.5 million. Overall, with the higher levels of payoffs during the year, our total loan portfolio was reduced by $92.6 million to $1.72 billion as of December 31, 2008. This is in spite of the fact that we originated nearly $460 million in new loans and renewals during the year.

Improving Our Operating Efficiencies

We also began taking affirmative actions early in 2008 to tighten our belts and right size the organization for an extended decline in general business activity. In addition to company-wide cost control measures, we reduced our total full time staff to align our resources with anticipated business levels. Including gradual attrition, the number of full time equivalent employees was reduced to 316 at December 31, 2008 from a high of 368 as of March 31, 2008, resulting in an 8% decrease in the Company's compensation expenses versus 2007. Staff reductions were made throughout the year, so when comparing the 2008 fourth quarter compensation expense to the prior-year period, compensation expenses reflected a more significant decline of 29%.

A Global Resolution to a Long-Standing Suit

The resolution of a six-year long litigation with Korea Export Insurance Corporation (KEIC) during the year was certainly one of the more notable achievements, and one that has already begun to benefit our operating efficiencies. Aside from lifting the uncertainties, burden and expense of further litigation that unduly weighed on the Company, the settlement agreements eliminated all potential liabilities to Center Financial related to the consolidated action, which sought a total of $102 million. With this resolution, our management team is able to focus 100% of our attention on strengthening the long-term prospects for our organization and navigating the current obstacles in the economic environment.

Boosting Reserves in an Extreme Credit Environment

After having maintained consistently strong credit metrics throughout the subprime and financial crises, we began to see signs of weakness in our asset quality late in the year. As these trends are likely to continue into 2009, we deemed it prudent to increase the Company's loan loss reserves. Along those lines, we also modified our methodology for calculating our reserves to more adequately access true directional consistency given the severity and swiftness of deterioration in the economic environment. In addition to heightened risk ratios, we shortened the loss experience evaluation period to better reflect current portfolio stresses and recent losses. As a result of these modifications and the deteriorated credit trends, our provision for loan losses was increased considerably to $26.2 million for 2008 from $6.5 million for 2007, and our allowance for loan losses to total loans was upped to 2.22% as of December 31, 2008.

Extreme conditions will impact even the best of loan portfolios, and we expect our results will continue to be adversely impacted by the current credit environment for at least the near term. As such, we

We successfully deleveraged our balance sheet, improved our operational efficiencies and resolved a long-standing litigation.

Jae Whan (J.W.) Yoo - *President and Chief Executive Officer*

Message to Shareholders

initiated additional measures to even more aggressively monitor our loan portfolio. We are confident that with our stringent underwriting standards and proactive monitoring, Center Financial has the credit management expertise and the capital backing to weather this storm and survive as one of the soundest financial institutions serving the Korean-American and other ethnic communities.

Financial Performance

The Company's results of operations in 2008 are reflective of the significantly higher loan loss reserves and a $7.5 million KEIC litigation settlement expense. In addition, 2008 financial results were adversely impacted by a non-cash, Other-Than-Temporary-Impairment (OTTI) expense of $9.9 million. The OTTI charge was related to a bank collateralized pooled trust preferred CDO. Originally valued at $11 million and held in our securities portfolio since 2002, the OTTI expense reflected a nearly 90% decline from the original fair market valuation. We have no other holdings in securities of this nature that we believe would be subject to OTTI impairments, nor do we have any Fannie or Freddie Mac perpetual preferred stocks left in our investment portfolio.

Net income totaled $220,000, equal to $0.00 per diluted share, compared with net income of $21.9 million, or $1.31 per diluted share in 2007. Return on average assets equaled 0.01%, and return on average equity was 0.13% for 2008. This compares with return on average assets of 1.14% and return on average equity of 14.33% for 2007.

While these results are disappointing, particularly in a year in which so much was achieved, we believe in the strength of our organization, and we have deservedly earned the trust and confidence of our customers to be their financial partner of choice. Underscoring this trust and as a result of strategic marketing campaigns, core deposits expanded to 59% of total deposits at year-end 2008 from 49% at the close of 2007. While non-interest bearing deposits narrowed to 19% of total deposits, we are pleased that this level remains high relative to our niche peers. Total deposits at December 31, 2008 rose 2% over the prior year to $1.60 billion.

Safeguarding Our Capital

Recently, we have seen many headlines that "Capital is King." We applied for and received $55 million in new capital through the U.S. Treasury's Capital Purchase Program in late December. This boosted our total risk-based capital ratio to a strong 13.84%, Tier 1 risk-based capital ratio to 12.58% and leveraged capital ratio to 11.28% as of December 31, 2008.

At the close of 2008, total assets declined to $2.06 billion from $2.08 billion a year earlier, due primarily to the strategic deleveraging of the Company's balance sheet. Shareholders' equity rose to $214.6 million at year-end 2008, up from $157.5 million a year ago. Tangible common equity represented 7.78% of total assets at year-end 2008.

For the past 23 years, Center Bank has grown through a sound and conservative banking philosophy that was formulated to ensure our long-term success and that of our customers. In what is now widely accepted as a deep and prolonged recession, our board – like many other boards – deemed it prudent to have a greater focus on capital preservation and suspended the Company's quarterly cash dividend effective in the first quarter of 2009. This decision is expected to result in savings of approximately $3.3 million in capital on an annual basis for the Company and is in line with recent statements made by the Federal Reserve. While our capital and tangible common equity positions remain very strong, we believe this cautious stance will enhance our ability to capitalize on opportunities ahead.

Together We Make the Difference

On behalf of the Board of Directors and management team, we thank each and every customer for their trust and patronage, all of our team members for their untiring dedication and our shareholders for their valued support. In this time of great uncertainty, we are secure in the strength of our organization, confident in our ability to support the financial needs of our customers and communities and committed to building value for our shareholders.

Together we make the difference.

Sincerely,

Peter Y.S. Kim
Chairman of the Board

Jae Whan (J.W.) Yoo
President and Chief Executive Officer

"Our motto is 'Flexible Packaging Made Better.' Center Bank is our financial partner because we believe they make business banking better."

Originally established in 1996, Osio International is one of the fastest growing suppliers in a $25 billion flexible packaging industry that has revolutionized how manufacturers are branding the packaging for consumer products. Under the leadership of its founder, Don Kwon, and a commitment to unparalleled quality, outstanding value, dependability and the constant pursuit of packaging innovations, the company has grown to become the largest importer of shrink labels in the U.S. From working closely with its clients to develop concepts, to providing photography and graphic design, to test marketing the product, to warehousing picture-perfect flexible packaging materials until ready for use, Osio International provides a cost effective, one-stop solution for small to middle-market regional manufacturers, as well as for some of the nation's most popular consumer brands – including Sunsweet, Blue Diamond, Shamrock Farms and Wal-Mart's Great Value brand, among others. The industry is expected to continue to grow substantially as material combinations have extended the use of flexible packaging to products that are not traditionally found in bags or pouches. Capitalizing on these trends, Mr. Kwon and Senior Vice President Rick Whipple have targeted sales growth in excess of 30% annually. Center Bank is proud to be providing the financial tools and services to support the growth of such a successful company.

OSIO INTERNATIONAL, INC.

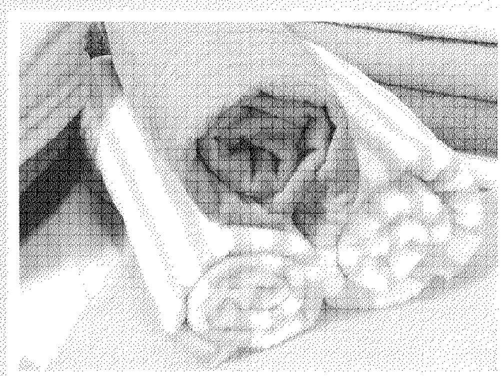
Don Kwon,
President
Osio International, Inc.
Anaheim,
CA

Brian Kim - *International Department Manager* & *Don Kwon* and *Rick Whipple* - *Osio International, Inc.*

Firoze Fakhri - International Trading Company & *Jae Whan (J.W.) Yoo* - President and CEO of Center Financial

"We pride ourselves in providing quality products, impeccable service and the best value. Center Bank has been our financial business partner for the past 18 years because they operate under the same philosophies."

Firoze Fakhri was a promising academic in nuclear engineering, but his entrepreneurial spirit took over when a friend asked him where he could find white towels. Given his family's business history in Southeast Asia, Mr. Fakhri quickly sourced an initial order of towels through his network of friends and contacts. What began in 1974 as a casual favor has grown into International Trading Company (ITC), a leading manufacturer and distributor of quality towel, linen and home textile products serving the wholesale, retail and institutional markets. Through seven owned and operated manufacturing facilities in Bangladesh and other strategic global partnerships, ITC delivers consistent quality products throughout the U.S., Canada and Australia. In addition, ITC maintains a service and distribution center in Fullerton, Calif. to ensure that its customers receive timely delivery and excellent customer service. ITC has successfully grown at more than 25 percent annually through a commitment of providing quality products, value and service to its existing and new customers. This growth is expected to continue, driven by expansion into new markets, potential acquisitions and the addition of Mr. Fakhri's two sons to the family business. For the past 18 years, Center Bank has been supporting ITC's growth and expansion through numerous value-added banking products and services, all with best in customer care.



INTERNATIONAL TRADING COMPANY

"We are a strong organization: Think again. Think Hyundai. We need a strong financial partner like Center Bank to support our growth long term."

The Construction Equipment Division of Hyundai Heavy Industries has been steadily gaining ground in the global marketplace as an industry leader for its application of advanced engineering and technology. Today, Hyundai manufactures nearly 100 models of construction equipment, including a complete line of crawlers, wheeled excavators, wheel loaders and skid steer loaders. At a time when issues in the real estate construction market challenged growth levels on a global scale, Hyundai recruited John Lim for his marketing expertise to head the U.S. operations. Well recognized as a successful entrepreneur in Southern California, Mr. Lim equates the difficult economy as an opportunity. Currently, he is focused on strengthening the company's positioning through a new marketing strategy to increase brand awareness, improving customer service to support an expansion of business from the existing customer base and developing a broader distribution channel. These efforts are further supported by a strong pipeline of technology-driven construction equipment designed to set new standards – like remote operational capabilities. While fulfilling the needs for durability, high productivity and low maintenance, Hyundai machines also introduce features to increase operator comfort, ease of operation and safety. Committed to delivering quality at a valued price, with best-in-class service and supported by a global brand identity, Hyundai Construction Equipment is well poised to win even greater market share as the global economies eventually rebound. Center Bank is proud to be associated with such a strong global brand.

HYUNDAI CONSTRUCTION EQUIPMENT U.S.A., INC.

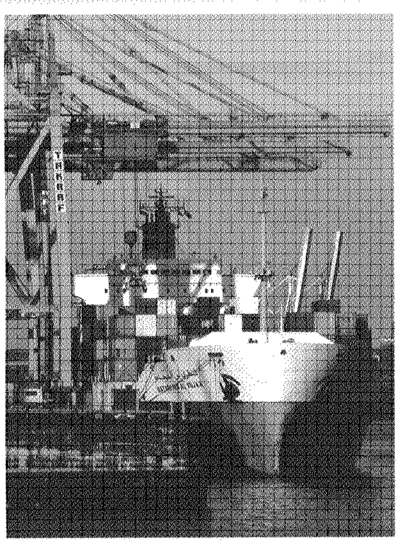
John Lim,
President
Hyundai Construction
Equipment U.S.A., Inc.
Elk Grove Village,
IL

Pyung Moo Lee - Chicago Branch Manager & John Lim - Hyundai Construction Equipment U.S.A., Inc.

N. S. Park - *Ocean Bay Seafoods Co., Ltd* & Kwan Sop Song - *Seattle Branch Manager*

"Center Bank's expertise in international trade finance has been an important element of the success of Ocean Bay Seafoods."

The rapid growth in seafood trade over the past three decades has created a truly global market for fish and is one of the world's largest and fastest growing international commodity industries. To capitalize on the tremendous opportunities in the seafood trade market, which exceeds $60 billion a year, N. S. Park started his first seafood trade company in the Republic of Korea back in 2000, and the business expanded to include operations in Russia and China. In 2006, Mr. Park established the sister company, Ocean Bay Seafoods, in the Pacific Northwest, a region that is fertile catching ground for Alaskan Pollack – one of the company's specialties. Today, Mr. Park exports approximately 20 containers of frozen pollack fillet each month. Center Bank has been supporting the growth of Ocean Bay Seafoods through various international trade finance products, a working capital line of credit and business operating accounts.



OCEAN BAY SEAFOODS CO., LTD

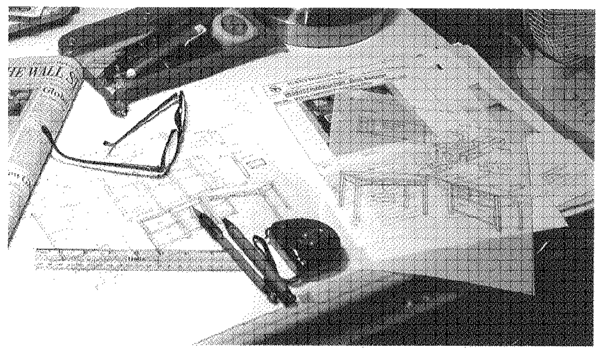
"We have earned the trust of our patients and the community by taking great care in treating their needs. Our bankers do the same with us, and that is why Center Bank is our financial partner of choice."

Renowned in Korea as the CEO of a very successful hospital specializing in disc herniation, Jae Hong Kim immigrated to the U.S., together with Dr. Hyung Suk Choi and a group of Korea's top OMDs, to launch a new Oriental medical clinic in Los Angeles. Samra Acupuncture Spinal Center specializes in the treatment of musculoskeletal pain, particularly fibromyalgia, or chronic pain in the muscles of soft tissues surrounding the joints. Integrating modern science and advanced diagnostic technology with ancient, time-tested practices, Samra treats its patients with kinetic acupuncture. Unlike traditional acupuncture, the patient performs gentle exercises during the treatment, which help to restore proper mobility functions in the injured areas, while at the same time providing pain relief. It is the only acupuncture clinic in the country with MRI and X-Ray equipment on site to ensure precision with its diagnoses and treatment of its patients. Samra continues to receive tremendous recognition in the Korean-American community for the healing power of its innovative treatment, with thousands of patients lining up to be put under the needle in one of 20 treatment rooms in the 10,000 square-foot facility. With a rapidly growing number of non-ethnic patients seeking the treatment, Samra is currently undertaking an aggressive expansion plan that targets the broader main stream market. The clinic also partners with Samra University of Oriental Medicine, the oldest acupuncture school in the U.S., to train new OMDs in its unique treatment protocols. Center Bank is working closely with Samra to ensure that the clinic has all the financial services and products to fuel the major expansion.

SAMRA ACCUPUNCTURE SPINAL CENTER

Jae Hong Kim - Samra Acupuncture Spinal Clinic & Ran Soo Hong - Olympic Branch Manager & Dr. Hyung Suk Choi

"A strong company can shine even brighter in difficult times. We count on Center Bank to support our growth and to stand by our business as they have for the past two decades."



Since 1980, Sunny Hwang has been building Sunny Designs to become one of the premier manufacturers and distributors of affordable, quality home furnishings in the U.S. The company specializes in dining, home entertainment, home office, bar, bedroom, and other furniture, manufactured directly in its China-based factories. Mr. Hwang believes control is a key element of long term success, which is why he, unlike most other U.S. importers, owns his own manufacturing facilities. As such, he controls the quality and the value of his products, and therefore his own destiny. With distribution warehouses located in Northern and Southern California, as well as in China, Sunny Designs typically ships 60 to 70 containers of furniture to the U.S. each month and has become a valued resource for leading mid-market retail furniture shops across the country. With humble beginnings in the flea markets selling sunglasses, Mr. Hwang takes great pride in the success of Sunny Designs and sees himself as his biggest competition. With Center Bank as his financial partner for the past 20 years, Sunny Designs is strongly positioned for continued growth and expansion, even in the most challenging of economic times.

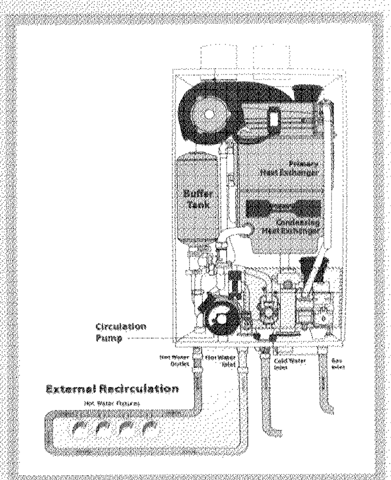
SUNNY DESIGNS, INC.

Sunny Hwang,
President
Sunny Designs, Inc.
Rancho Cucamonga,
CA

Sunny Hwang - *Sunny Designs, Inc.* & *Fay Lee* - *Gardena Branch Manager*

Ted Kwak - *Navien America, Inc.* & *Sang Pil An* - *Garden Grove Branch Manager*

"Our products are designed to create the most comfortable living environment for consumers around the world. Center Bank enhances our banking experience as we expand our business throughout North America."



Ted Kwak established Navien America in 2006 to open new markets in the U.S. and Canada for the technologically advanced products developed and manufactured by its 30-year old parent company, KD Navien, originally KyungDong Boiler, in Seoul, Korea. Increasing energy costs and the decreasing availability of water are of growing concern worldwide, and Navien America is taking the market by storm with its line of Condensing Tankless Water Heaters that produce the world's highest efficiency ratio of 98.8%. Utilizing an ultra-efficient burner and some of the most advanced technology available, Navien's Condensing Tankless Water Heaters require less gas and therefore reduces harmful emissions, all the while providing consumers with an endless supply of hot water at a steady temperature at any time. Since the official launch of the product to the North American markets in 2008, sales of the water heater have been growing rapidly, and Mr. Kwak is currently importing more than 30 containers each month to replenish supplies in the company's distribution warehouses in New Jersey and California. As an official Energy Star partner, and with considerable federal tax cuts available for consumers, Navien's future looks brighter than ever. Navien believes in creating a cleaner and greener environment for future generations, and as its financial partner, Center Bank will be there every step of the way.

NAVIEN AMERICA, INC.

Left to right from top to bottom

• Peter Y.S. Kim *(Chairman of the Board)* • Chung Hyun Lee • David Z. Hong • Sang Hoon Kim • Jin Chul Jhung
• Chang Hwi Kim • Kevin S. Kim • Jae Whan (J.W.) Yoo *(President & Chief Executive Officer)*

Corporate Information

Center Financial Corporation and
Center Bank Board of Directors

Peter Y.S. Kim
Chairman of the Board
Center Financial Corporation
President and Chairman
3Plus Logistics
Harbor Express, Inc.
Gold Point Transportation, Inc.
Bridge Warehouse, Inc.

Chung Hyun Lee
President
NuArt International, Inc.

David Z. Hong
Retired Accountant

Sang Hoon Kim
Former Chairman and Chief Executive Officer
Tmecca.com

Jin Chul Jhung
President and Chairman
Royal Imex, Inc.

Chang Hwi Kim
President
Maxion Inc.

Kevin S. Kim
Attorney
Kevin S. Kim & Associates

Jae Whan (J.W.) Yoo
President and Chief Executive Officer
Center Financial Corporation

Principal Officers

Jae Whan (J.W.) Yoo
President and Chief Executive Officer

Lonny D. Robinson
Executive Vice President and
Chief Financial Officer

Lisa Kim Pai
Executive Vice President, General Counsel,
Corporate Secretary and Chief Risk Officer

Jason K. Kim
Senior Vice President and
Chief Credit Officer

Sook Kyong Goo
Senior Vice President and
Chief Operations Officer

Independent Auditor
Grant Thorton
1000 Wilshire Blvd.
Los Angeles, CA 90017

SEC Counsel
King, Holmes, Paterno and Berliner
1900 Ave. of the Stars, 25th floor
Los Angeles, CA 90067

Investor Relations
PondelWilkinson Inc.
Angie Yang
1880 Century Park East, Suite 700
Los Angeles, CA 90067
Tel. 310-279-5980
investor@pondel.com

Registrar and Transfer Agent

If you have questions about stock certificates, or if you need to transfer shares or change the name in which they are registered, please contact:

Computershare Trust Company
PO Box 43070
Providence, RI 02940
Tel. 800-962-4284
www.computershare.com
web.queries@computershare.com

Securities Listing
Center Financial Corporation's common stock is traded on the NASDAQ Global Select Market under the symbol CLFC.

Offer of 10-K Report
Shareholders may obtain without charge copies of Center Financial Corporation's 2008 Annual Report to the Securities and Exchange Commission on Form 10-K by sending a request to:
PondelWilkinson Inc.
Tel. 310-279-5980
investor@pondel.com

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3435 Wilshire Blvd., Suite 700
Los Angeles, CA 90010
Tel. 213-251-2222
www.centerbank.com

Market Makers (partial list)
D.A. Davidson & Co.
Lake Oswego, OR
Tel. 503-603-3000

Howe Barnes Hoefer & Arnett, Inc.
San Francisco, CA
Tel. 800-346-5544

J.P. Morgan Chase, Inc.
Los Angeles, CA
Tel. 310-201-2621 / 2622

Keefe, Bruyette & Woods, Inc.
San Francisco, CA
Tel. 415-591-5063

Sterne, Agee & Leach
Nashville, TN
Tel. 615-760-1466

UBS Securities, LLC
Beverly Hills, CA
Tel. 310-556-6700

Wedbush Morgan Securities, Inc.
Los Angeles, CA
Tel. 213-688-8000

Locations

Corporate Offices:

Corporate Headquarters
3435 Wilshire Boulevard, Suite 700
Los Angeles, CA 90010
Tel. 213-251-2222

International Department
2222 W. Olympic Boulevard
Los Angeles, CA 90006
Tel. 213-386-2222

SBA Department
253 N. Western Avenue
Los Angeles, CA 90004
Tel. 213-381-2222

Consumer Loan Center
253 N. Western Avenue
Los Angeles, CA 90004
Tel. 213-381-2222

Credit Card Center
253 N. Western Ave.
Los Angeles, CA 90004
Tel. 213-637-9601

Regional Head Offices:

Olympic / Koreatown Region
2222 W. Olympic Blvd.
Los Angeles, CA 90006
Tel. 213-386-2222

Downtown/Expanded Region
1205 South Broadway
Los Angeles, CA 90015
Tel. 213-746-2222

South Bay / Orange County Region
1400 W. Redondo Beach Blvd.
Gardena, CA 90247
Tel. 310-327-2222

Southeast Region
9580 Garden Grove Blvd., Suite 100
Garden Grove, CA 92844
Tel. 714-891-2222

Branch Offices:

Olympic Branch
2222 W. Olympic Boulevard
Los Angeles, CA 90006
Tel. 213-386-2222

Gardena Branch
1400 W. Redondo Beach Boulevard
Gardena, CA 90247
Tel. 310-327-2222

Garden Grove Branch
9580 Garden Grove Boulevard, Suite 100
Garden Grove, CA 92844
Tel. 714-891-2222

Downtown Branch
1205 S. Broadway
Los Angeles, CA 90015
Tel. 213-746-2222

Western Branch
253 N. Western Avenue
Los Angeles, CA 90004
Tel. 213-381-2222

Inland Branch
1040 S. Mt. Vernon Avenue, Suite A
Colton, CA 92324
Tel. 909-370-2222

San Pedro Branch
1059 S. San Pedro Street
Los Angeles, CA 90015
Tel. 213-741-2222

Main Branch
3435 Wilshire Blvd., Suite 150
Los Angeles, CA 90010
Tel. 213-251-2222

Torrance Branch
2742 W. Sepulveda Boulevard
Torrance, CA 90505
Tel. 310-891-2222

San Diego Branch
4428 Convoy Street, Suite A-200
San Diego, CA 92111
Tel. 858-874-3333

Cerritos Branch
17127 S. Pioneer Boulevard
Artesia, CA 90701
Tel. 562-403-2222

South Western Branch
808 S. Western Avenue, Suite 101
Los Angeles, CA 90005
Tel. 213-388-2222

Fullerton Branch
5300 Beach Boulevard, Suite 101
Buena Park, CA 90621
Tel. 714-522-2222

Valley Branch
10147 Reseda Boulevard
Northridge, CA 91324
Tel. 818-534-3333

Irvine Branch
14429 Culver Drive
Irvine, CA 92604
Tel. 949-777-3777

Diamond Bar Branch
2809 S. Diamond Bar Boulevard
Diamond Bar, CA 91765
Tel. 909-718-2000

Chicago Branch
5520 N. Lincoln Avenue
Chicago, IL 60625
Tel. 773-433-3000

Seattle Branch
17410 Highway 99, Suite 120
Lynnwood, WA 98037
Tel. 425-743-7777

Federal Way Branch
31217 Pacific Highway South, Suite A-101
Federal Way, WA 98003
Tel. 253-946-5555

Loan Production Offices:

Seattle Loan Production Office
SBA West Coast Regional Branch
2033 6th Avenue, Suite 993
Seattle, WA 98121
Tel. 206-727-2222

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Center Financial Corporation
Summary
Annual Report
2008

SEC Mail Processing Section
MAY 13 2009
Washington, DC
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2008

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: 000-50050

CENTER FINANCIAL CORPORATION
(Exact Name of Registrant as Specified in its Charter)

California	52-2380548
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)

3435 Wilshire Boulevard, Suite 700 Los Angeles, California 90010
(Address of Principal Executive Offices) (Zip Code)

(213) 251-2222
Registrant's telephone number, including area code

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, No Par Value	**The NASDAQ Stock Market LLC**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in rule 405 of the Securities Act. ☐ Yes ☒ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15 (d) of the Act. ☐ Yes ☒ No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a "large accelerated filer", an "accelerated filer", a "non-accelerated filer" or a "smaller reporting company". See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of Exchange Act:

Large accelerated filer	☐	Accelerated Filer	☒
Non-accelerated filer	☐	Smaller reporting company	☐

Indicate by check mark whether the registrant is a shell company (as defined in rule 12b-2 of the Act). ☐ Yes ☒ No

As of June 30, 2008, the aggregate market value of the voting stock held by nonaffiliates of the Registrant computed by reference to the reported closing sale price of $10.31 on such date was $128.3 million. Excluded from this computation are 3,920,880 shares held by all directors and executive officers as a group on that date.

This determination of the affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares of Common Stock of the registrant outstanding as of March 17, 2009 was 16,788,030.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the definitive proxy statement for the 2009 Annual Meeting of Shareholders to be filed with the Securities and Exchange Commission pursuant to SEC Regulation 14A are incorporated by reference in Part III, Items 10-14.

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Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements are based on the current beliefs of the Company's Management as well as assumptions made by and information currently available to Management. All statements other than statements of historical fact included in this Annual Report, including without limitation, statements under "Recent Development," "Risk Factors," "Legal Proceedings," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and "Business" regarding the Company's financial position, business strategy and plans and objectives of Management for future operations, are forward-looking statements. Forward-looking statements often use words such as "anticipate," "believe," "estimate," "expect" and "intend" and words or phrases of similar meaning. Although Management believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. Important factors that could cause actual results to differ materially from Management's expectations ("cautionary statements") include fluctuations in interest rates, inflation, government regulations, economic conditions, customer disintermediation and competitive product and pricing pressures in the geographic and business areas in which the Company conducts its operations, and are disclosed under "Risk Factors" and elsewhere in this Annual Report. Based upon changing conditions, or if any one or more of these risks or uncertainties materialize, or if any underlying assumptions prove incorrect, actual results may vary materially from those expressed or implied herein. The Company disclaims any obligations or undertaking to publicly release any updates or revisions to any forward-looking statement contained herein (or elsewhere) to reflect any change in the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

PART I

ITEM 1. BUSINESS

GENERAL

Center Financial Corporation

Center Financial Corporation ("Center Financial") is a California corporation registered as a bank holding company under the Bank Holding Company Act of 1956, as amended (the "BHC Act"), and is headquartered in Los Angeles, California. Center Financial was incorporated in April 2000 and acquired all of the outstanding shares of Center Bank (formerly California Center Bank) in October 2002. Center Financial's principal subsidiary is Center Bank (the "Bank"). Center Financial exists primarily for the purpose of holding the stock of the Bank and of such other subsidiaries as it may acquire or establish. Currently, Center Financial's only other direct subsidiary is Center Capital Trust I, a Delaware statutory business trust that was formed in December 2003 solely to facilitate the issuance of capital trust pass-through securities. (See Note 11 to the Financial Statements in Item 8 herein.) As used herein, the term "Center Financial" is used to designate Center Financial Corporation only, the term the "Bank" is used to designate Center Bank, and the term the "Company" refers collectively to Center Financial Corporation, the Bank and Center Capital Trust I, unless the context otherwise requires.

Center Financial's principal source of income is currently dividends from the Bank, but it intends to explore supplemental sources of income in the future. Expenditures, including (but not limited to) the payment of dividends to shareholders, if and when declared by the board of directors, and the cost of servicing debt, will generally be paid from such payments made to Center Financial by the Bank. The Company's liabilities include \$18.6 million in debt obligations due to Center Capital Trust I, related to capital trust pass-through securities issued by that entity.

At December 31, 2008, the Company had consolidated assets of \$2.1 billion, deposits of \$1.6 billion and shareholders' equity of \$214.6 million.

The Company's and the Bank's headquarters are located at 3435 Wilshire Boulevard, Suite 700, Los Angeles, California 90010 and its telephone number is (213) 251-2222. Our Website address is www.centerbank.com. Information contained on the web site is not part of this report.

Center Bank

The Bank is a California state-chartered and Federal Deposit Insurance Corporation ("FDIC") insured financial institution, which was incorporated in 1985 and commenced operations in March 1986. The Bank changed its name from California Center Bank to Center Bank in December 2002. The Bank provides comprehensive financial services for small to medium sized business owners, primarily in Southern California. The Bank specializes in commercial loans, most of which are secured by real property, to small business customers. In addition, the Bank is a Preferred Lender of Small Business Administration ("SBA") loans and provides trade finance loans. The Bank's primary market is the greater Los Angeles metropolitan area, including Los Angeles, Orange, San Bernardino, and San Diego counties, primarily focused in areas with high concentrations of Korean-Americans. The Bank currently has 19 full-service branch offices, 16 of which are located in Los Angeles, Orange, San Bernardino, and San Diego counties. The Bank opened all California branches as de novo branches, and one branch in Chicago, Illinois by acquisition in 2004. The Bank opened one new branch in the Seattle area of Washington in November 2007, and one new branch in Diamond Bar, California in March 2008. The Bank also operates six Loan Production Offices ("LPOs") in Seattle, Denver, Washington D.C., Atlanta, Dallas and Northern California. Effective February 17, 2009, the Company closed five of its six LPOs including Denver, Washington D.C., Atlanta, Dallas and Northern California.

The Bank's primary focus is on small and medium sized Korean-American businesses, professionals and other individuals in its market area, with particular emphasis on the growth of deposits, the origination of commercial and real estate secured loans and consumer banking services. The Bank offers bilingual services to its customers in English and Korean and has a network of ATM's located in sixteen of its branch offices.

The Bank engages in a full complement of lending activities, including the origination of commercial real estate loans, commercial loans, working capital lines, SBA loans, trade financing, automobile loans and other personal loans, and construction loans. The Bank has offered SBA loans since 1989, providing financing for various purposes for small businesses under guarantee of the SBA, a federal agency created to provide financial assistance for small businesses. The Bank is a Preferred SBA Lender with full loan approval authority on behalf of the SBA.

The Bank also participates in the SBA's Export Working Capital Program. SBA loans are generally secured by deeds of trust on industrial buildings or retail establishments.

The Bank regularly sells a portion of the guaranteed and unguaranteed portion of the SBA loans it originates. The Bank retains the obligation to service the loans and receives a servicing fee. As of December 31, 2008, the Bank was servicing $131.2 million of sold SBA loans.

As of December 31, 2008, the principal areas of focus related to the Bank's lending activities, and the percentage of total loan portfolio composition for each of these areas, were as follows: commercial loans secured by first deeds of trust on real estate 66.0%; construction real estate loans 3.6%; commercial loans 19.4%; SBA loans 3.7%; trade financing 2.2%; and consumer loans 5.1%. The Bank funds its lending activities primarily with demand deposits, savings and time deposits (obtained through its branch network) and Federal Home Loan Bank ("FHLB") borrowings. The Bank's deposit products include demand deposit accounts, money market accounts, and savings accounts, time certificates of deposit and fixed maturity installment savings. The Bank's deposits are insured under the Federal Deposit Insurance Act, up to the maximum applicable limits thereof. Like most state-chartered banks of the Bank's size in California, it is not currently a member of the Federal Reserve System. As of December 31, 2008, the Bank had approximately 49,000 deposit accounts with balances totaling approximately $1.6 billion. As of December 31, 2008, the Bank had $310.2 million or 19.3% in non-interest bearing demand deposits; $447.3 million or 27.9% in money market and NOW accounts; $52.7 million or 3.3% in savings accounts; $143.2 million or 8.9% in time deposits less than $100,000; and $650.2 million or 40.6% in time deposits of more than $100,000. As of December 31, 2008, the Bank had $115.5 million of State municipal time deposits and $372.2 million of brokered deposits.

The Bank also offers international banking services such as letters of credit, acceptances and wire transfers, as well as merchant deposit services, cash management services, travelers' checks, debit cards and safe deposit boxes.

The Bank provides Internet banking services to allow its customers to access their loan and deposit accounts through the Internet. Customers can obtain transaction history and account information, transfer funds between the Bank's accounts and process bill payments.

The Bank does not hold any patents or licenses (other than licenses required to be obtained from appropriate banking regulatory agencies), franchises or concessions. The Bank's business is generally not seasonal. Federal, state and local environmental regulations have not had any material effect upon our capital expenses, earnings or competitive position.

The majority of the Bank's customers are Korean-American small businesses and individuals. Approximately 69.6% of the Bank's loan portfolio as of December 31, 2008 was concentrated in commercial real estate and construction loans. Most of our customers are concentrated in the greater Los Angeles area but efforts have been made in the last several years to diversify the geographic risk with branches in Chicago and Seattle.

The Bank has not engaged in any material research activities relating to the development of new services or the improvement of existing banking services during the last three fiscal years. However, the Bank, with its officers and employees, is engaged continually in marketing activities, including the evaluation and development of new services, which enable it to retain and improve our competitive position in our service area.

Recent Developments

On December 12, 2008, the Company entered into a purchase agreement with the U.S. Treasury Department (the "Treasury Department"), pursuant to which the Company issued and sold 55,000 shares of the Company's fixed-rate cumulative perpetual preferred stock for a total purchase price of $55 million. As part of the transaction, the Company also issued 10-year warrants to purchase 864,780 shares of the Company's common stock at an exercise price of $9.54 per share. The Company will pay the Treasury Department a five percent dividend annually, payable quarterly, for each of the first five years of the preferred stock investment and a nine percent dividend thereafter until the shares are redeemed. Further details concerning the transaction, including redemption provisions, certain restrictions on the Company's dividend and repurchase activities and compensation arrangements, and a Bylaw provision related to Company's Board of Directors, are set forth in the Company's Current Report on Form 8-K filed with the SEC on December 16, 2008.

On March 25, 2009, the Company's board of directors suspended its quarterly cash dividends of $0.05 from the first quarter of 2009 based on adverse economic conditions and a reduction in the Company's earnings. The board of directors determined that this is a prudent, safe and sound practice to preserve capital, and does not expect to resume the payment of cash dividends in the foreseeable future. The Company would be required to obtain the Treasury Department's approval to reestablish common stock dividends prior to December 2011 unless the preferred stock referred to in the previous paragraph has been redeemed.

Recent Accounting Pronouncements

For information regarding the recently issued accounting standards, see Note 2, entitled "Summary of Significant Accounting Policies," to the Company's consolidated financial statements presented elsewhere herein.

Competition

The current banking business and intended future strategic market areas are highly competitive with respect to virtually all products and services and have become increasingly so in recent years. While the Company's primary market area is generally dominated by a relatively small number of major banks with many offices operating over a wide geographic area, the Company's direct competitors in the niche markets are three Korean American banks of which two are comparable in size and one is twice the Company's asset size, which also focus their business strategy on the Korean-American consumers and businesses. There are also a number of smaller Korean-American community banks that compete in the same market as the Company.

There is significant competition within this specific market. In the greater Los Angeles, Chicago and Seattle metropolitan areas, the Company's main competitors are locally owned and operated Korean-American banks and subsidiaries of Korean banks. These competitors have branches located in many of the same neighborhoods as the Company, provide similar types of products and services, and use the same Korean language publications and media for their marketing purposes.

A less significant source of competition in the Los Angeles metropolitan area is a small number of branches of major banks which maintain a limited bilingual staff for Korean-speaking customers. While such banks have not traditionally focused their marketing efforts on the Company's customer base primarily in Southern California, the competitive influence of these major bank branches could increase in the event they choose to focus on this market. Large commercial bank competitors have, among other advantages, the ability to finance wide-ranging and effective advertising campaigns and to allocate their investment resources to areas of highest yield and demand. Many of the major banks operating in our market area offer certain services, which the Company does not offer directly (some of which the Company can offer through the use of correspondent institutions). By virtue of their greater total capitalization, such banks also have substantially higher lending limits than the Company.

In addition to other banks, competitors include savings institutions, credit unions, and numerous non-banking institutions, such as finance companies, leasing companies, insurance companies, brokerage firms, and investment banking firms. In recent years, increased competition has also developed from specialized finance and non-finance companies that offer money market and mutual funds, wholesale finance, credit card, and other consumer finance services, including on-line banking services and personal finance software. Strong competition for deposit and loan products affects the rates of those products as well as the terms on which they are offered to customers. To the extent that the Company is affected by more general competitive trends in the industry, those trends are towards increased consolidation and competition. Unregulated competitors have entered banking markets with strategies directly targeted at the Company's customers. Many largely unregulated competitors are able to compete across geographic boundaries and provide customers increasing access to meaningful alternatives to banking services in nearly all-significant products. Consolidation of the banking industry has placed additional pressure on surviving community banks within the industry to streamline their operations, reduce expenses and increase revenues to remain competitive. Competition has also intensified due to federal and state interstate banking laws, which permit banking organizations to expand geographically, and the California market has been particularly attractive to out-of-state institutions.

Technological innovations have also resulted in increased competition in the financial services industry. Such innovations have, for example, made it possible for non-depository institutions to offer customers automated transfer payment services that previously have been considered traditional banking products. In addition, many customers now expect a choice of several delivery systems and channels, including telephone, mail, home computer, ATM's, self-service branches and/or in-store branches. Other sources of competition for such hi-tech products include savings associations, credit unions, brokerage firms, money market and other mutual funds, asset management groups, finance and insurance companies, and mortgage banking firms.

In order to compete with the other financial services providers, the Company provides quality, personalized, friendly service and fast decision making to better serve our customers' needs. For customers whose loan demands exceed the Company's lending limit, the Company has attempted to establish relationships with correspondent banks for the development of such loans on a participation basis. The Company also maintains an international trade finance department to meet the growing needs of the business communities within our niche market. In order to compete on the technological front, the Company offers Internet banking services to allow its customers to access their loan and deposit accounts through the Internet. Customers can obtain transaction history and account information, transfer funds between bank accounts and process bill payments.

The market for the origination of SBA loans is highly competitive. With respect to the origination of SBA loans, the Company competes with other small, mid-size and major banks in the geographic areas in which our full service branches are located. As the Company has been designated a Preferred SBA Lender with the full loan approval authority on behalf of the SBA, the Company is able to provide a faster response to loan requests than competitors that are not Preferred SBA Lenders. In order to compete in this highly competitive market, the Company places greater emphasis on making SBA loans to minority-owned businesses. Due to the recent credit crunch, pricing of SBA premiums in the secondary market for SBA loans declined compared to 2007 but the sale of SBA loans in 2008 was still profitable. However, there is no assurance that this condition will continue to last or that the secondary market for SBA loans will be available in the future.

On March 16, 2009, the Treasury Department announced a new plan to address the current credit market for small business including the following:

- Purchasing of securities pooled from SBA loans up to $15 billion;
- Temporarily raise the guarantees to up to 90 percent in SBA's 7(a) loan program;
- Temporarily eliminate certain SBA loan fees; and
- New reporting requirements on bank lending to small businesses.

While this new program is intended in part to enhance the secondary market for SBA loans, no assurance can be given that the secondary market for SBA loans will continue to be available in the future, or if available, that it will continue to be profitable.

Employees

As of December 31, 2008, the Company had 316 full-time equivalent employees and 311 full-time employees.

Supervision and Regulation

Both federal and state laws extensively regulate bank holding companies. These regulations are intended primarily for the protection of depositors and the deposit insurance fund and not for the benefit of shareholders. The following is a summary of particular statutes, regulations and certain regulatory guidance affecting Center Financial and the Bank. This summary is qualified in its entirety by such statutes, regulations and guidance.

Regulation of Center Financial Corporation Generally

Center Financial's stock is traded on the NASDAQ Global Select Market under the symbol CLFC, and as such the Company is subject to NASDAQ rules and regulations including those related to corporate governance. Center Financial is also subject to the periodic reporting requirements of Section 13 of the Securities Exchange Act of 1934 (the "Exchange Act"), which requires us to file annual, quarterly, current and other reports with the Securities and Exchange Commission (the "SEC"). The Company is also subject to additional regulations including, but not limited to, the proxy and tender offer rules promulgated by the SEC under Sections 13 and 14 of the Exchange Act; the reporting requirements of directors, executive officers and principal shareholders regarding transactions in Center Financial's common stock and short-swing profits rules promulgated by the SEC under Section 16 of the Exchange Act; and certain additional reporting requirements to Center Financial's principal shareholders promulgated by the SEC under Section 13 of the Exchange Act.

