NARA BANCORP INC
Form 10-Q
August 03, 2006
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x **Quarterly report pursuant to section 13 or 15 (d) of the Securities Exchange Act of 1934**
For the quarterly period ended June 30, 2006 or

¨ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from __________ to __________

Commission File Number: 000-50245

NARA BANCORP, INC.

(Exact name of registrant as specified in its charter)

Delaware	**95-4849715**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification Number)**
3701 Wilshire Boulevard, Suite 220, Los Angeles, California	**90010**
(Address of Principal executive offices)	**(ZIP Code)**

(213) 639-1700

(Registrant s telephone number, including area code)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

¨ Large accelerated filer x Accelerated filer ¨ Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of July 30, 2006, there were 25,892,672 outstanding shares of the issuer s Common Stock, $0.001 par value.

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Forward-Looking Information

Certain matters discussed in this report may constitute forward-looking statements under Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. There can be no assurance that the results described or implied in such forward-looking statements will, in fact, be achieved and actual results, performance, and achievements could differ materially because our business involves inherent risks and uncertainties. Risks and uncertainties include possible future deteriorating economic conditions in our areas of operation; interest rate risk associated with volatile interest rates and related asset-liability matching risk; liquidity risks; risk of significant non-earning assets, and net credit losses that could occur, particularly in times of weak economic conditions or times of rising interest rates; risks of available for sale securities declining significantly in value as interest rates rise; and regulatory risks associated with the variety of current and future regulations as well as regulatory enforcement actions to which we are subject. For additional information concerning these factors, see Item 1A. Risk Factors contained in our Annual Report on Form 10-K for the year ended December 31, 2005.

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PART I

FINANCIAL INFORMATION

Item 1. Financial Statements
NARA BANCORP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	(Unaudited) June 30, 2006	December 31, 2005
	(Dollas in thousands, except share data)	
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	$ 37,001	$ 32,924
Federal funds sold	96,200	33,100
Total cash and cash equivalents	133,201	66,024
Term federal funds sold		7,000
Securities available for sale, at fair value	184,750	174,709
Securities held to maturity, at amortized cost (fair value: June 30, 2006 - $1,008; December 31, 2005- $1,023)	1,000	1,001
Loans held for sale, at the lower of cost or market	13,037	17,083
Loans receivable, net of allowance for loan losses (June 30, 2006 - $18,168; December 31, 2005 - $17,618)	1,566,745	1,428,122
Federal Reserve Bank stock, at cost	2,253	1,803
Federal Home Loan Bank (FHLB) stock, at cost	7,309	6,463
Premises and equipment, net	9,082	8,148
Accrued interest receivable	7,786	7,620
Deferred tax assets, net	17,415	15,894
Customers liabilities on acceptances	9,583	6,982
Cash surrender value of life insurance	14,885	14,640
Goodwill	2,347	2,347
Other intangible assets, net	3,244	3,589
Other assets	14,843	14,397
Total assets	$ 1,987,480	$ 1,775,822

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NARA BANCORP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	(Unaudited) June 30, 2006	December 31, 2005
	(Dollas in thousands, except share data)	
LIABILITIES AND STOCKHOLDERS EQUITY		
LIABILITIES:		
Deposits:		
Noninterest-bearing	$ 405,271	$ 371,943
Interest-bearing:		
Money market and other	228,435	185,550
Savings deposits	139,854	120,948
Time deposits of $100,000 or more	740,431	714,636
Other time deposits	205,585	133,409
Total deposits	1,719,576	1,526,486
Borrowing from Federal Home Loan Bank	31,000	31,000
Accrued interest payable	9,414	8,755
Acceptances outstanding	9,583	6,982
Subordinated debentures	39,268	39,268
Other liabilities	16,130	16,577
Total liabilities	1,824,971	1,629,068
STOCKHOLDERS EQUITY:		
Preferred stock, $0.001 par value; authorized, 10,000,000 shares; none issued and outstanding		
Common stock, $0.001 par value; authorized, 40,000,000 shares; issued and outstanding, 25,751,704 and 25,444,442 shares at June 30, 2006 and December 31, 2005, respectively	26	25
Capital surplus	73,239	69,451
Retained earnings	95,387	81,016
Accumulated other comprehensive loss, net	(6,143)	(3,738)
Total stockholders equity	162,509	146,754
Total liabilities and stockholders equity	$ 1,987,480	$ 1,775,822

See accompanying notes to condensed consolidated financial statements (unaudited)

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME

For the three and six months ended June 30, 2006 and 2005

(Unaudited)

	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
	(In thousands, except per share data)		(In thousands, except per share data)	
INTEREST INCOME:				
Interest and fees on loans	$ 34,601	$ 25,762	$ 67,001	$ 48,217
Interest on securities	2,060	1,389	3,944	2,789
Interest on federal funds sold and other investments	1,461	345	2,253	584
Total interest income	38,122	27,496	73,198	51,590
INTEREST EXPENSE:				
Interest on deposits	13,924	7,074	25,513	12,533
Interest on subordinated debentures	831	697	1,616	1,353
Interest on other borrowings	340	729	677	1,376
Total interest expense	15,095	8,500	27,806	15,262
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	23,027	18,996	45,392	36,328
PROVISION FOR LOAN LOSSES	142	1,950	1,222	3,600
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	22,885	17,046	44,170	32,728
NON-INTEREST INCOME:				
Service fees on deposit accounts	1,520	1,582	3,057	3,160
International service fees	687	852	1,301	1,527
Loan servicing fees, net	475	383	941	782
Wire transfer fees	359	368	707	709
Other income and fees	676	622	1,267	1,044
Net gains on sales of SBA loans	1,096	1,094	2,813	1,843
Net gains on sales of securities available-for sale		128		143
Total non-interest income	4,813	5,029	10,086	9,208
NON-INTEREST EXPENSE:				
Salaries and employee benefits	7,083	6,152	13,894	11,415
Occupancy	1,918	1,692	3,734	3,288
Furniture and equipment	548	497	1,068	1,007
Advertising and marketing	725	464	1,276	854
Data processing and communications	1,018	860	1,971	1,656
Professional fees	782	1,186	1,460	1,942
Other	2,004	1,602	3,884	2,991
Total non-interest expense	14,078	12,453	27,287	23,153
INCOME BEFORE INCOME TAXES	13,620	9,622	26,969	18,783

INCOME TAXES		5,719		4,009		11,189		7,765
NET INCOME	$	7,901	$	5,613	$	15,780	$	11,018
EARNINGS PER SHARE								
Basic	$	0.31	$	0.24	$	0.62	$	0.47
Diluted		0.30		0.23		0.60		0.45

See accompanying notes to condensed consolidated financial statements (unaudited)

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CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

SIX MONTHS ENDED JUNE 30, 2006 AND 2005

(Unaudited)