Center Financial is a bank holding company within the meaning of the Bank Holding Company Act of 1956 and is registered as such with the Federal Reserve Board. A bank holding company is required to file with the Federal Reserve Board annual reports and other information regarding its business operations and those of its subsidiaries. It is also subject to examination by the Federal Reserve Board and is required to obtain Federal Reserve Board approval before acquiring, directly or indirectly, ownership or control of any voting shares of any bank if, after such acquisition, it would directly or indirectly own or control more than 5% of the voting stock of that bank, unless it already owns a majority of the voting stock of that bank.

The Federal Reserve Board has determined by regulation certain activities in which a bank holding company may or may not conduct business. A bank holding company must engage, with certain exceptions, in the business of banking or managing or controlling banks or furnishing services to or performing services for its subsidiary banks. The permissible activities and affiliations of certain bank holding companies have been expanded.

Center Financial and the Bank are deemed to be affiliates of each other within the meaning set forth in the Federal Reserve Act and are subject to Sections 23A and 23B of the Federal Reserve Act. This means, for example, that there are limitations on loans by the Bank to affiliates, and that all affiliate transactions must satisfy certain limitations and otherwise be on terms and conditions at least as favorable to the Bank as would be available for non-affiliates.

The Federal Reserve Board has a policy that bank holding companies must serve as a source of financial and managerial strength to their subsidiary banks. It is the Federal Reserve Bank's position that bank holding companies should stand ready to use their available resources to provide adequate capital to their subsidiary banks during periods of financial stress or adversity. Bank holding companies should also maintain the financial flexibility and capital-raising capacity to obtain additional resources for assisting their subsidiary banks.

The Federal Reserve Board also has the authority to regulate bank holding companies' debt, including the authority to impose interest rate ceilings and reserve requirements on such debt. Under certain circumstances, the Federal Reserve Board may require a bank holding company to file written notice and obtain its approval prior to purchasing or redeeming our equity securities, unless certain conditions are met.

Regulation of Center Bank Generally

As a California state-chartered bank whose accounts are insured by the FDIC up to the maximum limits thereof, the Bank is subject to regulation, supervision and regular examination by the California Department of Financial Institutions ("DFI") and the FDIC. In addition, while the Bank is not a member of the Federal Reserve System, the Bank is subject to certain regulations of the Federal Reserve Board. The regulations of these agencies govern most aspects of our business, including the making of periodic reports, and activities relating to dividends, investments, loans, borrowings, capital requirements, certain check-clearing activities, branching, mergers and acquisitions, reserves against deposits and numerous other areas. Supervision, legal action and examination by the FDIC are generally intended to protect depositors and are not intended for the protection of shareholders.

The earnings and growth of the Bank are largely dependent on its ability to maintain a favorable differential or "spread" between the yield on its interest-earning assets and the rate paid on its deposits and other interest-bearing liabilities. As a result, the Bank's performance is influenced by general economic conditions, both domestic and foreign, the monetary and fiscal policies of the federal government and the policies of the regulatory agencies, particularly the Federal Reserve Board. The Federal Reserve Board implements national monetary policies (such as seeking to curb inflation and combat recession) by its open-market operations in United States Government securities, by adjusting the required level of reserves for financial institutions subject to its reserve requirements and by varying the discount rate applicable to borrowings by banks which are members of the Federal Reserve System. The actions of the Federal Reserve Board in these areas influence the growth of bank loans, investments and deposits and also affect interest rates charged on loans and deposits. The nature and impact of any future changes in monetary policies cannot be predicted.

Capital Adequacy Requirements

Center Financial and the Bank are subject to the regulations of the Federal Reserve Board and the FDIC, respectively, governing capital adequacy. Each of the federal regulators has established risk-based and leverage capital guidelines for the banks or bank holding companies it regulates, which set total capital requirements and define capital in terms of "core capital elements," or Tier 1 capital; and "supplemental capital elements," or Tier 2 capital. Tier 1 capital is generally defined as the sum of the core capital elements less goodwill and certain other deductions, notably the unrealized net gains or losses (after tax adjustments) on investment securities available for sale carried at fair market value. The following items are defined as core capital elements: (i) common shareholders' equity; (ii) qualifying non-cumulative perpetual preferred stock and related surplus (and, in the case of holding companies, senior perpetual preferred stock issued to the U.S. Treasury Department pursuant to the Troubled Asset Relief Program); and (iii) minority interests in the equity accounts of consolidated subsidiaries. Supplementary capital elements include: (i) allowance for loan and lease losses (but not more than 1.25% of an institution's risk-weighted assets); (ii) perpetual preferred stock and related surplus not qualifying as core capital; (iii) hybrid capital instruments, perpetual debt and mandatory convertible debt instruments; and (iv) term subordinated debt and intermediate-term preferred stock and related surplus. The maximum amount of supplemental capital elements, that qualifies as Tier 2 capital is limited to 100% of Tier 1 capital, net of goodwill.

The minimum required ratio of qualifying total capital to total risk-weighted assets ("Total Risk-Based Capital Ratio") is 8.0%, at least one-half of which must be in the form of Tier 1 capital, and the minimum required ratio of Tier 1 capital to total risk-weighted assets ("Tier 1 Risk-Based Capital Ratio") is 4.0%. Risk-based capital ratios are calculated to provide a measure of capital that reflects the degree of risk associated with a banking organization's operations for both transactions reported on the statements of financial condition as assets, and transactions, such as letters of credit and recourse arrangements, which are recorded as off-balance sheet items. Under the risk-based capital guidelines, the nominal dollar amounts of assets and credit-equivalent amounts of off-balance sheet items are multiplied by one of several risk adjustment percentages, which range from 0% for assets with low credit risk, such as certain U. S. Treasury securities, to 100% for assets with relatively high credit risk, such as business loans. As of December 31, 2008 and 2007, the Bank's Total Risk-Based Capital Ratios were 13.13% and 10.19%, respectively, and its Tier 1 Risk-Based Capital Ratios were 11.87% and 9.08%, respectively. As of December 31, 2008 and 2007, the Company's consolidated Total Risk-Based Capital Ratios were 13.84% and 10.42%, respectively, and its Tier 1 Risk-Based Capital Ratios were 12.58% and 9.31%, respectively.

The risk-based capital requirements also take into account concentrations of credit involving collateral or loan type and the risks of "non-traditional" activities (those that have not customarily been part of the banking business). The regulations require institutions with high or inordinate levels of risk to operate with higher minimum capital standards, and authorize the regulators to review an institution's management of such risks in assessing an institution's capital adequacy.

Additionally, the regulatory Statements of Policy on risk-based capital include exposure to interest rate risk as a factor that the regulators will consider in evaluating an institution's capital adequacy, although interest rate risk does not impact the calculation of risk-based capital ratios. Interest rate risk is the exposure of a bank's current and future earnings and equity capital arising from adverse movements in interest rates. While interest rate risk is inherent in a bank's role as financial intermediary, it introduces volatility to bank earnings and to the economic value of the bank or bank holding company.

The FDIC and the Federal Reserve Board also require the maintenance of a leverage capital ratio designed to supplement the risk-based capital guidelines. Banks and bank holding companies that have received the highest rating of the five categories used by regulators to rate such institutions and are not anticipating or experiencing any significant growth must maintain a ratio of Tier 1 capital, net of all intangibles, to adjusted total assets ("Leverage Capital Ratio") of at least 3%. All other institutions are required to maintain a leverage ratio of at least 100 to 200 basis points above the 3% minimum, for a minimum of 4% to 5%. Pursuant to federal regulations, banking institutions must maintain capital levels commensurate with the level of risk to which they are exposed, including the volume and severity of problem loans, and federal regulators may set, however, higher capital requirements when an institution's particular circumstances warrant. Both the Company and the Bank were well capitalized as of December 31, 2008.

On March 1, 2005, the Federal Reserve Board adopted a final rule that allows the continued inclusion of trust-preferred securities in the Tier I capital of bank holding companies. However, under the final rule, after a five-year transition period, the aggregate amount of trust preferred securities and certain other capital elements that could qualify as Tier I capital would be limited to 25 percent of Tier I capital elements, net of goodwill. As of December 31, 2008, trust preferred securities made up 7.4% of the Company's Tier I capital.

The following table sets forth Center Financial's and the Bank's capital ratios at December 31, 2008 and 2007:

Risk Based Ratios

	2008		2007	
	Center Financial Corporation	Center Bank	Center Financial Corporation	Center Bank
Total Capital (to Risk-Weighted Assets)	13.84%	13.13%	10.42%	10.19%
Tier 1 Capital (to Risk-Weighted Assets)	12.58%	11.87%	9.31%	9.08%
Tier 1 Capital (to Average Assets)	11.28%	10.64%	8.49%	8.28%

Prompt Corrective Action Provisions

Federal law requires each federal banking agency to take prompt corrective action to resolve the problems of insured financial institutions, including but not limited to those that fall below one or more prescribed minimum capital ratios. The federal banking agencies have defined by regulation the following five capital categories:

- Well capitalized: Total Risk-Based Capital Ratio of 10%; Tier 1 Risk-Based Capital Ratio of 6%; and Leverage Ratio of 5%;
- Adequately capitalized: Total Risk-Based Capital Ratio of 8%; Tier 1 Risk-Based Capital Ratio of 4%; and Leverage Ratio of 4% or 3% if the institution receives the highest rating from its primary regulator;
- Undercapitalized: Total Risk-Based Capital Ratio of less than 8%; Tier 1 Risk-Based Capital Ratio of less than 4%; or Leverage Ratio of less than 4% or 3% if the institution receives the highest rating from its primary regulator;
- Significantly undercapitalized: Total Risk-Based Capital Ratio of less than 6%; Tier 1 Risk-Based Capital Ratio of less than 3%; or Leverage Ratio of less than 3%; and
- Critically undercapitalized: Tangible equity to total assets of less than 2%.

The most recent notification from the FDIC in June 2008 categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. A bank may be treated as though it were in the next lower capital category if after notice and the opportunity for a hearing, the appropriate federal agency finds an unsafe or unsound condition or practice so warrants, but no bank may be treated as "critically undercapitalized" unless its actual capital ratio warrants such treatment.

At each successively lower capital category, an insured bank is subject to increased restrictions on its operations. For example, a bank is generally prohibited from paying management fees to any controlling persons or from making capital distributions if to do so would make the bank "undercapitalized." Asset growth and branching restrictions apply to undercapitalized banks, which are required to submit written capital restoration plans meeting specified requirements (including a guarantee by the parent holding company, if any). "Significantly undercapitalized" banks are subject to broad regulatory authority, including among other things, capital directives, forced mergers, restrictions on the rates of interest they may pay on deposits, restrictions on asset growth and activities and prohibitions on paying bonuses or increasing compensation to senior executive officers without FDIC approval. Even more severe restrictions apply to critically undercapitalized banks. Most importantly, except under limited circumstances, not later than 90 days after an insured bank becomes critically undercapitalized, the appropriate federal banking agency is required to appoint a conservator or receiver for the bank.

In addition to measures taken under the prompt corrective action provisions, insured banks may be subject to potential actions by the federal regulators for unsafe or unsound practices in conducting their businesses or for violations of any law, rule, regulation or any condition imposed in writing by the agency or any written agreement with the agency. Enforcement actions may include the issuance of cease and desist orders, termination of insurance of deposits (in the case of a bank), the imposition of civil money penalties, the issuance of directives to increase capital, formal and informal agreements, or removal and prohibition orders against "institution-affiliated" parties.

Safety and Soundness Standards

The federal banking agencies have also adopted guidelines establishing safety and soundness standards for all insured depository institutions. Those guidelines relate to internal controls, information systems, internal audit systems, loan underwriting and documentation, compensation and interest rate exposure. In general, the standards are designed to assist the federal banking agencies in identifying and addressing problems at insured depository institutions before capital becomes impaired. If an institution fails to meet these standards, the appropriate federal banking agency may require the institution to submit a compliance plan and institute enforcement proceedings if an acceptable compliance plan is not submitted.

The Emergency Economic Stabilization Act of 2008 and the Troubled Asset Relief Program

In response to unprecedented market turmoil and the financial crises affecting the overall banking system and financial markets in the United States, the Emergency Economic Stabilization Act of 2008 ("EESA") was enacted in October 2008. On February 17, 2009, the American Recovery and Reinvestment Act of 2009 (the "Stimulus Bill") was enacted, which among other things augmented certain provisions of the EESA. Under the EESA, the Treasury Department has authority, among other things, to purchase up to $700 billion in mortgage loans, mortgage-related securities and certain other financial instruments, including debt and equity securities issued by financial institutions in the Troubled Asset Relief Program (the "TARP"). The purpose of the TARP is to restore confidence and stability to the U.S. banking system and to encourage financial institutions to increase their lending to customers and to each other.

Pursuant to the EESA, the Treasury Department was initially authorized to use $350 billion for the TARP. Of this amount, the Treasury Department allocated $250 billion to the TARP Capital Purchase Program (see description below). On January 15, 2009, the second $350 billion of TARP monies was released to the Treasury Department.

The TARP Capital Purchase Program ("CPP") was developed to purchase $250 billion in senior preferred stock from qualifying financial institutions, and was designed to strengthen the capital and liquidity positions of viable institutions and to encourage banks and thrifts to increase lending to creditworthy borrowers. The amount of the Treasury Department's preferred stock a particular qualifying financial could be approved to issue would be not less than 1% of risk-weighted assets and not more than the lesser of $25 billion or 3% of risk-weighted assets.

The general terms of the TARP CPP include:

- dividends on the Treasury Department's preferred stock at a rate of five percent for the first five years and nine percent thereafter;
- common stock dividends cannot be increased for three years while the Treasury Department is an investor unless preferred stock is redeemed or consent from the Treasury is received;
- the Treasury Department's preferred stock cannot be redeemed for three years unless the participating institution receives the approval of its applicable banking regulator and the Treasury Department, after demonstrating to those agencies that the participating institution is financially sound without the TARP proceeds;
- the Treasury Department must consent to any buyback of other stock (common or other preferred);
- the Treasury Department's preferred stock will have the right to elect two directors if dividends have not been paid for six periods;
- the Treasury Department receives warrants equal to 15 percent of the Treasury Department's total investment in the participating institution; and
- the participating institution's executives must agree to certain compensation restrictions, and restrictions on the amount of executive compensation that is tax deductible.

The Company elected to participate in the TARP CPP and in December 2008 issued $55 million worth of preferred stock to the Treasury Department pursuant to this program. See "Recent Developments" above.

The EESA also established a Temporary Liquidity Guarantee Program ("TLGP") that gives the FDIC the ability to provide a guarantee for newly-issued senior unsecured debt and non-interest bearing transaction deposit accounts at eligible insured institutions. The Company has no current plans to participate in the senior unsecured debt of the TLGP. The Company is currently participating in the guarantee program for non-interest bearing transaction deposit accounts. For non-interest bearing transaction deposit accounts, a 10 basis point annual rate surcharge will be applied to deposit amounts in excess of $250,000.

Deposit Insurance

The Bank's deposits are insured under the Federal Deposit Insurance Act, up to the maximum applicable limits by the Deposit Insurance Fund ("DIF") of the FDIC and are subject to deposit insurance assessments to maintain the DIF. The Bank paid no deposit insurance assessments on its deposits under the risk-based assessment system utilized by the FDIC through December 31, 2006.

Effective January 1, 2007 the FDIC adopted a new risk-based insurance assessment system designed to tie what banks pay for deposit insurance more closely to the risks they pose. The FDIC also adopted a new base schedule of rates that the FDIC could adjust up or down, depending on the needs of the DIF, and set initial premiums for 2007 that ranged from 5 cents per $100 of domestic deposits in the lowest risk category to 43 cents per $100 of domestic deposits for banks in the highest risk category. The new assessment system resulted in annual assessments on the Bank's deposits of 5 cents per $100 of domestic deposits. An FDIC credit available to the Bank for prior contributions offset a portion of the assessments for 2007 and was fully utilized in its 2007 second quarter assessment. The Bank's deposit insurance premiums for 2008 and 2007 were $1.3 million and $0.8 million, respectively.

As required by law, in October 2008, the FDIC adopted a restoration plan that would increase the reserve ratio to the 1.15% threshold within five years. As part of that plan, in December, 2008, the FDIC voted to increase risk-based assessment rates uniformly by seven cents, on an annual basis, for the first quarter of 2009 due to deteriorating financial conditions in the banking industry. The resulting new rates range from 12 to 14 basis points for Risk Category I institutions to 50 basis points for Risk Category IV institutions. The FDIC has further proposed that beginning April 1, 2009, the base assessment rates would range from 10 to 14 basis points for Risk Category I institutions to 45 basis points for Risk Category IV institutions, subject to adjustments as described in the next sentence. Changes to the risk-based assessment system would include increasing premiums for institutions that rely on excessive amounts of brokered deposits, including CDARS, increasing premiums for excessive use of secured liabilities, including FHLB advances, lowering premiums for smaller institutions with very high capital levels, and adding financial ratios and debt issuer ratings to the premium calculations for banks with over $10 billion in assets, while providing a reduction for their unsecured debt. It is generally expected that rates will continue to increase in the foreseeable future due to the significant cost of bank failures beginning in the third quarter of 2008, and the increase in the number of troubled banks.

The FDIC recently announced that, in view of the decrease in the deposit insurance fund's reserves to $18.9 billion as of December 31, 2008, it will impose a special assessment in the second quarter of 2009 of 20 basis points of domestic deposits. The FDIC subsequently announced that the special assessment is expected to be lowered by an additional 2 to 4 basis points by raising the fees it charges to guarantee debt under the TLGP in which the Company does not participate, and that this assessment could be lowered by an additional 10 basis points if Congress increases the FDIC's borrowing capacity with the Treasury Department to $100 billion. The FDIC also approved an increase in regular premium rates, which banks must continue to pay in addition to the special assessment. The regular premium rates for most banks in the second quarter of 2009 will be between 12 and 16 basis points, compared to range of between 12 and 14 basis points which most banks currently pay.

In addition, banks must pay an amount which fluctuates but is currently 0.285 cents per $100 of insured deposits per quarter, towards the retirement of the Financing Corporation bonds issued in the 1980's to assist in the recovery of the savings and loan industry. These assessments will continue until the Financing Corporation bonds mature in 2019.

The enactment of the EESA (discussed above) temporarily raised the basic limit on federal deposit insurance coverage from $100,000 to $250,000 per depositor. The temporary increase in deposit insurance coverage became effective on October 3, 2008. EESA provides that the basic deposit insurance limit will return to $100,000 after December 31, 2009. In addition, pursuant to the guarantee program for non-interest bearing transaction deposit accounts under the TLGP in which the Bank has elected to participate, a 10 basis point annual rate surcharge will be applied to deposit amounts in excess of $250,000.

Community Reinvestment Act

The Bank is subject to certain requirements and reporting obligations involving Community Reinvestment Act ("CRA") activities. The CRA generally requires the federal banking agencies to evaluate the record of a financial institution in meeting the credit needs of its local communities, including low and moderate-income neighborhoods. The CRA further requires the agencies to take a financial institution's record of meeting its community credit needs into account when evaluating applications for, among other things, domestic branches, consummating mergers or acquisitions, or holding company formations. In measuring a bank's compliance with its CRA obligations, the regulators utilize a performance-based evaluation system which bases CRA ratings on the bank's actual lending service and investment performance, rather than on the extent to which the institution conducts needs assessments, documents community outreach activities or complies with other procedural requirements. In connection with its assessment of CRA performance, the FDIC assigns a rating of "outstanding," "satisfactory," "needs to improve" or "substantial noncompliance." The Bank was last examined for CRA compliance in 2006 and received a "satisfactory" CRA Assessment Rating.

Privacy and Data Security

The Gramm-Leach-Bliley Act imposed new requirements on financial institutions with respect to consumer privacy. The statute generally prohibits disclosure of consumer information to non-affiliated third parties unless the consumer has been given the opportunity to object and has not objected to such disclosure. Financial institutions are further required to disclose their privacy policies to consumers annually. Financial institutions, however, will be required to comply with state law if it is more protective of consumer privacy than the Gramm-Leach-Bliley Act. The statute also directed federal regulators, including the Federal Reserve and the FDIC, to prescribe standards for the security of consumer information. The Company and the Bank are subject to such standards, as well as standards for notifying consumers in the event of a security breach.

Other Consumer Protection Laws and Regulations

Activities of all insured banks are subject to a variety of statutes and regulations designed to protect consumers, such as including the Fair Credit Reporting Act, Equal Credit Opportunity Act, and Truth-in-Lending Act. Interest and other charges collected or contracted for by the Bank are also subject to state usury laws and certain other federal laws concerning interest rates. The Bank's loan operations are also subject to federal laws and regulations applicable to credit transactions. Together, these laws and regulations include provisions that:

- govern disclosures of credit terms to consumer borrowers;
- require financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- prohibit discrimination on the basis of race, creed, or other prohibited factors in extending credit;
- govern the use and provision of information to credit reporting agencies; and
- govern the manner in which consumer debts may be collected by collection agencies.

The Bank's deposit operations are also subject to laws and regulations that:

- impose a duty to maintain the confidentiality of consumer financial records and prescribe procedures for complying with administrative subpoenas of financial records; and
- govern automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services

Interstate Banking and Branching

Since 1995, adequately capitalized and managed bank holding companies have been permitted to acquire banks located in any state, subject to two exceptions: first, any state may still prohibit bank holding companies from acquiring a bank which is less than five years old; and second, no interstate acquisition can be consummated by a bank holding company if the acquirer would control more than 10% of the deposits held by insured depository institutions nationwide or 30% or more of the deposits held by insured depository institutions in any state in which the target bank has branches.

A bank may establish and operate de novo branches in any state in which the bank does not maintain a branch if that state has enacted legislation to expressly permit all out-of-state banks to establish branches in that state.

In 1995, California enacted legislation to implement important provisions of the Interstate Banking Act discussed above and to repeal California's previous interstate banking laws, which were largely preempted by the Interstate Banking Act.

The changes effected by the Interstate Banking Act and California laws have increased competition in the environment in which the Bank operates to the extent that out-of-state financial institutions directly or indirectly enter the Bank's market areas. It appears that the Interstate Banking Act has contributed to the accelerated consolidation of the banking industry. While many large out-of-state banks have already entered the California market as a result of this legislation, it is not possible to predict the precise impact of this legislation on the Bank and Center Financial and the competitive environment in which they operate.

USA Patriot Act of 2001

The USA Patriot Act of 2001 (the "Patriot Act") was enacted in response to the terrorist attacks in New York, Pennsylvania and Washington, D.C. on September 11, 2001, and is intended to strengthen U.S. law enforcement's and the intelligence communities' ability to work cohesively to combat terrorism on a variety of fronts. The impact of the Patriot Act on financial institutions of all kinds has been significant and wide ranging. The Patriot Act substantially enhanced existing anti-money laundering and financial transparency laws, and required appropriate regulatory authorities to adopt rules to promote cooperation among financial institutions, regulators, and law enforcement entities in identifying parties that may be involved in terrorism or money laundering. Under the Patriot Act, financial institutions are subject to prohibitions regarding specified financial transactions and account relationships, as well as enhanced due diligence and "know your customer" standards in their dealings with foreign financial institutions and foreign customers. For example, the enhanced due diligence policies, procedures, and controls generally require financial institutions to take reasonable steps:

- to conduct enhanced scrutiny of account relationships to guard against money laundering and report any suspicious transactions;
- to ascertain the identity of the nominal and beneficial owners of, and the source of funds deposited into, each account as needed to guard against money laundering and report any suspicious transactions;
- to ascertain for any foreign bank, the shares of which are not publicly traded, the identity of the owners of the foreign bank, and the nature and extent of the ownership interest of each such owner; and
- to ascertain whether any foreign bank provides correspondent accounts to other foreign banks and, if so, the identity of those foreign banks and related due diligence information.

The Patriot Act also requires all financial institutions to establish anti-money laundering programs, which must include, at minimum:

- the development of internal policies, procedures, and controls;
- the designation of a compliance officer;
- an ongoing employee training program; and
- an independent audit function to test the programs.

To fulfill the requirements, the Bank expanded its BSA Compliance Department and intensified due diligence procedures concerning the opening of new accounts. The Bank also implemented new systems and procedures to identify suspicious activity reports and report to the Financial Crimes Enforcement Network ("FINCEN"). The substantial cost of additional staff in the BSA Compliance Department and the system enhancement described above was reflected in the statements of operations for the years ended December 31, 2008, 2007 and 2006.

The Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley") was enacted to increase corporate responsibility, provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies and protect investors by improving the accuracy and reliability of disclosures pursuant to the securities laws. Sarbanes-Oxley includes important new requirements for public companies in the areas of financial disclosure, corporate governance, and the independence, composition and responsibilities of audit committees. Among other things, Sarbanes-Oxley mandates chief executive and chief financial officer certifications of periodic financial reports, additional financial disclosures concerning off-balance sheet items, and speedier transaction reporting requirements for executive officers, directors and 10% shareholders. In addition, penalties for non-compliance with the Exchange Act were heightened. SEC rules promulgated pursuant to Sarbanes-Oxley impose obligations and restrictions on auditors and audit committees intended to enhance their independence from management, and include extensive additional disclosure, corporate governance and other related rules. Sarbanes-Oxley represents significant federal involvement in matters traditionally left to state regulatory systems, such as the regulation of the accounting profession, and to state corporate law, such as the relationship between a board of directors and management and between a board of directors and its committees.

The Company has incurred, and expects to continue to incur, significant costs in connection with its compliance with Sarbanes-Oxley, particularly with Section 404 thereof, which requires management to undertake an assessment of the adequacy and effectiveness of the Company's internal controls over financial reporting and requires the Company's auditors to audit the operating effectiveness of these controls.

Commercial Real Estate Lending and Concentrations

On December 2, 2006, the federal bank regulatory agencies released Guidance on Concentrations in Commercial Real Estate ("CRE") Lending, Sound Risk Management Practices ("the Guidance"). The Guidance, which was issued in response to the agencies' concern that rising CRE concentrations might expose institutions to unanticipated earnings and capital volatility in the event of adverse changes in the commercial real estate market, reinforces existing regulations and guidelines for real estate lending and loan portfolio management.

Highlights of the Guidance include the following:

- The agencies have observed that CRE concentrations have been rising over the past several years with small to mid-size institutions showing the most significant increase in CRE concentrations over the last decade. However, some institutions' risk management practices are not evolving with their increasing CRE concentrations, and therefore, the Guidance reminds institutions that strong risk management practices and appropriate levels of capital are important elements of a sound CRE lending program.
- The Guidance applies to national banks and state chartered banks and is also broadly applicable to bank holding companies. For purposes of the Guidance, CRE loans include loans for land development and construction, other land loans and loans secured by multifamily and non-farm residential properties. The definition also extends to loans to real estate investment trusts and unsecured loans to developers if their performance is closely linked to the performance of the general CRE market.
- The agencies recognize that banks serve a vital role in their communities by supplying credit for business and real estate development. Therefore, the Guidance is not intended to limit banks' CRE lending. Instead, the Guidance encourages institutions to identify and monitor credit concentrations, establish internal concentration limits, and report all concentrations to management and the board of directors on a periodic basis.
- The agencies recognized that different types of CRE lending present different levels of risk, and therefore, institutions are encouraged to segment their CRE portfolios to acknowledge these distinctions. However, the CRE portfolio should not be divided into multiple sections simply to avoid the appearance of risk concentration.
- Institutions should address the following key elements in establishing a risk management framework for identifying, monitoring, and controlling CRE risk: (1) board of directors and management oversight; (2) portfolio management; (3) management information systems; (4) market analysis; (5) credit underwriting standards; (6) portfolio stress testing and sensitivity analysis; and (7) credit review function.
- As part of the ongoing supervisory monitoring processes, the agencies will use certain criteria to identify institutions that are potentially exposed to significant CRE concentration risk. An institution that has experienced rapid growth in CRE lending, has notable exposure to a specific type of CRE, or is approaching or exceeds specified supervisory criteria may be identified for further supervisory analysis.

The Bank believes that the Guidance is applicable to it, as it has a higher level concentration in CRE loans. The Bank and its board of directors have discussed the Guidance and believe that the Bank's underwriting policy, management information systems, independent credit administration process and monthly monitoring of real estate loan concentrations will be sufficient to address the Guidance.

Allowance for Loan and Lease Losses

On December 13, 2006, the federal bank regulatory agencies released *Interagency Policy Statement on the Allowance for Loan and Lease Losses* ("ALLL"), which revises and replaces the banking agencies' 1993 policy statement on the ALLL. The revised statement was issued to ensure consistency with generally accepted accounting principles ("GAAP") and more recent supervisory guidance. The revised statement extends the applicability of the policy to credit unions. Additionally, the agencies issued 16 FAQs to assist institutions in complying with both GAAP and ALLL supervisory guidance.

Highlights of the revised statement include the following:

- The revised statement emphasizes that the ALLL represents one of the most significant estimates in an institution's financial statements and regulatory reports and that an assessment of the appropriateness of the ALLL is critical to an institution's safety and soundness.
- Each institution has a responsibility to develop, maintain, and document a comprehensive, systematic, and consistently applied process for determining the amounts of the ALLL. An institution must maintain an ALLL that is sufficient to cover estimated credit losses on individual impaired loans as well as estimated credit losses inherent in the remainder of the portfolio.
- The revised statement updates the previous guidance on the following issues regarding ALLL: (1) responsibilities of the board of directors, management, and bank examiners; (2) factors to be considered in the estimation of ALLL; and (3) objectives and elements of an effective loan review system.
- The agencies recognize that institutions may not have sufficient time to bring their ALLL processes and documentation into full compliance with the revised guidance for 2006 year end reporting purposes. However, these changes and enhancements should be completed near term.

The Bank and its board of directors have discussed the revised statement and believe that the Bank's ALLL methodology is comprehensive, systematic, and consistently applied across the Bank. The Bank believes its management information systems, independent credit administration process, policies and procedures are sufficient to address the guidance.

Fiscal and Monetary Policy

Banking is a business that depends on interest rate differentials. In general, the difference between the interest paid by a bank on its deposits and its other borrowings, and the interest received by a bank on its loans and securities holdings, constitutes the major portion of a bank's earnings. Thus, the Company's earnings and growth will be subject to the influence of economic conditions generally, both domestic and foreign, and also to the monetary and fiscal policies of the United States and its agencies, particularly the Federal Reserve. The Federal Reserve regulates the supply of money through various means, including open market dealings in United States government securities, the discount rate at which banks may borrow from the Federal Reserve, and the reserve requirements on deposits.

These policies have a direct effect on the amount of the Company's loans and deposits and on the interest rates charged on loans and paid on deposits, with the result that federal policies may have a material effect on the Company's earnings. Policies that are directed toward changing the supply of money and credit and raising or lowering interest rates may have an effect on the Company's earnings. It is not possible to predict the conditions in the national and international economies and money markets, the actions and changes in policy by monetary and fiscal authorities, or their effect on the Company's operations.

Other Pending and Proposed Legislation

Other legislative and regulatory initiatives, which could affect Center Financial, the Bank and the banking industry, in general are pending, and additional initiatives may be proposed or introduced, before the United States Congress, the California legislature and other governmental bodies in the future. Such proposals, if enacted, may further alter the structure, regulation and competitive relationship among financial institutions, and may subject Center Financial and the Bank to increased regulation, disclosure and reporting requirements. In addition, the various banking regulatory agencies often adopt new rules and regulations to implement and enforce existing legislation. It cannot be predicted whether, or in what form, any such legislation or regulations may be enacted or the extent to which the business of Center Financial or the Bank would be affected thereby.

ITEM 1A. RISK FACTORS

You should carefully consider the following risk factors and all other information contained in this Annual Report before making investment decisions concerning the Company's common stock. The risks and uncertainties described below are not the only ones the Company faces. Additional risks and uncertainties not presently known to the Company or that the Company currently believes are immaterial but may also impair the Company's business. If any of the events described in the following risk factors occur, the Company's business, results of operations and financial condition could be materially adversely affected. In addition, the trading price of the Company's common stock could decline due to any of the events described in these risks.

The Company's business has been and may continue to be adversely affected by volatile conditions in the financial markets and deteriorating economic conditions generally.

Since December 2007, the United States has been in a recession. Negative developments in the latter half of 2007 and in 2008 in the financial services industry have resulted in uncertainty in the financial markets in general and a related general economic downturn, which have continued into 2009. Business activity across a wide range of industries and regions is greatly reduced and local governments and many businesses are struggling due to the lack of consumer spending and the lack of liquidity in the credit markets. More recently, unemployment has also increased significantly.

Since mid-2007, and particularly during the second half of 2008, the financial services industry and the securities markets generally were materially and adversely affected by significant declines in the values of nearly all asset classes and by a serious lack of liquidity. This was initially triggered by declines in home prices and the values of subprime mortgages, but spread to all mortgage and real estate asset classes, to leveraged bank loans and to nearly all asset classes, including equities. The global markets have been characterized by substantially increased volatility and short-selling and an overall loss of investor confidence, initially in financial institutions, but more recently in companies in a number of other industries and in the broader markets.

Market conditions have also led to the failure or merger of a number of prominent financial institutions. Financial institution failures or near-failures have resulted in further losses as a consequence of defaults on securities issued by them and defaults under contracts entered into with such entities as counterparties. Furthermore, declining asset values, defaults on mortgages and consumer loans, and the lack of market and investor confidence, as well as other factors, have all combined to increase credit default swap spreads, to cause rating agencies to lower credit ratings, and to otherwise increase the cost and decrease the availability of liquidity, despite very significant declines in Federal Reserve borrowing rates and other government actions. Some banks and other lenders have suffered significant losses and have become reluctant to lend, even on a secured basis, due to the increased risk of default and the impact of declining asset values on the value of collateral. The foregoing has significantly weakened the strength and liquidity of some financial institutions worldwide. In 2008, the U.S. government, the Federal Reserve and other regulators have taken numerous steps to increase liquidity and to restore investor confidence, including investing approximately $250 billion in the equity of banking organizations, but asset values have continued to decline and access to liquidity continues to be very limited.

As a result of these financial and economic crises, many lending institutions, including the Company, have experienced declines in the performance of their loans, including construction, land loans, commercial loans and consumer loans. Total nonperforming loans increased to $20.5 million as of December 31, 2008 from $6.3 million as of December 31, 2007, representing 1.19% and 0.35%, respectively, of total loans. Total nonperforming assets, net of SBA guarantees, were $18.3 million as of December 31, 2008, compared to $3.9 million as of December 31, 2007. The Company had nonperforming commercial real estate loans of $13.1 million and $0 as of December 31, 2008 and 2007 and no subprime mortgage loans as of either date.

Moreover, competition among depository institutions for deposits and quality loans has increased significantly. In addition, the values of real estate collateral supporting many commercial loans and home mortgages have declined and may continue to decline. Bank and bank holding company stock prices have been negatively affected, and the ability of banks and bank holding companies to raise capital or borrow in the debt markets has become increasingly difficult. As a result, there is a potential for new federal or state laws and regulations regarding lending and funding practices and liquidity standards, and bank regulatory agencies are expected to be very aggressive in responding to concerns and trends identified in examinations, including the expected issuance of many formal or informal enforcement actions or orders. The impact of new legislation in response to those developments may negatively impact the Company's operations by restricting its business operations, including the ability to originate or sell loans, and may adversely impact the Company's financial performance or stock price.

In addition, further negative market developments may affect consumer confidence levels and may cause adverse changes in payment patterns, causing increased delinquencies and default rates, which may impact the Company's charge-offs and provision for loan losses. A worsening of these conditions would likely exacerbate the adverse effects of these difficult market conditions on the Company and others in the financial services industry.

While the Company's market areas have not experienced the same degree of challenges as other parts of the country or the state, no assurance can be given that this will continue to be the case. Overall, during the past year, the general business environment has had an adverse effect on the Company's business, and there can be no assurance that the environment will improve in the near term. Until conditions improve, it is expected that the Company's business, financial condition and results of operations will be adversely affected.

Concentrations of real estate loans could subject us to increased risks in the event of a real estate recession or natural disaster.

Approximately $1.2 billion or 69.6% of the Company's loan portfolio as of December 31, 2008, and $1.3 billion or 69.8% of the Company's loan portfolio as of December 31, 2007, were concentrated in commercial real estate and construction loans. Of this amount, $143.3 million represented loans secured by industrial buildings, and $311.7 million represented loans secured by retail shopping centers as of December 31, 2008. Although commercial loans generally provide for higher interest rates and shorter terms than single-family residential loans, such loans generally involve a higher degree of risk, as the ability of borrowers to repay these loans is often dependent upon the profitability of the borrowers' businesses. During 2008, the real estate market in Southern California deteriorated significantly, as evidenced by declining market values, reduced transaction volume, and increased foreclosure rates, and this deterioration resulted in an increase in the level of the Company's nonperforming loans, particularly commercial real estate loans. Total nonperforming loans increased to $20.5 million as of December 31, 2008 from $6.3 million as of December 31, 2007, representing 1.19% and 0.35%, respectively, of total loans. Total nonperforming assets, net of SBA guarantees, were $18.3 million as of December 31, 2008 as compared to $3.9 million as of December 31, 2007. Non-accrual loans in commercial real estate, real estate construction and commercial loans represented 84.8% of the total non-accrual loans as of December 31, 2008. The Company had nonperforming commercial real estate loans of $13.1 million and $0 as of December 31, 2008 and 2007 and no subprime mortgage loans as of either date. If trends in the Company's market areas continue or worsen, the result will likely be reduced income, increased expenses, and less cash available for lending and other activities, which would have a material impact on the Company's financial condition and results of operations.

As the primary collateral for many of the Company's loans rests on commercial real estate properties, deterioration in the real estate market in the areas the Company serves could reduce the value of the collateral value for many of the Company's loans and negatively impact the repayment ability of many of its borrowers. Such deterioration would likely also reduce the amount of loans the Company makes to businesses in the construction and real estate industry, which could negatively impact its business. Similarly, the occurrence of a natural disaster like those California has experienced in the past, including earthquakes, brush fires, and flooding, could impair the value of the collateral we hold for real estate secured loans and negatively impact the Company's results of operations.

In addition, the banking regulators have begun to give CRE loans greater scrutiny, due to perceived risks relating to the cyclical nature of the real estate market and the related risks for lenders with high concentrations of such loans. The regulators may require banks with higher levels of CRE loans to implement improved underwriting, internal controls, risk management policies and portfolio stress testing, and may possibly require higher levels of allowances for possible loan losses and capital levels as a result of CRE lending growth and exposures.

The Company may experience loan losses in excess of its allowance for loan losses.

The Company maintains an allowance for loan losses at a level it believes is adequate to absorb any inherent losses in the loan portfolio. However, changes in economic, operating and other conditions, including changes in interest rates that are beyond the Company's control may cause its actual loan losses to exceed current allowance estimates. If the actual loan losses exceed the allowance for loan losses, it would aversely affect the Company's business. In addition, the FDIC and the DFI, as part of their supervisory functions, periodically review the Company's allowance for loan losses. Such agencies may require the Company to increase its provision for loan losses or to recognize further loan losses, based on their judgments, which may be different from those of the Company's management. Any increase in the allowance required by the FDIC or the DFI could also adversely affect the Company's business.

The Company tries to limit the risk that borrowers will fail to repay loans by carefully underwriting the loans. Losses nevertheless occur. The Company establishes a loan loss allowance for probable losses inherent in the loan portfolio as of the statements of financial condition date. The Company bases allowance on estimates of the following:

- industry standards;
- historical loss experience;
- evaluation of current economic conditions;
- assessment of risk factors for loans with exposure to the economies of southern California and Pacific Rim countries;
- regular reviews of the quality mix and size of the overall loan portfolio;
- regular reviews of delinquencies; and
- the quality of the collateral underlying the Company's loans.

All of the Company's lending involves underwriting risks, especially in a competitive lending market.

At December 31, 2008, commercial real estate loans and construction loans represented 69.6% of the Company's total loan portfolio; commercial lines and term loans to businesses represented 19.4% of the Company's total loan portfolio; and SBA loans represented 2.2% of the Company's total loan portfolio.

Real estate lending involves risks associated with the potential decline in the value of underlying real estate collateral and the cash flow from income producing properties. Declines in real estate values and cash flows can be caused by a number of factors, including adversity in general economic conditions, rising interest rates, changes in tax and other governmental and other policies affecting real estate holdings, environmental conditions, governmental and other use restrictions, development of competitive properties, and increasing vacancy rates. The Company's dependence on commercial real estate loans increases the risk of loss both in the Company's loan portfolio and with respect to any other real estate owned when real estate values decline. The Company seeks to reduce risk of loss through underwriting and monitoring procedures.

Commercial lending, even when secured by the assets of a business, involves considerable risk of loss in the event of failure of the business. To reduce such risk, the Company typically takes additional security interests in other collateral, such as real property, certificates of deposit or life insurance, and/or obtains personal guarantees.

Specific risks associated with SBA lending are discussed in a separate risk factor below.

The Company has specific risks associated with Small Business Administration loans.

The Company realized $1.0 million, $618,000, and $3.3 million in the years ended December 31, 2008, 2007, and 2006, respectively, in gains recognized on secondary market sales of SBA loans. The Company has regularly sold the guaranteed and unguaranteed portions of these loans in the secondary market in previous years. The Company can provide no assurance that it will be able to continue originating these loans, or that a secondary market will continue to exist for, or that it will continue to realize premiums upon, the sale of the SBA loans.