	Number of Shares Outstanding	Common Stock	Capital Surplus	Deferred Compensation	Retained Earnings	Accumulated Other Comprehensive Income (Loss) , net	Comprehensive Income
				(Dollars in thousands)			
BALANCE, JANUARY 1, 2005	23,333,338	$ 23	$ 44,903	$ (3)	$ 56,848	$ (517)	
Stock options exercised	362,592		952				
Tax benefit from stock options exercised			1,618				
Amortization of restricted stock				1			
Forfeiture of restricted stock	(1,334)		(8)	2			
Cash dividends declared ($0.055 per share)					(1,293)		
Comprehensive income:							
Net income					11,018		$ 11,018
Other comprehensive income (loss):							
Change in unrealized gain (loss) on securities available for sale, net of tax						(290)	(290)
Change in unrealized gain (loss) on interest- only strip, net of tax						(10)	(10)
Change in unrealized gain (loss) on interest rate swaps, net of tax						(277)	(277)
Total comprehensive income							$ 10,441
BALANCE, June 30, 2005	23,694,596	$ 23	$ 47,465	$	$ 66,573	$ (1,094)	
BALANCE, JANUARY 1, 2006	25,444,442	$ 25	$ 69,451	$	$ 81,016	$ (3,738)	
Stock options exercised	307,262	1	2,355				
Tax benefit from stock options exercised			786				
Stock-based compensation			647				
Cash dividends declared ($0.055 per share)					(1,409)		
Comprehensive income:							
Net income					15,780		$ 15,780
Other comprehensive income (loss):							
Change in unrealized gain (loss) on securities available for sale, net of tax						(1,561)	(1,561)
Change in unrealized gain (loss) on interest-only strip, net of tax						(13)	(13)
Change in unrealized gain (loss) on interest rate swaps, net of tax						(831)	(831)
Total comprehensive income							$ 13,375
BALANCE, June 30, 2006	25,751,704	$ 26	$ 73,239	$	$ 95,387	$ (6,143)	

See accompanying notes to condensed consolidated financial statements (unaudited)

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

SIX MONTHS ENDED JUNE 30, 2006 AND 2005

(Unaudited)

	Six Months Ended June 30, 2006	2005
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 15,780	$ 11,018
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation, amortization, and accretion	2,190	1,603
Stock-based compensation expense	647	
Provision for loan losses	1,222	3,600
Proceeds from sales of loans	44,460	34,550
Originations of loans held for sale	(37,601)	(39,608)
Net gains on sales of loans	(2,813)	(1,843)
Net gains on sales of securities available for sale		(143)
Net change in cash surrender value of life insurance	(245)	(206)
Net losses on sales of premises and equipment		6
Change in accrued interest receivable	(166)	(1,040)
FHLB stock dividends	(156)	(99)
Change in other assets	(1,293)	(1,569)
Change in accrued interest payable	659	1,107
Change in other liabilities	(1,840)	145
Net cash from operating activities	20,844	7,521
CASH FLOWS FROM INVESTING ACTIVITIES		
Net change in loans receivable	(139,845)	(167,003)
Purchase of premises and equipment	(1,921)	(791)
Purchase of securities available for sale	(20,216)	(25,522)
Purchase of FHLB stock	(690)	(1,425)
Purchase of FRB stock	(450)	
Proceeds from disposition of premises and equipment	5	
Proceeds from sales of securities available for sale		13,901
Proceeds from matured or called securities available for sale	7,620	
Proceeds from matured term federal funds sold	7,000	13,344
Net cash used in investing activities	(148,497)	(167,496)

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

SIX MONTHS ENDED JUNE 30, 2006 AND 2005

(Unaudited)

	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
	(In thousands)	
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	$ 193,090	$ 240,548
Payment of cash dividends	(1,401)	(1,284)
Repayment of FHLB borrowings		(106,500)
Proceeds from FHLB borrowings		59,500
Tax benefit from stock options exercised	786	1,618
Proceeds from stock options exercised	2,356	953
Net cash from financing activities	194,831	194,835
NET CHANGE IN CASH AND CASH EQUIVALENTS	67,178	34,860
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	66,024	87,212
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 133,202	$ 122,072
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid	$ 27,147	$ 14,155
Income taxes paid	$ 11,489	$ 4,920
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTMENT ACTIVITIES		
Transfer from fixed assets to other assets	$ 81	$

See accompanying notes to condensed consolidated financial statements (unaudited)

Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Nara Bancorp, Inc.

Nara Bancorp, Inc. (Nara Bancorp , on a parent-only basis, and Company, we or our on a consolidated basis), incorporated under the laws of the State of Delaware in 2000, is a bank holding company, headquartered in Los Angeles, California, offering a full range of commercial banking and consumer financial services through its wholly owned subsidiary, Nara Bank (Nara Bank or the Bank), which was organized in 1989 as a national bank and converted to a California state-chartered bank on January 3, 2005, with branches in California and New York as well as Loan Production Offices in California, Washington, Colorado, Georgia, Illinois, New Jersey, Virginia and Texas.

2. Basis of Presentation

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

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

We believe that we have made all adjustments necessary to fairly present our financial position at June 30, 2006 and the results of our operations for the three and six months then ended. Certain reclassifications have been made to prior period amounts to conform to the current year presentation. The results of operations for the interim periods are not necessarily indicative of results for the full year.

These unaudited condensed consolidated financial statements should be read along with the audited consolidated financial statements and accompanying notes included in our 2005 Annual Report on Form 10-K.

3. Stock-Based Compensation

Effective January 1, 2006, we adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 123 (R), *Share-Based Payment* (SFAS 123 (R)). SFAS 123 (R) establishes accounting for stock-based awards exchanged for employee services. Stock-based compensation cost is measured at grant date, based on the fair value of the award, and is recognized as expense over the employee requisite service period. We previously applied Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees* and related Interpretations and provided the required pro forma disclosures of SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS 123). We elected to adopt the modified prospective application method as provided by SFAS 123(R), and, accordingly, financial statement amounts for the prior periods presented in this Form 10-Q were not restated.

We adopted a stock option plan in 1989 that was replaced by the Year 2000 Long Term Incentive Plan, under which options may be granted to key employees and directors of the Company. Options are generally granted with an exercise price equal to the market price at the date of grant with vesting periods from three to five years and have 10-year contractual terms. The Company authorized a total of 2,800,000 shares under the Year 2000 Long Term Incentive Plan as of June 30, 2006. The Company has issued 2,478,000 shares, net of forfeitures, under this plan as of June 30, 2006. As of June 30, 2006, 322,000 shares are available for future grants.

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The fair value of each option is estimated on the date of grant using a Black-Scholes valuation model that uses the assumptions noted in the following table. Since this model incorporates ranges of assumptions for inputs, those ranges are disclosed. Expected volatility is based on the historical volatility of our stock. We use historical data to estimate the option exercise and employee terminations within the valuation model. The expected term of options granted is derived from the output of the option valuation model and represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

	Six Months Ending June 30,	
	2006	2005
Risk-free interest rate	4.9%	4.4%
Expected option life (years)	6.5	3.5
Expected stock price volatility	40.2%	35.4%
Dividend yield	0.6%	0.6%
Weighted average fair value of options granted during the period	$ 8.03	$ 6.28

A summary of share option activity under the plan for the six months ended June 30, 2006 is as follows:

	Number of Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding - January 1, 2006	1,954,480	$ 9.74		
Granted	200,000	17.50		
Exercised	(307,262)	7.67		
Forfeited/canceled	(88,000)	20.40		
Outstanding - June 30, 2006	1,759,218	$ 10.45	5.83	$ 14,735,000
Options exercisable - June 30, 2006	983,285	$ 8.38	4.11	$ 10,326,000

The aggregate intrinsic value of options exercised for the six months ended June 30, 2006 and 2005 was $3,195,000 and $4,602,000, respectively. Total fair value of shares vested for the same periods was $1,190,000 and $782,000.

The amount charged against income, before income tax benefit of $151,000 and $269,000, in relation to the stock-based payment arrangement was $359,000 and $647,000 for the three and six months ending June 30, 2006. At June 30, 2006, unrecognized compensation expense related to non-vested stock option grants aggregated to $2,603,000 and is expected to be recognized as follows:

		Stock Option Compensation Expense (in thousands)
Remainder of 2006		$ 566
For the year ended December 31,:		
	2007	925
	2008	708
	2009	298
	2010	106
Total		$ 2,603

There were no modifications of awards during the periods ended June 30, 2006 and 2005.

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4. Dividends

Nara Bancorp and Nara Bank are parties to a Memorandum of Understanding with the Federal Reserve Bank and the California Department of Financial Institutions. Nara Bank may not declare or pay any cash dividends to Nara Bancorp without the prior written approval of the Federal Reserve Bank and the California Department of Financial Institutions. Also, under a Board resolution, Nara Bancorp may not declare or pay any cash dividends to its stockholders without the prior written approval of the Federal Reserve Bank. No assurance can be given that the regulators would approve a request to pay cash dividends.

On June 20, 2006, we declared a $0.0275 per share cash dividend which was paid on July 14, 2006 to stockholders of record at the close of business on June 30, 2006. In accordance with the terms of the MOU, we submitted to, and received approval from, the Federal Reserve Bank to pay the cash dividend in addition to dividend payments on the Trust Preferred Securities related to the Subordinated Debentures.

5. Earnings Per Share (EPS)

Basic EPS excludes dilution and is computed by dividing net income by the weighted average number of common shares outstanding for the period. Allocated ESOP shares are considered outstanding for this calculation. Diluted EPS reflects the potential dilution that could occur if stock options or other contracts to issue common stock were exercised or converted to common stock that would then share in our earnings. For the six months ended June 30, 2006, stock options for 240,000 shares of common stock were not considered in computing diluted earnings per common share because they were antidilutive.

The following table shows how we computed basic and diluted EPS for the six months ended June 30, 2006 and 2005.

	For the three months ended June 30,					
	2006			2005		
	Net Income (Numerator)	Shares (Denominator)	Per Share (Amount)	Net Income (Numerator)	Shares (Denominator)	Per Share (Amount)
	(Dollars in thousands, except share and per share data)					
Basic EPS	$ 7,901	25,612,359	$ 0.31	$ 5,613	23,653,365	$ 0.24
Effect of Dilutive Securities:						
Stock Options		608,684			884,816	
Diluted EPS	$ 7,901	26,221,043	$ 0.30	$ 5,613	24,538,181	$ 0.23

	For the six months ended June 30,					
	2006			2005		
	Net Income (Numerator)	Shares (Denominator)	Per Share (Amount)	Net Income (Numerator)	Shares (Denominator)	Per Share (Amount)
	(Dollars in thousands, except share and per share data)					
Basic EPS	$ 15,780	25,542,636	$ 0.62	$ 11,018	23,504,411	$ 0.47
Effect of Dilutive Securities:						
Stock Options		625,914			1,130,438	
Diluted EPS	$ 15,780	26,168,550	$ 0.60	$ 11,018	24,634,849	$ 0.45

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6. Recent Accounting Pronouncements

SFAS No. 156 - In March 2006, the Financial Accounting Standards Board issued Statement No. 156, *Accounting for Servicing of Financial Assets-an amendment of FASB Statement No. 140.* This Statement provides the following: 1) revised guidance on when a servicing asset and servicing liability should be recognized; 2) requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable; 3) permits an entity to elect to measure servicing assets and servicing liabilities at fair value each reporting date and report changes in fair value in earnings in the period in which the changes occur; 4) upon initial adoption, permits a onetime reclassification of available-for-sale securities to trading securities for securities which are identified as offsetting the entity s exposure to changes in the fair value of servicing assets or liabilities that a servicer elects to subsequently measure at fair value; and 5) requires separate presentation of servicing assets and servicing liabilities subsequently measured at fair value in the statement of financial position and additional footnote SFAS No. 156 is effective as of the beginning of an entity s first fiscal year that begins after September 15, 2006 with the effects of initial adoption being reported as a cumulative-effect adjustment to retained earnings. Management does not expect the adoption of this statement will have a material impact on its consolidated financial position or results of operations.

In June 2006, the FASB issued Interpretation No.48, Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 106 (FIN 48), which clarifies the accounting for uncertainty in income taxes recognized in a company s financial statements in accordance with SFAS 109, Accounting for Income Taxes. FIN 48 prescribes a recognition and measurement threshold for a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company has not completed its evaluation of the impact of the adoption of FIN 48.

7. Loans Receivable and Allowance For Loan Losses

The following is a summary of loans receivable by major category:

	June 30, 2006	December 31, 2005
	(Dollars in thousands)	
Commercial loans	$ 499,450	$ 483,231
Real estate loans	1,033,277	900,699
Consumer and other loans	55,022	64,633
	1,587,749	1,448,563
Unamortized deferred loan fees, net of cost	(2,836)	(2,823)
Allowance for loan losses	(18,168)	(17,618)
Loans receivable, net	$ 1,566,745	$ 1,428,122

Activity in the allowance for loan losses is as follows for the periods indicated:

	Six months ended June 30,	
	2006	2005
Balance, beginning of period	$ 17,618	$ 14,627
Provision for loan losses	1,222	3,600
Loan charge-offs	(1,747)	(1,841)
Loan recoveries	1,075	383
Balance, end of period	$ 18,168	$ 16,769

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At June 30, 2006, December 31, 2005 and June 30, 2005, the Company had classified $3.6 million, $5.8 million and $3.7 million, respectively, of its commercial and real estate loans as impaired, with specific loss allocations of $828 thousand, $1.4 million and $989 thousand, respectively. There were no impaired loans without specific loss allocations. At June 30, 2006, non-accrual loans totaled $3.3 million compared to $5.5 million at December 31, 2005 and $2.8 million at June 30, 2005. At June 30, 2006 and December 31, 2005, there were no loans past due more than 90 days and still accruing interest. At June 30, 2005, loan totaling $86 thousand were past due more than 90 days and still accruing interest.

8. Derivative Financial Instruments and Hedging Activities

Under the interest rate swap agreements that the Company has entered into, the Company receives a fixed rate and pays a floating rate. Except as noted below, the interest rate swaps qualify as cash flow hedges for accounting purposes, and effectively fix the interest rate received on the notional amount of $100,000,000 of variable rate loans indexed to Nara Prime. As of June 30, 2006, the amounts in accumulated other comprehensive loss associated with these cash flow hedges totaled a loss of $2.6 million (net of tax benefit of $1.7 million) and $1.6 million is expected to be reclassified as a reduction into interest income within the next 12 months. As of June 30, 2006, the maximum length of time over which the Company is hedging its exposure to the variability of future cash flows is approximately 6.5 years.

Interest rate swap information at June 30, 2006 is summarized as follows:

Current Notional Amount	Floating Rate	Fixed Rate	Maturity Date	Fair Value	Unrealized Gain (Loss)
		(Dollars in thousands)			
11,000	H.15 Prime [1]	7.59%	4/30/2007	$ (83)	$
9,000	H.15 Prime [1]	7.59%	4/30/2007	(68)	(68)
20,000	H.15 Prime [1]	6.09%	10/09/2007	(602)	(602)
20,000	H.15 Prime [1]	6.58%	10/09/2009	(1,153)	(1,153)
20,000	H.15 Prime [1]	7.03%	10/09/2012	(1,635)	(1,635)
10,000	H.15 Prime [1]	6.32%	12/17/2007	(309)	(309)
10,000	H.15 Prime [1]	6.83%	12/17/2009	(526)	(526)
$ 100,000				**$ (4,376)**	**$ (4,293)**

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

Due to pay-offs of the underlying loans (i.e. Nara Prime indexed loans) that are being hedged, a portion of the swaps no longer qualify as a Cash Flow Hedge. Changes in the value of this portion of the swaps will directly flow through the income statement. As of June 30, 2006, a loss of $83 thousand was recognized to reflect this. The Bank is focused in originating Nara Prime indexed loans to maintain hedge accounting for the remaining swaps. However, due to the variability of loan pay-offs, no assurance can be given that we will be able to maintain the aggregate Nara Prime indexed loan balance at an amount equal to or greater than the related notional swap balance. In addition, the realized loss on interest rate swaps due to hedge ineffectiveness was $17 thousand and $52 thousand for the three and six months ended June 30, 2005, respectively.