The federal government presently guarantees approximately 75% of the principal amount of each qualifying SBA loan. The Company can provide no assurance that the federal government will maintain the SBA program, or if it does, that such guaranteed portion will remain at its current funding level. Furthermore, the Company can provide no assurance that it will retain the preferred lender status, which, subject to certain limitations, allows it to approve and fund SBA loans without the necessity of having the loan approved in advance by the SBA, or that if it does, the federal government will not reduce the amount of such loans. The Company believes that the SBA loan portfolio does not involve more than a normal risk of collectibility. However, since the Company has sold some of the guaranteed portions of the SBA loan portfolio, the Company incurs a pro rata credit risk on the non-guaranteed portion of the SBA loans since the Company shares pro rata with the SBA in any recoveries. In the event of default on an SBA loan, pursuit of remedies against a borrower subject to SBA approval, and where the SBA establishes that its loss is attributable to deficiencies in the manner in which the loan application has been prepared and submitted, the SBA may decline to honor its guarantee with respect to the SBA loans or it may seek the recovery of damages from the Company. As of December 31, 2008, SBA loans comprised 7.5% of the Company's total nonperforming assets compared to 64% as of December 31, 2007. These loans are typically 75% guaranteed by the SBA. For additional discussion see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Financial Condition—Loan Portfolio" in Item 2.

Center Financial will not be able to resume the payment of cash dividends without the approval of the Treasury Department until December 2011 unless the preferred stock issued to the Treasury Department has been redeemed.

Center Financial paid quarterly cash dividends of 5 cents per share in each quarter of 2008, and in July and October 2007 and 4 cents per share in January and April of 2007 and in each quarter of 2006. On March 25, 2009, the Company's board of directors suspended its quarterly cash dividends based on adverse economic conditions and a reduction in the Company's earnings. The board of directors determined that this is a prudent, safe and sound practice to preserve capital, and does not expect to resume the payment of cash dividends in the foreseeable future. Unless the preferred stock issued to the Treasury Department in the TARP Capital Purchase Program has been redeemed, the Company will not be permitted to resume paying cash dividends without the consent of the Treasury Department until December 2011. Once the Company is again permitted to pay cash dividends, the amount of any such dividend will be determined each quarter by our board of directors in its discretion, based on the factors described in the next paragraph. No assurance can be given that future performance will justify the payment of dividends in any particular quarter.

As a bank holding company which currently has no significant assets other than its equity interest in the Bank, Center Financial's ability to pay dividends depends on the dividends it receives from the Bank. The dividend practice of the Bank depends on its earnings, financial position, current and anticipated cash requirements and other factors deemed relevant by its board of directors at that time. Dividends payable to Center Financial by the Bank are restricted under California and federal laws and regulation. Center Financial's ability to pay dividends is also limited by state corporation law. Moreover, during any period in which Center Financial has deferred payment of interest otherwise due and payable on its subordinated debt securities, or any unpaid dividends on the preferred stock issued to the Treasury Department, we may not make any dividends or distributions with respect to our capital stock. See "Item 5—Market For Common Equity, Related Shareholder Matters And Issuer Purchases Of Equity Securities—Dividends" and "Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations—Capital Resources."

The Company may not be able to continue to attract and retain banking customers at current levels, and its efforts to compete may reduce profitability.

Competition in the banking industry in the markets served and to be served by the Company may limit the Company's ability to continue to attract and retain banking customers. The banking business in the Company's current and intended future market areas is highly competitive with respect to virtually all products and services. While the Company's primary market area is generally dominated by a relatively small number of major banks with many offices operating over a wide geographic area, the Company's three main competitors in its niche markets are three Korean-American banks of which two are comparable in size and the third is twice its asset size, which also focus their business strategies on Korean-American consumers and businesses. Primary competitors in the greater Chicago and Seattle metropolitan areas are also locally owned and operated Korean-American banks and subsidiaries of Korean banks. These competitors have branches located in many of the same neighborhoods as the Company, provide similar types of products and services and use the same Korean language publications and media for their marketing purposes. There is a high level of competition within this specific market. While major banks have not historically focused their marketing efforts on the Korean-American customer base in Southern California, their competitive influence could increase in the future. Such banks have substantially greater lending limits than the Company, offer certain services the Company cannot, and often operate with "economies of scale" that result in lower operating costs than the Company on a per loan or per asset basis.

In addition to competitive factors impacting the Company's specific market niche, the Company is affected by more general competitive trends in the banking industry, including intra-state and interstate consolidation, competition from non-bank sources, and technological innovations. Technology and other changes are allowing parties to complete financial transactions that historically have involved banks through alternative methods. For example, consumers can now maintain funds that would have historically been held as bank deposits in brokerage accounts or mutual funds. Consumers can also complete transactions such as paying bills and/or transferring funds directly without the assistance of banks. The process of eliminating banks as intermediaries, known as "disintermediation," could result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. The loss of these revenue streams and the lower cost deposits as a source of funds could have a material adverse effect on the Company's financial condition and results of operations.

In addition, with recent increased concerns about bank failures, customers increasingly are concerned about the extent to which their deposits are insured by the FDIC. Customers may withdraw deposits in an effort to ensure that the amount they have on deposit with their bank is fully insured. Decreases in deposits may adversely affect the Company's funding costs and net income.

Ultimately, competition can and does increase the Company's cost of funds and drive down its net interest margin, thereby reducing profitability. It can also make it more difficult for the Company to continue to increase the size of its loan portfolio and deposit base, and could cause the Company to need to rely more heavily on borrowings, which are generally more expensive than deposits, as a source of funds in the future. See "Item 1, Business—Competition."

If the Company is not able to successfully keep pace with technological changes affecting the industry, its business could be hurt.

The financial services industry is constantly undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better service clients and reduce costs. The Company's future success depends, in part, upon its ability to address the needs of its clients by using technology to provide products and services that will satisfy client demands, as well as create additional efficiencies within our operations. Some of our competitors have substantially greater resources to invest in technological improvements. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our clients. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse impact on the Company's business and, in turn, on its financial condition and results of operations.

Recently enacted legislation and the Company's participation in the TARP Capital Purchase Program may increase costs and limit the Company's ability to pursue business opportunities.

The Emergency Economic Stabilization Act of 2008 (the "EESA"), as augmented by the American Recovery and Reinvestment Act of 2009 (the "Stimulus Bill"), was intended to stabilize and provide liquidity to the U.S. financial markets. The programs established or to be established under the EESA and the Troubled Asset Relief Program ("TARP") may result in increased regulation of the industry in general and/or TARP Capital Purchase Program participants in particular. Compliance with such regulations may increase the Company's costs and limit its ability to pursue business opportunities.

The Company's participation in the TARP Capital Purchase Program may adversely affect the value of the Company's common stock and the rights of the Company's common shareholders.

In December 2008, the Company issued and sold $55 million of its Series A perpetual preferred stock to the Treasury Department. The terms of the preferred stock could reduce investment returns to the Company's common shareholders by restricting dividends, diluting existing shareholders' ownership interests, and restricting capital management practices. The Company's board of directors suspended its quarterly cash dividends beginning in the first quarter of 2009, and unless the preferred stock has been redeemed, the Company will not be able to resume paying cash dividends without the consent of the Treasury Department. The Company will also be prohibited paying any dividends on its common stock in the event of any unpaid dividends on the preferred stock. The preferred stock also ranks senior to the Company's common stock on liquidation. The liquidation amount of the Series A perpetual preferred stock is $1,000 per share.

Also, the preferred stock requires quarterly dividends to be paid at the rate of 5% per annum for the first five years and 9% per annum thereafter until the stock is redeemed by the Company. The payments of these dividends will decrease the excess cash the Company otherwise has available to pay dividends on the Company's common stock and to use for general corporate purposes, including working capital.

If the Emergency Economic Stabilization Act of 2008 and other recently enacted government programs do not help stabilize the U.S. financial system, the Company's operations could be adversely affected.

The Emergency Economic Stabilization Act of 2008 (as augmented by the Stimulus Bill) was intended to stabilize and provide liquidity to the U.S. financial markets. The U.S. Treasury and banking regulators are implementing a number of programs under this legislation and otherwise to address capital and liquidity issues in the banking system, including the TARP Capital Purchase Program. In addition, other regulators have taken steps to attempt to stabilize and add liquidity to the financial markets, such as the FDIC TLGP. While the Company did not "opt-out" of the TLGP, the Company does not currently intend to issue any guaranteed debt thereunder. The Company is a participant in the TARP Capital Purchase Program.

It cannot currently be predicted what impact the EESA and other programs will have on the financial markets, including the extreme levels of volatility and limited credit availability currently being experienced. The failure of the EESA and other programs to stabilize the financial markets and a continuation or worsening of current financial market conditions could materially and adversely affect the Company's business, financial condition, results of operations, access to credit, or the trading price of the Company's common stock.

The EESA and the Stimulus Bill are relatively new legislation and, as such, are subject to change and evolving interpretation. This is particularly true given the change in administration that occurred on January 20, 2009. As a result, it is impossible to predict the effects that such changes will have on the effectiveness of the EESA or on the Company's business, financial condition or results of operations.

The holders of the Company's junior subordinated debentures have rights that are senior to those of the shareholders.

As of December 31, 2008, the Company had $18 million in junior subordinated debentures outstanding that were issued to its statutory trust. The trust purchased the junior subordinated debentures from the Company using the proceeds from the sale of trust preferred securities to third party investors. Payments of the principal and interest on the trust preferred securities are conditionally guaranteed by the Company to the extent not paid or made by each trust, provided the trust has funds available for such obligations.

The junior subordinated debentures are senior to the Company's shares of common stock and to its Series A perpetual preferred stock. As a result, the Company must make payments on the junior subordinated debentures (and the related trust preferred securities) before any dividends can be paid on its common stock or preferred stock and, in the event of bankruptcy, dissolution or liquidation, the holders of the debentures must be satisfied before any distributions can be made to the shareholders. If certain conditions are met, the Company has the right to defer interest payments on the junior subordinated debentures (and the related trust preferred securities) at any time or from time to time for a period not to exceed 20 consecutive quarters in a deferral period, during which time no dividends may be paid to holders of the Company's common stock or preferred stock.

The holders of the Company's Series A perpetual preferred stock have rights that are senior to those of our common shareholders.

In December 2008, the Company issued and sold $55 million of its Series A perpetual preferred stock to the Treasury Department, which stock ranks senior to the Company's common stock in the payment of dividends and on liquidation. The liquidation amount of the Series A perpetual preferred stock is $1,000 per share.

The Company's expenses will increase as a result of increases in FDIC insurance premiums.

Under the Federal Deposit Insurance Act, the FDIC, absent extraordinary circumstances, must establish and implement a plan to restore the deposit insurance reserve ratio to 1.15% of insured deposits, over a five-year period, at any time that the reserve ratio falls below 1.15%. Recent bank failures coupled with deteriorating economic conditions have significantly reduced the deposit insurance fund's reserve ratio, which fell to 1.01% as of June 30, 2008, 18 basis points below the reserve ratio as of March 31, 2008. The FDIC expects a higher rate of insured institution failures in the next few years, which may result in a continued decline in the reserve ratio.

As a result of this reduced reserve ratio, on October 7, 2008, the FDIC released a five-year recapitalization plan and a proposal to raise premiums to recapitalize the fund. In order to implement the restoration plan, the FDIC proposed to change both its risk-based assessment system and its base assessment rates. Assessment rates would increase by seven basis points across the range of risk weightings. In December 2008, the FDIC adopted its rule, uniformly increasing the risk-based assessment rates by seven basis points, annually, resulting in a range of risk-based assessment of 12 basis points to 50 basis points. Changes to the risk-based assessment system would include increasing premiums for institutions that rely on excessive amounts of brokered deposits, increasing premiums for excessive use of secured liabilities, and lowering premiums for smaller institutions with very high capital levels.

As a member institution of the FDIC, the Bank is required to pay quarterly deposit insurance premium assessments to the FDIC. The Bank's deposit insurance premiums for 2008 and 2007 were $1.3 million and $0.8 million, respectively. Due to the continued failures of unaffiliated FDIC insured depository institutions, it is expected that the Bank's FDIC deposit insurance premiums will continue to increase in the future, perhaps significantly, thereby adversely impacting the Company's future earnings. The FDIC recently announced that, in view of the decrease in the deposit insurance fund's reserves to $18.9 billion as of December 31, 2008, it will impose a special assessment in the second quarter of 2009 of 20 basis points of domestic deposits. The FDIC subsequently announced that the special assessment is expected to be lowered by an additional 2 to 4 basis points by raising the fees it charges to guarantee debt under the Temporary Liquidity Guarantee Program in which the Company does not participate, and that this assessment could be lowered by an additional 10 basis points if Congress increases the FDIC's borrowing capacity with the Treasury Department to $100 billion. The FDIC also approved an increase in regular premium rates, which banks must continue to pay on top of the special assessment. The regular premium rates for most banks in the second quarter will now be between 12 and 16 basis points, compared to range of between 12 and 14 basis points which most banks currently pay.

The Company may be adversely affected by the soundness of other financial institutions.

The Company's ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. The Company has exposure to many different industries and counterparties, and routinely executes transactions with counterparties in the financial services industry, including commercial banks, brokers and dealers, investment banks, and other institutional clients. Many of these transactions expose the Company to credit risk in the event of a default by a counterparty or client. In addition, the Company's credit risk may be exacerbated when the collateral held by the Company cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the credit or derivative exposure due to the Company. Any such losses could adversely affect the Company's business, financial condition or results of operations.

Liquidity risk could impair the Company's ability to fund operations and jeopardize its financial condition.

Liquidity is essential to the Company's business. An inability to raise funds through traditional deposits, brokered deposits, borrowings, the sale of securities or loans and other sources could have a substantial negative effect on the Company's liquidity. The Company's access to funding sources in amounts adequate to finance the Company's activities or the terms of which are acceptable could be impaired by factors that affect the Company specifically or the financial services industry or economy in general. The Company's access to liquidity sources could be detrimentally impacted by a decrease in the level of the Company's business activity as a result of a downturn in the markets in which the Company's loans are concentrated. The Company's ability to borrow could also be impaired by more general factors such as a disruption in the financial markets or negative views and expectations about the prospects for the financial services industry in light of the recent turmoil faced by banking organizations and the continued deterioration in credit markets.

The Company relies on commercial and retail deposits, brokered deposits, advances from the Federal Home Loan Bank of San Francisco ("FHLB") and other borrowings to fund its operations. Although the Company has historically been able to replace maturing deposits and advances as necessary, it might not be possible to replace such funds in the future if, among other things, the Company's results of operations or financial condition or the results of operations or financial condition of the FHLB or market conditions were to change.

Although the Company considers these sources of funds adequate for its liquidity needs, the Company may be compelled to seek additional sources of financing in the future. Likewise, the Company may seek additional debt in the future to achieve our business objectives, in connection with any future acquisitions or for other reasons, and additional borrowings may or may not be available and, if available, may not be so on favorable terms. Bank and holding company stock prices have been negatively affected by the recent adverse economic trend, as has the ability of banks and holding companies to raise capital or borrow in the debt markets compared to recent years. If additional financing sources are unavailable or are not available on reasonable terms, the Company's financial condition, results of operations and future prospects could be materially adversely affected.

The Company actively monitors the depository institutions that hold its federal funds sold and due from banks cash balances. Access to the Company's cash equivalents and federal funds sold could be impacted by adverse conditions in the financial markets. The Company's emphasis is primarily on safety of principal, and the Company diversifies its due from banks and federal funds sold among counterparties to minimize exposure to any one of these entities. The financial conditions of the counterparties are routinely reviewed as part of the Company's asset/liability management process. Balances in the Company's accounts with financial institutions in the U.S. may exceed the FDIC insurance limits. While the Company monitors and adjusts the balances in our accounts as appropriate, these balances could be impacted if the financial institutions fail and could be subject to other adverse conditions in the financial markets.

In addition, due to the nature of the market the Company serves, a significant portion of its deposits are held by customers with ties to South Korea who may be inclined to transfer such deposits to South Korea depending on the relative value of the U. S. dollar and the South Korean currency. During the fourth quarter of 2008, the Company experienced a significant loss of deposits when customers transferred deposits to South Korea as a result of the devaluation of South Korean currency to the U. S. dollar. To date, these deposits have been replaced by retail deposits and wholesale funding. If an additional sustained withdrawal of deposits under similar circumstances should occur in the future, the Company's liquidity position could be significantly and adversely impacted.

The value of securities in the Company's investment portfolio may be negatively affected by continued disruptions in securities markets.

The market for some of the investment securities held in the Company's portfolio has become extremely volatile over the past twelve months. Volatile market conditions may detrimentally affect the value of these securities, such as through reduced valuations due to the perception of heightened credit, liquidity risks and illiquid markets for certain securities. There can be no assurance that the declines in market value associated with these disruptions will not result in other than temporary impairments of these assets, which would lead to accounting charges that could have a material adverse effect on the Company's net income and capital levels.

Financial services companies depend on the accuracy and completeness of information about customers and counterparties.

In deciding whether to extend credit or enter into other transactions, the Company may rely on information furnished by or on behalf of customers and counterparties, including financial statements, credit reports and other financial information. The Company may also rely on representations of those customers, counterparties or other third parties, such as independent auditors, as to the accuracy and completeness of that information. Reliance on inaccurate or misleading financial statements, credit reports or other financial information could have a material adverse impact on the Company's business and, in turn, on the Company's financial condition and results of operations.

If the Company's information systems were to experience a system failure or a breach in its network security, the Company's business and reputation could suffer.

The Company relies heavily on communications and information systems to conduct its business. The computer systems and network infrastructure we use could be vulnerable to unforeseen problems. The Company's operations are dependent upon its ability to protect its computer equipment against damage from fire, power loss, telecommunications failure or a similar catastrophic event. In addition, the Company must be able to protect its computer systems and network infrastructure against physical damage, security breaches and service disruption caused by the Internet or other users. Such computer break-ins and other disruptions would jeopardize the security of information stored in and transmitted through the Company's computer systems and network infrastructure. The Company has policies and procedures designed to prevent or limit the effect of the failure, interruption or security breach of its information systems and with the help of third-party service providers, will continue to implement security technology and monitor and update operational procedures to prevent such damage. However, if such failures, interruptions or security breaches were to occur, they could result in damage to the Company's reputation, a loss of customer business, increased regulatory scrutiny, or possible exposure to financial liability, any of which could have a material adverse effect on the Company's financial condition and results of operations.

The Company depends on its executive officers and key personnel to implement its business strategy and could be harmed by the loss of their services.

The Company believes that its growth and future success will depend in large part upon the skills of its management team. The competition for qualified personnel in the financial services industry is intense, and the loss of the Company's key personnel or an inability to continue to attract, retain or motivate key personnel could adversely affect the Company's business. There can be no assurance that the Company will be able to retain its existing key personnel or to attract additional qualified personnel. The Company's President and Chief Executive Officer joined the Company in January 2007; its Executive Vice President and Chief Financial Officer joined the Company in an acting capacity in February 2007 and as permanent Chief Financial Officer in April 2007; its Executive Vice President and General Counsel & Chief Risk Officer joined the Company in February 2007; its Senior Vice President and Chief Credit Officer joined the Company in 1991 as Senior Vice President and Manager of the SBA Department, and was promoted to his current position in April 2007; and its Senior Vice President and Chief Operations Officer joined the Company in July 2007. While the President and Chief Executive Officer has a 3-year employment agreement for a term beginning in January 2007, his employment may be terminated by him or by the Company at any time. None of the Company's other officers have employment agreements.

The Company's earnings are subject to interest rate risk, especially if rates fall.

Banking companies' earnings depend largely on the relationship between the cost of funds, primarily deposits and borrowings, and the yield on earning assets, such as loans and investment securities. This relationship, known as the interest rate spread, is subject to fluctuation and is affected by the monetary policies of the Federal Reserve Board and the international interest rate environment, as well as by economic, regulatory and competitive factors which influence interest rates, the volume and mix of interest-earning assets and interest-bearing liabilities, and the level of nonperforming assets. Many of these factors are beyond the Company's control. Fluctuations in interest rates affect the demand of customers for products and services. The Company is subject to interest rate risk to the degree that interest-bearing liabilities reprice or mature more slowly or more rapidly or on a different basis than interest-earning assets. Given the current volume and mix of interest-bearing liabilities and interest-earning assets, the interest rate spread could be expected to decrease during times of rising interest rates and, conversely, to increase during times of falling interest rates. Therefore, significant fluctuations in interest rates may have an adverse or a positive effect on results of operations. See "Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations—Interest Rate Risk."

Center Financial's and the Bank's directors and executive officers control a large amount of the Company's stock and shareholders' interests may not always be the same as those of the board and management.

As of December 31, 2008, the Company's directors and executive officers together with their affiliates beneficially owned approximately 23.0% of Company's outstanding voting stock (not including vested option shares). As a result, if all of these shareholders were to take a common position, they would be able to significantly affect the election of directors as well as the outcome of most corporate actions requiring shareholder approval, such as the approval of mergers or other business combinations. Such concentration may also have the effect of delaying or preventing a change in control of Center Financial.

In some situations, the interests of Center Financial's directors and executive officers may be different from the shareholders. However, Center Financial's board of directors and executive officers have a fiduciary duty to act in the best interests of the shareholders, rather than in their own best interests, when considering a proposed business combination or any of these types of matters.

Provisions contained in Center Financial's Articles of Incorporation may delay or prevent a change in control of the Company or its management.

These provisions include:

- the elimination of cumulative voting in the election of directors; and
- a requirement that the Company's board of directors consider the potential social and economic effects on the Bank's employees, depositors, customers and the communities served as well as certain other factors, when evaluating a possible tender offer, merger or other acquisition of Center Financial; and

These provisions may make it more difficult for another company to acquire the Company, which could reduce the market price of the company's common stock and the price that the shareholder may ultimately receive when their stock is sold.

The Company is subject to extensive regulation that could limit or restrict its activities.

The Company operates in a highly regulated industry and is subject to examination, supervision, and comprehensive regulation by various federal and state agencies. The Company's compliance with these regulations is costly and restricts certain of its activities, including payment of dividends, mergers and acquisitions, investments, loans and interest rates charged, interest rates paid on deposits and locations of offices. The Company is also subject to capitalization guidelines established by its regulators, which require the Company to maintain adequate capital to support its growth.

The laws and regulations applicable to the banking industry could change at any time, and the Company cannot predict the effects of these changes on its business and profitability. Because government regulation greatly affects the business and financial results of all commercial banks and bank holding companies, the Company's cost of compliance could adversely affect its ability to operate profitably.

The Sarbanes-Oxley Act of 2002, and the related rules and regulations promulgated by the Securities and Exchange Commission and NASDAQ that are now applicable to the Company, have increased the scope, complexity and cost of corporate governance, reporting and disclosure practices. In addition, as a participant in the TARP Capital Purchase Program, Center Financial is subject to certain additional restrictions on its dividend and repurchase activities and compensation arrangements, and the U.S. Congress or federal bank regulatory agencies could adopt additional regulatory requirements or restrictions in response to the threats to the financial system which may apply to all banking institutions, or may instead be more specifically targeted at TARP Capital Purchase Program participants.

The Company may incur additional costs for environmental clean up.

The cost of cleaning up or paying damages or penalties associated with environmental problems could increase the Company's operating expenses. If a borrower defaults on a loan secured by real property, the Company will often purchase the property in foreclosure or accept a deed to the property surrendered by the borrower. The Company also could be compelled to assume the management responsibilities of commercial properties whose owners have defaulted on their loans. The Company also leases premises for its branch operations and corporate office in locations where environmental problems may exist. Although the Company has lending and facility leasing guidelines intended to identify properties with an unreasonable risk of contamination, hazardous substances may exist on some of these properties. As a result, environmental laws could force the Company to clean up the hazardous waste located on these properties (at the Company's expense) and cost might exceed their fair market value. Further, even if environmental laws did not hold the Company responsible for the environmental clean up of such properties, it might be difficult or impossible to sell properties until the environmental problems were remediated.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

Properties

The Company's headquarters are located at 3435 Wilshire Boulevard, Los Angeles, California 90010. The Company leases approximately 25,000 square feet, which includes a ground floor branch and administrative offices located on the third and seventh floor of the building. The lease term expires in 2011. The Company has an option to renew the lease for an additional five years after expiration of the current lease.

As of December 31, 2008, the Company operated full-service branches at nineteen leased locations (including the branch described in the previous paragraph). Expiration dates of the Company's leases range from October 2009 to September 2019. The Company owns two facilities, the Olympic and Western branches, with carrying values of $1.0 million and $2.4 million, respectively, at December 31, 2008. Certain properties currently leased have renewal options, which could extend the use of the facility for additional specified terms. In the opinion of Management, all properties are adequately covered by insurance and existing facilities are considered adequate for present and anticipated future use.

ITEM 3. LEGAL PROCEEDINGS

From time to time, the Company is a party to claims and legal proceedings arising in the ordinary course of business. It is management's opinion that the resolution of any such claims or legal proceedings would not have a material adverse effect on the Company's financial condition or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable

PART II

ITEM 5. MARKET FOR COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Trading History

Center Financial's common stock is listed on the NASDAQ Global Select Market under the symbol "CLFC". The information in the following table indicates the high and low sales prices and approximate volume of trading for the Company's common stock for the periods indicated, based upon information provided by the NASDAQ Stock Market, LLC.

Calendar Quarter Ended	Market Value High	Market Value Low	Approximate Trading Volume
March 31, 2007	24.15	19.46	3,131,000
June 30, 2007	20.67	15.95	4,331,000
September 30, 2007	17.63	13.90	4,467,000
December 31, 2007	16.80	11.29	6,781,000
March 31, 2008	12.92	8.45	7,072,000
June 30, 2008	10.58	7.99	6,868,000
September 30, 2008	14.84	8.30	9,071,000
December 31, 2008	13.81	5.42	5,661,000

Holders

As of February 26, 2009, there were approximately 160 shareholders of record of the common stock, and about 550 street name holders.

Dividends

As a bank holding company which currently has no significant assets other than its equity interest in the Bank, Center Financial's ability to pay dividends primarily depends upon the dividends received from the Bank. The dividend practice of the Bank, like the Company's dividend practice, will depend upon its earnings, financial position, current and anticipated cash requirements and other factors deemed relevant by the Bank's board of directors at that time.

Since October 2003, Center Financial has paid quarterly cash dividends to its shareholders. Center Financial paid cash dividends of 4 cents per share throughout 2006 and in January and April 2007, and 5 cents per share from July 2007 to January 2009. On March 25, 2009, the Company's board of directors suspended its quarterly cash dividends based on adverse economic conditions and a reduction in the Company's earnings. The board of directors determined that this is a prudent, safe and sound practice to preserve capital, and does not expect to resume the payment of cash dividends in the foreseeable future. Unless the preferred stock issued to the Treasury Department in the TARP Capital Purchase Program has been redeemed, the Company will not be permitted to resume paying cash dividends without the consent of the Treasury Department until December 2011. Once the Company is again permitted to pay cash dividends, the amount of any such dividends will be determined each quarter by our board of directors in its discretion, based on the factors described in the next paragraph. No assurance can be given that future performance will justify the payment of dividends in any particular quarter.

The Bank's ability to pay cash dividends is also subject to certain legal limitations. Under California law, banks may declare a cash dividend out of their net profits up to the lesser of retained earnings or the net income for the last three fiscal years (less any distributions made to shareholders during such period), or with the prior written approval of the Commissioner of Financial Institutions, in an amount not exceeding the greatest of (i) the retained earnings of the Bank, (ii) the net income of the Bank for its last fiscal year or (iii) the net income of the

Bank for its current fiscal year. In addition, under federal law, banks are prohibited from paying any dividends if after making such payment they would fail to meet any of the minimum regulatory capital requirements. The federal regulators also have the authority to prohibit banks from engaging in any business practices which are considered to be unsafe or unsound, and in some circumstances the regulators might prohibit the payment of dividends on that basis even though such payments would otherwise be permissible.

Center Financial's ability to pay dividends is also limited by state corporation law. The California General Corporation Law allows dividends to the company's shareholders if the company's retained earnings equal at least the amount of the proposed dividend. If a California corporation does not have sufficient retained earnings available for the proposed dividend, it may still pay a dividend to its shareholders if immediately after giving effect to the dividend the sum of the company's assets (exclusive of goodwill and deferred charges) would be at least equal to 125% of its liabilities (not including deferred taxes, deferred income and other deferred liabilities) and the current assets of the company would be at least equal to its current liabilities, or, if the average of its earnings before taxes on income and before interest expense for the two preceding fiscal years was less than the average of its interest expense for the two preceding fiscal years, at least equal to 125% of its current liabilities. In addition, during any period in which Center Financial has deferred payment of interest otherwise due and payable on its subordinated debt securities, or any unpaid dividends on the preferred stock issued to the Treasury Department, it may not make any dividends or distributions with respect to its capital stock. See "Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations—Capital Resources."

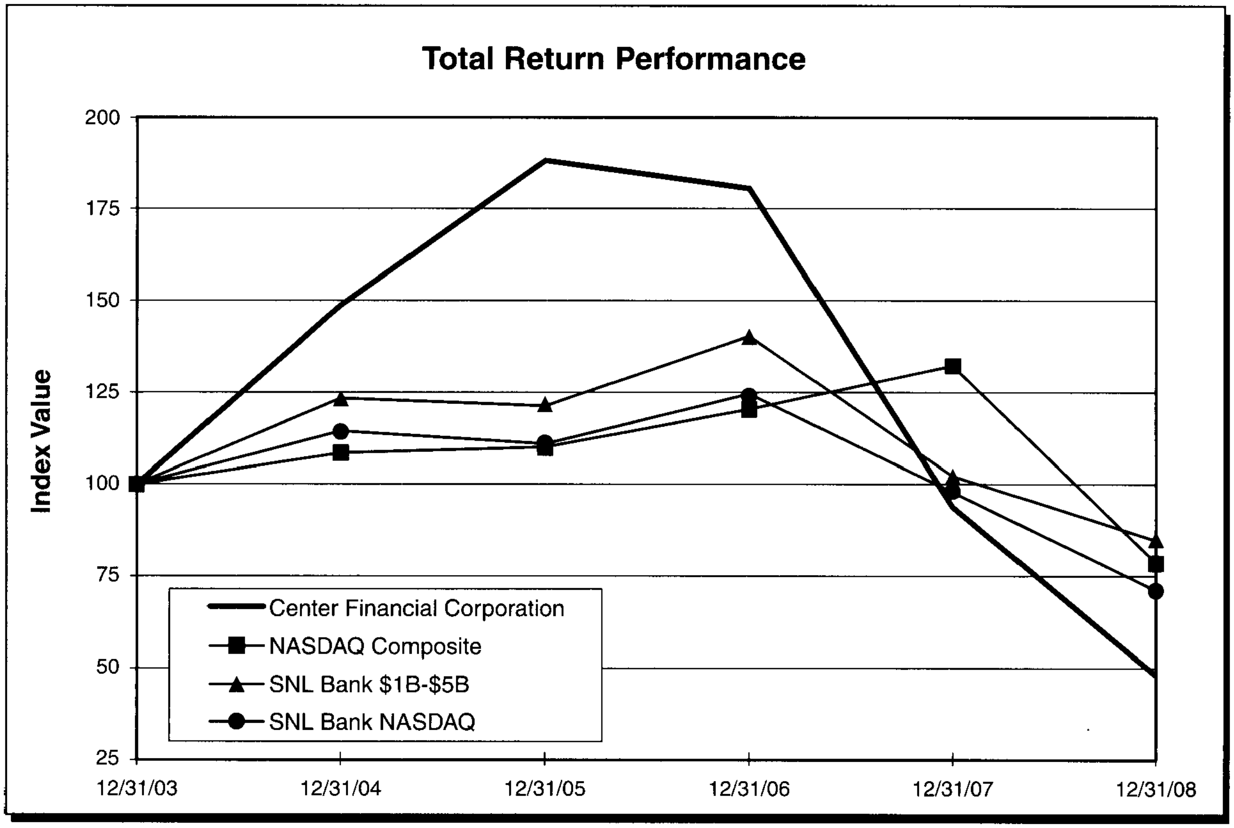
Securities Authorized for Issuance under Equity Compensation Plans

The following table provides information as of December 31, 2008 with respect to stock options and restricted stock awards outstanding and available under our 2006 Stock Incentive Plan, as amended, which is our only equity compensation plan other than an employee benefit plan meeting the qualification requirements of Section 401(a) of the Internal Revenue Code:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants or Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants or Rights	Number of Securities Remaining Available for Future Issuance
Equity compensation plans approved by security holders	850,151	$7.46	2,179,852

Performance Graph

The graph below compares the yearly percentage change in cumulative total shareholders' return on the Company's stock with the cumulative total return of (i) of the NASDAQ market index; (ii) all banks and bank holding companies listed on NASDAQ; and (iii) an index comprised of banks and bank holding companies located throughout the United States with total assets of between $1.0 billion and $5.0 billion. The latter two peer group indexes were compiled by SNL Financial of Charlottesville, Virginia. The Company reasonably believes that the members of the third group listed above constitute peer issuers for the period from December 31, 2003 through December 31, 2008. The graph assumes an initial investment of $100 and reinvestment of dividends. The graph is not necessarily indicative of future price performance.



	Period Ending					
Index	**12/31/03**	**12/31/04**	**12/31/05**	**12/31/06**	**12/31/07**	**12/31/08**
Center Financial Corporation	100.00	148.76	188.26	180.58	93.92	48.14
NASDAQ Composite	100.00	108.59	110.08	120.56	132.39	78.72
SNL Bank $1B-$5B	100.00	123.42	121.31	140.38	102.26	84.81
SNL Bank NASDAQ	100.00	114.61	111.12	124.75	97.94	71.13

Issuer Purchase of Equity Securities

On May 24, 2007, the Company announced a stock buyback program, under which up to $10 million of the Company's issued and outstanding common shares in the open market can be repurchased for a period of twelve months, which ended in May 2008. The Company repurchased a total of 373,820 shares at an average price of $12.33 through this program in 2007. No shares were repurchased in 2008.

ITEM 6. SELECTED FINANCIAL DATA

The following table presents selected historical financial information concerning the Company, which should be read in conjunction with the Company's audited consolidated financial statements, including the related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations," included elsewhere herein. All per share information has been adjusted for stock splits and dividends declared by the Company from time to time, including the two-for-one stock split paid on March 2, 2004.

	As of and For the Year Ended December 31,				
	2008	2007	2006	2005	2004
	(Dollars in thousands, except share data)				
STATEMENTS OF OPERATIONS:					
Interest income	$ 131,207	$ 143,241	$ 124,729	$ 92,825	$ 57,508
Interest expense	56,607	66,986	53,319	29,467	15,381
Net interest income before provision for loan losses	74,600	76,255	71,410	63,358	42,127
Provision for loan losses	26,178	6,494	5,666	3,370	3,250
Net interest income after provision for loan losses	48,422	69,761	65,744	59,988	38,877
Noninterest income	15,376	14,863	22,226	20,531	20,558
Noninterest expense	65,225	49,035	45,327	40,825	36,823
(Loss) income before income tax (benefit) expense	(1,427)	35,589	42,643	39,694	22,612
Income tax (benefit) expense	(1,647)	13,646	16,485	15,091	8,388
Net income	220	21,943	26,158	24,603	14,224
Preferred stock dividends and accretion of preferred stock discount	(155)	—	—	—	—
Net income available to common shareholders	$ 65	$ 21,943	$ 26,158	$ 24,603	$ 14,224
SHARE DATA:					
Net income per common share					
Basic	$ 0.00	$ 1.32	$ 1.58	$ 1.50	$ 0.88
Diluted	0.00	1.31	1.57	1.48	0.86
Book value per common share	9.62	9.62	8.46	6.86	5.57
Cash dividend per common share	0.20	0.19	0.16	0.16	0.16
Weighted average common shares outstanding:(1)					
Basic	16,525,761	16,649,495	16,535,189	16,375,823	16,157,581
Diluted	16,560,309	16,731,694	16,666,768	16,702,023	16,525,865
STATEMENTS OF FINANCIAL CONDITION:					
Total assets	$ 2,056,609	$ 2,080,663	$ 1,843,312	$ 1,661,003	$ 1,338,114
Total investment securities	182,694	139,710	159,504	236,075	168,423
Net loans(2)	1,679,340	1,789,635	1,537,176	1,219,149	1,010,473
Total deposits	1,603,519	1,577,674	1,429,399	1,480,556	1,165,536
Total shareholders' equity	214,567	157,453	140,734	112,714	90,720

1 As adjusted to give retroactive effect to stock splits and dividends.

2 Net loans represent total gross loans less the allowance for loan losses, deferred fees, and discount on SBA loans.

	As of and For the Year Ended December 31,				
	2008	2007	2006	2005	2004
PERFORMANCE RATIOS:					
Return on average assets(3)	0.01%	1.14%	1.53%	1.69%	1.22%
Return on average equity(4)	0.13	14.33	20.66	24.04	16.89
Net interest spread(5)	3.01	3.06	3.36	3.90	3.39
Net interest margin(6)	3.80	4.23	4.53	4.77	3.98
Efficiency ratio(7)	72.49	53.80	48.41	48.67	58.74
Net loans to total deposits at period end	104.73	113.44	107.54	82.34	86.70
Dividend payout ratio	48.78	14.50	10.19	10.81	18.60
CAPITAL RATIOS					
Leverage capital ratio					
Consolidated Company	11.28%	8.49%	8.62%	8.21%	9.13%
Center Bank	10.64	8.28	8.51	8.22	9.09
Tier 1 risk-based capital ratio					
Consolidated Company	12.58	9.31	9.45	9.70	9.59
Center Bank	11.87	9.08	9.33	9.72	9.52
Total risk-based capital ratio					
Consolidated Company	13.84	10.42	10.54	10.76	10.62
Center Bank	13.13	10.19	10.42	10.78	10.54
ASSET QUALITY RATIOS					
Non-performing loans to total loans(8)	1.19%	0.35%	0.21%	0.24%	0.34%
Non-performing assets(9) to total loans and other real estate owned	1.19	0.37	0.21	0.24	0.34
Net charge-offs to average total loans	0.47	0.21	0.16	0.06	0.09
Allowance for loan losses to total gross loans	2.22	1.13	1.12	1.12	1.10
Allowance for loan losses to non-performing loans	187	327	534	471	327

3 Net income divided by average total assets.

4 Net income divided by average shareholders' equity.

5 Represents the weighted average yield on interest-earning assets less the weighted average cost of interest-bearing liabilities.

6 Represents net interest income as a percentage of average interest-earning assets.

7 Represents the ratio of non-interest expense to the sum of net interest income before provision for loan losses and total non-interest income.

8 Nonperforming loans consist of non-accrual loans and loans past due 90 days or more.

9 Nonperforming assets consist of non-performing loans and other real estate owned.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion presents Management's analysis of the Company's financial condition and results of operations as of, and for each of the years in the three-year period ended December 31, 2008, and includes the statistical disclosures required by SEC Guide 3 ("Statistical Disclosure by Bank Holding Companies"). The discussion should be read in conjunction with the financial statements of the Company and the notes related thereto which appear elsewhere in this Form 10-K Annual Report (See Item 8 below). All share and per share information set forth herein has been adjusted to reflect stock splits and stock dividends declared by the Company from time to time.

Critical Accounting Policies

Accounting estimates and assumptions discussed in this section are those that the Company considers to be the most critical to an understanding of its financial statements because they inherently involve significant judgments and uncertainties. The financial information contained in these statements is, to a significant extent, based on approximate measures of the financial effects of transactions and events that have already occurred. These critical accounting policies are those that involve subjective decisions and assessments and have the greatest potential impact on the Company's results of operations. Management has identified its most critical accounting policies to be those relating to the following: investment securities, loan sales, allowance for loan losses, interest rate swaps and share-based compensation. The following is a summary of these accounting policies. In each area, the Company has identified the variables most important in the estimation process. The Company has used the best information available to make the estimations necessary to value the related assets and liabilities. Actual performance that differs from the Company's estimates and future changes in the key variables could change future valuations and impact net income.

Investment Securities

Under SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, investment securities generally must be classified as held-to-maturity, available-for-sale or trading. The appropriate classification is based partially on the Company's ability to hold the securities to maturity and largely on management's intentions with respect to either holding or selling the securities. The classification of investment securities is significant since it directly impacts the accounting for unrealized gains and losses on securities. Unrealized gains and losses on trading securities flow directly through earnings during the periods in which they arise, whereas with respect to available-for-sale securities, they are recorded as a separate component of shareholders' equity (accumulated comprehensive other income or loss) and do not affect earnings until realized. The fair values of the Company's investment securities are generally determined by reference to quoted market prices and reliable independent sources. The Company is obligated to assess, at each reporting date, whether there is other-than-temporary impairment ("OTTI") to the Company's investment securities. Such impairment must be recognized in current earnings rather than in other comprehensive income. Investment securities are discussed in more detail in Note 3 to the consolidated financial statements presented elsewhere herein.

Loan Sales

Certain Small Business Administration loans and other loans that the Company has the intent to sell prior to maturity are designated as held for sale typically at origination and recorded at the lower of cost or market value, on an aggregate basis. Upon management's decision, certain loans in the portfolio may be reclassified to the held for sale category prior to any commitment by the Company to sell the loans. Such decision is usually made to rebalance the loan portfolio and to better manage the Company's liquidity and capital resources. A valuation allowance is established if the market value of such loans is lower than their cost, and operations are charged or credited for valuation adjustments. A portion of the premium on sale of loans is recognized as other operating income 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 or liabilities are recorded when loans are sold with servicing retained, 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%. Net servicing assets, or servicing assets net of servicing liabilities, are amortized in proportion to and over the period of estimated future servicing income. Management periodically evaluates the net servicing asset for impairment, which is the carrying amount of the net servicing asset in excess of the related fair value. Impairment, if it occurs, is recognized as a write-down in the period of impairment.

Allowance for Loan Losses

The Company's allowance for loan loss methodologies incorporate a variety of risk considerations, both quantitative and qualitative, in establishing an allowance for loan losses that management believes is appropriate at each reporting date. Quantitative factors include the Company's historical loss experience, delinquency and charge-off trends, collateral values, changes in nonperforming loans, and other factors. Quantitative factors also incorporate known information about individual loans, including borrowers' sensitivity to interest rate movements and borrowers' sensitivity to quantifiable external factors including commodity and finished good prices as well as acts of nature such as earthquakes, floods, fires, etc. that occur in a particular period. Qualitative factors include the general economic environment in the Company's markets and, in particular, the state of certain industries. Size and complexity of individual credits, loan structure, extent and nature of waivers of existing loan policies and pace of portfolio growth are other qualitative factors that are considered in its methodologies. As the Company adds new products, increases the complexity of the loan portfolio and expands the geographic coverage, the Company will enhance the methodologies to keep pace with the size and complexity of the loan portfolio. Changes in any of the above factors could have significant impact to the loan loss calculation. The Company believes that its methodologies continue to be appropriate given its size and level of complexity. Detailed information concerning the Company's loan loss methodology is contained in "Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations—Allowance for Loan Losses."

Share-based Compensation

The Company adopted SFAS No. 123R as of January 1, 2006 as discussed in Note 14 to the consolidated financial statements. SFAS No. 123R requires the Company to recognize compensation expense for all share-based payments made to employees and directors based on the fair value of the share-based payment on the date of grant. The Company elected to use the modified prospective method for adoption, which requires compensation expense to be recorded for all unvested stock options beginning in the first quarter of adoption. For all unvested options outstanding as of January 1, 2006, the previously measured but unrecognized compensation expense, based on the fair value at the original grant date, is recognized on a straight-line basis in the Consolidated Statements of Operations over the remaining vesting period. For share-based payments granted subsequent to January 1, 2006, compensation expense, based on the fair value on the date of grant, is recognized in the Consolidated Statements of Operations on a straight-line basis over the vesting period. In determining the fair value of stock options, the Company uses the Black-Scholes option-pricing model that employs the following assumptions:

- Expected volatility—based on the weekly historical volatility of our stock price, over the expected life of the option.
- Expected term of the option—based on historical employee stock option exercise behavior, the vesting terms of the respective option and a contractual life of ten years.
- Risk-free rate—based upon the rate on a zero coupon U.S. Treasury bill, for periods within the contractual life of the option, in effect at the time of grant.
- Dividend yield—calculated as the ratio of historical dividends paid per share of common stock to the stock price on the date of grant.

The Company's stock price volatility and option lives involve management's best estimates at that time, both of which impact the fair value of the option calculated under the Black-Scholes methodology and, ultimately, the expense that will be recognized over the life of the option.

Executive Overview

Consolidated net income for the year ended December 31, 2008 was $220,000, or $0.00 per diluted share compared to $21.9 million or $1.31 per diluted share in 2007. The following were significant factors related to 2008 results as compared to 2007:

- The results of operations in 2008 compared to 2007 were mainly affected by the three major items: provision for loan losses of $26.2 million, OTTI of $9.9 million in securities available for sale, and the KEIC litigation settlement expense of $7.5 million.

- Net interest income before provision for loan losses for 2008 decreased by 2.2% or $1.7 million to $74.6 million as compared to 2007. The decrease was primarily due to margin compression of $7.5 million, offset by growth in net earning assets that contributed $5.8 million to earnings. Growth in net earning assets was primarily driven by loan production and was funded by deposits and other borrowings.
- The net interest margin for 2008 declined to 3.80% compared to 4.23% in 2007. The decrease in the net interest margin was mainly attributable to rate reductions in the Federal Funds rate by the Federal Open Market Committee ("FOMC") during the year for a combined 400 basis points, which caused an immediate reduction in the variable rate loan portfolio and a delayed reduction of the Bank's costs of its portfolio of time deposits. To a lesser extent, a change in the loan portfolio mix contributed to the margin compression, as a higher portion of the portfolio was fixed rate in 2008 compared to 2007. In addition, the slight decrease in demand deposits and the increases in time deposits and in other borrowed funds contributed to the decrease in the net interest margin.
- The Company's efficiency ratio for 2008 increased to 72.5% compared to 53.8% for 2007 due to increased operational costs primarily related to OTTI of $9.9 million for an investment held in its securities available for sale portfolio and the KEIC litigation settlement expense of $7.5 million.
- The return on average assets and return on average equity for 2008 decreased to 0.01% and 0.13%, respectively, compared to 1.14% and 14.33% in 2007. Net loan growth contributed $10.8 million in earnings, but was offset by a $23.9 million reduction in the average yield of the loan portfolio, a $6.0 million increase for growth in deposits and borrowings, offset by a $16.4 million decrease in average funding cost during 2008, which resulted in the net interest margin compression of $1.7 million. In addition, the loan loss provision increased by $19.7 million and non-interest expenses increased by $16.2 million offset by a decrease in income tax provision by $15.3 million.
- The 2008 provision for loan losses increased $19.7 million to $26.2 million compared to $6.5 million in 2007, due primarily to charge-offs and the risk assessment of the loan portfolio. Management's assessment of the credit risk inherent in the portfolio is based on a migration, quantitative and qualitative analyses, other historical factors and trends.

The following are important factors in understanding the Company's financial condition and liquidity:

- Net loans declined $110.3 million or 6.2% to $1.68 billion at December 31, 2008 as compared to $1.79 billion at December 31, 2007. The decrease in net loans was primarily due to the strategic reduction of the loan portfolio and the increase in the allowance for loan losses in 2008. The reduction of the loan portfolio was mainly comprised of net decreases in commercial real estate loans of $62.3 million, or 5.2%; SBA loans of $33.5 million, or 47.5%; consumer loans of $10.5 million, or 10.7%; and real estate construction loans of $6.2 million, or 9.0%.
- Total deposits increased $25.8 million, or 1.6%, to $1.60 billion at December 31, 2008 as compared to $1.58 billion at December 31, 2007. Money market accounts grew $203.0 million or 83.1%. While non-jumbo time deposits grew $30.6 million or 27.2%, jumbo time deposits declined $152.3 million or 19.0%. There was a decline in non interest-bearing demand deposit accounts of $53.3 million or 14.7%. The Company borrows funds through the Federal Home Loan Bank, Treasury Tax and Loan Investment Program. Other borrowings decreased $106.6 million or 35.6%.
- As a result of the aforementioned decline in loans and increase in deposits, the ratio of net loans to total deposits decreased to 104.7% at December 31, 2008 as compared to 113.4% at December 31, 2007.
- Non-performing assets increased to $20.5 million at December 31, 2008 from $6.6 million at December 31, 2007, an increase of $13.8 million or 208%. The largest component of this increase was non-performing commercial real estate and construction loans representing $15.1 million of the increase. Although there was an increase in non-performing assets, the ratio of non-performing assets as a percent of total loans and other real estate owned of 1.19% at December 31, 2008 reflects the Company's strong underwriting policies and continued efforts to monitor and address potential credit issues effectively.

- The ratio of non-accrual loans to total loans increased to 1.19% at December 31, 2008 compared to 0.35% at December 31, 2007. The increase which occurred during the second half of 2008 was a result of a weakening economy in our market place. The ratio of the allowance for loan losses to total nonperforming loans decreased to 187% at December 31, 2008, as compared to 327% at December 31, 2007, and the ratio of the allowance for loan losses to total gross loans increased to 2.22% at December 31, 2008 compared to 1.13% at December 31, 2007.
- The Company issued and sold 55,000 shares of the Company's fixed-rate cumulative perpetual preferred stock and a 10-year warrant to purchase 864,780 shares of the Company's common stock to the U.S. Treasury Department at an exercise price of $9.54 per share. The Company will pay the Treasury Department a five percent dividend annually for each of the first five years of the investment and a nine percent dividend thereafter until the shares are redeemed. The cumulative dividend for the preferred stock is accrued for and payable on February 15, May 15, August 15 and November 15 of each year.
- The most recent notification from the FDIC in June 2008 categorized the Bank as well capitalized under the regulatory framework for prompt corrective action.
- The Company declared its quarterly cash dividend of $0.05 per share in March, June, September and December 2008 or $0.20 for the year ended December 31, 2008. On March 25, 2009, the Company's board of directors suspended its quarterly cash dividend of $0.05 from the first quarter of 2009 based on adverse economic conditions and reduction in earnings of the Company.
- All liquidity measures at December 31, 2008 met or exceeded the same measures at December 31, 2007.

Results of Operations

Net Interest Income

The Company's earnings depend largely upon its net interest income, which is the difference between the income received from its loan portfolio and other interest-earning assets and the interest paid on its deposits and other funding liabilities. The Company's net interest income is affected by the change in the level and the mix of interest-earning assets and interest-bearing liabilities, referred to as volume changes. The Company's net interest income is also affected by changes in the yields earned on assets and rates paid on liabilities, referred to as rate changes. Interest rates charged on loans are affected principally by the demand for such loans, the supply of money available for lending purposes and competitive factors. Those factors are, in turn, affected by general economic conditions and other factors beyond the Company's control, such as federal economic policies, the general supply of money in the economy, legislative tax policies, governmental budgetary matters and the actions of the Federal Reserve Board. Interest rates on deposits are affected primarily by rates charged by competitors.

The following table sets forth, for the periods indicated, the dollar amount of changes in interest earned and interest paid for interest-earning assets and interest-bearing liabilities and the amount of change attributable to (i) changes in average daily balances (volume) and (ii) changes in interest rates (rate):

	Year Ended December 31, 2008 vs. 2007 Increase (Decrease) Due to Change In			Year Ended December 31, 2007 vs. 2006 Increase (Decrease) Due to Change In		
	Volume	**Rate**	**Total**	**Volume**	**Rate**	**Total**
Earning assets:						
Interest income:						
Loans[10]	$10,820	$(23,685)	$(12,865)	$24,562	$(3,510)	$21,052
Federal funds sold	66	(216)	(150)	(1,549)	229	(1,320)
Investments[11]	954	27	981	(2,332)	1,112	(1,220)
Total earning assets	11,840	(23,874)	(12,034)	20,681	(2,169)	18,512
Interest expense:						
Deposits and borrowed funds:						
Money market and super NOW accounts	4,204	(2,727)	1,477	963	2,155	3,118
Savings deposits	(385)	40	(345)	(539)	(328)	(867)
Time Certificates of deposits	715	(9,916)	(9,201)	2,307	2,234	4,541
Other borrowings	1,510	(3,514)	(2,004)	7,067	(230)	6,837
Long-term subordinated debentures	—	(306)	(306)	—	38	38
Total interest-bearing liabilities	6,044	(16,423)	(10,379)	9,798	3,869	13,667
Net interest income	$ 5,796	$ (7,451)	$ (1,655)	$10,883	$(6,038)	$ 4,845

10 Loans are net of the allowance for loan losses, deferred fees and discount on SBA loans retained. Loan fees included in loan income were approximately $1.4 million, $2.1 million and $1.3 million for the years ended December 31, 2008, 2007 and 2006, respectively. Amortized loan fees have been included in the calculation of net interest income. Non-accrual loans have been included in the table for computation purposes, but the foregone interest of such loans is excluded.

11 Interest income on a tax equivalent basis for tax-advantaged investments was not included in the computation of yields. Such income amounted to $85,000, $87,000 and $97,000 for the years ended December 31, 2008, 2007 and 2006, respectively.

Net interest income was $74.6 million, $76.3 million and $71.4 million for the years ended December 31, 2008, 2007 and 2006, respectively. The 2008 decrease in net interest income of $1.7 million, or 2.2% was principally due to compression of our net interest margin primarily resulting from a series of rate decrease by FOMC, which caused an immediate reduction in the variable rate loan portfolio and a delayed reduction of the Company's costs of its portfolio of time deposits. The 2007 increase in net interest income of $4.8 million, or 6.8% was principally due to increases in the Company's average gross loans which was $254.1 million in 2007 and offset by compression of our net interest margin primarily resulting from a 100 basis point decrease by FOMC in its lending rates, which caused an immediate reduction in the variable rate loan portfolio and a delayed reduction of the Company's costs of its portfolio of time deposits.

Net Interest Margin

The following table shows the Company's average balances of assets, liabilities and shareholders' equity; the amount of interest income and interest expense; the average yield or rate for each category of interest-earning assets and interest-bearing liabilities; and the net interest spread and the net interest margin for the periods indicated:

	For the Year Ended December 31,								
	2008			2007			2006		
	Average Balance	Interest Income/ Expense	Annualized Average Rate/Yield	Average Balance	Interest Income/ Expense	Annualized Average Rate/Yield	Average Balance	Interest Income/ Expense	Annualized Average Rate/Yield
	(Dollars in thousands)								
Assets:									
Interest-earning assets:									
Loans[12]	$1,779,420	$122,424	6.88%	$1,640,425	$135,290	8.25%	$1,340,959	$114,238	8.52%
Federal funds sold	6,144	105	1.71	4,609	255	5.53	33,286	1,575	4.73
Investments[13]	179,066	8,678	4.85	159,364	7,696	4.83	203,453	8,916	4.38
Total interest-earning assets	1,964,630	131,207	6.68%	1,804,398	143,241	7.94%	1,577,698	124,729	7.91%
Noninterest—earning assets:									
Cash and due from banks	52,851			67,373			76,934		
Bank premises and equipment, net	14,509			13,534			13,714		
Customers' acceptances outstanding	4,156			3,580			5,017		
Accrued interest receivables	7,651			7,955			7,011		
Other assets	40,675			33,394			31,502		
Total noninterest-earning assets	119,842			125,836			134,178		
Total assets	$2,084,472			$1,930,234			$1,711,876		
Liabilities and Shareholders' Equity:									
Interest-bearing liabilities:									
Deposits:									
Money market and NOW accounts	$ 363,356	$ 10,674	2.94%	$ 233,984	$ 9,197	3.93%	$ 204,535	$ 6,081	2.97%
Savings	53,601	1,832	3.42	64,906	2,177	3.35	80,219	3,044	3.79
Time certificate of deposits over $100,000	724,384	28,805	3.98	731,034	38,127	5.22	687,181	34,136	4.97
Other time certificate of deposits	124,741	4,815	3.86	99,624	4,694	4.71	98,077	4,142	4.22
	1,266,082	46,126	3.64	1,129,548	54,195	4.80	1,070,012	47,403	4.43
Other borrowed funds	258,151	9,294	3.60	224,860	11,298	5.02	83,941	4,461	5.31
Long-term subordinated debentures	18,557	1,187	6.40	18,557	1,493	8.05	18,557	1,455	7.84
Total interest-bearing liabilities	1,542,790	56,607	3.67	1,372,965	66,986	4.88	1,172,510	53,319	4.55

	For the Year Ended December 31,								
	2008			2007			2006		
	Average Balance	Interest Income/ Expense	Annualized Average Rate/Yield	Average Balance	Interest Income/ Expense	Annualized Average Rate/Yield	Average Balance	Interest Income/ Expense	Annualized Average Rate/Yield
	(Dollars in thousands)								
Noninterest-bearing liabilities:									
Demand deposits	349,902			382,071			390,675		
Total funding liabilities	1,892,692		2.99%	1,755,036		3.82%	1,563,185		3.41%
Other liabilities	24,020			22,080			22,050		
Shareholders' equity	167,760			153,118			126,641		
Total liabilities and shareholders' equity	$2,084,472			$1,930,234			$1,711,876		
Net interest income		$74,600			$76,255			$71,410	
Cost of deposits			2.85%			3.59%			3.25%
Net interest spread[14]			3.01%			3.06%			3.36%
Net interest margin[15]			3.80%			4.23%			4.53%

12 Loans are net of the allowance for loan losses, deferred fees and discount on SBA loans retained. Loan fees included in loan income were approximately $1.4 million, $2.1 million and $1.3 million for the years ended December 31, 2008, 2007 and 2006, respectively. Amortized loan fees have been included in the calculation of net interest income. Non-accrual loans have been included in the table for computation purposes, but the foregone interest of such loans is excluded.

13 Interest income on a tax equivalent basis for tax-advantaged investments was not included in the computation of yields. Such income amounted to $85,000, $87,000 and $97,000 for the years ended December 31, 2008, 2007 and 2006, respectively.

14 Represents the weighted average yield on interest-earning assets less the weighted average cost of interest-bearing liabilities.

15 Represents net interest income before the provision for loan losses measured as a percentage of average interest-earning assets.

The net interest margin for the years ended December 31, 2008, 2007 and 2006 was 3.80%, 4.23%, and 4.53%, respectively. The 43 basis point decrease in net interest margin in 2008 was due primarily to a reduction in the Federal Reserve lending rates by the FOMC during the year and to a lesser extent, a change in the loan portfolio mix resulting in a higher portion of the loan originations being variable rate in 2008 as compared to 2007. In addition, the decrease in demand deposits and the increases in time deposits and in other borrowed funds contributed to the decrease in the net interest margin.

The 30 basis point decrease in net interest margin in 2007 was due primarily to a reduction in the Federal Reserve lending rates by the FOMC of 100 basis points since September 18, 2007 through the end of the year and to a lesser extent, a change in the loan portfolio mix resulting in a higher portion of the loan portfolio being fixed rate in 2007 as compared to 2006, creating less sensitivity to interest rate changes and general rate increases in funding liabilities. In addition, the slight decrease in demand deposits and the increases in time deposits and in other borrowed funds contributed to the decrease in the net interest margin.

The average yield on loans decreased to 6.88% in 2008 compared to the decrease to 8.25% in 2007 from 8.52% in 2006, a decrease of 137 and 27 basis points, respectively. The declining loan yields in 2008 were attributable to (i) increase in variable rate loans; and (ii) a reduction of 400 basis points in the fed funds rate in 2008. The lower yields on loans for 2007 was a result of (i) an emphasis on fixed rate lending with lower yields compared to variable rate loans from the second half of 2006, which resulted in lower yields on the loan portfolio in 2007; and (ii) a reduction of 100 basis points in the fed funds rate in the third and fourth quarter of 2007.

The average yield on the investment portfolio was 4.85% in 2008, as compared to 4.83% and 4.38% in 2007 and 2006, respectively, an increase of 2 and 45 basis points, respectively. The increases in the investment portfolio yield for 2008 and 2007 were due mainly to a generally higher yield curve at the time of purchase and management's decision to extend the portfolio duration.

The Company's overall cost of interest bearing liabilities decreased to 3.67% in 2008 from 4.88% and 4.55% in 2007 and 2006, respectively. The decrease in cost of interest bearing liabilities for 2008 was due to the reduction in interest rates following a series of FOMC's interest rate reductions. The increase in 2007 was primarily due to competitive deposit pricing, an increase in FHLB borrowings, impacts on credit markets generally resulting from the issue surrounding the subprime mortgage situation and higher interest rates during the first half of 2007.

The Company offers a wide variety of retail deposit account products to both consumer and commercial deposit customers. Time deposits, which are the Company's highest cost deposits, consist primarily of retail fixed-rate certificates of deposit, and comprised 49.5% and 58.1% of the deposit portfolio at December 31, 2008 and 2007, respectively. The ratio of noninterest-bearing deposits to total deposits was 19.3% and 23.0% at December 31, 2008, and 2007, respectively. All other deposits, which include interest-bearing checking accounts called Negotiable Order Withdrawal (NOW), savings and money market accounts, accounted for the remaining 31.2% and 19.0% of the deposit portfolio at December 31, 2008 and 2007, respectively.

Deposit growth remains challenging as the Company continues to experience heightened market competition. Deposits increased 1.6% to $1.60 billion at December 31, 2008, from $1.58 billion at December 31, 2007, largely due to $370.2 million in deposits acquired through brokered deposits. Deposit growth consists of the increases in money market accounts of $203.0 million or 83.1% and non-jumbo time deposits of $30.1 million or 27.2%. These increases were partially offset by decreases in jumbo time deposits of $152.3 million or 19.0%, and non interest-bearing demand deposits of $53.3 million or 14.7%. Jumbo time deposits amounted to $650.2 million including $166.3 million acquired through brokered deposits represented 40.5% of total deposits at December 31, 2008. All other deposits representing 59.5% of total deposits at December 31, 2008 included money market accounts of $203.9 million acquired through brokered deposits.

The Company's ratio of average interest earning assets to interest bearing liabilities has remained relatively stable at 127.3%, 131.4% and 134.6% for 2008, 2007 and 2006, respectively.

Provision for Loan Losses

The Company sets aside an allowance for potential loan losses through charges to earnings, which are reflected in the consolidated statements of operations as the provision for loan losses. Specifically, the provision for loan losses represents the amount charged against current period earnings to achieve an allowance for loan losses that in management's judgment is adequate to address inherent risks in the Company's loan portfolio.

Due primarily to an increase in net charge-offs and an increase in the level of non-performing loans, the provision for loan losses increased to $26.2 million for the year ended December 31, 2008, compared to $6.5 million and $5.7 million for 2007 and 2006, respectively. During 2008, net charge-offs were $8.5 million as compared to $3.4 million and $2.1 million in 2007 and 2006, respectively. While Management believes that the allowance for loan losses of 2.22% of total loans was adequate at December 31, 2008, future additions to the allowance will be subject to continuing evaluation of estimated and known, as well as inherent, risks in the loan portfolio. The procedures for monitoring the adequacy of the allowance, as well as detailed information concerning the allowance itself, are included below under "—Allowance for Loan Losses".

Non-interest Income

The following table sets forth the various components of the Company's non-interest income for the periods indicated:

	For the Year Ended December 31,					
	2008		2007		2006	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
	(Dollars in thousands)					
Customer service fees	$ 7,658	49.80%	$ 6,940	46.69%	$ 8,181	36.81%
Fee income from trade finance transactions	2,520	16.39	2,621	17.63	3,412	15.35
Wire transfer fees	1,153	7.50	899	6.05	897	4.04
Gain on sale of loans	1,017	6.61	618	4.16	3,335	15.00
Net loss on sale of securities available for sale	—	0.00	—	0.00	(115)	(0.52)
Loan service fees	1,357	8.83	1,720	11.57	1,842	8.29
Insurance settlement - legal fees	—	0.00	—	0.00	2,520	11.34
Other income	1,671	10.87	2,065	13.89	2,154	9.69
Total noninterest income	$15,376	100.00%	$14,863	100.00%	$22,226	100.00%
As a percentage of average earning assets		0.78%		0.82%		1.41%

Non-interest income increased 3.5%, or $0.5 million, to $15.4 million for the year ended December 31, 2008 compared to $14.9 million for the year ended December 31, 2007. The 2008 increase in non-interest income was primarily due to the increase in customer service fees and gain on sale of loans offset by the decrease in loan service fees (see discussion below). For the year ended December 31, 2008 non-interest income as a percentage of average earning assets decreased to 0.78% compared to 0.82% and 1.41% for the years ended December 31, 2007 and 2006, respectively. These decreases in non-interest income as a percentage of average earning assets are mainly the result of overall decreases in non-interest income over the past three years while average earning assets have increased from $1.8 billion at December 31, 2007 to $2.0 billion at December 31, 2008. The primary sources of recurring non-interest income continue to be customer service fee charges on deposit accounts, fees from trade finance transactions, wire transfer service fees and gains on the sale of SBA loans.

Customer service fees increased $0.7 million, or 10.3%, from 2007 to 2008, and decreased $1.2 million, or 15.2%, from 2006 to 2007. The 2008 increase was due to management's efforts to provide better services while charging higher fees for the services. The 2007 decrease of $1.2 million was due primarily to management's decision to close certain customer operating accounts whose activities, while generating service charges, were inconsistent with the Company's risk management process and requirements. The decision was consistent with the Company's intention of maintaining full compliance with all risk management polices and regulatory requirements. Customer service fees amounted to 49.8% of total non-interest income in 2008, compared to 46.7% and 36.8% in 2007 and 2006, respectively.

Fee income from trade finance transactions decreased $101,000, or 3.9%, from 2007 to 2008, and $791,000, or 23.2%, from 2006 to 2007. While Management continues efforts to increase the Company's Asia Pacific trade financing, the Company has seen significant competition from larger financial institutions and peer banks. As a result of the lower volume and related fees, fee income from trade finance transactions amounted to 16.4% of total non-interest income for 2008, as compared to 17.6% and 15.3% in 2007 and 2006, respectively.

Fee income from wire transfer transactions increased $254,000, or 28.3%, from 2007 to 2008. The increase in 2008, compared to rather stable level of activities for prior years, was mainly due to an increase in wire transfer activities to South Korea due to significant changes in the foreign exchange rate in favor of US customers especially during the second half of 2008. As a result, wire transfer fee income represented 7.5% of total non-interest income for 2008, as compared to 6.1% and 4.0% in 2007 and 2006, respectively.

The gain on sale of loans increased $399,000, or 64.6%, from 2007 to 2008, and decreased $2.7 million, or 81.5%, from 2006 to 2007. The Company sold $42.1 million of its SBA loans and $23.4 million of its non-SBA loans realizing gains of $1.0 million in 2008 and $7.7 million of its SBA loans realizing gain of $618,000 in 2007. The Company sold those loans as a part of the Company's strategy to de-leverage the balance sheet to improve the capital level during 2008. The primary reason for the 2007 decrease was Management's decision to hold SBA loans for the loan yields and variable rate nature of these loans. Management will evaluate on a quarterly basis whether to sell SBA loans or hold them in the loan portfolio. The gain on sale of loans amounted to 7.0% of total non-interest income for 2008, compared to 4.2% and 15.0% in 2007 and 2006, respectively.

Loan service fees decreased $363,000, or 21.1%, from 2007 to 2008, and decreased $122,000, or 6.6%, from 2006 to 2007. The decrease in 2008, compared to the levels in 2007 and 2006, was primarily due to significant reduction in loan originations during the year compared to prior years. As a result, loan service fees amounted to 8.8% of total non-interest income for 2008, compared to 11.6% and 8.3% in 2007 and 2006, respectively.

Insurance settlement—legal fees represents a reimbursement of legal fees as a result of a settlement with our insurance carrier regarding coverage of legal fees associated with our litigation with KEIC. The total settlement amounted to $3.75 million of which approximately $1.0 million was designated to offset future litigation expenses. Of the $1.0 million reserve, approximately $469,000 and $531,000 were recognized as a reduction of legal expenses in 2007 and 2006, respectively. Of the remaining $2.75 million, approximately $230,000 was utilized to recoup expenses incurred in the second quarter of 2006. The balance, approximately $2.5 million, was recognized as other income and represents reimbursement of legal fees expensed prior to the quarter ended June 30, 2006. The recovery of $3.3 million was reflected in the 2006 financial statements and the recovery of $469,000 was reflected in the 2007 financial statements.

Other income decreased $394,000, or 19.1%, from 2007 to 2008, and decreased $89,000, or 4.1%, from 2006 to 2007. During 2008, the Company discontinued outsourcing its official check processing business and the fees the Company collected and recognized as income has discontinued, which was the primary contributor to the decrease in other income in 2008. The slight decrease in 2007 was attributable to the reduction of miscellaneous transaction fees during the year. As a result, other income amounted to 10.9% of total non-interest for 2008, compared to 13.8% and 9.7% in 2007 and 2006, respectively.

Non-interest Expense

The following table sets forth the non-interest expenses for the periods indicated:

	For the Year Ended December 31,					
	2008		2007		2006	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
	(Dollars in thousands)					
Salaries and employee benefits	$23,726	36.38%	$25,650	52.31%	$23,684	52.25%
Occupancy	4,480	6.87	4,176	8.52	3,653	8.06
Furniture, fixtures, and equipment	2,103	3.22	2,072	4.23	1,933	4.26
Data processing	2,169	3.33	2,062	4.21	2,100	4.63
Legal fees	2,203	3.38	1,493	3.04	2,709	5.98
Accounting and other professional fees	1,362	2.09	1,730	3.53	1,478	3.26
Business promotion and advertising	1,900	2.91	2,390	4.87	2,572	5.67
Stationery and supplies	560	0.86	553	1.13	647	1.43
Telecommunications	757	1.16	637	1.30	650	1.43
Postage and courier service	789	1.21	738	1.51	731	1.61
Security service	1,131	1.73	1,031	2.10	991	2.19
Impairment loss of securities available for sale	9,889	15.16	1,328	2.71	—	0.00
Regulatory assessment	1,265	1.94	765	1.56	329	0.73
KEIC litigation settlement	7,522	11.53	—	0.00	—	0.00
Other operating expenses	5,369	8.23	4,410	8.99	3,850	8.49
Total noninterest expense	$65,225	100.00%	$49,035	100.00%	$45,327	100.00%
As a percentage of average earning assets		3.32%		2.72%		2.87%
Efficiency ratio		72.5%		53.8%		48.4%

Non-interest expense increased $16.2 million, or 33.0 % from 2007 to 2008 and $3.7 million, or 8.2 % from 2006 to 2007. The 2008 increase in non-interest expense was mainly due to the impairment loss of available for sale securities of $9.9 million and the KEIC litigation settlement expense of $7.5 million. The 2007 increase in non-interest expense was due to increases in salaries and employee benefits, occupancy and impairment loss on securities available for sale. As a result, non-interest expense as a percentage of average earning assets increased to 3.32% in 2008, compared to 2.72% and 2.87% for 2007 and 2006, respectively.

The efficiency ratio, defined as the ratio of non-interest expense to the sum of net interest income before provision for loan losses and non-interest income, was 72.5% for the year ended December 31, 2008, compared to 53.8% and 48.4% for the years ended December 31, 2007 and 2006, respectively. The increase in the efficiency ratio from 2007 to 2008 was a result of the increase in non-interest expense due primarily to OTTI charges and KEIC settlement expenses in 2008, combined with the decrease in net interest income before provision for loan losses in 2008. The increase in the efficiency ratio from 2006 to 2007 was due to an increase in non-interest expense despite the increase in net interest income before provision for loan losses in 2007.

Salaries and employee benefits decreased $1.9 million, or 7.5%, from 2007 to 2008, and increased $2.0 million, or 8.4%, from 2006 to 2007. The decrease in 2008 was mainly due to reduction in the number of employees throughout the year and reduction in performance compensation. The number of total full-time equivalent employees decreased from 363 to 316 during 2008. The increase in 2007 was due in part to expenses associated with compensation of our former CEO and normal salary increases. The number of employees also increased from 344 to 363 during 2007.

Occupancy expense increased $304,000, or 7.3%, from 2007 to 2008, and $523,000, or 14.3%, from 2006 to 2007. The increase in 2008 and 2007 was due mainly to an increase in rent, property insurance and amortization of tenant improvements. The Company opened a new branch in Diamond Bar, California in 2008 and a new branch in Federal Way, Washington in 2007.

Data processing expense increased $107,000, or 5.2%, from 2007 to 2008, and decreased $38,000, or 1.8%, from 2006 to 2007. The increase in 2008 was mainly due to the opening of new branches in 2008 and 2007.

Legal fees increased $710,000, or 47.6%, from 2007 to 2008, and decreased $1.2 million, or 44.9%, from 2006 to 2007. The increase in legal fees from 2007 to 2008 was due to KEIC litigation activities prior to the settlement in August of 2008. The decrease from 2006 to 2007 was mainly due to less litigation related activities in 2007.

Accounting and other professional service fees decreased $368,000, or 21.3%, from 2007 to 2008, and increased $252,000, or 17.1%, from 2006 to 2007. The decrease in 2008 was due to management's effort on cost containment throughout the year. The increase in 2007 resulted from additional audit costs over the prior year.

Business promotion and advertising expense decreased by $490,000, or 20.5%, from 2006 to 2007, and by $182,000, or 7.1%, from 2006 to 2007. The 2008 decrease was the result of management's effort to contain promotion and advertisement expenses to cope with the slow economy and reduced loan origination activities. The 2007 decrease was the result of the 20th anniversary and related costs incurred in 2006.

The Company recorded $9.9 million and $1.3 million to impairment losses on available for sale securities in 2008 and 2007, respectively. The declines in fair value for corporate trust preferred securities in 2008 and Fannie Mae Series F preferred stock in 2007, respectively, were determined to be other than temporary, resulting in impairment losses in the respective years.

Regulatory assessment expense increased $500,000, or 65.4%, from 2007 to 2008, and $436,000, or 132.5%, from 2006 to 2007. The overall increases were due to the FDIC's rate increase (see the related discussion in Item 1, Business—Deposit Insurance) which started at the beginning of 2007, and a steady increase in customer deposits. The impact of the increase did not incur in full effect until the third quarter of 2007 as credit from prior contributions were utilized until the second quarter of 2007.

Other operating expense increased $1.0 million, or 21.7%, from 2007 to 2008, and $560,000, or 14.5%, from 2006 to 2007. The 2008 increase was mainly due to the increases in operational losses of $340,000, court claim settlements of $300,000 and CRA investment loss of $236,000. The 2007 increase was primarily attributable to a penalty of $126,000 paid in connection with inaccurate filing for our employee benefit plan in prior years and other miscellaneous charges that are not individually significant.

Provision for Income Taxes

For the years ended December 31, 2008, 2007 and 2006, the income tax (benefit) provision was $(1.6) million, $13.6 million and $16.5 million, representing effective tax rates of approximately (115.4)%, 38.3% and 38.7%, respectively. The primary reasons for the difference from the statutory federal tax rate of 35.0% and the state statutory tax rate of 10.84% are the reductions related to tax advantaged investments in low-income housing, municipal obligations, dividend exclusions, treatment of SFAS 123R amortization, increase in cash surrender value of bank owned life insurance, and California enterprise zone interest deductions and hiring credits.

The Company reduced taxes utilizing the tax credits from investments in the low-income housing projects in the amount of $1.2 million for the year ended December 31, 2008 compared to $744,000 and $586,000 for the years ended December 31, 2007 and 2006, respectively.

Deferred income tax assets or liabilities reflect the estimated future tax effects attributable to differences as to when certain items of income or expense are reported in the financial statements versus when they are reported in the tax returns. The Company's deferred tax assets were $19.9 million as of December 31, 2008 and $13.1 million as of December 31, 2007. As of December 31, 2008, the Company's deferred tax assets were primarily due to the allowance for loans losses, impairment losses on securities available for sale and net legal settlement expense payable related to KEIC litigation settlement.

Financial Condition

Summary

Total assets decreased by $24.1 million, or 1.2%, to $2.06 billion as of December 31, 2008 compared to $2.08 billion at December 31, 2007. The decrease in total assets was mainly due to a $110.3 million reduction in net loans offset by a $43.0 increase in investment securities and a $29.9 million increase in cash and cash equivalents. Net loans (including loans held for sale), investment securities, and money market and short-term investments as a percentage of total assets were 81.6%, 9.6% and 0.1%, respectively, as of December 31, 2008, as compared to 86.0%, 8.6% and 0.1%, respectively, as of December 31, 2007.

Total assets increased by $237.9 million, or 12.9%, to $2.1 billion as of December 31, 2007 compared to $1.8 billion at December 31, 2006. The increase in total assets was mainly due to a $252.4 million growth in net loans and a $5.0 million increase in investments in affordable housing partnerships offset by a $5.1 million reduction in cash and cash equivalents, and $18.9 million in investment securities. Net loans (including loans held for sale), investment securities, and money market and short-term investments as a percentage of total assets were 86.0%, 8.6% and 0.1%, respectively, as of December 31, 2007, as compared to 83.4%, 8.7% and 0.1%, respectively, at December 31, 2006. The growth in total assets was financed primarily by the increase in deposits of $173.0 million and FHLB borrowings of $70.0 million.

Loan Portfolio

The Company's loan portfolio represents the largest single portion of earning assets, substantially greater than the investment portfolio or any other asset category. The quality and diversification of the Company's loan portfolio are important considerations when reviewing the Company's results of operations. The Company offers a range of products designed to meet the credit needs of its borrowers. The Company's lending activities consist of commercial real estate lending, construction loans, commercial business and trade finance loans, and consumer loans.

As of December 31, 2008 and 2007, gross loans represented 83.6% and 87.1%, respectively, of total assets. The largest volume decreases among loan categories in 2008 were commercial real estate, SBA loans, consumer loans, and real estate construction, which decreased $62.3 million, $33.5 million, $10.5 million, and $6.0 million, respectively. The decrease in loan portfolio was mainly the result of management's decision to de-leverage the balance sheet through sales of commercial real estate loans during the year. The sales gave the Company an opportunity to balance the loan concentrations in the loan portfolio. The loan portfolio composition table below reflects the gross and net amounts of loans outstanding as of December 31 of each year from 2004 to 2008.

As of December 31, 2008, no single industry or business category represented more than 10% of the loan portfolio. The Company also monitors the diversification of collateral of the real estate loan portfolio by area, by type of building, and by the type of building usage.

The following table sets forth the composition of the Company's loan portfolio as of the dates indicated:

	As of December 31,									
	2008		2007		2006		2005		2004	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
	(Dollars in thousands)									
Real Estate:										
Construction	$ 61,983	3.6%	$ 68,143	3.8%	$ 43,508	2.8%	$ 4,713	.38%	$ 16,919	1.7%
Commercial[16]	1,134,793	66.0	1,197,104	66.0	1,042,562	66.9	776,725	62.80	607,296	59.3
Commercial	334,350	19.4	310,962	17.2	277,296	17.8	243,052	19.65	208,995	20.4
Trade Finance[17]	63,479	3.7	66,964	3.7	66,925	4.3	90,370	7.30	83,763	8.2
SBA[18]	37,027	2.2	70,517	3.9	50,606	3.2	49,070	3.97	49,027	4.8
Other[19]	27	0.0	26	0.0	115	0.0	1,473	0.12	864	0.1
Consumer	88,396	5.1	98,943	5.5	77,567	5.0	71,499	5.78	58,178	5.7
Total Gross Loans	1,720,055	100.0%	1,812,659	100.0%	1,558,579	100.0%	1,236,902	100.00%	1,025,042	100.00%
Less:										
Allowance for Losses	38,172		20,477		17,412		13,871		11,227	
Deferred Loan Fees	1,359		1,847		2,347		1,595		1,356	
Discount on SBA Loans Retained	1,184		700		1,644		2,287		1,986	
Total Net Loans and Loans Held for Sale	$1,679,340		$1,789,635		$1,537,176		$1,219,149		$1,010,473	

16 Real estate commercial loans are loans secured by first deeds of trust on real estate.

17 Includes advances on trust receipts, clean advances, cash advances, acceptances discounted, and documentary negotiable advances under commitments.

18 Includes SBA loans held for sale of $9.9 million, $41.5 million, $18.5 million, $12.7 million and $14.5 million, at the lower of cost or fair value, at December 31, 2008, 2007, 2006, 2005 and 2004, respectively.

19 Consists of transactions in process and overdrafts.

Commercial Real Estate Loans. Real estate lending involves risks associated with the potential decline in the value of the underlying real estate collateral and the cash flow from the income producing properties. Declines in real estate values and cash flows can be caused by a number of factors, including adversity in general economic conditions, rising interest rates, changes in tax and other governmental and other policies affecting real estate holdings, environmental conditions, governmental and other use restrictions, development of competitive properties and increasing vacancy rates. The Company's dependence on real estate values increases the risk of loss both in the Company's loan portfolio and with respect to any other real estate owned when real estate values decline.

The Company offers commercial real estate loans secured by industrial buildings, retail stores or office buildings, where the property's repayment source generally comes from tenants or businesses that fully or partially occupy the building. When real estate collateral is owner-occupied, the value of the real estate collateral must be supported by a formal appraisal in accordance with applicable regulations, subject to certain exceptions. The majority of the properties securing these loans are located in Los Angeles County and Orange County, California.

The Company has established general underwriting guidelines for commercial property real estate loans typically requiring a maximum loan-to-value ("LTV") ratio of 65%. The Company's underwriting policies also generally require that the properties securing commercial real estate loans have debt service coverage ratios of at least 1.25:1 for investor-owned property. Additionally, for owner-occupied properties, the Company expects additional debt service capacity from the business itself. As additional security, the Company generally requires personal guarantees when commercial real estate loans are extended to corporations, limited partnerships and other legal entities.

Commercial real estate loans are, in all cases, secured by first deeds of trust, generally for terms extending no more than seven years, and are amortized over periods of up to 25 years. The majority of the commercial real estate loans currently being originated contain interest rates tied to the Company's prime rate that adjusts with changes in the national prime rate. The Company also extends commercial real estate loans with fixed rates.

Payments on loans secured by such properties are often dependent on the successful operation or management of the properties. Repayment of such loans may therefore be affected by adverse conditions in the real estate market or the economy. The Company seeks to minimize these risks in a variety of ways, including limiting the size of such loans and strictly scrutinizing the properties securing the loans. The Company generally obtains loan guarantees from financially capable parties. The Company's lending personnel inspect substantially all of the properties collateralizing the Company's real estate loans before such loans are made.

As of December 31, 2008, commercial real estate loans totaled $1.1 billion, representing 66.0% of total loans, compared to $1.2 billion or 66.0% of total loans at December 31, 2007. The percentage of commercial real estate loans to total loans in 2008 remained similar even with a reduction in the balance due to overall decrease in total loans as compared to 2007.