During the first half of 2006 and 2005, interest income (expense) recorded on swap transactions totaled ($467) thousand and $620 thousand, respectively. At June 30, 2006, we pledged as collateral to the interest rate swap counterparties agency securities with a book value of $1.0 million and real estate loans of approximately $9.0 million

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9. Business Segments

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

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

The following tables present the operating results and other key financial measures for the individual operating segments for the three and six months ended June 30, 2006 and 2005.

Three Months Ended June 30,

(Dollars in thousands)

	Business Segment		
	Banking Operations	TFS	SBA
2006			
Net interest income, before provision for loan losses	$ 17,417	$ 1,829	$ 3,781
Less provision for loan losses	2	40	100
Non-interest income	2,477	713	1,623
Net revenue	19,892	2,502	5,304
Non-interest expense	11,908	974	1,196
Income before income taxes	$ 7,984	$ 1,528	$ 4,108
Goodwill	$ 2,347	$	$
Total assets	$ 1,533,281	$ 148,571	$ 305,628
2005			
Net interest income, before provision for loan losses	$ 14,753	$ 1,611	$ 2,632
Less provision for loan losses	1,875		75
Non-interest income	2,216	881	1,932
Net revenue	15,094	2,492	4,489
Non-interest expense	9,943	906	1,604
Income before income taxes	$ 5,151	$ 1,586	$ 2,885

Goodwill	$ 2,347	$	$
Total assets	$ 1,343,617	$ 136,900	$ 236,864

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Six Months Ended June 30,

(Dollars in thousands)

	Business Segment		
	Banking Operations	TFS	SBA
2006			
Net interest income, before provision for loan losses	$ 34,619	$ 3,638	$ 7,135
Less provision for loan losses	737	40	445
Non-interest income	4,852	1,370	3,864
Net revenue	38,734	4,968	10,554
Non-interest expense	22,847	1,756	2,684
Income before income taxes	$ 15,887	$ 3,212	$ 7,870
Goodwill	$ 2,347	$	$
Total assets	$ 1,533,281	$ 148,571	$ 305,628
2005			
Net interest income, before provision for loan losses	$ 28,371	$ 3,015	$ 4,942
Less provision for loan losses	3,485	20	95
Non-interest income	4,502	1,583	3,123
Net revenue	29,388	4,578	7,970
Non-interest expense	18,792	1,622	2,739
Income before income taxes	$ 10,596	$ 2,956	$ 5,231
Goodwill	$ 2,347	$	$
Total assets	$ 1,343,617	$ 136,900	$ 236,864

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following is management s discussion and analysis of the major factors that caused changes in our consolidated results of operations and financial condition as of and for the three and six months ended June 30, 2006. This analysis should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2005 and the unaudited consolidated financial statements and notes set forth elsewhere in this report.

GENERAL

Selected Financial Data

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

	At or for the Three Months Ended June 30, 2006	At or for the Three Months Ended June 30, 2005	At or for the Six Months Ended June 30, 2006	At or for the Six Months Ended June 30, 2005
	(Dollars in thousands, except share and per share data)			
Income Statement Data:				
Interest income	$ 38,122	$ 27,496	$ 73,198	$ 51,590
Interest expense	15,095	8,500	27,806	15,262
Net interest income	23,027	18,996	45,392	36,328
Provision for loan losses	142	1,950	1,222	3,600
Net interest income after provision for loan losses	22,885	17,046	44,170	32,728
Non-interest income	4,813	5,029	10,086	9,208
Non-interest expense	14,078	12,453	27,287	23,153
Income before income tax provision	13,620	9,622	26,969	18,783
Income tax provision	5,719	4,009	11,189	7,765
Net income	$ 7,901	$ 5,613	$ 15,780	$ 11,018
Per Share Data:				
Earnings per share - basic	$ 0.31	$ 0.24	$ 0.62	$ 0.47
Earnings per share - diluted	$ 0.30	$ 0.23	$ 0.60	$ 0.45
Book value (period end)	$ 6.31	$ 4.77	$ 6.31	$ 4.77
Common shares outstanding	25,751,704	23,694,596	25,751,704	23,694,596
Weighted average shares - basic	25,612,359	23,653,365	25,542,636	23,504,411
Weighted average shares - diluted	26,221,043	24,538,181	26,168,550	24,634,849
Statement of Financial Condition Data - at Period End:				
Assets	$ 1,987,480	$ 1,717,381	$ 1,987,480	$ 1,717,381
Securities available for sale and held to maturity	185,750	133,247	185,750	133,247
Gross loans, net of deferred loan fees and costs (excludes loans held for sale)	1,584,913	1,387,280	1,584,913	1,387,280
Deposits	1,719,576	1,496,523	1,719,576	1,496,523
Federal Home Loan Bank borrowings	31,000	43,000	31,000	43,000
Subordinated debentures	39,268	39,268	39,268	39,268
Stockholders equity	162,509	112,967	162,509	112,967

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	For The Three Months Ended June 30,		For The Six Months Ended June 30,	
	2006	2005	2006	2005
	(Dollars in thousands)			
Average Balance Sheet Data:				
Assets	$ 1,946,639	$ 1,630,918	$ 1,891,743	$ 1,582,032
Securities available for sale and held to maturity	185,374	133,479	180,163	135,919
Gross loans, including loans held for sale	1,550,453	1,365,423	1,525,454	1,321,858
Deposits	1,679,578	1,373,493	1,629,459	1,325,807
Stockholders equity	160,055	109,120	156,102	107,051
Selected Performance Ratios:				
Return on average assets (1)	1.62%	1.38%	1.67%	1.39%
Return on average stockholders equity (1)	19.75%	20.58%	20.22%	20.58%
Non-interest expense to average assets (1)	2.89%	3.05%	2.88%	2.93%
Efficiency ratio (2)	50.57%	51.83%	49.19%	50.85%
Net interest margin (3)	4.97%	4.94%	5.05%	4.86%
Regulatory Capital Ratios (4)				
Leverage capital ratio (5)	10.35%	8.84%	10.35%	8.84%
Tier 1 risk-based capital ratio	11.80%	9.69%	11.80%	9.69%
Total risk-based capital ratio	12.86%	11.05%	12.86%	11.05%
Asset Quality Ratios:				
Allowance for loan losses to gross loans	1.15%	1.21%	1.15%	1.21%
Allowance for loan losses to non-performing loans	545.75%	586.74%	545.75%	586.74%
Total non-performing assets to total assets (6)	0.21%	0.23%	0.21%	0.23%

(1) Calculations are based on annualized net income.

(2) Efficiency ratio is defined as non-interest expense divided by the sum of net interest income and non-interest income.

(3) Net interest margin is calculated by dividing annualized net interest income by average total interest-earning assets.

(4) The required ratios for a well-capitalized institution are 5% leverage capital, 6% tier I risk-based capital and 10% total risk-based capital.

(5) Calculations are based on average quarterly asset balances.

(6) Non-performing assets include non-accrual loans, other real estate owned, and restructured loans.

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Results of Operations

Overview

During the first half of 2006, we continued to maintain the growth in our assets supported by deposit growth. Our total assets grew by 12% to $2.0 billion at June 30, 2006 from $1.8 billion at December 31, 2005. The increase in total assets for the period was primarily due to growth in our loans funded by increases in deposits. The loan growth during the first half of 2006 continued to be dominated by real estate loans and deposit growth was primarily in non-jumbo time deposits.