Real Estate Construction Loans. The Company finances the construction of various projects within the Company's market area, including motels, industrial buildings, tax-credit low-income apartment complexes and single-family residences. The future condition of the local economy could negatively impact the collateral values of such loans.

The Company's construction loans typically have the following characteristics: (i) maturity of two years or less; (ii) a floating interest rate based on the Company's prime rate; (iii) advance of anticipated interest cost during construction; (iv) advance of fees; (v) first lien position on the underlying real estate; (vi) average LTV ratio of 65%; and (vii) recourse against the borrower or guarantor in the event of default. The Company does not participate in joint ventures or make equity investments in connection with its construction lending.

Construction loans involve additional risks compared to loans secured by existing improved real property. These risks include the following: (i) the uncertain value of the project prior to completion; (ii) the inherent uncertainty in estimating construction costs, which is often beyond the control of the borrower; (iii) construction delays and cost overruns; and (iv) the difficulty in accurately evaluating the market value of the completed project.

As a result of these uncertainties, construction lending often involves the disbursement of substantial funds with repayment dependent, in part, on the success of the ultimate project rather than on the ability of the borrower or guarantor to repay principal and interest. If the Company is forced to foreclose on a project prior to or at completion due to a default, there can be no assurance that the Company will be able to recover all of the unpaid balance of and its accrued interest on the construction loan.

Real estate construction loans totaled $62.0 million or 3.6% of total loans and $68.1 million or 3.8% of total loans at December 31, 2008 and 2007, respectively. The Company's real estate construction portfolio varies from year-to-year as Management is selective in financing construction projects given the unique credit risk associated with these types of loans and the timing of the completion of construction and associated loan payoffs. Of $62.0 million, $26.1 million was related to the residential real estate market. Based on the current economic conditions, the Company is closely monitoring these projects and deems them to be performing as expected at December 31, 2008.

Commercial Business Loans. The Company offers commercial loans for intermediate and short-term credit. Commercial loans may be unsecured, partially secured or fully secured. The majority of the originations of commercial loans are in Los Angeles County or Orange County, California. The Company originates commercial business loans to facilitate term working capital and to finance business acquisitions, fixed asset purchases, accounts receivable and inventory financing. These term loans to businesses generally have terms of up to five years, have interest rates tied to the Company's prime rate and may be secured in whole or in part by owner-occupied real estate or time deposits at the Company. For a term loan, the Company typically requires monthly payments of both principal and interest. In addition, the Company grants commercial lines of credit to finance accounts receivable and inventory on a short-term basis, usually one year or less. Short-term business loans are generally intended to finance current transactions and typically provide for principal payments with interest payable monthly. The Company requires a complete re-analysis before considering any extension. The Company finances primarily small and middle market businesses in a wide spectrum of industries. In general, it is the Company's intent to take collateral whenever possible regardless of the purpose of the loan. Collateral may include liens on inventory, accounts receivable, fixtures and equipment and in some cases leasehold improvements and real estate. As a matter of policy, the Company generally requires all principals of a business to be co-obligors on all loan instruments, and all significant shareholders of corporations to execute a specific debt guaranty. All borrowers must demonstrate the ability to service and repay not only the debt with the Company but also all outstanding business debt, exclusive of collateral, on the basis of historical earnings or reliable projections.

Commercial loans typically involve relatively large loan balances and are generally dependent on the businesses' cash flows and thus may be subject to adverse conditions in the general economy or in a specific industry.

As of December 31, 2008 and 2007, commercial business loans totaled $334.4 million and $311.0 million, respectively. Commercial business loans increased as a percentage of total loans to 19.4% at December 31, 2008 from 17.2% at December 31, 2007.

Trade Finance Loans. For the purpose of financing overseas transactions, the Company provides short term trade financing to local borrowers in connection with the issuance of letters of credit to overseas suppliers/sellers. In accordance with these letters of credit, the Company extends credit to the borrower by providing assurance to the borrower's foreign suppliers that payment will be made upon shipment of goods. Upon shipment of goods, and when the foreign suppliers negotiate the letters of credit, the borrower's inventory is financed by the Company under the approved line of credit facility. The underwriting procedure for this type of credit is the same as for commercial business loans.

As of December 31, 2008, trade finance loans totaled $63.5 million, compared to $67.0 million as of December 31, 2007. While management continues efforts to increase the Company's Asia Pacific trade, the Company has seen significant competition from larger financial institutions and peer banks. Despite the lower trade finance volume, due to the decrease in total loan portfolio, these loans as a percentage of total loans remained the same at 3.7% in 2008 as in 2007.

Small Business Administration (SBA) Loans. The Company provides financing for various purposes for small businesses under guarantee of the Small Business Administration, a federal agency created to provide financial assistance for small businesses. The Company is a Preferred SBA Lender with full loan approval authority on behalf of the SBA. It also participates in the SBA's Export Working Capital Program. SBA loans consist of both real estate and business loans. The SBA guarantees on such loans currently range from 75% to 80% of the principal and accrued interest. Under certain circumstances, the guarantee of principal and interest may be less than 75%. In general, the guaranteed percentage is less than 75% for loans over $1.0 million. The Company typically requires that SBA loans be secured by first or second lien deeds of trust on real property. SBA loans have terms ranging from 7 to 25 years depending on the use of proceeds. To qualify for an SBA loan, a borrower must demonstrate the capacity to service and repay the loan, exclusive of the collateral, on the basis of historical earnings or reliable projections.

During the years 2008 and 2007, the Company originated $39.9 million, and $99.9 million, respectively, in SBA loans. The Company sold $42.1 million of SBA loans in 2008 as compared to $7.7 million in 2007. The Company sold the guaranteed portion of the SBA loans and retained the loan servicing obligation, for a fee. The primary reason for the increase was management's decision to de-leverage the balance sheet to better preserve the Company's capital ratios. As of December 31, 2008, the Company was servicing $131.2 million of sold SBA loans, compared to $117.5 million as of December 31, 2007. SBA loans as a percentage of total loans declined to 2.2% in 2008 as compared to 3.9% in 2007 primarily due to the sales of the loans in 2008.

Consumer Loans. Consumer loans, also termed loans to individuals, are extended for a variety of purposes. Most are to finance the purchase of automobiles. Other consumer loans include secured and unsecured personal loans, home equity lines, overdraft protection loans and unsecured lines of credit. The Company grants a small portfolio of credit card loans, mainly to the owners of its corporate customers. Management assesses the borrower's ability to repay the debt through a review of credit history and ratings, verification of employment and other income, review of debt-to-income ratios and other measures of repayment ability. Although creditworthiness of the applicant is of primary importance, the underwriting process also includes a comparison of the value of the security, if any, to the proposed loan amount. The Company generally makes these loans in amounts of 80% or less of the value of collateral. An appraisal is obtained from a qualified real estate appraisal for substantially all loans secured by real estate. Most of the Company's consumer loans are repayable on an installment basis.

Consumer loans are generally unsecured or secured by rapidly depreciating assets such as automobiles. In such cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance, because the collateral is more likely to suffer damage, loss or depreciation. The remaining deficiency often does not warrant further collection efforts against the borrower beyond obtaining a deficiency judgment. In addition, the collection of loans to individuals is dependent on the borrower's continuing financial stability, and thus is more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. Furthermore, various federal and state laws, including federal and state bankruptcy and insolvency laws, often limit the amount which a lender can recover on consumer loans. Consumer loans may also give rise to claims and defenses by consumer loan borrowers against the lender on these loans, such as the Company, and a borrower may be able to assert against such assignee claims and defenses that it has against the seller or the underlying collateral.

Consumer loans decreased to 5.1 % as of December 31, 2008 as compared to 5.5% of total loans as of December 31, 2007. Automobile loans are the largest component of consumer loans, representing 57% and 63% of total consumer loans as of December 31, 2008 and 2007, respectively.

Loan Maturities and Sensitivity to Changes in Interest Rates

The following table shows the maturity distribution of the Company's outstanding loans as of December 31, 2008. In addition, the table shows the distribution of such loans with floating interest rates and those with fixed interest rates. The table includes nonperforming loans of $20.5 million.

	As of December 31, 2008			
	Within One Year	After One But Within Five Years	After Five Years	Total
	(Dollars in thousands)			
Real Estate				
Construction	$ 57,069	$ 4,914	$ —	$ 61,983
Commercial	350,117	700,026	84,650	1,134,793
Commercial	219,211	107,440	7,699	334,350
Trade Finance[20]	63,479	—	—	63,479
SBA	18,766	14,773	3,488	37,027
Consumer and other[21]	46,572	40,557	1,294	88,423
Total	$755,214	$867,710	$97,131	$1,720,055
Loans with predetermined (fixed) interest rates	$300,436	$579,191	$63,274	$ 942,901
Loans with variable (floating) interest rates	$454,778	$288,519	$33,857	$ 777,154

20 Includes advances on trust receipts, clean advances, cash advances, acceptances discounted and documentary negotiable advances under commitments.

21 Other consists of transactions in process and overdrafts.

Nonperforming Assets

Nonperforming assets are defined as loans on non-accrual status, loans 90 days or more past due but not on non-accrual status, Other Real Estate Owned ("OREO"), and Troubled Debt Restructurings ("TDR"). Management generally places loans on non-accrual status when they become 90 days past due, unless they are both fully secured and in process of collection. OREO consists of real property acquired through foreclosure or similar means that Management intends to offer for sale. Loans may be restructured by Management when a borrower has experienced some change in financial status causing an inability to meet the original repayment terms, where the Company believes the borrower will eventually overcome those circumstances and repay the loan in full.

Management's classification of a loan as non-accrual is an indication that there is reasonable doubt as to the full collectibility of principal or interest on the loan. At this point, the Company stops recognizing income from the interest on the loan and reverses any uncollected interest that had been accrued but unpaid. The remaining balance of the loan will be charged off if the loan deteriorates further due to a borrower's bankruptcy or similar financial problems, unsuccessful collection efforts or a loss classification by regulators and/or internal credit examiners. These loans may or may not be collateralized, but collection efforts are continuously pursued.

The Company did not own any OREO property at December 31, 2008 compared to one residential property in the amount of $380,000 at December 31, 2007. The Company records the property at the lower of its carrying value or its fair value less anticipated disposal costs. Any write-down of OREO is charged to earnings. The Company may make loans to potential buyers of OREO to facilitate the sale of OREO. In those cases, all loans made to such buyers must be reviewed under the same guidelines as those used for making customary loans, and must conform to the terms and conditions consistent with the Company's loan policy. Any deviations from this policy must be specifically noted and reported to the appropriate lending authority. The Company follows Statement of Financial Accounting Standards No. 66 (SFAS No. 66), *Accounting for Sales of Real Estate,* when accounting for loans made to facilitate the sale of OREO. In accordance with paragraph 5 of SFAS No. 66, profit on real estate sales transactions shall not be recognized by the full accrual method until all of the following criteria are met:

- A sale is consummated;
- The buyer's initial and continuing investments are adequate to demonstrate a commitment to pay for the property;
- The seller's receivable is not subject to future subordination; and
- The seller has transferred to the buyer the usual risks and rewards of ownership in a transaction that is in substance a sale and does not have a substantial continuing involvement with the property.

The restructuring of a debt is considered a TDR when the Company, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower that the Company would not otherwise grant. TDR may include changing repayment terms, reducing the stated interest rate or reducing the amounts of principal and/or interest due or extending the maturity date. The restructuring of a loan is intended to recover as much of the Company's investment as possible and to achieve the highest yield possible. At December 31, 2008 and 2007, there were no TDRs.

The following table provides information with respect to the components of the Company's nonperforming assets as of the dates indicated:

	As of December 31,				
	2008	2007	2006	2005	2004
	(Dollars in thousands)				
Nonaccrual loans:					
Construction - Real Estate	$ 1,951	$ —	$ —	$1,632	$1,746
Commercial - Real Estate	13,128	—	—	—	—
Commercial	2,272	1,775	1,502	598	957
Trade Finance	1,196	—	—	—	—
SBA	1,538	4,033	1,330	600	620
Consumer	369	457	429	113	108
Total nonperforming loans	20,454	6,265	3,261	2,943	3,431
Other real estate owned	—	380	—	—	—
Total nonperforming assets	20,454	6,645	3,261	2,943	3,431
SBA guarantee portion of nonperforming loans	2,110	2,740	973	271	541
Total nonperforming assets, net of SBA guarantee	$18,344	$3,905	$2,288	$2,672	$2,890
Nonperforming loans as a percent of total gross loans	1.19%	0.35%	0.21%	0.24%	0.34%
Nonperforming assets as a percent of total gross loans and other real estate owned	1.19%	0.37%	0.21%	0.24%	0.34%
Allowance for loan losses to nonperforming loans	187%	327%	534%	471%	327%

Nonperforming loans totaled $20.5 million at December 31, 2008, an increase of $14.2 million as compared to $6.3 million at December 31, 2007. Nonperforming loans as a percentage of total loans increased to 1.19% at December 31, 2008 as compared to 0.35% at December 31, 2007. The increase in 2008 resulted primarily from the increases in commercial real estate loans and construction loans during the year due to a weakening economy. The increase in the nonperforming commercial real estate loans was mainly due to two loans which were for a retail shopping center in the Inland Empire and an assisted living center in Pasadena, both in California. At December 31, 2008, SBA non-accrual loans represented 7.5% of total nonperforming loans. The guaranteed portion of nonperforming SBA loans of $2.1 million consists of $287,000 of SBA loans and $1.8 million of trade finance loans under the Export Working Capital Program ("EWCP") through which a 75% guarantee is provided by SBA. At December 31, 2008, total nonperforming assets, net of the SBA guaranteed portion, were $18.3 million, representing 1.19% of total loans and other real estate owned.

Nonperforming loans totaled $6.3 million at December 31, 2007, an increase of $3.0 million as compared to $3.3 million at December 31, 2006. Nonperforming loans as a percentage of total loans increased to 0.35% at December 31, 2007 as compared to 0.21% at December 31, 2006. The increase in 2007 resulted from SBA loans that became nonperforming during the year due to a weakening economy. At December 31, 2007, SBA non-accrual loans represented 64% of total nonperforming loans. Nonperforming assets as a percentage of total loans and other real estate owned increased to 0.37% at December 31, 2007 as compared to 0.21% at December 31, 2006. However, $2.7 million of the total $4.0 million in nonperforming SBA loans consisted of the guaranteed portion of such loans. At December 31, 2007, total nonperforming assets, net of the SBA guaranteed portion, were $3.9 million, representing 0.22% of both total loans and total loans and other real estate owned.

The following table provides information on impaired loans for the periods indicated:

	As of December 31,	
	2008	2007
	(Dollars in thousands)	
Impaired loans with specific reserves	$ 44,001	$2,127
Impaired loans without specific reserves	17,429	1,150
Total impaired loans	61,430	3,277
Allowance on impaired loans	(12,467)	(100)
Net recorded investment in impaired loans	$ 48,963	$3,177
Average total recorded investment in impaired loans	$ 12,293	$8,181
Interest income recognized on impaired loans on a cash basis	$ 545	$1,361

The Company evaluates impairment of loans according to the provisions of SFAS No. 114, *Accounting by Creditors for Impairment of a Loan.* Under SFAS No. 114, loans are considered impaired when it is probable that the Company will be unable to collect all amounts due as scheduled according to the contractual terms of the loan agreement, including contractual interest payments and contractual principal payments. The amount of impairment is based on the present value of expected future cash flows discounted at the loan's effective interest rate, a loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. Loans are identified for specific allowances from information provided by several sources including asset classification, third party reviews, delinquency reports, periodic updates to financial statements, public records, and industry reports. All loan types are subject to impairment evaluation for a specific allowance once identified as impaired. During the second half of 2008, decline in overall economy was a major contributor to the increase in impaired loans. As of December 31, 2008, impaired loans with specific reserves in the amount of $44.0 million were comprised of commercial loans of $20.7 million, construction real estate loans of $16.1 million and commercial real estate loans of $7.2 million with specific reserves of $6.7 million, $4.3 million and $1.0 million, respectively. Specific reserves of each type of loans represented 32.6%, 29.4% and 13.8% of impaired loans in the respective type of loans. Total specific reserves of $12.5 million represented 28.3% of total impaired loans with specific reserves of $44.0 million.

Allowance for Loan Losses

The following table sets forth the composition of the allowance for loan losses as of dates indicated:

	As of December 31,				
	2008	2007	2006	2005	2004
	(Dollars in thousands)				
Specific (impaired loans)	$12,467	$ 100	$ 329	$ 41	$ 398
Formula (non-homogeneous)	25,122	19,867	16,621	13,481	10,560
Homogeneous	583	510	462	349	269
Total allowance for loan losses	$38,172	$20,477	$17,412	$13,871	$11,227

The Company's allowance for loan loss methodologies incorporates a variety of risk considerations, both quantitative and qualitative, in establishing an allowance for loan loss that management believes is appropriate at each reporting date. Quantitative factors include the Company's historical loss experience, delinquency and charge-off trends, collateral values, changes in nonperforming loans, and other factors. Quantitative factors also incorporate known information about individual loans, including borrowers' sensitivity to interest rate movements and to quantifiable external factors including commodity and finished good prices as well as acts of nature (earthquakes, floods, fires, etc.) that occur in a particular period. Qualitative factors include the general economic environment in the Company's markets and, in particular, the state of certain industries. Size and complexity of individual credits, loan structure, extent and nature of waivers of existing loan policies and pace of portfolio growth are other qualitative factors that are considered in its methodologies. As the Company adds new products, increases the complexity of the loan portfolio, and expands the geographic coverage, the Company will enhance the methodologies to keep pace with the size and complexity of the loan portfolio. Changes in any of the above factors could have significant impact to the allowance for loan loss calculation. The Company believes that its methodologies continue to be appropriate given its size and level of complexity.

The allowance for loan losses reflects Management's judgment of the level of allowance adequate to provide for probable losses inherent in the loan portfolio as of the date of the consolidated statements of financial condition. On a quarterly basis, the Company assesses the overall adequacy of the allowance for loan losses, utilizing a disciplined and systematic approach which includes the application of a specific allowance for identified problem loans, a formula allowance for identified graded loans and an allocated allowance for large groups of smaller balance homogenous loans.

Allowance for Specifically Identified Problem Loans. A specific allowance is established for impaired loans in accordance with SFAS 114. A loan is impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. The specific allowance is determined based on the present value of expected future cash flows discounted at the loan's effective interest rate, except that as a practical expedient, the Company may measure impairment based on a loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. The Company measures impairment based on the fair value of the collateral, adjusted for the cost related to liquidation of the collateral.

Formula Allowance for Identified Graded Loans. Non-homogenous loans such as commercial real estate, construction, commercial business, trade finance and SBA loans that are not subject to the allowance for specifically identified loans discussed above are reviewed individually and subject to a formula allowance. The formula allowance is calculated by applying loss factors to outstanding Pass, Special Mention, Substandard and Doubtful loans. The evaluation of the inherent loss for these loans involves a high degree of uncertainty, subjectivity and judgment because probable loan losses are not identified with a specific loan. In determining the formula allowance, the Company relies on a mathematical calculation that incorporates a six-quarter rolling average of historical losses, which has been adjusted from the twelve quarter analysis used historically. The Company started using the six-quarter rolling average beginning in the fourth quarter of 2008 to better reflect directional consistency in its allowance for loan losses, instead of the twelve-quarter rolling average that the Company has been historically applying. As a result, the two most recent quarters were weighted at 65% of the total loss factor as compared to 39% under the previous methodology. This shortening of the historical period is believed to properly reflect the current market environment and the loss trends in the loan portfolio. Current quarter losses are measured against previous quarter loan balances to develop the loss factor. Loans risk rated Pass, Special Mention and Substandard for the most recent three quarters are adjusted to an annual basis as follows:

- the most recent quarter is weighted 4/1;
- the second most recent is weighted 4/2;
- the third most recent is weighted 4/3.

The formula allowance may be further adjusted to account for the following qualitative factors which have been established at a minimum of 50 basis points:

- 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 non-accrual loans and troubled debt restructurings, and other loan modifications;

- Changes in the quality of the Company's 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; and
- The effect of external factors such as competition and legal and regulatory requirements on the level of estimated losses in the Company's loan portfolio.

Allowance for Large Groups of Smaller Balance Homogenous Loans. The portion of the allowance allocated to large groups of smaller balance homogenous loans is focused on loss experience for the pool rather than on an analysis of individual loans. Large groups of smaller balance homogenous loans consist of consumer loans to individuals. The allowance for groups of performing loans is based on historical losses over a six-quarter period. In determining the level of allowance for delinquent groups of loans, the Company classifies groups of homogenous loans based on the number of days delinquent and other qualitative factors and trends.

The table below summarizes the activity in the Company's allowance for loan losses for the periods indicated.

	As of and For the Year Ended December 31,				
	2008	2007	2006	2005	2004
	(Dollars in thousands)				
Balances					
Average total loans outstanding during the period[22]	$1,800,972	$1,656,842	$1,356,169	$1,123,880	$ 878,819
Total loans outstanding at end of period[22]	$1,717,511	$1,810,112	$1,554,588	$1,234,615	$1,021,359
Allowance for Loan Losses:					
Balance at beginning of period before reserve for losses on commitments at beginning of period	$ 20,477	$ 17,412	$ 13,871	$ 11,227	$ 8,804
Loan:					
Charge-offs:					
Real estate					
Construction	402	—	—	—	435
Commercial	319	—	258	—	—
Commercial	4,403	2,725	1,635	623	967
Consumer	2,040	218	333	227	165
Trade finance	1,144	—	—	—	—
SBA	581	609	473	37	63
Total loan charge-offs	8,889	3,552	2,699	887	1,630
Recoveries					
Real estate					
Construction	—	—	424	—	—
Commercial	—	—	—	—	—
Commercial	128	34	43	102	696
Consumer	131	72	101	12	35
Trade finance	12	—	—	23	41
SBA	135	17	6	24	31
Total recoveries	406	123	574	161	803
Net loan charge-offs	8,483	3,429	2,125	726	827
Provision for loan losses	26,178	6,494	5,666	3,370	3,250
Balance at end of period	$ 38,172	$ 20,477	$ 17,412	$ 13,871	$ 11,227
Ratios:					
Net loan charge-offs (recoveries) to average loans	0.47%	0.21%	0.16%	0.06%	0.09%
Provision for loan losses to average total loans	1.45	0.39	0.42	0.30	0.37
Allowance for loan losses to gross loans at end of period	2.22	1.13	1.12	1.12	1.10
Allowance for loan losses to total nonperforming loans	187	327	534	471	327
Net loan charge-offs (recoveries) to allowance for loan losses at end of period	22.22	16.75	12.20	5.23	7.37
Net loan charge-offs (recoveries) to provision for loan losses	32.41	52.80	37.50	21.54	25.45

22 Net of deferred loan fees and discount on SBA loans sold.

The process of assessing the adequacy of the allowance for loan losses involves judgmental discretion, and eventual losses may therefore differ from the most recent estimates. Further, the Company's independent loan review consultants, as well as the Company's external auditors, the FDIC and the California Department of Financial Institutions review the allowance for loan losses as an integral part of their examination process.

The balance of the allowance for loan losses increased to $38.2 million as of December 31, 2008 compared to $20.5 million as of December 31, 2007. This increase was mainly due to the higher credit risk, based on the management's assessment, inherent in the portfolio resulting from the weak economy as indicated by the increases in charge-offs and nonperforming loans.

Total charge-offs increased to $8.9 million for 2008 from $3.6 million for 2007. Charge-offs for 2008 were primarily in the following industries: general merchandise wholesalers for 34.1%, restaurants for 15.5%, retail industry for 10.7%, grocery for 9.4%, and import/export businesses for 8.1%. The Company continued to provide loan loss provisions to adequately address the inherent credit risk in the loan portfolio as of December 31, 2008. The Company provides an allowance for the credits based on the migration analysis and other qualitative factors and trends. The ratio of the allowance for loan losses to nonperforming loans decreased to 187% at December 31, 2008 as compared to 327% and 534% in 2007 and 2006, respectively.

Management is committed to maintaining the allowance for loan losses at a level that is considered commensurate with estimated and known risks in the portfolio. Although the adequacy of the allowance is reviewed quarterly, management performs an ongoing assessment of the risks inherent in the portfolio. As of December 31, 2008, management believes the allowance to be adequate based on its assessment of the estimated and known risks in the portfolio, migration analysis of charge-off history and other qualitative factors and trends.

However, no assurance can be given that economic conditions, which adversely affect the Company's service areas or other circumstances, will not result in an increase in the loan loss provision or loan losses. Nonperforming assets were $20.5 million as of December 31, 2008 compared to $6.6 million as of December 31, 2007. The 2008 increase was primarily due to the weakening economic trends in our markets.

The provision for loan losses in 2008, 2007, and 2006 was $26.2 million, $6.5 million and $5.7 million, respectively. The increase in 2008, 2007 and 2006 was due to the increasing credit risk inherent in the loan portfolio. Total charge-offs in 2008, 2007 and 2006 were $8.9 million, $3.6 million and $2.7 million, respectively. The largest single charge-off during 2008 and 2007 was $1.0 million and $328,000, respectively. Net charge-offs were $8.5 million, $3.4 million and $2.1 million in 2008, 2007 and 2006, respectively.

Allocation of Allowance for Loan Losses

The following table provides a breakdown of the allowance for loan losses by category as of the dates indicated:

	As of December 31,									
	2008		2007		2006		2005		2004	
	(Dollars in thousands)									
	Amount	% of Loans in Category to Total Loans	Amount	% of Loans in Category to Total Loans	Amount	% of Loans in Category to Total Loans	Amount	% of Loans in Category to Total Loans	Amount	% of Loans in Category to Total Loans
Real Estate										
Construction	$ 6,913	3.6%	$ 807	3.8%	$ 422	2.8%	$ 332	0.4%	$ 313	1.7%
Commercial	16,338	66.0	12,781	66.0	10,457	66.9	8,131	62.80	5,954	59.3
Commercial	11,185	19.4	4,192	17.2	3,795	17.8	3,199	19.65	2,665	20.4
Trade Finance	1,828	3.7	790	3.7	762	4.3	943	7.30	875	8.2
SBA	731	2.2	943	3.9	1,190	3.2	535	3.97	487	4.8
Other	—	—	—	—	—	0.0	15	0.12	354	0.1
Consumer	1,177	5.1	964	5.5	786	5.0	716	5.78	579	5.7
	$38,172	100.0	$20,477	100.0%	$17,412	100.0%	$13,871	100.00%	$11,227	100.00%

During 2008 the allowance for loan losses increased by $17.7 million or 86.4% from 2007 as compared to the increase of $3.1 million or 17.6% from 2006 to 2007. The increases in 2008 were primarily due to the increases of $6.1 million or 756.6% for construction real estate loans, $3.6 million or 27.8% for commercial real estate loans, $7.0 million or 166.8% for commercial loans and $1.0 million or 131.4% for trade finance loans as compared to 2007. The allowance for loan provision provided by loan type at December 31, 2008 was 18.1% for construction real estate loans, 42.8% for commercial real estate loans, 29.3% for commercial loans, 4.8% for trade finance loans, 1.9% for SBA loans and 3.1% for consumer loans as compared to 3.9%, 62.4%, 20.5%, 3.9%, 4.6% and 4.7% at December 31, 2007, respectively.

The allocated allowance for construction real estate loans increased by $6.1 million, or 756.6%, to $6.9 million at December 31, 2008, compared to $807,000 at December 31, 2007. Real estate construction loans represented 3.6% of the loan portfolio and 18.1% of the allocated loan loss allowance at December 31, 2008. This disproportional allocation of the allowance for loan losses was a result of heightened concern and significant deterioration of construction real estate loans in the weakening economy and the inability of construction contractors in obtaining permanent financing and difficulties in leasing up the properties.

The allocated allowance for commercial real estate loans increased 27.8% to $16.3 million at December 31, 2008, compared to $12.8 million at December 31, 2007. Real estate commercial loans represented 66.0% of the loan portfolio and 42.8% of the allocated loan loss allowance at December 31, 2008.

The allocated allowance for commercial business loans increased by $7.0 million, or 166.8%, to $11.2 million at December 31, 2008, compared to $4.2 million at December 31, 2007. Commercial business loans represented 19.4% of the loan portfolio and 29.3% of the allocated loan loss allowance at December 31, 2008.

The allocated allowance for trade finance loans increased by $1.0 million, or 131.4%, to $1.8 million at December 31, 2008, compared to $790,000 at December 31, 2007. Trade finance loans represented 3.7% of the loan portfolio and 4.8% of allocated loan loss allowance at December 31, 2008.

The Company has considered and evaluated recent trends in the loan portfolio in the determination of its allocation of allowance for loan losses in the periods discussed above. The historical risk factors were reviewed based on six-quarter weighted average instead of twelve-quarter to better reflect directional consistency and adequately address the trends regarding the weakening economy including increasing unemployment and jobless claims.

Investment Portfolio

The following table summarizes the amortized cost, fair value, and distribution of the Company's investment securities as of the dates indicated:

	As of December 31,					
	2008		2007		2006	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
			(Dollars in thousands)			
Available for Sale:						
U.S. Treasury	$ 299	$ 300	$ 500	$ 504	$ 489	$ 488
U.S. Governmental agencies securities and U.S. Government sponsored enterprise securities	23,997	24,510	35,998	36,315	65,995	65,545
U.S. Governmental agencies and U.S. Government sponsored and enterprise mortgage-backed securities	117,814	119,137	55,165	55,272	58,008	57,178
U.S. Government sponsored enterprise preferred stock	—	—	3,537	3,537	4,865	5,744
Corporate trust preferred securities	1,111	1,111	11,000	10,230	11,000	11,132
Mutual Funds backed by adjustable rate mortgages	4,500	4,495	4,500	4,499	4,500	4,444
Fixed rate collateralized mortgage obligations	23,511	24,280	17,041	17,228	2,230	2,203
Corporate debt securities	—	—	1,199	1,193	2,197	2,179
Total available for sale	$171,232	$173,833	$128,940	$128,778	$149,284	$148,913
Held to Maturity:						
U.S. Government agencies and U.S. Government sponsored enterprise mortgage-backed securities	$ 3,852	$ 3,861	$ 5,327	$ 5,303	$ 4,961	$ 4,909
Municipal securities	5,009	5,018	5,605	5,658	5,630	5,662
Total held to maturity	$ 8,861	$ 8,879	$ 10,932	$ 10,961	$ 10,591	$ 10,571
Total investment securities	$180,093	$182,712	$139,872	$139,739	$159,875	$159,484

The Company's investment securities portfolio is classified into two categories: Held-to-Maturity or Available-for-Sale. Statement of Financial Accounting Standards No. 115 ("SFAS No. 115"), *Accounting for Certain Investments in Debt and Equity Securities,* also provides for a trading portfolio classification, but the Company had no investment securities in this category for any of the reported periods. The Company classifies securities that it has the ability and intent to hold to maturity as held-to-maturity securities, to be sold only in the event of concerns with an issuer's credit worthiness, a change in tax law that eliminates their tax-exempt status or other infrequent situations as permitted by SFAS No. 115. All other securities are classified as available-for-sale. The securities classified as held-to-maturity are presented at net amortized cost and available-for-sale securities are carried at their estimated fair values.

The Company aims to maintain an investment portfolio with an adequate mix of fixed-rate and adjustable-rate securities with relatively short maturities to minimize overall interest rate risk. The Company's investment securities portfolio consists of U.S. Treasury securities, U.S. Government agency securities, U.S. Government sponsored enterprise debt securities, mortgage-backed securities, corporate debt, and U.S. Government sponsored enterprise equity securities. The mortgage backed securities and collateralized mortgage obligations ("CMO") are all agency-guaranteed residential mortgages. The Company regularly models, evaluates and analyzes each agency CMO's to capture its unique allocation of principal and interest.

The Company performs regular impairment analyses on the investment securities portfolio. If the Company determines that a decline in fair value is other-than-temporary, an impairment write-down is recognized in current earnings. Other-than-temporary declines in fair value are assessed based on the duration the security has been in a continuous unrealized loss position, the severity of the decline in value, the rating of the security and the Company's ability and intent on holding the securities until the fair values recover. The securities that have been in a continuous unrealized loss position for twelve months or longer at December 31, 2008 had investment grade ratings upon purchase. The issuers of these securities have not, to the Company's knowledge, established any cause for default on these securities and the various rating agencies have reaffirmed these securities' long-term investment grade status at December 31, 2008. These securities have fluctuated in value since their purchase dates as market interest rates have fluctuated. However, the Company has the ability and the intention to hold these securities until their fair values recover to cost. Because the Company has the ability and the intent to hold these investments until recovery of fair value, which may be at maturity, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2008.

The Company owns collateralized debt obligation ("CDO") securities that are backed by trust preferred securities issued by banks and thrifts. The market for these securities at December 31, 2008 is not active and markets for similar securities are also not active. The inactivity was evidenced first by a significant widening of the bid-ask spread in the brokered markets in which these CDO's trade and then by a significant decrease in the volume of trades relative to historical level. There are currently very few market participants who are willing and able to transact for these securities. Moody's downgraded these CDO's to non-investment grade for credit impairment on November 13, 2008. As a result of the Company's periodic review for impairment, the corporate trust preferred securities were written down by $9.9 million during 2008 and the book value of the securities held in the available-for-sale investment portfolio was adjusted to $1.1 million as of December 31, 2008.

As of December 31, 2008, investment securities totaled $182.7 million or 8.9% of total assets, compared to $139.7 million or 6.7% of total assets at December 31, 2007. The increase in the investment portfolio was primarily due to growth in the fixed maturity securities of $64 million and part of the Company's strategy to mitigate interest rate risk, provide collateral for increased public funds, and to increase liquidity on the balance sheet.

As of December 31, 2008, available-for-sale securities totaled $173.8 million, compared to $128.8 million as of December 31, 2007. Available-for-sale securities as a percentage of total assets increased to 8.5% as of December 31, 2008 from 6.2% as of December 31, 2007. Held-to-maturity securities decreased to $8.9 million as of December 31, 2008, from $10.9 million as of December 31, 2007. This decrease was due to principal pay downs and maturities. The composition of available-for-sale and held-to-maturity securities was 95.1% and 4.9% as of December 31, 2008, compared to 92.2% and 7.8% as of December 31, 2007, respectively. For the year ended December 31, 2008, the yield on the average investment portfolio was 4.93%, representing an increase of 10 basis points as compared to 4.83% for 2007.

As of December 31, 2008, the Company had total fair value of $33.3 million of securities with unrealized losses of $0.7 million as compared to total fair value of $43.8 million and unrealized losses of $1.0 million at December 31, 2007. At December 31, 2008, the market value of securities which have been in a continuous loss position for 12 months or more totaled $7.6 million, with an unrealized loss of $276,000 compared to $28.9 million with an unrealized loss of $225,000, respectively, at December 31, 2008 and 2007, respectively.

The following table summarizes, as of December 31, 2008, the contractual maturity characteristics of the investment portfolio, by investment category. Expected remaining maturities may differ from remaining contractual maturities because obligors may have the right to prepay certain obligations with or without 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
	(Dollars in thousands)									
Available for Sale (Fair Value):										
U.S. Governmental agencies securities and U.S. Government sponsored enterprise securities	$ 6,477	4.39%	$15,324	4.92%	$ 3,009	4.21%	$ —	— %	$ 24,810	4.70%
U.S. Governmental agencies and U.S. Government sponsored and enterprise mortgage-backed securities	519	3.90	1,579	4.41	14,319	4.94	102,720	4.90	119,137	4.89
U.S. Government sponsored enterprise preferred stock	—	—	—	—	—	—	—	—	—	—
Corporate trust preferred securities	—	—	—	—	—	—	1,111	5.28	1,111	5.28
Mutual Funds backed by adjustable rate mortgages	4,495	4.03	—	—	—	—	—	—	4,495	4.03
Fixed rate collateralized mortgage obligations	—	—	—	—	1,321	4.70	22,959	5.41	24,280	5.37
Corporate debt securities	—	—	—	—	—	—	—	—	—	—
Total available for sale	$11,491	4.23%	$16,903	4.88%	$18,649	4.81%	$126,790	4.99%	$173,833	4.91%
Held to Maturity (Amortized Cost):										
U.S. Government agencies and U.S. Government sponsored enterprise mortgage-backed securities	$ —	— %	$ —	— %	$ —	— %	$ 3,852	4.83%	$ 3,852	4.83%
Municipal securities	—	—	1,952	3.93	2,246	3.72	811	3.89	5,009	3.83
Total held to maturity	$ —	— %	$ 1,952	3.93%	$ 2,246	3.72%	$ 4,663	4.66%	$ 8,861	4.26%
Total investment securities	$11,491	4.23%	$18,855	4.78%	$20,895	4.69%	$131,453	4.98%	$182,694	4.88%

Interest Earning Short-Term Investments

The Company invests its short-term excess available funds in overnight Fed Funds and money market funds. As of December 31, 2008 and 2007, the Company had $50.4 million and $7.1 million, respectively, invested in overnight Fed Funds. As of December 31, 2008 and 2007, the amounts invested in money market funds and interest-bearing deposits in other banks were $2.6 million and $2.8 million, respectively. The investment in Fed Funds averaged $6.1 million and $4.6 million for the year ended December 31, 2008 and 2007, respectively. Interest earned on these funds was 1.71% and 5.53% in 2008 and 2007, respectively.

Other Assets

The Company's investment in the FHLB stock totaled $15.6 million and $15.2 million as of December 31, 2008 and 2007, respectively. FHLB stock is required in order to utilize a borrowing facility when needed. The Company purchased $1.6 million of additional shares of FHLB stock during 2008 due to the FHLB's minimum capital stock requirement for its member banks based on the member's December 31 regulatory financial data and on current advances outstanding.

Many banks own investments in stocks issued by the FHLB. The FHLBs are government-sponsored entities ("GSE"). On January 8, 2009 the Federal Home Loan Bank of San Francisco announced that it will not pay a dividend for the fourth quarter of 2008 and will not repurchase excess capital stock on January 31, 2009, the next regularly scheduled repurchase date.

Federal Home Loan Bank stock is recorded at cost and is periodically reviewed for impairment based on the ultimate recovery of par value. No ready market exists for the FHLB stock and is only redeemable by the FHLB. It has no quoted market value and is carried at cost. The cost approximates fair market value based upon the redemption requirements of the FHLB, and this investment is not considered impaired at December 31, 2008. However, stricter capital requirements for the FHLB system could adversely impact the value of the FHLB stock in the future.

Pacific Coast Bankers Bank ("PCBB") also requires its members to purchase PCBB stocks. No ready market exists for the PCBB stock and is only redeemable by PCBB. The Bank holds 4,000 shares at $15 (split 10 for 1 in October 2008) and the price was at $34.60 at December 31, 2008. There has not been any adverse change in the financial position or condition of PCBB and the investment is not considered impaired at December 31, 2008.

Other investments, totaling $12.9 million and $11.9 million as of December 31, 2008 and 2007, respectively, are comprised of limited partnership interests owned by the Company in affordable housing projects for lower income tenants. Investments in these projects enable the Company to obtain CRA credit and federal and state income tax credits, as previously discussed in "Provision for Income Taxes."

In addition, the Company invested $10.0 million in bank owned life insurance ("BOLI") in December 2003. The policies were purchased from MassMutual, Midland National Life, and New York Life, and totaled $10 million at purchase. BOLI is an insurance policy with a single premium paid at policy commencement. Its initial cash surrender value is equivalent to the premium paid, and the value grows through non-taxable increases in its cash surrender value through interest earned on the policy, net of the cost of insurance plus any death benefits ultimately received by the Company. The cash surrender value of BOLI as of December 31, 2008 and 2007 was $12.0 million and $11.6 million, respectively. The Company reviews the insurance carriers annually and based on the recent assessment, the investment is not considered impaired at December 31, 2008.

Carrier ratings at 12/31/08	**Moody's**	**S&P**	**Fitch**
Mass Mutual	Aa1	AAA	AAA
Midland National Life	n/a	AA-	AA-
New York Life	Aaa	AAA	AAA

Even though BOLI and the investment in affordable housing partnerships generally enhance profitability, they are not classified as interest-earning assets.

Cash on hand and balances due from correspondent banks represent the largest component of the Company's non-earning assets. Cash on hand and balances due from correspondent banks represented 2.2% and 2.8% of total assets at December 31, 2008 and 2007, respectively. The outstanding balance of cash and due from banks was $45.1 million and $58.3 million as of December 31, 2008 and 2007, respectively. The ratio of average cash and due from banks to average total assets declined to 2.5% for 2008 as compared to 3.5% for 2007. The Company maintained balances at correspondent banks to cover daily in-clearings and other activities. The average reserve balance requirements were approximately $6.3 million and $12.5 million as of December 31, 2008 and 2007, respectively, most of which was covered by cash on hand and vault cash held (no additional balances were maintained with the Federal Reserve Bank for this purpose).

A significant component of non-earning assets is Premises and Equipment, which is stated at cost less accumulated depreciation and amortization. Depreciation is charged to income over the estimated useful lives of the assets and leasehold improvements are amortized over the terms of the related leases, or the estimated useful lives of the improvements, whichever is shorter. Depreciation expenses were $2.1 million and $1.9 million in 2008 and 2007, respectively. The net book value of the Company's premises and equipment totaled $14.7 million at December 31, 2008, an increase of $1.1 million, compared to $13.6 million at December 31, 2007.

Other assets increased by $4.2 million to $7.7 million as of December 31, 2008 compared to $3.5 million at December 31, 2007. The increase principally reflects $2.3 million in income tax receivable and $1.4 million in a long-term receivable as a result of the KEIC litigation settlement.