Our net income was $7.9 million for the three months ended June 30, 2006 and represents a 41% increase from $5.6 million for the three months ended June 30, 2005. The major contributor to the increase in net income for the three months ended June 30, 2006 was a 21% increase in net interest income before loan loss provision compared to the same period of 2005 as a result of loan growth and an increase in our net interest margin and decrease of 93% in loan loss provision as a result of improved credit quality.

Our net income was $15.8 million for the six months ended June 30, 2006 and represents a 43% increase from $11.0 million for the six months ended June 30, 2005. The increase was primarily due to an increase in net interest income also as a result of loan growth and lower loan loss provision partially offset by an increase in non-interest expense.

Net income

Our net income for the three months ended June 30, 2006 was $7.9 million, or $0.30 per diluted share, compared to $5.6 million, or $0.23 per diluted share, for the same quarter of 2005, representing an increase of $2.3 million or 41%. The net income for the six months ended June 30, 2006 was $15.8 million, or $0.60 per diluted share, compared to $11.0 million, or $0.45 per diluted share. These increases resulted primarily from an increase in net interest income and lower loan loss provision partially offset by an increase in non-interest expense.

The annualized return on average assets was 1.62% for the second quarter of 2006, compared to 1.38% for the same period of 2005. The annualized return on average equity was 19.75% for the second quarter of 2006, compared to 20.58% for the same period of 2005. The efficiency ratio was 50.57% for the three months ended June 30, 2006, compared to 51.83% for the same period of 2005.

The annualized return on average assets was 1.67% for the first half of 2006, compared to 1.39% for the same period of 2005. The annualized return on average equity was 20.22% for the first half of 2006, compared to 20.58% for the same period of 2005.

Net Interest Income and Net Interest Margin

Net Interest Income

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

Net interest income before provision for loan losses was $23.0 million for the second quarter ended June 30, 2006, an increase of $4.0 million, or 21% compared to net interest income of $19.0 million for the same quarter of 2005. This increase was primarily due to an increase in average interest earning assets, which increased $314.4 million, or 20%, to $1.85 billion for the second quarter of 2006 from $1.54 billion for the same quarter of 2005.

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Net interest income before provision for loan losses was $45.4 million for the first six months ended June 30, 2006, an increase of $9.1 million, or 25% compared to net interest income of $36.3 million for the same period of 2005. This increase was also due to an increase in average interest earning assets, which increased $305.3 million or 20% to $1.80 billion for the first half of 2006 from $1.49 billion for the same period of 2005.

Interest income for the second quarter of 2006 was $38.1 million, which represented an increase of $10.6 million or 39% over interest income of $27.5 million for the same quarter of 2005. The increase was the result of a $5.2 million increase in interest income due to an increase in the volume of average interest-earning assets (volume change) and a $5.4 million increase in interest income due to an increase in the average yield earned on those average interest-earning assets (rate change).

Interest income for the first six months of 2006 was $73.2 million, which represented an increase of $21.6 million or 42% over interest income of $51.6 million for the same period of 2005. The increase was the result of a $10.3 million increase in interest income due to an increase in the volume of average interest-earning assets (volume change) and a $11.3 million increase in interest income due to an increase in the average yield earned on those average interest-earning assets (rate change).

Interest-bearing liabilities also increased as a result of a growth in deposits following a continued bank-wide marketing campaign promoting new money market and time deposit accounts with higher interest rates, which ended in June of 2006.

Interest expense for the second quarter of 2006 was $15.1 million, an increase of $6.6 million or 78% compared to interest expense of $8.5 million for the same quarter of 2005. The increase was primarily the result of a $2.1 million increase in interest expense due to an increase in volume of average interest-bearing liabilities (volume change) and a $4.5 million increase in interest expense due to an increase in the average rates paid on interest-bearing liabilities (rate change).

Interest expense for the first six months of 2006 was $27.8 million, an increase of $12.5 million or 82% compared to interest expense of $15.3 million for the same period of 2005. The increase was primarily the result of a $4.1 million increase in interest expense due to an increase in volume of average interest-bearing liabilities (volume change) and a $8.4 million increase in interest expense due to an increase in the average rates paid on interest-bearing liabilities (rate change).

Net Interest Margin

The weighted average yield on average interest-earning assets increased to 8.23% for the second quarter of 2006 compared with 7.15% for the same quarter of 2005, a 108 basis point increase. The increase was primarily due to an increase in the prime interest rate, to which a substantial portion of our loan portfolio is tied. The weighted average prime rate for the second quarter of 2006 was 7.9% compared to 6.0% during the same quarter of 2005. The weighted average cost of interest-bearing liabilities also increased at a faster pace to 4.39% for the second quarter of 2006 from 2.99% for the same quarter of 2005, a 140 basis point increase, primarily due to the increase in market interest rates and competition among Korean-American banks.

The resulting net interest margin was 4.97% for the second quarter of 2006 compared with 4.94% for the same quarter of 2005. Despite a 225 basis point increase in the prime rate between the two periods, the net interest margin only increased by 3 basis points primarily due to the increase in lower yielding fixed rate loans and the increase in the cost of interest-bearing liabilities led by the heavier reliance on the higher-cost deposits such as time deposits. Average gross loans to average earning assets decreased to 84% during the second quarter 2006 compared to 89% during the same period 2005. The weighted average cost of total deposits, including non-interest bearing deposits, for the second quarter of 2006 was 3.32% compared to 2.06% for the same quarter of 2005, a 126 basis point increase.

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The weighted average yield on average interest-earning assets increased to 8.14% for the first half of 2006 compared with 6.91% for the same period of 2005, a 123 basis point increase. The increase was primarily due to increases in the prime interest rate, to which a substantial portion of our loan portfolio is tied. The weighted average prime rate for the first half of 2006 was 7.66% compared to 5.67% during the same period of 2005. The weighted average cost of interest-bearing liabilities also increased at a faster pace to 4.18% for the first half of 2006 from 2.77% for the same period of 2005, a 141 basis point increase, primarily due to the increase in market interest rates and competition among Korean-American banks, especially De Novo Banks.

The resulting net interest margin was 5.05% for the first half of 2006 compared with 4.86% for the same period of 2005. Despite continued increases in the prime rate, the net interest margin only increased by 19 basis points primarily due to the increase in lower yielding fixed rate loans and the increase in the cost of interest-bearing liabilities led by the heavier reliance on the higher-cost deposits such as time deposits. The weighted average cost of total deposits, including non-interest bearing deposits, for the first half of 2006 was 3.13% compared to 1.89% for the same period of 2005, a 124 basis point increase.

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

	Three months ended June 30, 2006			Three months ended June 30, 2005		
	Average Balance	**Interest Income/ Expense**	**Average Yield/ Rate ***	**Average Balance**	**Interest Income/ Expense**	**Average Yield/ Rate ***
			(Dollars in thousands)			
INTEREST EARNINGS ASSETS:						
Loans [(1) (2)]	$ 1,550,453	$ 34,601	8.93%	$ 1,365,423	$ 25,762	7.55%
Other investments	9,284	129	5.56%	7,968	97	4.87%
Securities[(3)]	185,374	2,060	4.45%	133,479	1,389	4.16%
Federal funds sold	108,089	1,332	4.93%	31,980	248	3.10%
Total interest earning assets	$ 1,853,200	$ 38,122	8.23%	$ 1,538,850	$ 27,496	7.15%
INTEREST BEARING LIABILITIES:						
Demand, interest-bearing	$ 225,618	$ 1,898	3.36%	$ 245,326	$ 1,458	2.38%
Savings	136,812	1,017	2.97%	104,475	478	1.83%
Time certificates of deposit	945,055	11,009	4.66%	666,544	5,138	3.08%
FHLB borrowings	31,000	340	4.39%	84,585	729	3.45%
Subordinated debentures	37,183	831	8.94%	37,152	697	7.50%
Total interest bearing liabilities	$ 1,375,668	$ 15,095	4.39%	$ 1,138,082	$ 8,500	2.99%
NON-INTEREST BEARING DEPOSITS:	$ 372,093			$ 357,148		
Net interest income		$ 23,027			$ 18,996	
Net interest margin			4.97%			4.94%
Net interest spread (including effect of non-interest bearing deposits)			4.77%			4.87%
Average interest-earning assets to average interest-bearing liabilities			134.71%			135.21%

* Annualized

(1) Interest income on loans includes loan fees and net interest settlement from interest rate swaps.

(2) Average balances of loans are net of deferred loan fees and costs and include nonaccrual loans and loan held for sale.

(3) Interest income and yields are not presented on a tax-equivalent basis.

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	Six months ended June 30, 2006			Six months ended June 30, 2005		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate *	Average Balance	Interest Income/ Expense	Average Yield/ Rate *
	(Dollars in thousands)					
INTEREST EARNINGS ASSETS:						
Loans [(1) (2)]	$ 1,525,454	$ 67,001	8.78%	$ 1,321,858	$ 48,217	7.30%
Other investments	8,822	234	5.30%	7,373	171	4.64%
Securities[(3)]	180,163	3,944	4.38%	135,919	2,789	4.10%
Federal funds sold	84,923	2,019	4.75%	28,880	413	2.86%
Total interest earning assets	$ 1,799,362	$ 73,198	8.14%	$ 1,494,030	$ 51,590	6.91%
INTEREST BEARING LIABILITIES:						
Demand, interest-bearing	$ 214,108	$ 3,268	3.05%	$ 271,088	$ 3,044	2.25%
Savings	135,359	1,927	2.85%	108,968	995	1.83%
Time certificates of deposit	913,684	20,318	4.45%	599,242	8,493	2.83%
FHLB borrowings	31,061	677	4.36%	87,467	1,376	3.15%
Subordinated debentures	37,179	1,616	8.69%	37,149	1,354	7.29%
Total interest bearing liabilities	$ 1,331,391	$ 27,806	4.18%	$ 1,103,914	$ 15,262	2.77%
NON-INTEREST BEARING DEPOSITS:	$ 366,308			$ 346,509		
Net interest income		$ 45,392			$ 36,328	
Net interest margin			5.05%			4.86%
Net interest spread (including effect of non-interest bearing deposits)			4.86%			4.80%
Average interest-earning assets to average interest-bearing liabilities			135.15%			135.34%

* Annualized

(1) Interest income on loans includes loan fees and net interest settlement from interest rate swaps.

(2) Average balances of loans are net of deferred loan fees and costs and include nonaccrual loans and loan held for sale.

(3) Interest income and yields are not presented on a tax-equivalent basis.

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

	Three months ended June 30, 2006 over June 30, 2005		
	Net Increase (Decrease)	Change due to Rate	Volume
	(Dollars in thousands)		
INTEREST INCOME :			
Interest and fees on loans	$ 8,839	$ 5,076	$ 3,763
Interest on other investments	32	15	17
Interest on securities	671	100	571
Interest on federal funds sold	1,084	215	869
Total interest income	$ 10,626	$ 5,406	$ 5,220
INTEREST EXPENSE :			
Interest on demand deposits	$ 440	$ 565	$ (125)
Interest on savings	539	360	179
Interest on time certificates of deposit	5,871	3,231	2,640
Interest on FHLB borrowings	(389)	161	(550)
Interest on subordinated debentures	134	133	1
Total interest expense	$ 6,595	$ 4,450	$ 2,145
Net Interest Income	$ 4,031	$ 956	$ 3,075

	Six months ended June 30, 2006 over June 30, 2005		
	Net Increase (Decrease)	Change due to Rate	Volume
	(Dollars in thousands)		
INTEREST INCOME :			
Interest and fees on loans	$ 18,784	$ 10,706	$ 8,078
Interest on other investments	63	27	36
Interest on securities	1,155	197	958
Interest on federal funds sold	1,606	409	1,197
Total interest income	$ 21,608	$ 11,339	$ 10,269
INTEREST EXPENSE :			
Interest on demand deposits	$ 224	$ 949	$ (725)
Interest on savings	932	650	282
Interest on time certificates of deposit	11,825	6,152	5,673
Interest on FHLB borrowings	(699)	402	(1,101)
Interest on subordinated debentures	262	261	1

Total interest expense	$ 12,544	$ 8,414	$ 4,130
Net Interest Income	$ 9,064	$ 2,925	$ 6,139

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Provision for Loan Losses

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

We recorded $142 thousand in provision for loan losses during the second quarter of 2006 compared to $2.0 million in the same quarter of 2005. We recorded $1.2 million in provision for loan losses during the first half of 2006 compared to $3.6 million in the same period of 2005. This change reflects the results of our review and analysis of the loan portfolio and the adequacy of our existing allowance for loan losses in light of the growth experienced in our loan portfolio, the level of our net charge-offs, the quality of the loans, and the level of non-performing classified and special mention loans. We believe that the allowance is sufficient to absorb probable incurred losses in our loan portfolio at June 30, 2006. See Allowance for Loan Losses below for further discussion.

Non-interest Income

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

Non-interest income for the second quarter of 2006 was $4.8 million compared to $5.0 million for the same quarter of 2005 primarily due to decrease in international service fees and non-recurring gains of $128 thousand on sales of securities available for sale during the second quarter of 2005.

Non-interest income for the first half of 2006 was $10.1 million compared to $9.2 million for the same period of 2005, primarily due to increase in net gains on sales of SBA loans. The net gains on sales of SBA loans increased $970 thousand, or 53%, during the period. During the first half of 2006 we originated $56.9 million in SBA loans, of which $37.6 million were intended to be sold, and we sold $41.6 million with net gains of $2.8 million. During the same period of 2005, we originated $57.9 million in SBA loans, of which $39.6 million were intended to be sold, and we sold $32.8 million with net gains of $1.8 million.

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The breakdown of changes in our non-interest income by category is illustrated below:

	Three Months Ended		Increase (Decrease)	
	June 30, 2006	June 30, 2005	Amount	Percent (%)
	(Dollars in thousands)			
Service fees on deposit accounts	$ 1,520	$ 1,582	$ (62)	-4%
International service fees	687	852	(165)	-19%
Loan servicing fees, net	475	383	92	24%
Wire transfer fees	359	368	(9)	-2%
Other	676	622	54	9%
Net gains on sales of SBA loans	1,096	1,094	2	0%
Net gains on sales of securities available for sale		128	(128)	-100%
Total non-interest income	**$ 4,813**	**$ 5,029**	**$ (216)**	**-4%**

	Six Months Ended		Increase (Decrease)	
	June 30, 2006	June 30, 2005	Amount	Percent (%)
	(Dollars in thousands)			
Service fees on deposit accounts	$ 3,057	$ 3,160	$ (103)	-3%
International service fees	1,301	1,527	(226)	-15%
Loan servicing fees, net	941	782	159	20%
Wire transfer fees	707	709	(2)	0%
Other	1,267	1,044	223	21%
Net gains on sales of SBA loans	2,813	1,843	970	53%
Net gains on sales of securities available for sale		143	(143)	-100%
Total non-interest income	**$ 10,086**	**$ 9,208**	**$ 878**	**10%**

Non-interest Expense

Non-interest expense for the second quarter of 2006 was $14.1 million compared to $12.5 million for the same quarter of 2005, an increase of $1.6 million or 13%. Salaries and employee benefits increased to $7.1 million for the three months ended June 30, 2006 from $6.2 million for the same quarter of 2005. The increase was primarily due to an increase in personnel, bonuses accrued, and stock compensation expense of $359 thousand recorded in second quarter 2006. Occupancy expense for the three months ended June 30, 2006 increased to $1.9 million compared to $1.7 million for the same period of 2005, an increase of $226 thousand or 13%. This increase is primarily due to opening of the Gardena branch during the third quarter of 2005 as well as signing of the Garden Grove and Fullerton office lease contracts. Advertising and marketing expense increased $261 thousand or 56% to $725 thousand during the second quarter 2006, primarily due to marketing and promotions related to bank-wide deposit campaigns, including promotions tied to the World Cup soccer tournament.