Deposits

The composition and cost of the Company's deposit base are important components in analyzing its net interest margin and balance sheet liquidity characteristics, both of which are discussed in greater detail in other sections herein. Net interest margin is improved to the extent that growth in deposits can be concentrated in historically lower-cost core deposits, namely non-interest-bearing demand, NOW accounts, savings accounts and money market deposit accounts. Liquidity is impacted by the volatility of deposits or other funding instruments, or in other words their propensity to leave the institution for rate-related or other reasons. Potentially, the most volatile deposits in a financial institution are large certificates of deposit (e.g., generally time deposits with balances exceeding $100,000). Because these deposits (particularly when considered together with a customer's other specific deposits) may exceed FDIC insurance limits, depositors may select shorter maturities to offset perceived risk elements associated with such deposits.

The Company offers a wide variety of retail deposit account products to both consumer and commercial deposit customers. Time deposits, which are the Company's highest cost deposits, consist primarily of retail fixed-rate certificates of deposit, and comprised 49.5% and 58.1% of the deposit portfolio at December 31, 2008 and 2007, respectively. The ratio of non-interest- bearing deposits to total deposits was 19.3% and 23.0% at December 31, 2008, and 2007, respectively. All other deposits, which include interest-bearing checking accounts (NOW), savings and money market accounts, accounted for the remaining 31.2% and 19.0% of the deposit portfolio at December 31, 2008 and 2007, respectively.

Deposit growth remains challenging as the Company continues to experience heightened market competition. Deposits increased 1.6% to $1.60 billion at December 31, 2008, from $1.58 billion at December 31, 2007, largely due to $370.2 million in deposits acquired through brokered deposits. Deposit growth was comprised of increases in money market accounts of $203.0 million or 83.1% and time deposits of $25.8 million or 1.6%. These increases were partially offset by decreases in jumbo time deposits of $152.3 million or 19.0%, and non-interest-bearing demand deposits of $53.3 million or 14.7%. During the fourth quarter of 2008, the Company experienced loss of deposits totaling approximately $65.0 million when customers transferred deposits to South Korea as a result of the devaluation of South Korean currency to the U.S. dollar. Core deposits, or non-jumbo time deposit accounts, amounted to $953.3 million at December 31, 2008, representing 59.5% of total deposits, with jumbo time deposits representing the remaining 40.5%. This is higher than the Company's core deposit ratio of 51.9% at December 31, 2007.

As of December 31, 2008 and 2007, time deposits of $100,000 or more totaled $650.2 million and $802.5 million, respectively, representing 40.5% and 50.9%, respectively, of the total deposit portfolio. These accounts, consisting primarily of consumer deposits and deposits from the State of California, had a weighted average interest rate of 3.98% and 5.22% at December 31, 2008 and 2007, respectively.

The following table provides the remaining maturities of the Company's time deposits in denominations of $100,000 or greater as of December 31, 2008 and 2007:

	As of December 31, 2008	As of December 31, 2007
	(Dollars in thousands)	
Three months or less	$327,766	$412,981
Over three months through six months	135,859	231,462
Over six months through twelve months	161,024	149,097
Over twelve months	25,528	8,984
Total	$650,177	$802,524

The Company's average deposit cost decreased to 2.85% during 2008 from 3.59% in 2007.

Information concerning the average balance and average rates paid on deposits by deposit type for the past three fiscal years is contained in the Distribution, Rate, and Yield table in the previous section entitled "Results of Operations—Net Interest Margin".

Other Borrowed Funds

As of December 31, 2008, the Company borrowed $192.2 million as compared to $298.5 million at December 31, 2007 from the Federal Home Loan Bank of San Francisco with note terms from less than 1 year to 15 years. Notes of 10-year and 15-year terms are amortizing at the predetermined schedules over the life of the notes. Of the $192.2 million outstanding, $145.0 million is composed of six fixed rate term advances, each with an option to be called by the FHLB after the lockout dates varying from 6 months to 2 years. If market interest rates are higher than the advances' stated rates at that time, the advances will be called by the FHLB and the Company will be required to repay the FHLB. If market interest rates are lower after the lockout period, then the advances will not be called by the FHLB. If the advances are not called by the FHLB, then they will mature on the maturity date ranging from 4 years to 10 years. The Company may repay the advances with a prepayment penalty at any time. If the advances are called by the FHLB, there is no prepayment penalty.

Under the FHLB borrowing agreement, the Company has pledged under a blanket lien all qualifying commercial and residential loans as collateral with a total carrying value of $1.0 billion at December 31, 2008 as compared to $1.2 billion at December 31, 2007.

Total interest expense on FHLB borrowings was $9.3 million and $11.2 million for the years ended December 31, 2008 and 2007, respectively, reflecting average interest rates of 3.62% and 5.01%, respectively.

The Company also regularly uses short-term borrowing from the U.S. Treasury to manage Treasury Tax and Loan payments. Notes issued to the U.S. Treasury amounted to $0.8 million as of December 31, 2008 compared to $1.1 million as of December 31, 2007. Interest expense on these borrowings was $9,000 and $25,000 in 2008 and 2007, respectively, reflecting average interest rates of 1.21% and 2.23%, respectively. The details of these borrowings for the years 2008, 2007, and 2006 are presented in Note 9 to the Consolidated Financial Statements in Item 8 herein.

In addition, the issuance of a long-term subordinated debenture at the end of 2004 in connection with the issuance of $18.6 million in "pass-through" trust preferred securities provided an additional source of funding. (See Note 11 to the Financial Statements in Item 8 herein).

Short-term borrowings principally include overnight fed funds purchased and advances from the FHLB. The details of these borrowings for the years 2008, 2007, and 2006 are presented below:

	2008	2007	2006
	(dollars in thousands)		
Federal funds purchased:			
Balance at December 31,	$ —	$ —	$ 5,000
Average amount outstanding	6,144	308	140
Maximum amount outstanding at any month end	—	—	5,000
Average interest rate for the year	1.71%	4.52%	5.36%
FHLB borrowings:			
Balance at December 31,	$192,181	$151,000	$217,000
Average amount outstanding	255,928	154,020	76,026
Maximum amount outstanding at any month end	295,237	279,000	217,000
Average interest rate for the year	3.62%	5.26%	5.35%

Contractual Obligations

The following table presents, as of December 31, 2008, the Company's significant fixed and determinable contractual obligations, within the categories described below, by payment date. These contractual obligations, except for the operating lease obligations, are included in the Consolidated Statements of Financial Condition. The payment amounts represent those amounts contractually due to the recipient.

	Payments due by period					
	2009	2010	2011	2012	2013 and thereafter	Total
	(Dollars in thousands)					
Debt obligations[23]	$ —	$ —	$ —	$ —	$18,557	$ 18,557
FHLB advances	45,343	361	25,381	100,295	20,801	192,181
Deposits	782,259	33,797	7,269	3,975	4,215	831,515
Operating lease obligations	2,388	2,161	1,313	1,216	3,039	10,117
Total contractual obligations	$829,990	$36,319	$33,963	$105,486	$46,612	$1,052,370

23 Includes principal payments only.

Off-Balance Sheet Arrangements

The Company may also have liabilities under certain contractual agreements contingent upon the occurrence of certain events.

As part of its service to its small to medium-sized business customers, the Company from time to time issues formal commitments and lines of credit. These commitments can be either secured or unsecured and 90% are short-term, or less than one year. They may be in the form of revolving lines of credit for seasonal working capital needs. However, these commitments may also take the form of standby letters of credit and commercial letters of credit. Commercial letters of credit facilitate import trade. Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party.

Total unused commitments to extend credit were $220.1 million and $281.8 million at December 31, 2008 and 2007, respectively. Unused commitments represented 12.8% and 15.5% of outstanding gross loans at December 31, 2008 and 2007, respectively. The Company's standby letters of credit and commercial letters of credit at December 31, 2008 were $11.3 million and $21.5 million, respectively, as compared to $8.2 million and $19.6 million, respectively, at December 31, 2007.

Liabilities for losses on outstanding commitments of $263,000 and $317,000 were reported separately in other liabilities at December 31, 2008 and 2007.

A discussion of significant contractual arrangements under which the Company may be held contingently liable, including guarantee arrangements, is included in Note 13—"Commitments and Contingencies" and Note 17—"Financial Instruments with Off-Balance Sheet Risk" to the Consolidated Financial Statements Item 8 herein.

Impact of Inflation

The primary impact of inflation on the Company is its effect on interest rates. The Company's primary source of income is net interest income, which is affected by changes in interest rates. The Company attempts to mitigate the impact of inflation on its net interest margin through the management of rate-sensitive assets and liabilities and the analysis of interest rate sensitivity. The effect of inflation on premises and equipment as well as non-interest expenses has not been significant for the periods covered in this Annual Report.

Market Risk and Asset Liability Management

Market risk is the risk of loss from adverse changes in market prices and rates. The Company's market risk arises primarily from interest rate risk inherent in its lending, investment and deposit taking activities. The Company's profitability is affected by fluctuations in interest rates. A sudden and substantial change in interest rates may adversely impact the Company's earnings to the extent that the interest rates borne by assets and liabilities do not change at the same speed, to the same extent or on the same basis. To that end, Management actively monitors and manages its interest rate risk exposure.

The Company's strategy for asset and liability management is formulated and monitored by the Company's Asset/Liability Board Committee (the "Board Committee"). This Board Committee is composed of four non-employee directors and the President. The Board Committee meets quarterly to review and adopt recommendations of the Asset/Liability Management Committee ("ALCO").

The ALCO consists of executive and manager level officers from various areas of the Company including lending, investment, and deposit gathering, in accordance with policies approved by the board of directors. The primary goal of the Company's ALCO is to manage the financial components of the Company's balance sheet to optimize the net income under varying interest rate environments. The focus of this process is the development, analysis, implementation, and monitoring of earnings enhancement strategies, which provide stable earnings and capital levels during periods of changing interest rates.

The ALCO meets regularly to review, among other matters, the sensitivity of the Company's assets and liabilities to interest rate changes, the book and market values of assets and liabilities, unrealized gains and losses, and maturities of investments and borrowings. The ALCO also approves and establishes pricing and funding decisions with respect to overall asset and liability composition, and reports regularly to the Board Committee and the board of directors.

Interest Rate Risk

Interest rate risk occurs when assets and liabilities reprice at different times as interest rates change. In general, the interest the Company earns on its assets and pays on its liabilities are established contractually for specified periods of time. Market interest rates change over time and if a financial institution cannot quickly adapt to changes in interest rates, it may be exposed to volatility in earnings. For instance, if the Company were to fund long-term fixed rate assets with short-term variable rate deposits, and interest rates were to rise over the term of the assets, the short-term variable deposits would rise in cost, adversely affecting net interest income. Similar risks exist when rate sensitive assets (for example, prime rate based loans) are funded by longer-term fixed rate liabilities in a falling interest rate environment.

The Company's overall strategy is to minimize the adverse impact of immediate incremental changes in market interest rates (rate shock) on net interest income and economic value of equity. Economic value of equity ("EVE") is defined as the present value of assets, minus the present value of liabilities and off-balance sheet instruments. The attainment of this goal requires a balance between profitability, liquidity and interest rate risk exposure. To minimize the adverse impact of changes in market interest rates, the Company simulates the effect of instantaneous interest rate changes on net interest income and EVE on a quarterly basis. The table below shows the estimated impact of changes in interest rates on our net interest income and market value of equity as of December 31, 2008 and 2007, respectively, assuming a parallel shift of 100 to 300 basis points in both directions.

	Net Interest Income[24]		Economic Value of Equity (EVE)[25]	
Change (In Basis Points)	**December 31, 2008 % Change**	**December 31, 2007 % Change**	**December 31, 2008 % Change**	**December 31, 2007 % Change**
+300	18.55%	5.14%	-19.12%	-31.64%
+200	19.92%	3.59%	-10.88%	-20.85%
+100	6.70%	1.88%	-4.79%	-9.46%
Level				
-100	1.24%	-4.06%	1.75%	6.95%
-200	6.92%	-8.64%	3.31%	12.12%
-300	13.51%	-13.46%	4.75%	16.76%

24 The percentage change represents net interest income for twelve months in a stable interest rate environment versus net interest income in the various rate scenarios.

25 The percentage change represents economic value of equity of the Company in a stable interest rate environment versus economic value of equity in the various rate scenarios.

All interest-earning assets and interest-bearing liabilities are included in the interest rate sensitivity analysis at December 31, 2008 and 2007, respectively. At December 31, 2008 and 2007, respectively, our estimated changes in net interest income and economic value of equity were within the ranges established by the Board of Directors. At December 31, 2008 and 2007, respectively, all interest-earning assets and interest-bearing liabilities are included in the interest rate sensitivity analysis. Our estimated changes in net interest income and economic value of equity were within the ranges established by the Board of Directors, with the exception of up 200 basis points and 300 basis points scenarios in the economic value of equity at December 31, 2008 and 2007, respectively. The increase in fixed rate loans as a percentage of the total loan portfolio from 48% at December 31, 2007 to 61% at December 31, 2008 had the most significant impact on the change in EVE.

The primary analytical tool used by the Company to gauge interest rate sensitivity is a simulation model used by many community banks, which is based upon the actual maturity and repricing characteristics of interest-rate-sensitive assets and liabilities. The model attempts to forecast changes in the yields earned on assets and the rates paid on liabilities in relation to changes in market interest rates. As an enhancement to the primary simulation model, other factors are incorporated into the model, including prepayment assumptions and market rates of interest provided by independent broker/dealer quotations, an independent pricing model, and other available public information. The model also factors in projections of anticipated activity levels of the Company's product lines. Management believes that the assumptions it uses to evaluate the vulnerability of the Company's operations to changes in interest rates approximate actual experience and considers them reasonable; however, the interest rate sensitivity of the Company's assets and liabilities and the estimated effects of changes in interest rates on the Company's net interest income and EVE could vary substantially if different assumptions were used or if actual experience were to differ from the historical experience on which they are based.

Liquidity

The objective of liquidity risk management is to ensure that the Company has the continuing ability to maintain cash flows that are adequate to fund operations and meet its other obligations on a timely and cost-effective basis in various market conditions. Changes in the composition of its balance sheet, the ongoing diversification of its funding sources, risk tolerance levels and market conditions are among the factors that influence the Company's liquidity profile. The Company establishes liquidity guidelines and maintains contingency liquidity plans that provide for specific actions and timely responses to liquidity stress situations.

As a means of augmenting the liquidity sources, the Company has available a combination of borrowing sources comprised of FHLB advances, federal funds lines with various correspondent banks, and access to the wholesale markets. The Company believes these liquidity sources to be stable and adequate. At December 31, 2008, the Company was not aware of any information that was reasonably likely to have a material adverse effect on our liquidity position.

The liquidity of the Company is primarily dependent on the payment of cash dividends by its subsidiary, Center Bank, subject to limitations imposed by the laws of the State of California.

As part of the Company's liquidity management, the Company utilizes FHLB borrowings to supplement our deposit source of funds. Therefore, there could be fluctuations in these balances depending on the short-term liquidity and longer-term financing need of the Company. The Company's primary sources of liquidity are derived from financing activities, which include customer and broker deposits, federal funds facilities, and advances from the Federal Home Loan Bank of San Francisco.

Because the Company's primary sources and uses of funds are deposits and loans, respectively, the relationship between net loans and total deposits provides one measure of the Company's liquidity. Typically, if the ratio is over 100%, the Company relies more on borrowings, wholesale deposits and repayments from the loan portfolio to provide liquidity. Alternative sources of funds such as FHLB advances and brokered deposits and other collateralized borrowings provide liquidity as needed from liability sources are an important part of the Company's asset liability management strategy.

	As of December 31, 2008	As of December 31, 2007
Net loans	$1,679,340	$1,789,635
Deposits	1,603,519	1,577,674
Net loan to deposit	104.7%	113.4%

As of December 31, 2008, the Company's liquidity ratio, which is the ratio of available liquid funds to net deposits and short-term liabilities, was 8.0%, compared to 5.6% at December 31, 2007. The Company's liquidity ratio increased as a result of a reduction in cash and other marketable assets during 2008 as investments matured and cash and due from banks accounts were more efficiently managed. Total available liquidity as of December 31, 2008 was $132.6 million, consisting of excessive cash holdings or balances in due from banks, overnight Fed funds sold, money market funds and unpledged available-for-sale securities. The Company's net non-core fund dependence ratio was 52.7% under applicable regulatory guidelines, which assumes all certificates of deposit over $100,000 ("Jumbo CD's") as volatile sources of funds. The Company has identified approximately $290 million of Jumbo CD's as stable and core sources of funds based on past historical analysis. The net non-core fund dependence ratio was 35.8% assuming this $290 million is stable and core fund sources and certain portions of money market account as volatile. The net non-core fund dependence ratio is the ratio of net short-term investments less non-core liabilities divided by long-term assets. All of the ratios were in compliance with internal guidelines as of and for the year ended December 31, 2008. The Company is looking toward the growth of retail deposits, borrowings and brokered deposits to meet its liquidity needs in the future.

At December 31, 2008, the Company had available $100 million in federal funds lines, $321 million FHLB borrowings, and $25 million line of credit held at the holding company totaling $446 million of available funding sources. This does not include the Company's ability to purchase wholesale brokered deposits. Additionally, $23 million in investment securities may be pledged as collateral for repurchase agreements and other credit facilities. The Company's application for the Borrower In Custody arrangement has been approved by the Federal Reserve Bank of San Francisco in January 2009. Collateral held in such an arrangement may be used to secure advances and/or credit for the discount window program and will provide the Company with additional source of liquidity.

	FHLB	Fed Funds Facility	Holding Co. line	Total
	(Dollars in thousands)			
Total capacity	$ 512,932	$100,000	$25,000	$ 637,932
Used	(192,181)	—	—	(192,181)
Available	$ 320,751	$100,000	$25,000	$ 445,751

Capital Resources

Shareholders' equity as of December 31, 2008 was $214.6 million, compared to $157.5 million as of December 31, 2007. The increase in capital primarily resulted from issuance of preferred stock under the TARP Capital Purchase Program, issuance of common stock as part of KEIC litigation settlement, net income for the year, and proceeds and tax benefits from the exercise of employee and/or director stock options, offset by the cumulative effect from adoption of EITF 06-4 and dividends for the preferred stock issued under TARP Capital Purchase Program and common stock. The Company issued trust preferred securities of $18 million in 2004 through its wholly owned subsidiary, Center Capital Trust I. On March 1, 2005, the Federal Reserve Board adopted a final rule that allows the continued inclusion of trust preferred securities in the Tier I capital of bank holding companies. However, under the final rule, after a five-year transition period, the aggregate amount of trust preferred securities and certain other capital elements that represent Tier I capital would be limited to 25 percent of Tier I capital elements, net of goodwill. Trust preferred securities currently make up 7.4% of the Company's Tier I capital. Shareholders' equity is also affected by increases and decreases in unrealized losses on securities classified as available-for-sale and share-based compensation expense under SFAS 123R.

As part of the TARP Capital Purchase Program, the Company entered into a purchase agreement with the Treasury Department on December 12, 2008, pursuant to which the Company issued and sold 55,000 shares of fixed-rate cumulative perpetual preferred stock for a purchase price of $55 million and 10-year warrants to purchase 864,780 shares of the Company's common stock at an exercise price of $9.54 per share. The Company will pay the Treasury Department a five percent dividend annually for each of the first five years of the investment and a nine percent dividend thereafter until the shares are redeemed.

The Company is committed to maintaining capital at a level sufficient to assure shareholders, customers and regulators that the Company is financially sound and able to support its growth from its retained earnings. Until October 2003, the Company had been reinvesting all of its earnings into its capital in order to support the Company's continuous growth, and paid only stock rather than cash dividends. Beginning in October 2003 Center Financial commenced a new dividend policy of paying quarterly cash dividends to its shareholders. In accordance with this policy, the Company continued to pay quarterly cash dividends of 5 cents per share in 2008, for a total of $3.3 million.

On March 25, 2009, the Company's board of directors suspended its quarterly cash dividend of $0.05 from the first quarter of 2009 based on adverse economic conditions and reduction in earnings of the Company. The Company has determined that this is a prudent, safe and sound practice to preserve capital. The Company would be required to obtain the Treasury Department's approval to reestablish common stock dividend in the future until it has redeemed the preferred stock issued under TARP CPP.

The Company is subject to risk-based capital regulations adopted by the federal banking regulators. These guidelines are used to evaluate capital adequacy and are based on an institution's asset risk profile and off-balance sheet exposures. The risk-based capital guidelines assign risk weightings to assets both on and off-balance sheet and place increased emphasis on common equity. According to the regulations, institutions whose Tier I risk based capital ratio, total risk based capital ratio and leverage ratio meet or exceed 6%, 10% and 5%, respectively, are deemed to be "well-capitalized." As of December 31, 2008, all of the Company's capital ratios were above the minimum regulatory requirements for a "well-capitalized" institution.

The following table compares Center Financial's and the Bank's actual capital ratios at December 31, 2008 and 2007, to those required by regulatory agencies for capital adequacy and well-capitalized classification purposes:

	Center Financial Corporation	Center Bank	Minimum Regulatory Requirements	Well Capitalized Requirements
Risk Based Ratios				
2008				
Total Capital (to Risk-Weighted Assets)	13.84%	13.13%	8.00%	10.00%
Tier 1 Capital (to Risk-Weighted Assets)	12.58%	11.87%	4.00%	6.00%
Tier 1 Capital (to Average Assets)	11.28%	10.64%	4.00%	5.00%

	Center Financial Corporation	Center Bank	Minimum Regulatory Requirements	Well Capitalized Requirements
Risk Based Ratios				
2007				
Total Capital (to Risk-Weighted Assets)	10.42%	10.19%	8.00%	10.00%
Tier 1 Capital (to Risk-Weighted Assets)	9.31%	9.08%	4.00%	6.00%
Tier 1 Capital (to Average Assets)	8.49%	8.28%	4.00%	5.00%

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information concerning quantitative and qualitative disclosures about market risk called for by Item 305 of Regulation S-K is included as part of Item 7 above. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Market Risk", "Asset Liability Management", "Interest Rate Risk" and "Interest Rate Sensitivity".

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following financial statements and independent registered public accounting firm's reports are included herein:

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Center Financial Corporation

We have audited the accompanying consolidated statements of financial condition of Center Financial Corporation (a California corporation) and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of operations, shareholders' equity and comprehensive income, and cash flows for each of the three years in the period ended December 31, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 Center Financial Corporation as of December 31, 2008 and 2007, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2008 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, Center Financial Corporation adopted EITF Issue No. 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements," in 2008.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Center Financial Corporation's internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 30, 2009 expressed an adverse opinion on the effectiveness of Center Financial Corporation's internal control over financial reporting.

/s/ GRANT THORNTON LLP

Los Angeles, California
March 30, 2009

CENTER FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	December 31, 2008	December 31, 2007
	(Dollars in thousands)	
ASSETS		
Cash and due from banks	$ 45,129	$ 58,339
Federal funds sold	50,435	7,125
Money market funds and interest-bearing deposits in other banks	2,647	2,825
Cash and cash equivalents	98,211	68,289
Securities available for sale, at fair value	173,833	128,778
Securities held to maturity, at amortized cost (fair value of $8,879 as of December 31, 2008 and $10,961 as of December 31, 2007)	8,861	10,932
Federal Home Loan Bank and Pacific Coast Bankers Bank stock, at cost	15,673	15,219
Loans, net of allowance for loan losses of $38,172 as of December 31, 2008 and $20,477 as of December 31, 2007	1,669,476	1,748,143
Loans held for sale, at the lower of cost or market	9,864	41,492
Premises and equipment, net	14,739	13,585
Customers' liability on acceptances	4,503	3,292
Other real estate owned, net	—	380
Accrued interest receivable	7,477	8,886
Deferred income taxes, net	19,855	13,142
Investments in affordable housing partnerships	12,936	11,911
Cash surrender value of life insurance	11,992	11,583
Goodwill	1,253	1,253
Intangible assets, net	213	267
Other assets	7,723	3,511
TOTAL	$2,056,609	$2,080,663
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Noninterest-bearing	$ 310,154	$ 363,465
Interest-bearing	1,293,365	1,214,209
Total deposits	1,603,519	1,577,674
Acceptances outstanding	4,503	3,292
Accrued interest payable	7,268	13,213
Other borrowed funds	193,021	299,606
Long-term subordinated debentures	18,557	18,557
Accrued expenses and other liabilities	15,174	10,868
Total liabilities	1,842,042	1,923,210
Commitments and Contingencies	—	—
SHAREHOLDERS' EQUITY		
Preferred stock, par value of $1,000 per share; authorized 10,000,000 shares; issued and outstanding, 55,000 shares and none as of December 31, 2008 and 2007, respectively	52,959	—
Common stock, no par value; authorized 40,000,000 shares; issued and outstanding, 16,789,080 shares and 16,366,791 shares (including 10,400 shares and 8,850 shares of unvested restricted stock) as of December 31, 2008 and December 31, 2007, respectively	74,254	67,006
Retained earnings	85,846	90,541
Accumulated other comprehensive income (loss), net of tax	1,508	(94)
Total shareholders' equity	214,567	157,453
Total	$2,056,609	$2,080,663

See accompanying notes to consolidated financial statements.

CENTER FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

YEAR ENDED DECEMBER 31,

	2008	2007	2006
	(Dollars in thousands, except per share data)		
INTEREST AND DIVIDEND INCOME:			
Interest and fees on loans	$122,424	$135,290	$114,238
Interest on federal funds sold	105	255	1,575
Interest on taxable investment securities	7,746	6,416	7,547
Interest on tax-advantaged investment securities	205	516	528
Dividends on equity stock	610	689	419
Money market funds and interest-earning deposits	117	75	422
Total interest and dividend income	131,207	143,241	124,729
INTEREST EXPENSE:			
Interest on deposits	46,126	54,195	47,403
Interest expense on long-term subordinated debentures	1,187	1,493	1,455
Interest on borrowed funds	9,294	11,298	4,461
Total Interest expense	56,607	66,986	53,319
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	74,600	76,255	71,410
PROVISION FOR LOAN LOSSES	26,178	6,494	5,666
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	48,422	69,761	65,744
NONINTEREST INCOME:			
Customer service fees	7,658	6,940	8,181
Fee income from trade finance transactions	2,520	2,621	3,412
Wire transfer fees	1,153	899	897
Gain on sale of loans	1,017	618	3,335
Net loss on sale of securities available for sale	—	—	(115)
Loan service fees	1,357	1,720	1,842
Insurance settlement—legal fees	—	—	2,520
Other income	1,671	2,065	2,154
Total noninterest income	15,376	14,863	22,226
NONINTEREST EXPENSE:			
Salaries and employee benefits	23,726	25,650	23,684
Occupancy	4,480	4,176	3,653
Furniture, fixtures, and equipment	2,103	2,072	1,933
Data processing	2,169	2,062	2,100
Legal fees	2,203	1,493	2,709
Accounting and other professional service fees	1,362	1,730	1,478
Business promotion and advertising	1,900	2,390	2,572
Stationery and supplies	560	553	647
Telecommunications	757	637	650
Postage and courier service	789	738	731
Security service	1,131	1,031	991
Impairment loss on securities available for sale	9,889	1,328	—
Regulatory assessment	1,265	765	329
KEIC litigation settlement	7,522	—	—
Other operating expenses	5,369	4,410	3,850
Total noninterest expense	65,225	49,035	45,327
(LOSS) INCOME BEFORE INCOME TAX (BENEFIT) PROVISION	(1,427)	35,589	42,643
INCOME TAX (BENEFIT) PROVISION	(1,647)	13,646	16,485
NET INCOME	220	21,943	26,158
PREFERRED STOCK DIVIDENDS AND ACCRETION OF PREFERRED STOCK DISCOUNT	(155)	—	—
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	$ 65	$ 21,943	$ 26,158
EARNINGS PER SHARE:			
Basic	$ 0.00	$ 1.32	$ 1.58
Diluted	$ 0.00	$ 1.31	$ 1.57

See accompanying notes to consolidated financial statements.

CENTER FINANCIAL CORPORATION

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME

YEARS ENDED DECEMBER 31, 2008, 2007, AND 2006

	Preferred Stock	Common Stock Number of Shares	Common Stock Amount	Common Stock Warrants	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
		(Dollars and Share Numbers in thousands)					
BALANCE, JANUARY 1, 2006	$ —	16,439	$65,622	$ —	$48,268	$(1,176)	$112,714
Comprehensive income							
Net income	—	—	—	—	26,158	—	26,158
Other comprehensive income, net of tax							
Change in unrealized gain on securities available for sale	—	—	—	—	—	961	961
Comprehensive income							27,119
Stock options exercised	—	194	2,305	—	—	—	2,305
Tax benefit from stock options exercised	—	—	523	—	—	—	523
Share-based compensation	—	—	722	—	—	—	722
Cash dividend ($0.16) per share	—	—	—	—	(2,649)	—	(2,649)
BALANCE, DECEMBER 31, 2006	—	16,633	69,172	—	71,777	(215)	140,734
Comprehensive income							
Net income	—	—	—	—	21,943	—	21,943
Other comprehensive income, net of tax							
Change in unrealized gain on securities available for sale	—	—	—	—	—	121	121
Comprehensive income							22,064
Stock options exercised	—	99	1,226	—	—	—	1,226
Restricted stock, net of forfeitures	—	9	18	—	—	—	18
Share-based compensation	—	—	1,198	—	—	—	1,198
Purchases of common stock	—	(374)	(4,608)	—	—	—	(4,608)
Cash dividend ($0.19) per share	—	—	—	—	(3,179)	—	(3,179)
BALANCE, DECEMBER 31, 2007	—	16,367	67,006	—	90,541	(94)	157,453
Cumulative effect from adoption of EITF 06-4	—	—	—	—	(1,445)	—	(1,445)
BALANCE, JANUARY 1, 2008	—	—	—	—	89,096	—	156,008
Comprehensive income							
Net income	—	—	—	—	220	—	220
Other comprehensive income, net of tax							
Change in unrealized gain on securities available for sale	—	—	—	—	—	1,602	1,602
Total Comprehensive income							1,822
Issuance of preferred stock (55,000 shares)	52,949	—	—	—	—	—	52,949
Issuance of common stock warrants (864,780 shares)	—	—	—	2,051	—	—	2,051
Accretion of preferred stock discount	10	—	—	—	(10)	—	—
Common stock issued	—	415	4,000	—	—	—	4,000
Stock options exercised	—	4	22	—	—	—	22
Restricted stock, net of forfeitures	—	3	29	—	—	—	29
Share-based compensation	—	—	1,146	—	—	—	1,146
Cash dividends:							
Preferred stock (5% per share)	—	—	—	—	(145)	—	(145)
Common stock ($0.20 per share)	—	—	—	—	(3,315)	—	(3,315)
BALANCE, DECEMBER 31, 2008	$52,959	16,789	$72,203	$2,051	$85,846	$ 1,508	$214,567

(Continued)

See accompanying notes to consolidated financial statements.

CENTER FINANCIAL CORPORATION

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME—(Continued)

YEAR ENDED DECEMBER 31,

	2008	2007	2006
Disclosures of reclassification amounts for the years ended December 31,			
Unrealized holding gain arising during period, net of tax expenses of $1,160 in 2008, $89 in 2007 and $649 in 2006	$1,602	$121	$895
Less reclassification adjustment for amounts included in net income, net of tax benefit of $0 in 2008, $0 in 2007, and $(48) in 2006	—	—	66
Net change in unrealized gain on securities available for sale, net of tax expense of $1,160 in 2008, $89 in 2007, and $697 in 2006	$1,602	$121	$961

(Concluded)

See accompanying notes to consolidated financial statements.

CENTER FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEAR ENDED DECEMBER 31,

	2008	2007	2006
	(Dollars in thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 220	$ 21,943	$ 26,158
Adjustments to reconcile net income to net cash provided by operating activities:			
Compensation expenses related to stock options and restricted stocks	1,175	1,216	722
Depreciation and amortization	3,539	2,763	2,429
Amortization of deferred fees	(1,406)	(2,101)	(1,253)
Mark to market adjustments on interest rate swaps	—	—	229
Amortization of premium, net of accretion of discount, on securities available for sale and held to maturity	35	66	(196)
Provision for loan losses	26,178	6,494	5,666
Impairment loss on securities available for sale	9,889	1,328	—
Common stock issued for legal settlement	4,000	—	—
Net (gain) loss on sale of premises and equipment	—	(9)	125
Net loss on sale of securities available for sale	—	—	115
Net increase in loans held for sale	(11,198)	(30,479)	(64,127)
Gain on sale of loans	(1,017)	(618)	(3,335)
Proceeds from sale of loans	67,449	21,680	66,330
Net gain on sale of other real estate owned	(137)	—	—
Deferred tax provision	(7,874)	(1,949)	(2,216)
Federal Home Loan Bank stock dividend	(775)	(642)	(323)
Decrease (increase) in accrued interest receivable	1,409	(312)	(2,088)
Net increase in cash surrender value of life insurance policy	(409)	(400)	(378)
(Decrease) increase in other assets and servicing assets	(5,358)	2,273	(546)
(Increase) decrease in accrued interest payable	(5,945)	1,755	2,374
Increase in accrued expenses and other liabilities	3,927	927	2,252
Net cash provided by operating activities	83,702	23,935	31,938
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of securities available for sale	(98,826)	(54,448)	(9,090)
Proceeds from principal repayment, matured, or called available-for-sale securities	43,082	73,416	74,038
Proceeds from sale of available for sale securities	3,537	—	13,920
Purchase of securities held to maturity	—	(2,195)	(2,467)
Proceeds from matured, called or principal repayment on securities held to maturity	2,062	1,837	2,910
Redemption (purchase) of Federal Home Loan Bank and other equity stock	321	(3,512)	(5,308)
Payments from net swap settlement	—	—	(256)
Net decrease (increase) in loans	27,637	(248,256)	(321,883)
Proceeds from recoveries of loans previously charged off	406	123	574
Purchases of premises and equipment	(3,203)	(2,100)	(1,489)
Proceeds from disposal of equipment	1	12	252
Proceeds from sale of other real estate owned	2,383	—	—
Net increase in investments in affordable housing partnerships	(2,147)	(5,729)	(3,008)
Net cash used in investing activities	(24,747)	(240,852)	(251,807)

(Continued)

See accompanying notes to consolidated financial statements.

CENTER FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS—(Continued)

YEAR ENDED DECEMBER 31,

	2008	2007	2006
	(Dollars in thousands)		
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase (decrease) in deposits	25,845	148,275	(51,156)
Net (decrease) increase in other borrowed funds	(106,585)	70,116	200,846
Proceeds from issuance of preferred stock	55,000	—	—
Proceeds from stock options exercised	22	1,226	2,305
Tax benefit in excess of recognized cumulative compensation costs	—	—	523
Payment of cash dividend	(3,315)	(3,179)	(2,649)
Purchases of common stock	—	(4,608)	—
Net cash (used in) provided by financing activities	(29,033)	211,830	149,869
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	29,922	(5,087)	(70,000)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	68,289	73,376	143,376
CASH AND CASH EQUIVALENTS, END OF THE YEAR	$ 98,211	$ 68,289	$ 73,376
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Interest paid	$ 62,552	$ 65,232	$ 50,945
Income taxes paid	$ 8,350	$ 12,612	$ 19,370
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING, OPERATING, AND FINANCING ACTIVITIES:			
Cash dividend accrual for common stock	$ 840	$ 840	$ 665
Cash dividend accrual for preferred stock	$ 145	$ —	$ —
Accretion of preferred stock discount	$ 10	$ —	$ —
Transfer of loans to other real estate owned	$ 2,246	$ 380	$ —

(Concluded)

See accompanying notes to consolidated financial statements.

1. THE BUSINESS OF CENTER FINANCIAL CORPORATION

Center Financial Corporation ("Center Financial") was incorporated on April 19, 2000 and acquired all of the issued and outstanding shares of Center Bank (the "Bank") in October 2002. Currently, Center Financial's direct subsidiaries include the Bank and Center Capital Trust I. Center Financial exists primarily for the purpose of holding the stock of the Bank and of other subsidiaries. Center Financial and the Bank are collectively referred to herein as the "Company."

The Bank is a California state-chartered and Federal Deposit Insurance Corporation ("FDIC") insured financial institution, which was incorporated in 1985 and commenced operations in March 1986. The Bank changed its name from California Center Bank to Center Bank in December 2002. The Bank's headquarters are located at 3435 Wilshire Boulevard, Suite 700, Los Angeles, California 90010. The Bank provides comprehensive financial services for small to medium sized business owners, primarily in Southern California. The Bank specializes in commercial loans, most of which are secured by real property, to small business customers. In addition, the Bank is a Preferred Lender of Small Business Administration ("SBA") loans and provides trade finance loans. The Bank's primary market is the greater Los Angeles metropolitan area, including Los Angeles, Orange, San Bernardino, and San Diego counties, primarily focused in areas with high concentrations of Korean-Americans. The Bank currently has 19 full-service branch offices, 16 of which are located in Los Angeles, Orange, San Bernardino, and San Diego counties. The Bank opened all California branches as de novo branches, and one branch in Chicago, Illinois by acquisition in 2004. The Bank opened one new branch in the Seattle area of Washington in November 2007, and one new branch in Diamond Bar, California in March 2008. The Bank also operates six Loan Production Offices ("LPOs") in Seattle, Denver, Washington D.C., Atlanta, Dallas and Northern California. Effective February 17, 2009, the Company closed five of its six LPOs including Denver, Washington D.C., Atlanta, Dallas and Northern California.

In December 2003, Center Financial formed a wholly owned subsidiary, Center Capital Trust I, a Delaware statutory business trust, for the exclusive purpose of issuing and selling trust preferred securities.

Center Financial's principal source of income is generally dividends from the Bank and equity earnings in the Bank. The expenses of Center Financial, including interest on junior subordinated debenture issued to Center Capital Trust I, legal and accounting professional fees and NASDAQ listing fees have been and will generally be paid by the cash on hand or from dividends paid by the Bank.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Consolidation

The consolidated financial statements include the accounts of Center Financial and the Bank. Intercompany transactions and accounts have been eliminated in consolidation. Center Capital Trust I is not consolidated as described in Note 11.

The consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and general practices within the banking industry.

Significant Group Concentration of Credit Risk

Most of the Company's activities are with customers located within the greater Los Angeles region. Note 3 discusses the Company's investment securities and Note 4 discusses the Company's lending activities.

Use of Estimates in the Preparation of Consolidated Financial Statements

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to determination of the valuation of investment securities, the allowance for loan losses, the valuation of foreclosed real estate, deferred tax assets and the results of litigation.

Reclassifications

Reclassifications have been made to the prior year financial statements to conform to the current presentation.

Cash and Cash Equivalents

Cash and cash equivalents include cash and due from banks, overnight federal funds sold, money market funds, and interest-bearing deposits in other banks, all of which have original maturities of less than 90 days.

The Company is required to maintain minimum reserve balances in cash with the Federal Reserve Bank. The average reserve balance requirement was approximately $6.3 million and $12.5 million during 2008 and 2007, respectively. The Company had a restricted balance in its due from banks in the amount of $0 and $2.0 million at December 31, 2008 and 2007, respectively.

Investment Securities

Investment securities are classified into three categories and accounted for as follows:

(i) securities the Company has the positive intent and ability to hold to maturity are classified as "held-to-maturity" and reported at amortized cost;

(ii) securities that are bought and held principally for the purpose of selling them in the near future are classified as "trading securities" and reported at fair value. Unrealized gains and losses are recognized in earnings; and

(iii) securities not classified as held to maturity or trading securities are classified as "available-for-sale" and reported at fair value. Unrealized gains and losses are reported as a separate component of accumulated other comprehensive income in shareholders' equity, net of tax.

Accreted discounts and amortized premiums on investment securities are included in interest income, using the interest method, and unrealized and realized gains or losses related to holding or selling of securities are calculated using the specific identification method. Any declines in the fair value of held-to-maturity or available-for-sale securities below their cost that are deemed to be other than temporary are reflected in the Consolidated Statements of Operations as realized losses.

Federal Home Loan Bank and Other Equity Stock

As a member of the Federal Home Loan Bank ("FHLB") of San Francisco, the Company is required to own common stock in the FHLB based upon the Company's balance of residential mortgage loans, mortgage-backed securities, and outstanding advances. The Company's investment in FHLB stock totaled $15.6 million and $11.0 million as of December 31, 2008 and 2007, respectively. In addition, the Company had invested $60,000 in Pacific Coast Bankers' Bank stock as of December 31, 2008 and 2007. The instruments are carried at cost in the Consolidated Statements of Financial Condition.

Loans

Interest on loans is credited to income as earned and is accrued only if deemed collectible. Accrual of interest is discontinued when a loan is over 90 days delinquent or if management believes that collection is highly uncertain. Generally, payments received on non-accrual loans are recorded as principal reductions. Interest income is recognized after all principal has been repaid or an improvement in the condition of the loan has occurred that would warrant resumption of interest accruals.

Nonrefundable fees, net of certain direct costs associated with the origination of loans, are deferred and recognized as an adjustment of the loan yield over the life of the loan. Other loan fees and charges, representing service costs for the prepayment of loans, delinquent payments, or miscellaneous loan services, are recorded as income when collected.

Certain Small Business Administration ("SBA") loans that the 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 Company 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 and servicing liabilities are recognized when loans are sold with servicing retained. The servicing assets, net of servicing liabilities, are included in other assets in the accompanying consolidated statements of financial condition and 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 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. The fair value of servicing assets was determined using a weighted average discount rate of 10 percent and prepayments speed of 16.3 percent and 17.1 percent at December 31, 2008 and 2007, respectively. Impairment, if it occurs, is recognized in a valuation allowance in the period of the impairment.

Allowance for Loan Losses

Loan losses are charged, and recoveries are credited to the allowance account. Additions to the allowance account are charged to the provision for loan losses. The allowance for loan losses is maintained at a level considered adequate by management to absorb inherent losses in the loan portfolio. The adequacy of the allowance for loan losses is determined by management based upon an evaluation and review of the loan portfolio, consideration of historical loan loss experience, current economic conditions, and changes in the composition of the loan portfolio, analysis of collateral values, and other pertinent factors. While management uses available information to recognize possible losses on loans, future additions to the allowance may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses. Such agencies may require the Company to recognize additional allowance based on their judgments about information available to them at the time of their examination.

Loans are measured for impairment when it is probable that not all amounts, including principal and interest, will be collected in accordance with the contractual terms of the loan agreement. The amount of impairment and any subsequent changes are recorded through the provision for loan losses as an adjustment to the allowance for loan losses. Impairment is measured either based on the present value of the loan's expected future cash flows or the estimated fair value of the collateral. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The Company evaluates consumer loans for impairment on a pooled basis. These loans are considered to be smaller balance, homogeneous loans, and are evaluated on a portfolio basis accordingly.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization of premises and equipment are computed on the straight-line method over the following estimated useful lives:

Buildings	30 years
Furniture, fixture, and equipment	5 to 10 years
Computer equipment	3 years
Leasehold improvements	life of lease or improvements, whichever is shorter

Other Real Estate Owned

Other real estate owned ("OREO"), which represents real estate acquired through foreclosure in satisfaction of commercial and real estate loans, is stated at fair value less estimated selling costs of the real estate. Loan balances in excess of the fair value of the real estate acquired at the date of acquisition are charged to the allowance for loan losses. Any subsequent decline in the fair value of OREO is recognized as a charge to operations and a corresponding increase to the valuation allowance of OREO. Gains and losses from sales and net operating expenses of OREO are included in current operations.

Investments in Affordable Housing Partnerships

The Company owns limited partnership interests in projects of affordable housing for lower income tenants. The investments in which the Company has significant influence are recorded using the equity method of accounting. For those investments in limited partnerships for which the Company does not have a significant influence, such investments are accounted for using the cost method of accounting and the annual amortization is based on the proportion of tax credits received in the current year to the total estimated tax credits to be allocated to the Company. The tax credits are recognized in the consolidated financial statements to the extent they are utilized on the Company's tax returns.

Long Term Subordinated Debentures

The Company established Center Capital Trust I in December 2003 (the "Trust") as a statutory business trust, which is a wholly owned subsidiary of the Company. In the private placement transaction, the Trust issued \$18.0 million of floating rate (3-month LIBOR plus 2.85%) capital securities representing undivided preferred beneficial interests in the assets of the Trust which consist primarily of a junior subordinated debenture in the approximate principal amount of $18.6 million from Center Financial. The Trust also issued common securities to Center Financial for $557,000 to purchase additional subordinated debentures. The Company is the owner of all the beneficial interests represented by the common securities of the Trust. The purpose of issuing the capital securities was to provide the Company with a cost-effective means of obtaining Tier I capital for regulatory purposes. Effective December 31, 2003, as a consequence of adopting the provisions of FIN No. 46R, the Trust is no longer being consolidated into the accounts of the Company. Long-term subordinated debt of $18.6 million represents liabilities of the Company to the Trust.

Income Taxes

Deferred income taxes are provided for using an asset and liability approach. Deferred income tax assets and liabilities represent the tax effects, based on current tax law, of future deductible or taxable amounts attributable to events that have been recognized in the consolidated financial statements.

Financial Instruments Held for Asset and Liability Management Purposes

The Company recognizes all derivatives as either assets or liabilities in the balance sheets and measures those instruments at fair value. 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. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation.

Stock-Based Compensation

The Company adopted SFAS No. 123R as of January 1, 2006 (see Note 14). SFAS No. 123R requires the Company to recognize compensation expense for all share-based payments made to employees and directors based on the fair value of the share-based payment on the date of grant. The Company elected to use the modified prospective method for adoption, which requires compensation expense to be recorded for all unvested stock options beginning in the first quarter of adoption. For all unvested options outstanding as of January 1, 2006, the previously measured but unrecognized compensation expense, based on the fair value at the original grant date, is recognized on a straight-line basis in the Consolidated Statements of Operations over the remaining vesting period. For share-based payments granted subsequent to January 1, 2006, compensation expense, based on the fair value on the date of grant, is recognized in the Consolidated Statements of Operations on a straight-line basis over the vesting period. In determining the fair value of stock options, the Company uses the Black-Scholes option-pricing model that employs the following assumptions:

- Expected volatility—based on the weekly historical volatility of our stock price, over the expected life of the option.
- Expected term of the option—based on historical employee stock option exercise behavior, the vesting terms of the respective option and a contractual life of ten years.
- Risk-free rate of return—based upon the rate on a zero coupon U.S. Treasury bill, for periods within the contractual life of the option, in effect at the time of grant.
- Dividend yield—calculated as the ratio of historical dividends paid per share of common stock to the stock price on the date of grant.

The Company's stock price volatility and option lives involve management's best estimates at that time, both of which impact the fair value of the option calculated under the Black-Scholes methodology and, ultimately, the expense that will be recognized over the life of the option.

Preferred Stock and Common Stock Warrants

The Company issued and sold 55,000 shares of fixed-rate cumulative perpetual preferred stock and a 10-year warrant to purchase 864,780 shares of the Company's common stock at an exercise price of $9.54 per share to the Treasury Department on December 12, 2008. The Company will pay the Treasury Department a five percent dividend annually for each of the first five years of the investment and a nine percent dividend thereafter until the shares are redeemed. The cumulative dividend for the preferred stock is accrued for and payable on February 15, May 15, August 15 and November 15 of each year.

Earnings per Common Share

Basic earnings per share ("EPS") exclude dilution and are computed by dividing earnings available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if options, awards or warrants were exercised or vested which resulted in the issuance of common stock that then shared in the earnings. In the calculation of EPS, distribution to preferred shareholders including dividend to preferred shareholders and accretion of preferred stock discount is deducted from net earnings to arrive at the net income available to common shareholders.

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 securities available for sale, are reported as a separate component of the shareholders' equity section of the Consolidated Statements of Financial Condition, such items, along with net income, are components of comprehensive income.

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which provides enhanced guidance for using fair value to measure assets and liabilities. The standard applies whenever other standards require or permit assets or liabilities to be measured at fair value. The standard does not expand the use of fair value in any new circumstances. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. Early adoption is permitted. The Company adopted SFAS No. 157 as of January 1, 2008.

In September 2006, EITF Issue No. 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements,* was issued. The Task Force reached a consensus that for an endorsement split-dollar life insurance arrangement within the scope of this Issue, an employer should recognize a liability for future benefits under FASB Statement No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions or APB Opinion No. 12, Omnibus Opinion—1967 based on the substantive agreement with the employee. The consensus is effective for fiscal years beginning after December 15, 2007. The Company adopted EITF Issue No. 06-4 as of January 1, 2008 and the cumulative effect of a change in accounting principle to recognize postretirement liability totaled to $1.4 million and was recorded as a reduction of equity.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities—Including an Amendment of FASB Statement No. 115*, which permits entities to choose to measure many financial instruments and certain warranty and insurance contracts at fair value. The SFAS No. 159 applies to all reporting entities, including not-for-profit organizations, and contains financial statement presentation and disclosure requirements for assets and liabilities reported at fair value. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption is permitted subject to certain conditions including the adoption of SFAS No. 157 at the same time. The Company will adopt SFAS No. 159 on January 1, 2008. The Company chose not to elect the option to measure the fair value of eligible financial assets and liabilities.

In December 2007, the SEC issued Staff Accounting Bulletin No. 110 ("SAB No. 110"), *Certain Assumptions Used in Valuation Methods*, which extends the use of the "simplified" method, under certain circumstances, in developing an estimate of expected term of "plain vanilla" share options in accordance with SFAS No. 123R. Prior to SAB No. 110, SAB No. 107 stated that the simplified method was only available for grants made up to December 31, 2007. The Company continued to use the simplified method in developing an estimate of expected term of stock options.

In October 2008, the FASB Staff issued a FASB Staff Position ("FSP") related to SFAS No. 157, FSP 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset is not Active.* The provisions of FSP 157-3 are effective on issuance, or October 10, 2008. FSP 157-3 clarifies the application of SFAS No. 157, in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. The issuance of FSP 157-3 and the Company's adoption of FSP 157-3 did not have an effect on the Company's consolidated financial statements. Application issues addressed by the FSP include:

a. How management's internal assumptions should be considered when measuring fair value when relevant observable data do not exist

b. How observable market information in a market that is not active should be considered when measuring fair value

c. How the use of market quotes should be considered when assessing the relevance of observable and unobservable data available to measure fair value.

3. *INVESTMENT SECURITIES*

The following is a summary of the investment securities at December 31, 2008 and 2007:

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
		(Dollars in thousands)		
2008				
Available for Sale:				
U.S. Treasury	$ 299	$ 1	$ —	$ 300
U.S. Governmental agencies securities and U.S. Government sponsored enterprise securities	23,997	513	—	24,510
U.S. Governmental agencies and U.S. Government sponsored and enterprise mortgage-backed securities	117,814	1,932	(609)	119,137
Corporate trust preferred securities	1,111	—	—	1,111
Mutual Funds backed by adjustable rate mortgages	4,500	—	(5)	4,495
Fixed rate collateralized mortgage obligations	23,511	769	—	24,280
Total available for sale	$171,232	$3,215	$ (614)	$173,833
Held to Maturity:				
U.S. Government agencies and U.S. Government sponsored enterprise mortgage-backed securities	$ 3,852	$ 61	$ (52)	$ 3,861
Municipal securities	5,009	70	(61)	5,018
Total held to maturity	$ 8,861	$ 131	$ (113)	$ 8,879
2007				
Available for Sale:				
U.S. Treasury	$ 500	$ 4	$ —	$ 504
U.S. Governmental agencies securities and U.S. Government sponsored enterprise securities	35,998	325	(8)	36,315
U.S. Governmental agencies and U.S. Government sponsored and enterprise mortgage-backed securities	55,165	309	(202)	55,272
U.S. Government sponsored enterprise preferred stock	3,537	—	—	3,537
Corporate trust preferred securities	11,000	—	(770)	10,230
Mutual Funds backed by adjustable rate mortgages	4,500	—	(1)	4,499
Fixed rate collateralized mortgage obligations	17,041	202	(15)	17,228
Corporate debt securities	1,199	—	(6)	1,193
Total available for sale	$128,940	$ 840	$(1,002)	$128,778
Held to Maturity:				
U.S. Government agencies and U.S. Government sponsored enterprise mortgage-backed securities	$ 5,327	$ 4	$ (28)	$ 5,303
Municipal securities	5,605	56	(3)	5,658
Total held to maturity	$ 10,932	$ 60	$ (31)	$ 10,961

Accrued interest and dividends receivable on investment securities totaled $1.2 million and $1.2 million at December 31, 2008 and 2007, respectively. For the years ended December 31, 2008, 2007, and 2006, proceeds from sales of securities available for sale amounted to $3.5 million, $0 and $13.9 million, respectively, with gross realized loss of $0, $0 and $115,000, respectively.

The amortized cost and estimated fair value of investment securities at December 31, 2008, by contractual maturity, are shown below. Although mortgage-backed securities and collateralized mortgage obligations have contractual maturities through 2037, 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. Additionally, the U.S. government sponsored enterprises, which issued preferred stock with no maturity, have the right to call these obligations at par.

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)			
Within 1 year	$ 6,299	$ 6,477	$ —	$ —
Over 1 year through 5 years	14,997	15,324	1,951	1,983
Over 5 years through 10 years	3,000	3,009	2,246	2,285
Over 10 years	1,111	1,111	812	750
	25,407	25,921	5,009	5,018
Mortgage-backed securities	117,814	119,137	3,852	3,861
Mutual Funds backed by adjustable rate mortgages	4,500	4,495	—	—
Collateralized Mortgage Obligations	23,511	24,280	—	—
	$171,232	$173,833	$8,861	$8,879

U.S. government agencies, U.S. Government sponsored enterprise securities, U.S. Treasury, and mortgage-backed securities with a total carrying value of $150.0 million (available-for-sale at fair market value of $146.1 million and held-to-maturity at amortized cost of $3.9 million) and $114.3 million (available-for-sale at fair market value of $109.0 million and held to maturity at amortized cost of $5.3 million), respectively, were pledged to secure deposits from the State of California, borrowing lines, and interest rate swap agreements, or were pledged for other purposes as required and permitted by law as of December 31, 2008 and 2007, respectively.

The following tables show the Company's investment securities with 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, 2008 and 2007.

	As of December 31, 2008					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(Dollars in thousands)					
U.S. Governmental agencies and U.S. Government sponsored enterprise mortgage-backed securities	$29,433	$(385)	$7,620	$(276)	$37,053	$(661)
Mutual Funds backed by adjustable rate mortgages	(4,495)	(5)			(4,495)	(5)
Municipal securities and corporate debt securities	750	(61)	—	—	750	(61)
Total	$25,688	$(451)	$7,620	$(276)	$33,308	$(727)

	As of December 31, 2007					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(Dollars in thousands)					
U.S. Governmental and U.S. Government sponsored enterprise agencies securities	$ —	$ —	$ 4,992	$ (8)	$ 4,992	$ (8)
U.S. Governmental agencies and U.S. Government sponsored enterprise mortgage-backed securities	8,898	(35)	22,481	(211)	31,379	(246)
Mutual Funds backed by adjustable rate mortgages	(4,499)	(1)			(4,499)	(1)
Municipal securities and corporate debt securities	10,463	(772)	1,420	(6)	11,883	(778)
Total	$14,862	$(808)	$28,893	$(225)	$43,755	$(1,033)

As of December 31, 2008, the Company had total fair value of $33.3 million of securities with unrealized losses of $0.7 million as compared to total fair value of $43.8 million and unrealized losses of $1.0 million at December 31, 2007. At December 31, 2008, the market value of securities which have been in a continuous loss position for 12 months or more totaled $7.6 million with an unrealized loss of $276,000 compared to $28.9 million with an unrealized loss of $225,000, respectively, at December 31, 2007.

For investment securities in an unrealized loss position at December 31, 2008, the Company has the intent and ability to hold these investment securities until the full recovery of their carrying value.

All individual securities that have been in a continuous unrealized loss position for twelve months or longer at December 31, 2008 had investment grade ratings upon purchase. The issuers of these securities have not, to the Company's knowledge, established any cause for default on these securities and the various rating agencies have reaffirmed these securities' long-term investment grade status at December 31, 2008.

The Company owns collateralized debt obligation ("CDO") securities that are backed by trust preferred securities issued by banks and thrifts. The market for these securities at December 31, 2008 is not active and markets for similar securities are also not active. The inactivity was evidenced first by a significant widening of the bid-ask spread in the brokered markets in which these CDO's trade and then by a significant decrease in the volume of trades relative to historical level. There are currently very few market participants who are willing and able to transact for these securities.

Moody's downgraded the securities to non-investment grade for credit impairment on November 13, 2008. As a result of the Company's periodic reviews for impairment, the corporate trust preferred securities were written down by $9.9 million and charged to other-than-temporary-impairment ("OTTI") during 2008 and the book value of the securities held in the available-for-sale investment portfolio was adjusted to $1.1 million as of December 31, 2008.

4. LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans consist of the following at December 31, 2008 and 2007:

	2008	2007
	(Dollars in thousands)	
Real Estate:		
Construction	$ 61,983	$ 68,143
Commercial	1,134,793	1,197,104
Commercial	334,350	310,962
Trade Finance	63,479	66,964
SBA[1]	37,027	70,517
Other	27	26
Consumer	88,396	98,943
Total Gross Loans	1,720,055	1,812,659
Less:		
Allowance for Losses	38,172	20,477
Deferred Loan Fees	1,359	1,847
Discount on SBA Loans Retained	1,184	700
Total Net Loans and Loans Held for Sale	$1,679,340	$1,789,635

1 This balance includes SBA loans held for sale of $9.9 million and $41.5 million at the lower of cost or fair value at December 31, 2008 and 2007, respectively.

As of December 31, 2008, the Company has pledged, under a blanket lien, all qualifying commercial and residential loans as collateral under the borrowing agreement with Federal Home Loan Bank with a total carrying value of $1.0 billion.

At December 31, 2008 and 2007, the Company serviced loans sold to unaffiliated parties in the amounts of $131.2 million and $117.5 million, respectively. The Company recorded an addition to (reduction of) servicing assets of $434,000 and $(90,000) and net amortization of servicing assets of $390,000 and $608,000 during the years ended December 31, 2008, and 2007, respectively. There was no valuation allowance for the servicing assets at December 31, 2008 and 2007. The servicing assets, net of servicing liabilities, are included in other assets in the accompanying consolidated statements of financial condition. The net servicing assets balance as of December 31, 2008 and 2007 was $0.9 million.

Loan servicing assets and servicing liabilities represent the value associated with servicing loans sold. The value is determined through a discounted cash flow analysis which uses interest rates, prepayments speed and adequate compensation assumptions as inputs.

	December 31, 2007	Net Purchases, Sales and Settlements	Accretion (Amortization)	December 31, 2008
	(Dollars in thousands)			
Servicing assets	$1,062	$ 678	$(496)	$1,244
Servicing liabilities	(195)	(244)	106	(333)
	$ 867	$ 434	$(390)	$ 911

	December 31, 2006	Net Purchases, Sales and Settlements	Accretion (Amortization)	December 31, 2007
Servicing assets	$1,796	$—	$(734)	$1,062
Servicing liabilities	(231)	(90)	126	(195)
	$1,565	$ (90)	$(608)	$ 867

The following is a summary of activity in the allowance for loan losses for the years ended December 31, 2008, 2007 and 2006:

	2008	2007	2006
	(Dollars in thousands)		
Balance at beginning of period	$20,477	$17,412	$13,871
Provision for loan losses	26,178	6,494	5,666
Charge-offs	(8,889)	(3,552)	(2,699)
Recoveries of charge-offs	406	123	574
Balance at end of period	$38,172	$20,477	$17,412

Although the Company has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent upon the real estate market in California. 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 Company'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 Company's investment in the foreclosed property. Furthermore, although most of the Company's trade finance activities are related to trade with Asia, these loans are generally made to companies domiciled or with collateral in the United States of America.

At December 31, 2008 the Company had $44.0 million of impaired loans with specific allowances of $12.5 million. At December 31, 2007 the Company had $2.1 million of impaired loans with specific allowances of $100,000. At December 31, 2008 and 2007 loans classified as impaired without specific allowances amounted to $17.4 million and $1.2 million, respectively. The average recorded investment in impaired loans during the years ended December 31, 2008 and 2007 was $12.3 million and $10.0 million, respectively. Interest income of $545,000, $872,000 and $3,000 was recognized on impaired loans, on a cash basis, for the years ended December 31, 2008, 2007 and 2006, respectively.

The following is an analysis of all loans to officers and directors of the Company and its affiliates as of December 31, 2008 and 2007. All such loans were made under terms that are consistent with the Company's normal lending policies.

	2008	2007
	(Dollars in thousands)	
Balance at beginning of period	$10,324	$ 5,376
New loans or disbursements	652	5,015
	10,976	10,391
Less: repayments	(72)	(67)
Balance at end of period	$10,904	$10,324
Available lines of credit at end of year	$ 954	$ 1,427

Directors of the Company guaranteed loan balances of $9.6 million and $8.8 million at December 31, 2008 and 2007, respectively.

5. PREMISES AND EQUIPMENT

The following is a summary of the major components of premises and equipment as of December 31, 2008 and 2007:

	2008	2007
	(Dollars in thousands)	
Land	$ 3,333	$ 3,333
Building	5,009	4,992
Furniture, fixture, and equipment (FF&E)	11,214	9,705
Leasehold improvements	8,660	6,892
FF&E and construction in progress	49	205
	28,265	25,127
Accumulated depreciation	(13,526)	(11,542)
Premises and equipment, net	$ 14,739	$ 13,585

Depreciation and amortization expense for the years ended December 31, 2008, 2007, and 2006 amounted to $2.1 million, $1.9 million, and $1.9 million, respectively.

6. OTHER REAL ESTATE OWNED

As of December 31, 2008, there was no other real estate owned ("OREO") property as compared to one property in the amount of $380,000 as of December 31, 2007. During 2008, two OREO properties were added and all of the three OREO properties were sold with net gain on sales of $137,000. Operating expense related to OREO of $173,000 was also recorded in 2008. For the years ended December 31, 2007 and 2006 there was no income or expense related to OREO.

7. INVESTMENTS IN AFFORDABLE HOUSING PARTNERSHIPS

The Company has invested in certain limited partnerships that were formed to develop and operate several apartment complexes designed as high-quality affordable housing for lower income tenants throughout the State of California and other states. The Company's ownership in each limited partnership varies from under 2% to 22%. At December 31, 2008 and 2007, the investments in these limited partnerships amounted to $12.9 million and $11.9 million, respectively. Two of the nine limited partnerships invested in by the Company are accounted for using the equity method of accounting, since the Company has significant influence over the partnership. For those investments in limited partnerships for which the Company does not have a significant influence, such investments are accounted for using the cost method of accounting and the annual amortization is based on the proportion of tax credits received in the current year to total estimated tax credits to be allocated to the Company. Each of the partnerships must meet the regulatory minimum 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 credit may be denied for any period in which the project is not in compliance and a portion of the credit previously taken is subject to recapture with interest.

The approximate remaining federal and state tax credits to be utilized over a multiple-year period are $11.4 million and $10.4 million at December 31, 2008 and 2007, respectively. The Company's usage of tax credits was

$1.2 million, $628,000, and $586,000 for the years ended December 31, 2008, 2007 and 2006, respectively. Investment amortization amounted to $1.0 million, $696,000, and $612,000 for the years ended December 31, 2008, 2007 and 2006, respectively.

8. DEPOSITS

Deposits consist of the following at December 31, 2008 and 2007:

	December 31, 2008	December 31, 2007
	(Dollars in thousands)	
Demand deposits (noninterest-bearing)	$ 310,154	$ 363,465
Money market accounts and NOW	447,275	244,233
Savings	52,692	54,838
	810,121	662,536
Time deposits		
Less than $100,000	143,221	112,614
$100,000 or more	650,177	802,524
Total	$1,603,519	$1,577,674

Time deposits by maturity dates are as follows at December 31, 2008:

	$100,000 or greater	Less than $100,000	Total
	(Dollars in thousands)		
2009	$624,649	$141,811	$766,460
2010	22,812	1,314	24,126
2011	596	71	667
2012	—	25	25
2013 and thereafter	2,120	—	2,120
Total	$650,177	$143,221	$793,398

A summary of interest expense on deposits is as follows for the years ended December 31:

	2008	2007	2006
	(Dollars in thousands)		
Money market accounts and NOW	$10,674	$ 9,198	$ 6,081
Savings	1,832	2,177	3,044
Time deposits			
Less than $100,000	4,815	4,694	4,142
$100,000 or more	28,805	38,126	34,136
Total	$46,126	$54,195	$47,403

The Company accepts deposits from the State of California. These deposits totaled $115.5 million and $75.0 million at December 31, 2008 and 2007, respectively. The Company has pledged U.S. government agencies and U.S. government sponsored enterprise securities and mortgage-backed securities with a total carrying value of

$138.4 million (available–for-sale at fair market value of $136.3 million and held-to-maturity at amortized cost of $2.1 million) and $101.1million (available-for-sale at fair market value of $98.6 million and held-to-maturity at amortized cost of $2.4 million) as of December 31, 2008 and 2007, respectively, to secure such public deposits. Interest expense for the years ended December 31, 2008, 2007 and 2006 was $2.3 million, $3.7 million, $2.2 million, respectively.

In the ordinary course of business, the Company has received deposits from certain directors, executive officers and businesses with which they are associated. At December 31, 2008 and 2007, the total of these deposits amounted to $1.8 million and $964,000, respectively.

9. OTHER BORROWED FUNDS

The Company borrows funds from the FHLB and the Treasury, Tax, and Loan Investment Program. Other borrowed funds totaled $193.0 million and $299.6 million at December 31, 2008 and 2007, respectively. Interest expense on total borrowed funds was $9.3 million in 2008, $11.3 million in 2007, and $4.5 million in 2006, reflecting average interest rates of 3.61%, 5.01% and 5.31%, respectively.

As of December 31, 2008, the Company borrowed $192.2 million as compared to $298.5 million at December 31, 2007 from the FHLB with note terms from less than 1 year to 15 years. Notes of 10-year and 15-year terms are amortizing at the predetermined schedules over the life of the notes. Of the $192.2 million outstanding, $145.0 million is composed of six fixed rate term advances, each with an option to be called by the FHLB after the lockout dates varying from 6 months to 2 years. If market interest rates are higher than the advances' stated rates at that time, the advances will be called by the FHLB and the Company will be required to repay the FHLB. If market interest rates are lower after the lockout period, then the advances will not be called by the FHLB. If the advances are not called by the FHLB, then they will mature on the maturity dates ranging from 4 years to 10 years. The Company may repay the advances with a prepayment penalty at any time. If the advances are called by the FHLB, there is no prepayment penalty.

The Company has pledged, under a blanket lien (all qualifying commercial and residential loans) as collateral under the borrowing agreement with Federal Home Loan Bank, with a total carrying value of $1.0 billion and $1.3 billion at December 31, 2008 and 2007, respectively. Total interest expense on the notes was $9.3 million, $11.2 million and $4.4 million for the years ended December 31, 2008, 2007 and 2006, respectively, reflecting average interest rates of 3.62%, 5.01% and 5.27%, respectively.

Federal Home Loan Bank advances outstanding as of December 31, 2008, with an average interest rate of 4.02%, mature as follows:

	(Dollars in thousands)
2009	$ 45,343
2010	361
2011	25,381
2012	100,295
2013	157
Thereafter	20,644
	$192,181

Borrowings obtained from the Treasury Tax and Loan Investment Program mature within a month from the transaction date. Under the program, the Company receives funds from the U.S. Treasury Department in the form of open-ended notes, up to a total of $2.2 million. The Company has pledged U.S. government agencies and/or mortgage-backed securities with a total carrying value of $2.7 million at December 31, 2008, as collateral to participate in the program. The total borrowed amount under the program, outstanding at December 31, 2008 and 2007, was $0.8 million and $1.1 million, respectively. Interest expense on notes was $9,000, $25,000, and $31,000 for the years ended December 31, 2008, 2007 and 2006, respectively, reflecting average interest rates of 1.21%, 3.25% and 3.81%, respectively.

10. INCOME TAXES

The following is a summary of income tax (benefit) expense for the years ended December 31, 2008, 2007 and 2006:

	2008	2007	2006
	(Dollars in thousands)		
Current			
Federal	$ 4,855	$12,266	$14,544
State	1,372	3,329	4,157
Total	$ 6,227	$15,595	$18,701
Deferred			
Federal	$(5,782)	$ (1,326)	$ (1,673)
State	(2,092)	(623)	(543)
Total	$(7,874)	$ (1,949)	$ (2,216)
Total			
Federal	$ (927)	$10,940	$12,871
State	(720)	2,706	3,614
Total	$(1,647)	$13,646	$16,485

As of December 31, 2008 and 2007, the cumulative temporary differences, as tax affected, are as follows:

	2008	2007
	(Dollars in thousands)	
Deferred tax assets:		
Statutory bad debt deduction less than financial statement provision	$15,254	$ 9,387
Deferred loan fees	618	860
Depreciation	647	333
State taxes	—	67
Impairment of securities available for sale	4,533	1,473
Affordable housing partnership income	36	36
Net unrealized loss on securities available for sale	—	67
Capital loss carryforwards	613	613
Mark to market adjustment on loans held for sale	226	951
Reserve for losses	135	160
Accrued non-qualified stock option expense	595	279
Reserve for uncollected interest	554	—
Net legal settlement expense payable	1,186	—
Other	43	164
Total deferred tax assets	24,440	14,390
Deferred tax liabilities:		
Basis differences—1031 like-kind exchange	(239)	(239)
Federal Home Loan Bank stock	(923)	(568)
State taxes	(1,336)	—
Net unrealized gain on securities available for sale	(1,094)	—
Excess tax liability	(229)	—
Other	(151)	—
Total deferred tax liabilities	(3,972)	(807)
Net deferred tax asset before valuation allowance	20,468	13,583
Valuation allowance	(613)	(441)
Net deferred tax asset	$19,855	$13,142

In assessing the future realization of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, the projected future taxable income, and tax-planning strategies in making this assessment. During 2008 and 2007, based on the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, the Company believes the net deferred tax assets are more likely than not to be realized. The Company had capital loss carryforwards of $613,000 both at December 31, 2008 and 2007. Due to the uncertainty surrounding the realization of the benefits of these losses that may result from future capital gain, the Company reduced the related deferred tax asset with a valuation allowance of $613,000 and $441,000 as of December 31, 2008 and 2007, respectively. Additionally, for tax purposes the Company was unable to deduct approximately $115,000 and $1.2 million of capital losses generated in 2006 and 2005, respectively, which must be utilized for tax purposes by 2011 and 2010, respectively.

Applicable income taxes, in 2008, 2007, and 2006 resulted in effective tax rates of 115.4%, 38.3%, and 38.7%, respectively. The primary reasons for the differences from the federal statutory tax rate of 35.0% are as follows for the years ended December 31, 2008, 2007 and 2006:

	2008	2007	2006
	(Dollars in thousands)		
Income tax (benefit) expense at federal statutory rate	$ (500)	$12,456	$14,925
State franchise tax (benefit) expense, net of federal income tax (benefit) expense	(101)	2,507	3,004
Low income housing tax credit, federal	(1,042)	(626)	(586)
Tax-advantaged interest income	(62)	(59)	(86)
Bank-owned life insurance cash surrender value	(172)	(168)	(159)
Dividend received deduction for stock investments	(143)	(270)	(250)
Grant of incentive stock option	202	207	(280)
Other	171	(401)	(83)
Income tax (benefit) provision	$(1,647)	$13,646	$16,485

FASB Interpretation No. 48 (FIN No. 48), *Accounting for Uncertainty in Income Taxes,* requires the Company to determine whether it is more likely than not that a tax position will be sustained upon examination based on the technical merits of the position. A tax position that meets the more likely than not recognition threshold is measured to determine the amount of benefit to recognize in the financial statements. The Company has concluded that neither it, nor the Bank and its subsidiary, has any uncertain tax positions that require recognition in the financial statements as defined by FIN No. 48. Therefore, no FIN No. 48 reserve is necessary as of December 31, 2008. This determination was based on tax years that remain subject to examination by the relevant tax authorities. The Internal Revenue Service (the "IRS") and the Franchise Tax Board (the "FTB") have examined the Company's consolidated federal income tax returns for tax years up to and including 2003. Therefore, years 2004 through 2007 remain open for examination. As of December 31, 2008, the Company was under examination by the IRS for the 2005 tax year and the FTB had no open examinations.

Our policy is to record any interest or penalties paid in connection with income taxes on the appropriate line of the Statement of Operations.

11. LONG-TERM SUBORDINATED DEBENTURES

Center Capital Trust I is a Delaware business trust formed by the Company for the sole purpose of issuing trust preferred securities fully and unconditionally guaranteed by the Company. During the fourth quarter of 2004, Center Capital Trust I issued 18,000 Capital Trust Preferred Securities ("TP Securities"), with liquidation value of $1,000 per security, for gross proceeds of $18,000,000. The entire proceeds of the issuance were invested by Center Capital Trust I in $18,000,000 of Junior Long-term Subordinated Debentures (the "Subordinated Debentures") issued by the Company, with identical maturity, repricing and payment terms as the TP Securities. The Subordinated Debentures represent the sole assets of Center Capital Trust I. The Subordinated Debentures mature on January 7, 2034 and bear a current interest rate of 7.67% (based on 3-month LIBOR plus 2.85%), with repricing and payments due quarterly in arrears on January 7, April 7, July 7, and October 7 of each year commencing April 7, 2004. The Subordinated Debentures are redeemable by the Company, subject to receipt by the Company of prior approval from the Federal Reserve Bank to the extent then required, on any January 7th, April 7th, July 7th, and October 7th on or after April 7, 2009 at the Redemption Price. Redemption Price means 100% of the principal amount of Subordinated Debentures being redeemed plus accrued and unpaid interest on such Subordinated Debentures to the Redemption Date, or in case of redemption due to the occurrence of a Special Event, to the Special Redemption Date if such Redemption Date is on or after April 7, 2009. The TP Securities are subject to mandatory redemption to the extent of any early redemption of the Subordinated Debentures and upon maturity of the Subordinated Debentures on January 7, 2034.

Holders of the TP Securities are entitled to a cumulative cash distribution on the liquidation amount of $1,000 per security at a current rate per annum of 7.67%. The distribution rate is a per annum rate which resets quarterly, equal to LIBOR (as in effect) immediately preceding each interest payment date (January 7, April 7, July 7, and October 7 of each year) plus 2.85%. The distributions on the TP Securities are treated as interest expense in the consolidated statements of operations. The Company has the option to defer payment of the distributions for a period of up to five years, as long as the Company is not in default on the payment of interest on the Subordinated Debentures. The TP Securities issued in the offering were sold in private transactions pursuant to an exemption from registration under the Securities Act of 1933, as amended. The Company has guaranteed, on a subordinated basis, distributions and other payments due on the TP Securities.

On March 1, 2005, the Federal Reserve Board adopted a final rule that allows the continued inclusion of trust-preferred securities in the Tier I capital of bank holding companies. However, under the final rule, after a five-year transition period, the aggregate amount of trust preferred securities and certain other capital elements that could be included in Tier I capital would be limited to 25 percent of Tier I capital elements, net of goodwill. Trust preferred securities currently make up 7.9% of the Company's Tier I capital.

As of December 31, 2008 and 2007, in accordance with FIN 46R, as revised in December 2004, Center Capital Trust I is not reported on a consolidated basis. Therefore, the capital securities of $18,000,000 do not appear on the balance sheet. Instead, the long-term subordinated debentures of $18,557,000 issued by Center Financial to Center Capital Trust I and the investment in Center Capital Trust I's common stock of $557,000 (included in other assets) are separately reported.

12. GOODWILL AND INTANGIBLES

In April 2004, the Company purchased the Chicago branch of Korea Exchange Bank and recorded goodwill of $1.3 million and a core deposit intangible of $462,000. The Company amortizes premiums on acquired deposits using the straight-line method over 5 to 9 years. Amortization expense for core deposit intangible was $53,000 for years ended December 31, 2008, 2007 and 2006, respectively. Core deposit intangible net of amortization was $213,000 and $267,000 at December 31, 2008 and 2007, respectively. Estimated amortization expense for core deposit intangible for five succeeding fiscal years and thereafter is as follows:

	(Dollars in thousands)
2009	$ 53
2010	53
2011	53
2012	53
2013	1
	$213

13. *COMMITMENTS AND CONTINGENCIES*

The Company leases its premises under noncancelable operating leases. At December 31, 2008, future minimum rental commitments under these leases are as follows:

	(Dollars in thousands)
2009	$ 2,388
2010	2,161
2011	1,313
2012	1,216
2013	824
Thereafter	2,215
	$10,117

Rental expense recorded under such leases amounted to approximately $2.5 million, $2.5 million, and $2.0 million in 2008, 2007 and 2006, respectively.

Litigation

From time to time, the Company is a party to claims and legal proceedings arising in the ordinary course of business. It is the management's opinion that the resolution of any such claims or legal proceedings would not have a material adverse effect on the Company's financial condition or results of operations.

On August 6, 2008 the Bank entered into a Settlement Agreement with KEIC (the "KEIC Settlement Agreement"). Pursuant to the KEIC Settlement Agreement, KEIC dismissed with prejudice its complaints against the Bank in both the Superior Court of the State of California and in federal court and to assign to Center Bank its rights and claims as against certain other defendants. In consideration of its dismissal of such claims and assignment of such rights, the Bank agreed to pay consideration of $10.5 million to KEIC, consisting of cash consideration of $6.5 million in scheduled installments over a three-year period and the issuance of 415,369 shares of the common stock of the Company valued at $4.0 million.

Pursuant to separate agreement, KEIC and nine Korean banks mutually dismissed all claims against one another arising out of or related to the KEIC Action. The Bank also entered into a settlement agreement with Korea Data Systems (USA), Inc ("KDS-USA") and Lap Shun (John) Hui, pursuant to which KDS-USA agreed to pay the Bank a total of $2.5 million in cash payable in scheduled installments over a two-year period in consideration for Center Bank dismissing with prejudice all claims against KDS-USA.

The Company recognized net expense of $7.5 million based on present value of long-term receivables and payables during 2008. At December 31, 2008, the Company had long-term receivable of $1.4 million and long-term payable of $4.0 million.

Employment Agreement

On January 10, 2007, the board of directors of the Company named Mr. Jae Whan Yoo to the positions of President and Chief Executive Officer. Effective January 16, 2007, the Company and Center Bank entered into an employment agreement with Mr. Yoo (the "Agreement") for a term of three years, at an annual base salary of $250,000 for the first year of the term, with annual increases thereafter based on increases in the applicable Consumer Price Index, not to exceed 7% per year. Mr. Yoo is also entitled to an incentive bonus equal to 4% of the amount by which the Company's pre-tax earnings for any given year exceeded the Company's pre-tax earnings for the previous year; provided, however, that in no event shall such bonus be less than $40,000 nor more than 75% of the amount of Mr. Yoo's annual base salary. Mr. Yoo will also receive stock options to purchase 100,000 shares of the Company's authorized but unissued common stock, at the fair market value on the date of grant, February 14, 2007. The options will be for a term of 10 years and will vest in installments of one-third per year commencing on the first anniversary of the date of grant. In the event of termination without cause (as defined in the Agreement) or if a "change in control" of Center Bank or the Company (as those terms are defined in the Agreement) occurs and the Company terminates Mr. Yoo without cause, or Mr. Yoo voluntarily terminates his employment within one year after the change in control, Mr. Yoo will be entitled to receive: (1) his salary for the balance of the term remaining under the Agreement or 12 months, whichever is less, and (2) the pro rata portion of any bonus earned for the partial year served until the date of termination; provided, however, that the amount of any benefits to be paid under the Agreement in the event of a change in control would be limited to the amounts allowed as deductible payments pursuant to Section 280G of the Internal Revenue Code.

Pursuant to the Securities Purchase Agreement with the Treasury Department, the Company agreed that, until such time as the Treasury Department ceases to own any securities acquired from the Company pursuant to the Securities Purchase Agreement, the Company will take all necessary action to ensure that the benefit plans with respect to the Company's senior executive officers comply with Section 111(b) of the Emergency Economic Stabilization Act of 2008 ("EESA") as implemented by any guidance or regulation under Section 111(b) of EESA that has been issued and is in effect as of the date of issuance of the Series A Preferred Stock and the Warrants and not adopt any benefit plans with respect to, or which cover, our senior executive officers that do not comply with EESA. The Company's five senior executive officers have consented to the foregoing, and the three applicable executives have executed either amendments to their employment agreement or agreements concerning their compensation arrangements in order to comply with EESA.

14. SHAREHOLDERS' EQUITY

On December 19, 2007 the board of directors declared a quarterly cash dividend of 5 cents per share. This cash dividend was paid in January 2008 to shareholders of record as of December 26, 2007 (see "Quarterly Dividends" below).

As a bank holding company which currently has no significant assets other than the Company's equity interest in the Bank, the Company's ability to pay dividends primarily depends upon the dividends received from the Bank. The dividend practice of the Bank, like the Company's dividend practice, will depend upon its earnings, financial position, current and anticipated cash requirements and other factors deemed relevant by Center Bank's board of directors at that time. The dividend practices of both the Bank and Center Financial are restricted by state and federal law as well as by regulatory requirements and potentially by contractual requirements, in each case as more fully described below.

Quarterly Dividends—From the last quarter of 2003 through the fourth quarter of 2008, Center Financial paid cash dividends of 4 cents (adjusted for two-for-one stock split paid in March 2004) per share through the first quarter of 2007 and 5 cents per share from the second quarter of 2007. On March 25, 2009, the Company's board of directors suspended its quarterly cash dividends based on adverse economic conditions and a reduction in the Company's earnings. The board of directors determined that this is a prudent, safe and sound practice to preserve capital, and does not expect to resume the payment of cash dividends in the foreseeable future. Unless the preferred stock issued to the Treasury Department in the TARP Capital Purchase Program has been redeemed, the Company will not be permitted to resume paying cash dividends without the consent of the Treasury Department until December 2011. Once the Company is again permitted to pay cash dividends, the amount of any such dividend will be determined each quarter by the Company's board of directors in its discretion, based on the factors described in the previous paragraph. No assurance can be given that the Bank's and the Company's future performance will justify the payment of dividends in any particular quarter and any such dividend will be at the sole discretion of Center Financial's board of directors.

The Bank's ability to pay cash dividends to Center Financial is also subject to certain legal limitations. Under California law, banks may declare a cash dividend out of their net profits up to the lesser of retained earnings or the net income for the last three fiscal years (less any distributions made to shareholders during such period), or with the prior written approval of the Commissioner of Financial Institutions, in an amount not exceeding the greatest of (i) the retained earnings of the bank, (ii) the net income of the bank for its last fiscal year, or (iii) the net income of the bank for its current fiscal year. In addition, under federal law, banks are prohibited from paying any dividends if after making such payment they would fail to meet any of the minimum regulatory capital requirements. The federal regulators also have the authority to prohibit banks from engaging in any business practices which are considered to be unsafe or unsound, and in some circumstances the regulators might prohibit the payment of dividends on that basis even though such payments would otherwise be permissible.