Other expenses increased $402 thousand, or 25%, to $2.0 million for the three months ended June 30, 2006, primarily due to increases in FDIC insurance premiums and Corporate insurance expense. FDIC insurance premiums increased $116 thousand or 264% to $160 thousand for the second quarter of 2006 compared to $44 thousand for the same quarter of 2005. This increase was a result of an increased insurance assessment rate from zero to three cents, effective for the semi-annual period ending June 30, 2006. Corporate insurance, including D&O insurance also increased $145 thousand or 269% to $199 thousand for the second quarter of 2006 compared to $54 thousand for the same quarter of 2005. This was primarily due to increased D&O coverage and higher premiums as a result of the restatement related matters during 2005. Data processing and communications fees increased $158 thousand or 18% to $1.0 million for the three months ended June 30, 2006, primarily due to an increase in accounts and transactions. Professional fees decreased $404 thousand or 34% to $782 thousand for the three months ended June 30, 2006. This decrease was primarily due to the restatement related costs incurred during the second quarter of 2005.

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Non-interest expense for the first half of 2006 was $27.3 million compared to $23.2 million for the same period of 2005, an increase of $4.1 million or 18%. Salaries and employee benefits increased to $13.9 million for the first half of 2006 from $11.4 million for the same period of 2005. The increase of $2.5 million or 22% was primarily due to an increase in personnel and stock compensation expense of $647 thousand recorded in the first half of 2006. Our FTE head count increased from 376 at year-end 2005 to 398 at June 30, 2006. Advertising and marketing expense increased $422 thousand, or 49% to $1.3 million for the first six months of 2006, primarily due to on-going bank-wide deposit campaigns through out the period. Professional fees were lower for the first half of 2006 by $482 thousand or 25% compared to same period 2005. During the first half of 2005, we incurred approximately $1.2 million in professional fees related to the restatement. Excluding this non-recurring expense of $1.2 million, the professional fees increased $0.7 million during the first half of 2006 primarily due to expenses related to the MOU compliance and CEO and employee search fees.

Other expense increased $893 thousand or 30% to $3.9 million for the six months ended June 30, 2006, primarily due to increases in FDIC insurance premiums and Corporate insurance expense as mentioned above. The increase in FDIC insurance was $236 thousand or 268% and the increase in Corporate insurance, including D&O insurance was $292 thousand or 266%.

The change in non-interest expense is illustrated below:

	Three Months Ended		Increase (Decrease)	
	June 30, 2006	June 30, 2005	Amount	Percent (%)
	(Dollars in thousands)			
Salaries and employee benefits	$ 7,083	$ 6,152	$ 931	15%
Occupancy	1,918	1,692	226	13%
Furniture and equipment	548	497	51	10%
Advertising and marketing	725	464	261	56%
Data processing and communications	1,018	860	158	18%
Professional fees	782	1,186	(404)	-34%
Other	2,004	1,602	402	25%
Total non-interest expense	$ 14,078	$ 12,453	$ 1,625	13%

	Six Months Ended		Increase (Decrease)	
	June 30, 2006	June 30, 2005	Amount	Percent (%)
	(Dollars in thousands)			
Salaries and employee benefits	$ 13,894	$ 11,415	$ 2,479	22%
Occupancy	3,734	3,288	446	14%
Furniture and equipment	1,068	1,007	61	6%
Advertising and marketing	1,276	854	422	49%
Data processing and communications	1,971	1,656	315	19%
Professional fees	1,460	1,942	(482)	-25%
Other	3,884	2,991	893	30%
Total non-interest expense	$ 27,287	$ 23,153	$ 4,134	18%

Provision for Income Taxes

Income taxes were $5.7 million and $4.0 million for the three months ended June 30, 2006 and 2005, respectively. The effective tax rate for the quarters ended June 30, 2006 and 2005 was 42.0% and 41.7%, respectively. Income taxes were $11.2 million and $7.8 million for the six months ended June 30, 2006 and 2005 with an effective tax rate of 41.5% and 41.3%, respectively.

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Financial Condition

At June 30, 2006, our total assets were $2.0 billion, an increase of $ 211.7 million or 12% from $1.8 billion at December 31, 2005. The growth was primarily due to increases in our loan portfolio funded by growth in our deposits.

Loan Portfolio

As of June 30, 2006, our gross loans (net of deferred loan fees and costs) increased by $139.2 million or 10% to $1.58 billion from $1.45 billion at December 31, 2005. Commercial loans, which include domestic commercial, international trade finance and SBA loans, at June 30, 2006 increased by $16.2 million, or 3%, to $ 499.5 million from $483.2 million at December 31, 2005. Real estate loans increased by $132.6 million, or 15%, to $1.03 billion at June 30, 2006 from $900.7 million at December 31, 2005.

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

	June 30, 2006		December 31, 2005	
	Amount	Percent	Amount	Percent
	(Dollars in thousands)			
Loan Portfolio Composition:				
Commercial loans	$ 499,450	31%	$ 483,231	33%
Real estate loans	1,033,277	65%	900,699	62%
Consumer and other loans	55,022	4%	64,633	5%
Total loans outstanding	1,587,749	100%	1,448,563	100%
Unamortized deferred loan fees, net of costs	(2,836)		(2,823)	
Allowance for loan losses	(18,168)		(17,618)	
Loans receivable, net	**$ 1,566,745**		**$ 1,428,122**	

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

	June 30, 2006	December 31, 2005
	(Dollars in thousands)	
Loan commitments	$ 192,739	$ 199,968
Standby letters of credit	14,388	14,077
Other commercial letters of credit	38,341	25,858
	$ 245,468	$ 239,903

At June 30, 2006, our nonperforming assets (nonaccrual loans, loans past due 90 days or more and still accruing interest, restructured loans, and other real estate owned) were $4.1 million, a decrease of $2.1 million or 34% from $6.2 million at December 31, 2005. The decrease was primarily due to a decrease in nonaccrual loans. Nonperforming assets to total assets was 0.21% and 0.35% at June 30, 2006 and December 31, 2005, respectively. At June 30, 2006, nonperforming loans were $3.3 million, a decrease of $2.2 million, from $5.5 million at December 31, 2005. This decrease was primarily due to pay-offs of $1.1 million, composed of four loans, $1.0 million in charge-offs, and one loan being placed back on an accrual status during the period due to its improved credit quality. At June 30, 2006, nonperforming loans to total gross loans was 0.21% compared to 0.38% at December 31, 2005.