The Company's ability to pay dividends is also limited by state corporation law. The California General Corporation Law allows dividends to the company's shareholders if the company's retained earnings equal at least the amount of the proposed dividend. If a California corporation does not have sufficient retained earnings available for the proposed dividend, it may still pay a dividend to its shareholders if immediately after giving effect to the dividend the sum of the company's assets (exclusive of goodwill and deferred charges) would be at least equal to 125% of its liabilities (not including deferred taxes, deferred income and other deferred liabilities) and the current assets of the company would be at least equal to its current liabilities, or, if the average of its earnings before taxes on income and before interest expense for the two preceding fiscal years was less than the average of its interest expense for the two preceding fiscal years, at least equal to 125% of its current liabilities. In addition, during any period in which the Company has deferred payment of interest otherwise due and payable on its subordinated debt securities, or any unpaid dividends on the preferred stock issued to the Treasury Department, it may not make any dividends or distributions with respect to its capital stock.

Stock-Based Compensation—The Company has a Stock Incentive Plan which was adopted by the Board of Directors in April 2006, approved by the shareholders in May 2006, and amended by the Board in June 2007 (the "2006 Plan"). The 2006 Plan provides for the granting of incentive stock options to officers and employees, and non-qualified stock options and restricted stock awards to employees (including officers) and non-employee directors. The 2006 Plan replaced the Company's former stock option plan (the "1996 Plan") which expired in February 2006, and all options under the 1996 Plan which were outstanding on April 12, 2006 were transferred to and made part of the 2006 Plan. The option prices of all options granted under the 2006 Plan (including options transferred from the 1996 Plan) must be not less than 100% of the fair market value at the date of grant. All options granted generally vest at the rate of 20% per year except that the options granted to the CEO and to the non-employee directors vest at the rate of 33 1/3% per year. All options not exercised generally expire ten years after the date of grant.

Effective January 1, 2006 the Company adopted SFAS No. 123R. Prior to the adoption of SFAS No. 123R, the Company accounted for stock-based compensation using the intrinsic value method of APB 25. As a result, prior to January 1, 2006 the Company did not recognize compensation expense in the consolidated statements of operations for options granted. As required by SFAS No. 123, the Company provided certain pro forma disclosures for stock-based compensation as if the fair-value-based approach of SFAS No. 123 had been applied.

The Company elected to use the modified prospective transition method as permitted by SFAS No. 123R and therefore has not restated the financial results for prior periods. Under this transition method, the Company will apply the provisions of SFAS No. 123R to new options granted or cancelled after December 31, 2005.

Additionally, the Company will recognize compensation cost for the portion of options for which the requisite service has not been rendered (unvested) that are outstanding as of December 31, 2005, as the remaining service is rendered. The compensation cost the Company records for these options will be based on their grant-date fair value as calculated for the pro forma disclosures required by SFAS No. 123.

The Company's pre-tax compensation expense for stock-based employees and directors' compensation was $1.2 million and $1.2 million ($876,000 and $959,000 after tax effect of non-qualified stock options) for the years ended December 31, 2008 and 2007, respectively.

Prior to the adoption of SFAS No. 123R, the Company presented all tax benefits resulting from the exercise of stock options as operating cash flows in the consolidated statement of cash flows. SFAS No. 123R requires that cash flows from the exercise of stock options resulting from tax benefits in excess of recognized cumulative compensation cost (excess tax benefits) be classified as financing cash flows. For the year ended December 31, 2006, such tax benefits amounted to approximately $523,000.

The fair value of the stock options granted was estimated on the date of grant using the Black-Scholes option valuation model that uses the assumptions noted in the following table. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant. Beginning in 2006, with the adoption of SFAS No. 123R the expected life (estimated period of time outstanding) of options granted with a 10-year term was determined using the average of the vesting period and term, an accepted method under SEC's Staff Accounting Bulletin No. 107, Share-Based Payment. Expected volatility was based on historical volatility for a period equal to the stock option's expected life, ending on the day of grant, and calculated on a weekly basis.

	Year ended December 31,		
	2008	2007	2006
Risk-free interest rate	1.59% - 6.11%	2.05% - 5.07%	2.05% - 6.21%
Expected life	3 - 6.5 years	3 - 6.5 years	3 - 6.5 years
Expected volatility	28% - 36%	28% - 36%	32% - 35%
Expected dividend yield	0.00% - 3.50%	0.00% - 1.29%	0.00% - 1.05%

A summary of the Company's stock option activity and related information for the years ended December 31, 2008, 2007 and 2006 is set forth in the following table:

	2008			2007			2006		
	Shares Available For Grant	Options Outstanding	Weighted Average Exercise Price	Shares Available For Grant	Options Outstanding	Weighted Average Exercise Price	Shares Available For Grant	Options Outstanding	Weighted Average Exercise Price
Balance at beginning of period	2,077,452	967,271	$17.05	2,670,290	473,593	$15.33	936,389	638,804	$13.38
Options authorized under new plan	—	—	—	—	—	—	1,762,250		
Options granted	(3,000)	3,000	11.23	(696,000)	696,000	17.88	(68,000)	68,000	23.56
Options forfeited	115,800	(115,800)	19.35	103,162	(103,162)	19.72	39,651	(39,651)	14.62
Options exercised	—	(4,320)	5.00	—	(99,160)	12.42	—	(193,560)	11.91
Balance at end of period	2,190,252	850,151	$16.78	2,077,452	967,271	$17.05	2,670,290	473,593	$15.33
Options exercisable at year-end		340,286	$14.91		160,711	$11.59		141,115	$10.64
Weighted-average fair value of options granted during the year			$ 1.77			$ 6.82			$ 8.91

Information pertaining to stock options outstanding at December 31, 2008 is as follows:

	Options Outstanding			Options Exercisable		
Range of Exercise Prices	Options Outstanding	Weighted-Average Remaining Contractual Life in Years	Weighted-Average Exercise Price	Options Exercisable	Weighted-Average Remaining Contractual Life in Years	Weighted-Average Exercise Price
$ 2.23 – $ 7.99	65,451	2.87	$ 4.98	65,451	3.86	$ 4.98
$ 8.00 – $20.00	580,700	7.88	$16.04	201,301	6.07	$15.20
$20.01 – $25.10	204,000	7.74	$22.69	73,534	8.01	$22.95
	850,151	7.46	$16.78	340,286	6.37	$14.91

The aggregate intrinsic value of options outstanding and options exercisable at December 31, 2008 was $78,000. Aggregate intrinsic value represents the difference between the Company's closing stock price on the last trading day of the period, which was $6.17 as of December 31, 2008, and the exercise price multiplied by the number of options outstanding. Total intrinsic value of options exercised was $36,000 and $557,000 for the years ended December 31, 2008 and 2007, respectively.

As of December 31, 2008, the Company had approximately $1.9 million of unrecognized compensation costs related to unvested options. The Company expects to recognize these costs over a weighted average period of 2.67 years.

Restricted stock activity under the 2006 Plan as of December 31, 2008, and changes during the year ended December 31, 2008 are as follows:

	Year Ended			
	December 31, 2008		December 31, 2007	
	Number of Shares	Weighted-Average Grant-Date Fair Value per Share	Number of Shares	Weighted-Average Grant-Date Fair Value per Share
Restricted Stock:				
Nonvested, beginning of period	8,850	$16.92	—	$ —
Granted	2,600	7.53	9,850	16.93
Vested	—	—	—	—
Cancelled and forfeited	(1,050)	15.81	(1,000)	17.00
Nonvested, at end of period	10,400	14.72	8,850	16.92

The Company recorded compensation cost of $30,000 and $18,000 related to the restricted stock granted under the 2006 Plan for the years ended December 31, 2008 and 2007, respectively. At December 31, 2008, the Company had approximately $110,000 of unrecognized compensation costs related to unvested restricted stocks.

Preferred Stock and Common Stock Warrants—The Company entered into a purchase agreement with the U.S. Treasury on December 12, 2008, pursuant to which the Company issued and sold 55,000 shares of the Company's fixed-rate cumulative perpetual preferred stock for a total purchase price of $55 million, and a 10-year warrant to purchase 864,780 shares of the Company's common stock at an exercise price of $9.54 per share. The Company will pay the Treasury Department a five percent dividend annually for each of the first five years of the investment and a nine percent dividend thereafter until the shares are redeemed. The cumulative dividend for the preferred stock is accrued for and payable on February 15, May 15, August 15 and November 15 of each year.

The Company allocated total proceeds of $55 million, based on the relative fair value of preferred stock and common stock warrants, to preferred stock for $52.9 million and common stock warrants for $2.1 million, respectively, on December 12, 2008. The preferred stock discount will be accreted, on an effective yield method, to preferred stock over the 10 years.

Postretirement Split-dollar Arrangement—As of January 1, 2008, pursuant to EITF Issue No. 06-4, the Company recorded the cumulative effect of a change in the accounting principles for recognizing a liability for the postretirement cost of insurance for endorsement split-dollar life insurance coverage with split-dollar arrangement for employees and non-employee directors in the amount of $1.4 million as a reduction of equity. On a monthly basis, the Company records the benefit expense of such insurance coverage. Benefit expense during the year ended December 31, 2008 amounted to $98,000.

15. EARNINGS PER COMMON SHARE

The following is a reconciliation of the numerators and denominators of the basic and diluted per share computations for the years ended December 31, 2008, 2007, and 2006.

	Net Income	Weighted Average Number of Shares	Per Share Amount
	(Dollars in thousands, except earnings per share)		
2008			
Basic EPS			
Net income	$ 220	16,526	$ 0.01
Less: preferred stock dividends and accretion of preferred stock discount	(155)	—	—
Income available to common shareholders	65	16,526	0.00
Effect of dilutive securities:			
Stock options, restricted stocks and warrants	—	34	—
Diluted EPS			
Income available to common shareholders	$ 65	16,560	$ 0.00
2007			
Basic EPS			
Income available to common shareholders	$21,943	16,649	$ 1.32
Effect of dilutive securities:			
Stock options and restricted stocks	—	83	(0.01)
Diluted EPS			
Income available to common shareholders	$21,943	16,732	$ 1.31
2006			
Basic EPS			
Income available to common shareholders	$26,158	16,535	$ 1.58
Effect of dilutive securities:			
Stock options	—	132	(0.01)
Diluted EPS			
Income available to common shareholders	$26,158	16,667	$ 1.57

Options not included in the computation of diluted earnings per share because they would have had an antidilutive effect amounted to 840,000 shares, 766,000 shares and 82,000 shares for the years ended December 31, 2008, 2007 and 2006, respectively.

16. EMPLOYEE BENEFIT PLAN

The Company has an Employees' Profit Sharing and Savings Plan (the "Plan"), for the benefit of substantially all of its employees who have reached a minimum age of 21 years. Each employee is allowed to contribute to the Plan up to the maximum percentage allowable, not to exceed the limits of IRS Code Sections 401(k), 404 and 415. The Company's matching contribution equals the sum of 100 percent of the employee's contribution up to 3 percent of his/her compensation plus 75 percent of the employee's contribution that exceeds 3 percent and up to 5 percent of his/her compensation. The Company may also make a discretionary contribution, which is not limited to the current or accumulated net profit, as well as a qualified nonelective contribution, with both amounts determined by the Company. For the years ended December 31, 2008, 2007, and 2006, the Company made matching contributions of $369,000, $275,000, and $252,000, respectively, and no discretionary contributions.

Additionally, in November 2006, the Company made a qualified nonelective contribution to the 401(k) plan in the amount of $429,000 as part of concluding its negotiations with the Internal Revenue Service regarding contributions to the 401(k) plan. The amount is included in salaries and employee benefits for the year ended December 31, 2006.

17. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Company is a party to 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, commercial letters of credit, standby letters of credit and performance bonds. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheets.

The Company's exposure to credit loss is represented by the contractual notional amount of these instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Commitments to extend credit are agreements to lend to a customer provided 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. Since certain of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of the collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the borrower.

Commercial letters of credit, standby letters of credit, and performance bonds are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in making loans to customers. The Company generally holds collateral supporting those commitments if deemed necessary.

The following is a summary of the notional amounts of the Company's financial instruments relating to extension of credit with off-balance-sheet risk at December 31, 2008 and 2007:

	December 31, 2008	December 31, 2007
	(Dollars in thousands)	
Loans	$220,094	$281,766
Standby letters of credit	11,282	8,200
Performance bonds	560	161
Commercial letters of credit	21,506	19,563

Liabilities for losses on outstanding commitments of $263,000 and $317,000 were separately reported in other liabilities at December 31, 2008 and 2007.

The Company'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 Company for both on- and off- balance sheet items. The Company 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.

18. DERIVATIVE FINANCIAL INSTRUMENTS

There were no outstanding derivatives as of December 31, 2008 and 2007.

As of December 31, 2008 and 2007, the Company had no interest rate swap agreements as the Company's only remaining interest rate swap matured in August 2006. Under the swap agreement, the Company received a fixed rate and paid a variable rate based on the Wall Street Journal's published Prime Rate.

The credit risk associated with the interest rate swap agreement represents the accounting loss that would be recognized at the reporting date if the counterparty failed completely to perform as contracted and any collateral or security proved to be of no value. To reduce such credit risk, when interest rate swap agreements are in place, the Company regularly evaluates the counterparty's credit rating and financial position.

(Gains) or losses on interest rate swaps, recorded in non-interest expense, consist of the following:

	Year Ended December 31,		
	2008	2007	2006
	(Dollars in thousands)		
Net swap settlement payments (receipts)	$—	$—	$ 255
(Increase) decrease in market value[2]	—	—	(229)
Net change in market value	$—	$—	$ 26

[2] Including (gain) loss on sale of swaps.

19. FAIR VALUE MEASUREMENTS

SFAS No. 157, *Fair Value Measurements*, defines fair value, establishes a framework for measuring fair value, establishes a three-level valuation hierarchy for disclosure of fair value measurement and enhances disclosure requirements for fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 — inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 — inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 — inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy:

Assets

Securities. Where quoted prices are available in an active market, securities are classified within level 1 of the valuation hierarchy. Level 1 inputs include securities that have quoted prices in active markets for identical assets. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flow. Examples of such instruments, which would generally be classified within level 2 of the valuation hierarchy, included certain collateralized mortgage and debt obligations and certain high-yield debt securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within level 3 of the valuation hierarchy. The Company's current portfolio does not have level 3 securities as of December 31, 2008. When measuring fair value, the valuation techniques available under the market approach, income approach and/or cost approach are used. The Company's evaluations are based on market data and the Company employs combinations of these approaches for its valuation methods depending on the asset class.

On September 16, 2008, Moody's debt rating service announced that it has downgraded and left on review for further possible downgrade 36 tranches, and placed an additional 21 tranches on review for possible downgrade, across 14 Trust Preferred ("TRUP") Collateralized Debt Obligations ("CDO") of which the Company has an $11 million par value held in its investment portfolio at December 31, 2008. The downgrades are prompted by the exposure of these TRUP CDOs to trust preferred securities issued by eight banks taken over by their regulators in recent months. This rating action reflects Moody's determination that that there will be no recovery on the trust preferred securities issued by these banks. In addition, Moody's assumes recoveries will be low on some of the other trust preferred securities currently deferring coupon payments in the collateral pools backing these securitizations. While historically many banks that have deferred payment on trust preferred securities have ultimately resumed payment, Moody's expects many banks deferring in the current environment are unlikely to become current again. The Company evaluated its investment security based on the downgrade and the banks that compose its underlying collateral. The Company utilized observable inputs, unobservable data and modeled the cash flows adjusted by appropriate liquidity risk adjusted discount rates in order to measure the fair value of the security. At December 31, 2008, the Company has valued the security at $1.1 million, and has written down the security by $9.9 million. This write-down has been reflected within noninterest expense for the year ended December 31, 2008.

Loans held for sale. Loans held for sale are measured at the lower of cost or fair value. Under SFAS No. 157, market value is intended to represent fair value. As of December 31, 2008, the Company has $9.9 million of loans held for sale. Management obtains quotes or bids on all or part of these loans directly from the purchasing financial institutions. Premiums received or to be received on the quotes or bids are indicative of the fact that cost is lower than fair value. At December 31, 2008, the entire balance of loans held for sale was recorded at its cost.

Impaired loans. A loan is considered impaired when it is probable that all of the principal and interest due under the original underwriting terms of the loan may not be collected. Impaired loans are measured at an observable market price if available or at the fair value of the loan's collateral if the loan is collateral dependent. Fair value of the loan's collateral when the loan is dependent on collateral, is determined by appraisals or independent valuation, which is then adjusted for the cost associated with liquidating the collateral. The Company records impaired loans as nonrecurring with Level 2 inputs.

Assets measured at fair value at December 31, 2008 are as follows:

	Fair Value Measurements at Reporting Date Using			
	12/31/08	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(Dollars in thousands)			
Description				
Assets measured at fair value on a recurring basis				
Available-for-sale securities:				
U.S. Treasury	$ 300	$300	$ —	$—
U.S. Governmental agencies securities and U.S. Government sponsored enterprise securities	24,510	—	24,510	—
U.S. Governmental agencies and U.S. Government sponsored and enterprise mortgage-backed securities	119,138	—	119,138	—
Corporate trust preferred securities	1,111	—	1,111	—
Mutual Funds backed by adjustable rate mortgages	4,495	—	4,495	—
Fixed rate collateralized mortgage obligations	24,280	—	24,280	—
Total available-for-sale securities	$173,834	$300	$173,534	$—
Assets measured at fair value on a non-recurring basis				
Impaired Loans	$ 61,430	$—	$ 61,430	$—

Liabilities

The Company did not identify any liabilities that are required to be presented at fair value.

20. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company, using available market information and appropriate valuation methodologies available to management at December 31, 2008 and 2007, has determined the estimated fair value of financial instruments. However, considerable judgment is required to interpret market data in order to develop estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts. Furthermore, fair values disclosed hereinafter do not reflect any premium or discount that could result from offering the instruments for sale. Potential taxes and other expenses that would be incurred in an actual sale or settlement are not reflected in the disclosed amounts.

The estimated fair values and related carrying amounts of the Company's financial instruments are as follows:

	December 31, 2008		December 31, 2007	
	Carrying or Contract Amount	Estimated Fair Value	Carrying or Contract Amount	Estimated Fair Value
	(Dollars in thousands)			
Assets				
Cash and cash equivalents	$ 98,211	$ 98,211	$ 68,289	$ 68,289
Investment securities available for sale	171,232	173,833	128,778	128,778
Investment securities held to maturity	8,861	8,879	10,932	10,960
Loans receivable, net	1,679,340	1,687,476	1,789,635	1,796,887
Federal Home Loan Bank and other equity stock	15,673	15,673	15,219	15,219
Customers' liability on acceptances	4,503	4,503	3,292	3,292
Accrued interest receivable	7,477	7,477	8,886	8,886
Liabilities				
Deposits	1,603,519	1,599,082	1,577,674	1,532,988
Other borrowed funds	193,021	206,579	299,606	301,939
Acceptances outstanding	4,503	4,503	3,292	3,292
Accrued interest payable	7,268	7,268	13,213	13,213
Long-term subordinated debentures	18,557	13,279	18,557	19,459
Off-balance sheet items				
Commitments to extend credit	$ 220,094	$ 282	$ 281,766	$ 2,113
Standby letter of credit	11,282	169	8,200	123
Commercial letters of credit	21,506	81	19,563	73
Performance bonds	560	8	161	2

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

Cash and Cash Equivalents—The carrying amounts approximate fair value due to the short-term nature of these instruments.

Securities—The fair value of securities is generally determined by the valuation techniques available under the market approach, income approach and/or cost approach are used. The Company's evaluations are based on market data and combinations of these approaches for its valuation methods are used depending on the asset class.

Loans—Fair values are estimated for portfolios of loans with similar financial characteristics, primarily fixed and adjustable rate interest terms. The fair values of fixed rate loans are based on discounted cash flows utilizing applicable risk-adjusted spreads relative to the current pricing of similar fixed rate loans, as well as anticipated repayment schedules. The fair value of adjustable rate loans is based on the estimated discounted cash flows utilizing the discount rates that approximate the pricing of loans collateralized by similar properties or assets. The fair value of nonperforming loans at December 31, 2008 and 2007 was not estimated because it is not practicable to reasonably assess the credit adjustment that would be applied in the marketplace for such loans. The estimated fair value is net of allowance for loan losses, deferred loan fees, and deferred gain on SBA loans.

Federal Home Loan Bank and Other Equity Stock—The carrying amounts approximate fair value, as the stocks may be sold back to the Federal Home Loan Bank and other bank at carrying value.

Accrued Interest Receivable and Accrued Interest Payable—The carrying amounts approximate fair value due to the short-term nature of these assets and liabilities.

Customer's Liability on Acceptances and Acceptances Outstanding—The carrying amounts approximate fair value due to the short-term nature of these assets.

Deposits—The fair value of nonmaturity deposits is the amount payable on demand at the reporting date. Nonmaturity deposits include non-interest-bearing demand deposits, savings accounts, NOW accounts, and money market accounts. Discounted cash flows have been used to value term deposits such as certificates of deposit. The discount rate used is based on interest rates currently being offered by the Company on comparable deposits as to amount and term.

Other Borrowed Funds—These funds mostly consist of FHLB advances. The fair values of FHLB advances are estimated based on the discounted value of contractual cash flows, using rates currently offered by the Federal Home Loan Bank of San Francisco for fixed-rate credit advances with similar remaining maturities at each reporting date.

Long-term Subordinated Debentures—The fair value of long-term subordinated debentures are estimated by discounting the cash flows through maturity based on prevailing rates offered on the 30-year Treasury bond at each reporting date.

Loan Commitments, Letters of Credit, and Performance Bond—The fair value of loan commitments, standby letters of credit, commercial letters of credit and performance bonds is estimated using the fees currently charged to enter into similar agreements.

21. REGULATORY MATTERS

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

The most recent notification from the FDIC in June 2008 categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as "well capitalized", the Bank must maintain specific total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table below. There are no conditions or events since that notification which management believes may have changed the category of the Bank.

On March 1, 2005, the Federal Reserve Board ("FRB") adopted a final rule that allows the continued inclusion of trust preferred securities in the Tier I capital of bank holding companies. However, under the final rule, after a five-year transition period, the aggregate amount of trust preferred securities and certain other capital elements would be limited to 25% of Tier I capital elements, net of goodwill. Trust preferred securities currently make up 7.4% of the Company's Tier I capital.

The actual and required capital amounts and ratios at December 31, 2008 and 2007 are as follows:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
As of December 31, 2008						
Total Capital (to Risk-Weighted Assets)						
Center Financial Corporation	$252,168	13.84%	$145,762	8.00%	$182,202	10.00%
Center Bank	$239,118	13.13%	$145,693	8.00%	$182,116	10.00%
Tier 1 capital (to Risk-Weighted Assets)						
Center Financial Corporation	$229,207	12.58%	$ 72,880	4.00%	$109,320	6.00%
Center Bank	$216,157	11.87%	$ 72,841	4.00%	$109,262	6.00%
Tier 1 capital (to Average Assets)						
Center Financial Corporation	$229,207	11.28%	$ 81,279	4.00%	$101,599	5.00%
Center Bank	$216,157	10.64%	$ 81,262	4.00%	$101,578	5.00%
As of December 31, 2007						
Total Capital (to Risk-Weighted Assets)						
Center Financial Corporation	$194,528	10.42%	$149,296	8.00%	$186,620	10.00%
Center Bank	$190,223	10.19%	$149,280	8.00%	$186,600	10.00%
Tier 1 capital (to Risk-Weighted Assets)						
Center Financial Corporation	$173,734	9.31%	$ 74,648	4.00%	$111,972	6.00%
Center Bank	$169,429	9.08%	$ 74,640	4.00%	$111,960	6.00%
Tier 1 capital (to Average Assets)						
Center Financial Corporation	$173,734	8.49%	$ 81,848	4.00%	$102,310	5.00%
Center Bank	$169,429	8.28%	$ 81,819	4.00%	$102,274	5.00%

22. BUSINESS SEGMENT INFORMATION

The Company manages its activities as a single operating segment, and accordingly, the Company's operations consist of a single reportable business segment.

23. *QUARTERLY FINANCIAL DATA (UNAUDITED)*

Summarized quarterly financial data follows:

	Three Months Ended			
	March 31	June 30	September 30	December 31
	(Dollars in thousands, except per share data)			
2008				
Interest Income	$35,679	$33,298	$32,619	$29,611
Interest Expense	17,080	14,603	13,150	11,774
Net interest income before provision for loan losses	18,599	18,695	19,469	17,837
Provision for loan losses	2,162	2,047	2,121	19,848
Net income (loss)	4,220	5,279	(3,159)	(6,120)
Preferred stock dividend and accretion of preferred stock discount	—	—	—	(155)
Net income (loss) available to common shareholders	4,220	5,279	(3,159)	(6,275)
Earnings (loss) per common share:				
Basic	0.26	0.32	(0.19)	(0.37)
Diluted	0.26	0.32	(0.19)	(0.37)
2007				
Interest Income	$33,981	$35,429	$36,735	$37,096
Interest Expense	15,383	16,230	17,403	17,970
Net interest income before provision for loan losses	18,598	19,199	19,332	19,126
Provision for loan losses	1,270	1,100	2,000	2,125
Net income	5,857	6,482	5,698	3,906
Earnings per share:				
Basic	0.35	0.39	0.34	0.23
Diluted	0.35	0.39	0.34	0.23
2006				
Interest Income	$28,520	$29,717	$32,121	$34,371
Interest Expense	11,862	12,456	13,725	15,276
Net interest income before provision for loan losses	16,658	17,261	18,396	19,095
Provision for loan losses	257	1,518	2,494	1,397
Net income	5,769	7,679	6,360	6,350
Earnings per share:				
Basic	0.35	0.47	0.38	0.38
Diluted	0.35	0.46	0.38	0.38

24. PARENT ONLY CONDENSED FINANCIAL STATEMENTS

The information below is presented as of December 31, 2008 and 2007 and for the years ended December 31, 2008, 2007 and 2006.

CONDENSED STATEMENTS OF FINANCIAL CONDITION

	December 31,	
	2008	2007
	(Dollars in thousands)	
Assets:		
Cash	$ 13,931	$ 4,786
Investment in subsidiaries	220,596	171,675
Other assets	93	287
Total assets	$234,620	$176,748
Liabilities:		
Long-term subordinated debentures	$ 18,557	$ 18,557
Other liabilities	1,496	738
Total liabilities	20,053	19,295
Shareholders' equity:		
Preferred stock, par value of $1,000 per share; authorized 10,000,000 shares; issued and outstanding, 55,000 shares and none as of December 31, 2008 and 2007, respectively	52,959	—
Common stock, no par value; authorized 40,000,000 shares; issued and outstanding, 16,789,080 shares and 16,366,791 shares (including 10,400 shares and 8,850 shares of unvested restricted stock) as of December 31, 2008 and December 31, 2007, respectively	74,254	67,006
Retained earnings	85,846	90,541
Accumulated other comprehensive income (loss), net of tax	1,508	(94)
Total shareholders' equity	214,567	157,453
Total liabilities and shareholders' equity	$234,620	$176,748

CONDENSED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2008	2007	2006
	(Dollars in thousands)		
Cash dividend from Center Bank	$ —	$11,171	$ 4,435
Equity in undistributed earnings of Center Bank	4,242	14,337	24,816
Other operating expenses, net	(4,022)	(3,565)	(3,093)
Net income	$ 220	$21,943	$26,158

CONDENSED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2008	2007	2006
	(Dollars in thousands)		
Cash flows from operating activities:			
Net income	$ 220	$ 21,943	$ 26,158
Adjustment to reconcile net income to net cash provided by operating activities			
Equity in undistributed income of the Bank	(4,242)	(14,337)	(24,816)
Stock option compensation	1,175	1,216	722
(Increase) decrease in other assets	(331)	(143)	82
Increase in liabilities	616	32	56
Net cash provided by operating activities	(2,562)	8,711	2,202
Cash flows used in investing activities:			
Payment for investments in and advances to subsidiary	(40,000)	—	—
Net cash used in investing activities	(40,000)	—	—
Cash flows provided by (used in) financing activities:			
Proceeds from issuance of preferred stock	55,000	—	—
Proceeds from stock options exercised	22	1,226	2,305
Payment to repurchase common stock	—	(4,608)	—
Tax benefit in excess of recognized cumulative compensation costs	—	—	523
Payment of cash dividend	(3,315)	(3,004)	(2,638)
Net cash provided by (used in) financing activities	51,707	(6,386)	190
Net increase in cash	9,145	2,325	2,392
Cash, beginning of the year	4,786	2,461	69
Cash, end of the year	$ 13,931	$ 4,786	$ 2,461

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports it files or submits under the Securities Exchange Act of 1934, as amended (the "Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files under the Exchange Act is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

As required by Rule 13a-15(b) of the Exchange Act, our management, including the Chief Executive Officer and Chief Financial Officer, conducted an evaluation as of December 31, 2008, of the effectiveness of our "disclosure controls and procedures" as defined in Exchange Act Rule 13a-15(e). Based on that evaluation and because of the material weakness described below, our Chief Executive Officer and Chief Financial Officer, concluded that, as of December 31, 2008, our controls and procedures were not effective to ensure that information required to be disclosed in reports that we file or submit under the Exchange Act are recorded, processed, summarized and reported in accordance with the rules and forms of the SEC and that such information is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure. Notwithstanding this material weakness, our management has concluded that the financial statements included in this Form 10-K fairly present in all material respects the Company's consolidated financial position, results of operations and cash flows for the periods presented in conformity with generally accepted accounting principles.

Management's Annual Report on Internal Control over Financial Reporting

Management is responsible for the preparation, integrity and reliability of the consolidated financial statements and related financial information contained in this annual report. The financial statements were prepared in accordance with generally accepted accounting principles and prevailing practices of the banking industry. Where amounts must be based on estimates and judgments, they represent the best estimates and judgments of management.

Management has established and is responsible for maintaining an adequate internal control structure designed to provide reasonable, but not absolute, assurance as to the integrity and reliability of the financial statements, safeguarding of assets against loss from unauthorized use or disposition and the prevention and detection of fraudulent financial reporting. The internal control structure includes: a financial accounting environment; a comprehensive internal audit function; an independent audit committee of the board of directors; and extensive financial and operating policies and procedures. Management also recognizes its responsibility for fostering a strong ethical climate which is supported by a code of conduct, appropriate levels of management authority and responsibility, an effective corporate organizational structure and appropriate selection and training of personnel.

The board of directors, primarily through its audit committee, oversees the adequacy of the Company's internal control structure. The audit committee, whose members are neither officers nor employees of the Company, meets periodically with management, internal auditors and internal credit examiners to review the functioning of each and to ensure that each is properly discharging its responsibilities. In addition, Grant Thornton LLP, an independent registered public accounting firm, was engaged to audit the Company's consolidated financial statements and express an opinion as to the fairness of presentation of such financial statements. Grant Thornton LLP has issued an audit report on the effectiveness of management's internal control over financial reporting based on criteria established in "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

Management recognizes that there are inherent limitations in the effectiveness of any internal control structure. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2008 based upon the criteria for effective internal control over financial reporting described in "Internal Control—Integrated Framework" issued by COSO. Based upon this assessment, management believes that, as of December 31, 2008, there was a control deficiency that constituted a material weakness.

A material weakness is a control deficiency or a combination of control deficiencies that result in more than a remote likelihood that a material misstatement of the annual or interim consolidated financial statements will not be prevented or detected. As of December 31, 2008, we did not maintain effective controls over the preparation and review of our allowance for loan losses. Specifically, we did not maintain effective internal controls over the review process on historical risk factors to reflect directional consistency in current loan loss provision. This control deficiency resulted in an increase in the Company's allowance for loan losses and loan loss provision as of and for the year ended December 31, 2008. Accordingly, management determined that this control deficiency constitutes a material weakness in internal control over financial reporting as of December 31, 2008.

Remediation of Material Weakness

The Company is in the process of actively remediating this material weakness. The Company's plans include the following:

- Establishing an interdepartmental committee, which will be a subgroup of the Enterprise Risk Management Committee, amongst credit administration, enterprise risk management and finance department to review the overall loan loss provision process by assessing the historical risk factors, the recent trends, and economic forecasts, as appropriate. This enhanced collaborative process will help identify trends that should be recognized in the overall loan loss provision process while permitting the use of professional judgment necessary to interpret the complex data. The jointly compiled loan loss provision will be reported to and endorsed by the executive management including CEO and the Board of Directors.
- Performing more frequent loan loss provision analysis than current quarterly analysis until otherwise decided in the future. Complete analysis as of the month-end prior to the quarter-end will be performed and reviewed by the aforementioned committee.

Management believes the additional control procedures, when implemented and validated, will remediate this material weakness. However, the effectiveness of any system of internal controls is subject to inherent limitations and there can be no assurance that the Company's internal control over financial reporting will prevent or detect all errors. The Company intends to continue to evaluate and strengthen its internal control over financial reporting system.

Changes in Internal Controls

There were no significant changes in the Company's internal controls or in other factors that could significantly affect the Company's internal controls over financial reporting during the quarter ended December 31, 2008.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Center Financial Corporation

We have audited Center Financial Corporation's (a California Corporation) internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control—Integrated Frame*work issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Center Financial Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on Center Financial Corporation's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or combination of control deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management's assessment. Center Financial Corporation did not maintain effective internal control over financial reporting for accounting for the allowance for loan losses.

In our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, Center Financial Corporation has not maintained effective internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control—Integrated Framework* issued by COSO.

We do not express an opinion or any other form of assurance on management's plan on remediation of the material weakness.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial condition of Center Financial Corporation as of

December 31, 2008 and 2007 and the related consolidated statements of operations, shareholders' equity and comprehensive income, and cash flows for each of the three years in the period ended December 31, 2008. The material weakness identified above was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2008 financial statements, and this report does not affect our report dated March 30, 2009, which expressed an unqualified opinion on those financial statements.

/s/ GRANT THORNTON LLP

Los Angeles, California
March 30, 2009

ITEM 9B. OTHER INFORMATION

None

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

The information required to be furnished pursuant to this item with respect to Directors and Executive Officers of the Company will be set forth under the caption "Election of Directors" in the Company's proxy statement for the 2009 Annual Meeting of Shareholders (the "Proxy Statement"), which the Company will file with the SEC within 120 days after the close of the Company's 2008 fiscal year in accordance with SEC Regulation 14A under the Securities Exchange Act of 1934. Such information is hereby incorporated by reference.

The information required to be furnished pursuant to this item with respect to compliance with Section 16(a) of the Exchange Act will be set forth under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" in the Proxy Statement, and is incorporated herein by reference.

The information required to be furnished pursuant to this item with respect to the Company's Code of Ethics and corporate governance matters will be set forth under the caption "Corporate Governance" in the Proxy Statement, and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required to be furnished pursuant to this item will be set forth under the caption "Executive Officer and Director Compensation" and "Compensation Discussion and Analysis" in the Proxy Statement, and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Securities Authorized for Issuance Under Equity Compensation Plans

The information required by Item 12 with respect to securities authorized for issuance under equity compensation plans is set forth under "Item 5—Market for Registrant's Common Equity and Issuer Repurchases of Equity Securities" above.

Other Information Concerning Security Ownership of Certain Beneficial Owners and Management

The remainder of the information required by Item 12 will be set forth under the captions "Security Ownership of Certain Beneficial Owners and management" and "Election of Directors" in the Proxy Statement, and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required to be furnished pursuant to this item will be set forth under the caption "Related Party Transactions" and "Corporate Governance-Director Independence" in the Proxy Statement, and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

The information required to be furnished pursuant to this item will be set forth under the caption "Ratification of Appointment of Independent Registered Public Accounting Firm—Fees" in the Proxy Statement, and is incorporated herein by reference

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENTS SCHEDULES

(a) Exhibits

Exhibit No.	Description
3.1	Restated Articles of Incorporation of Center Financial Corporation[1]
3.2	Amended and Restated Bylaws of Center Financial Corporation[2]
10.1	Employment Agreement between Center Financial Corporation and Jae Whan Yoo effective January 16, 2007[3]
10.2	2006 Stock Incentive Plan, as Amended and Restated June 13, 2007[4]
10.3	Lease for Corporate Headquarters Office[5]
10.4	Indenture dated as of December 30, 2003 between Wells Fargo Bank, National Association, as Trustee, and Center Financial Corporation, as Issuer[6]
10.5	Amended and Restated Declaration of Trust of Center Capital Trust I, dated as of December 30, 2003[6]
10.6	Guarantee Agreement between Center Financial and Wells Fargo Bank, National Association dated as of December 30, 2003[6]
10.7	Deferred compensation plan and list of participants[7]
10.8	Split dollar plan and list of participants[7]
10.9	Survivor income plan and list of participants[7]
11	Statement of Computation of Per Share Earnings (included in Note 15 to Consolidated Financial Statements included herein.)
21	Subsidiaries of Registrant[8]
23.1	Consent of Grant Thornton LLP
31.1	Certification of Chief Executive Officer (Section 302 Certification)
31.2	Certification of Chief Financial Officer (Section 302 Certification)
32	Certification of Periodic Financial Report (Section 906 Certification)

1 Filed as an Exhibit of the same number to the Form 10-Q for the quarterly period ended June 30, 2008 and incorporated herein by reference

2 Filed as an Exhibit of the same number to the Form 8-K filed with the Commission on May 12, 2006 and incorporated herein by reference

3 Filed as an Exhibit of the same number to the Form 8-K filed with the Commission on February 1, 2007 and incorporated herein by reference

4 Filed as an Exhibit of the same number to the Form 10-Q for the quarterly period ended June 30, 2007 and incorporated herein by reference

5 Filed as an Exhibit of the same number to the Company's Registration Statement on Form S-4 filed with the Securities and Exchange Commission (the "Commission") on June 14, 2002 and incorporated herein by reference

6 Filed as an Exhibit of the same number to the Form 10-K for the fiscal year ended December 31, 2003 and incorporated herein by reference

[7] Filed as an Exhibit of the same number to the Form 10-Q for the quarterly period ended March 31, 2006 and incorporated herein by reference

[8] Filed as an Exhibit of the same number to the Form 10-K for the fiscal year ended December 31, 2007 and incorporated herein by reference

(b) Financial Statement Schedules

Schedules to the financial statements are omitted because the required information is not applicable or because the required information is presented in the Company's Consolidated Financial Statements or related notes.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized:

Date: March 30, 2009

/S/ JAE WHAN YOO

Jae Whan Yoo
President & Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacity and the dates indicated.

Signature	Title	Date
/S/ JAE WHAN YOO **Jae Whan Yoo**	Director, Chief Executive Officer & President (Principal Executive Officer)	March 30, 2009
/S/ PETER Y. S. KIM **Peter Y. S. Kim**	Chairman of the Board	March 30, 2009
/S/ DAVID Z. HONG **David Z. Hong**	Director	March 30, 2009
/S/ CHANG HWI KIM **Chang Hwi Kim**	Director	March 30, 2009
/S/ SANG HOON KIM **Sang Hoon Kim**	Director	March 30, 2009
/S/ CHUNG HYUN LEE **Chung Hyun Lee**	Director	March 30, 2009
/S/ JIN CHUL JHUNG **Jin Chul Jhung**	Director	March 30, 2009
/S/ KEVIN SUNG KIM **Kevin Sung Kim**	Director	March 30, 2009
/S/ LONNY D. ROBINSON **Lonny D. Robinson**	Executive Vice President & Chief Financial Officer (Principal Financial Officer)	March 30, 2009

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our reports dated March 30, 2009, with respect to the consolidated financial statements and internal control over financial reporting included in the Annual Report of Center Financial Corporation on Form 10-K for the year ended December 31, 2008. We hereby consent to the incorporation by reference of said reports in the Registration Statements of Center Financial Corporation on Form S-8 (File No. 333-135594, effective July 5, 2006).

As discussed in Note 2 to the consolidated financial statements, Center Financial Corporation adopted EITF Issue No. 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements," in 2008.

/s/ GRANT THORNTON LLP

Los Angeles, California
March 30, 2009

EXHIBIT 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, Jae Whan Yoo, certify that:

1. I have reviewed this annual report on Form 10-K of Center Financial Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 30, 2009

By *_/s/ Jae Whan Yoo_*

Jae Whan Yoo
President & Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Lonny D. Robinson, certify that:

1. I have reviewed this annual report on Form 10-K of Center Financial Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 30, 2009

By */s/ Lonny D. Robinson*

Lonny D. Robinson
Executive Vice President & Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 32

Certification of Chief Executive Officer and Principal Financial Officer

Certification of Periodic Financial Report

Jae Whan Yoo and Lonny D. Robinson hereby certify as follows:

1. They are the Chief Executive Officer and Chief Financial Officer, respectively, of Center Financial Corporation.

2. The Form 10-K of Center Financial Corporation for the Year Ended December 31, 2008 fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)) and the information contained in the report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Center Financial Corporation.

Dated: March 30, 2009

/s/ Jae Whan Yoo

Jae Whan Yoo
President & Chief Executive Officer
(Principal Executive Officer)

Dated: March 30, 2009

/s/ Lonny D. Robinson

Lonny D. Robinson
Executive Vice President & Chief Financial Officer
(Principal Financial Officer)

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