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

	June 30, 2006	December 31, 2005
	(Dollars in thousands)	
Nonaccrual loans	$ 3,329	$ 5,489
Loan past due 90 days or more, still accruing		
Total Nonperforming Loans	**3,329**	**5,489**
Other real estate owned		
Restructured loans	757	741
Total Nonperforming Assets	**$ 4,086**	**$ 6,230**
Nonperforming loans to total gross loans	0.21%	0.38%
Nonperforming assets to total assets	0.21%	0.35%

Allowance for Loan Losses

The allowance for loan losses was $18.2 million at June 30, 2006, compared to $17.6 million at December 31, 2005 and $16.8 million at June 30, 2005. We recorded a provision for loan losses of $1.2 million during the first half of 2006 compared to $3.6 million for the same period of 2005. The decrease in the provision for loan losses is primarily due to a significant decrease in classified and special mention loans totaling approximately $8.9 million, especially during the second quarter of 2006. The decrease in classified and special mention loans was primarily due to payoffs and upgrades. Approximately $5.0 million of those loans were paid off and the remaining loans were upgraded due to improvements in credit quality. The allowance for loan losses was 1.15% of gross loans at June 30, 2006, 1.22% at December 31, 2005 and 1.21% at June 30, 2005. Total classified loans at June 30, 2006 were $ 5.3 million, compared to $10.5 million at December 31, 2005 and $8.7 million at June 30, 2005, respectively.

We believe the level of the allowance for loan losses as of June 30, 2006 is adequate to absorb probable incurred losses in the loan portfolio. However, no assurance can be given that actual losses will not exceed the estimated amounts.

The following table provides a breakdown of the allowance for loan losses by category of loans at June 30, 2006 and December 31, 2005:

	Allocation of Allowance for Loan Losses			
	June 30, 2006		December 31,2005	
(Dollars in thousands)	Amount	% of Loans in Each Category to Total Loans	Amount	% of Loans in Each Category to Total Loans
Loan Type				
Commercial	$ 4,423	31%	$ 5,061	33%
Real estate	12,790	65%	11,469	62%
Consumer	873	4%	1,057	5%
Unallocated	82	N/A	31	N/A
Total allowance	**$ 18,168**	**100%**	**$ 17,618**	**100%**

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

	Six months ended June 30, 2006	2005
	(Dollars in thousands)	
LOANS:		
Average gross loans, including loans held for sale	$ 1,525,454	$ 1,321,858
Gross loans, excluding loans held for sale and net of deferred loan fees and costs, at end of period	$ 1,584,913	$ 1,387,280
ALLOWANCE:		
Balance-beginning of period	$ 17,618	$ 14,627
Less: Loan charge-offs:		
Commercial	1,183	1,195
Real estate		
Consumer	564	646
Total loan charge-offs	1,747	1,841
Plus: Loan Recoveries		
Commercial	780	252
Real estate		
Consumer	295	131
Total loan recoveries	1,075	383
Net loan charge-offs	672	1,458
Provision for loan losses	1,222	3,600
Balance-end of period	$ 18,168	$ 16,769
Net loan charge-offs to average gross loans *	0.09%	0.22%
Allowance for loan losses to total loans at end of period	1.15%	1.21%
Net loan charge-offs to beginning allowance *	7.63%	19.94%
Net loan charge-offs to provision for loan losses	54.99%	40.50%

* Annualized

Total loans are net of deferred loan fees and costs of $2,836,000 and $3,087,000 at June 30, 2006 and 2005, respectively.

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Investment Securities Portfolio

We classify our securities as held-to-maturity or available-for-sale under SFAS No.115. Those securities that we have the ability and intent to hold to maturity are classified as held-to-maturity securities . All other securities are classified as available-for-sale . We did not own any trading securities at June 30, 2006 or December 31, 2005. Securities that are held to maturity are stated at cost, adjusted for amortization of premiums and accretion of discounts. Securities that are available for sale are stated at fair value. The securities we currently hold are government-sponsored agency bonds, corporate bonds, asset-backed securities, collateralized mortgage obligations, mortgage backed securities, mutual funds and municipal bonds.

As of June 30, 2006, we had $1.0 million in held-to-maturity securities and $184.8 million in available-for-sale securities compared to $1.0 million and $174.7 million, respectively at December 31, 2005. The total net unrealized loss on the available-for sale securities at June 30, 2006 was $5.9 million compared to net unrealized loss of $3.4 million at December 31, 2005. During the six months of 2006, a total of $20.2 million in securities available-for-sale were purchased. There was no sale of securities during the quarter.

Securities with a carrying value of $5.4 million were pledged to secure public deposits and for other purposes as required or permitted by law at June 30, 2006. Securities with a carrying value of $10.9 million and $105.9 million were pledged to the FHLB of San Francisco and the State of California Treasurer s Office, respectively, at June 30, 2006.

The following table summarizes the amortized cost, estimated fair value and distribution of our investment securities portfolio as of the dates indicated:

Investment Portfolio

	At June 30, 2006			At December 31, 2005		
	Amortized Cost	Estimated Fair Value	Net Unrealized Gain (Loss)	Amortized Cost	Estimated Fair Value	Net Unrealized Gain (Loss)
	(Dollars in thousands)					
Available-for-sale:						
U.S. Government agency	$ 92,524	$ 89,720	$ (2,804)	$ 92,500	$ 90,797	$ (1,703)
Collateralized mortgage obligations	45,137	43,592	(1,545)	26,820	25,935	(885)
Mortgage-backed securities	39,872	38,412	(1,460)	45,615	44,732	(883)
Asset-backed securities	1,966	1,957	(9)	1,991	1,989	(2)
Municipal bonds	7,161	7,267	106	7,173	7,331	158
Mutual funds	4,000	3,802	(198)	4,000	3,925	(75)
Total available-for-sale	**$ 190,660**	**$ 184,750**	**$ (5,910)**	**$ 178,099**	**$ 174,709**	**$ (3,390)**
Held-to-maturity:						
Corporate debt securities	$ 1,000	$ 1,008	$ 8	$ 1,001	$ 1,023	$ 22
Total held-to-maturity	**$ 1,000**	**$ 1,008**	**$ 8**	**$ 1,001**	**$ 1,023**	**$ 22**
Total investment portfolio	**$ 191,660**	**$ 185,758**	**$ (5,902)**	**$ 179,100**	**$ 175,732**	**$ (3,368)**

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The following table shows our investments gross unrealized losses and estimated fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss positions at June 30, 2006.

	Less than 12 months		12 months or longer		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
			(Dollars in thousands)			
Description of Securities:						
U.S. Government agency	$ 23,967	$ (445)	$ 65,753	$ (2,359)	$ 89,720	$ (2,804)
Collateralized mortgage obligations	25,308	(402)	13,320	(1,143)	38,628	(1,545)
Mortgage-backed securities	20,545	(483)	17,530	(981)	38,075	(1,464)
Asset-backed securities	1,957	(9)			1,957	(9)
Municipal bonds	670	(4)			670	(4)
Mutual funds	3,802	(198)			3,802	(198)
Total Temporarily Impaired Securities	**$ 76,249**	**$ (1,541)**	**$ 96,603**	**$ (4,483)**	**$ 172,852**	**$ (6,024)**

We evaluate securities for other-than-temporary impairment on at least a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the length of time and the extent to which the fair value has been less than cost; the financial condition and near-term prospects of the issuer, and our intent and ability to retain our investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. In analyzing an issuer s financial condition, we may consider whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer s financial condition.

During the six month ended June 30, 2006, we did not have any sales of investment securities resulting in any losses. For those investments in an unrealized loss position at June 30, 2006, we have the intent and ability to hold them until maturity or full recovery of their market values

Deposits and Other Borrowings

***Deposits*.** Deposits are our primary source of funds used in our lending and investment activities. At June 30, 2006, our deposits increased by $193.1 million or 13% to $1.72 billion from $1.53 billion at December 31, 2005. Non-jumbo time deposits totaled $205.6 million, an increase of $72.2 million or 54% from $133.4 million at December 31, 2005. Interest-bearing demand deposits, including money market and super now accounts, totaled $228.4 million, an increase of $42.9 million or 23% from $185.6 million at December 31, 2005. These increases were primarily due to bank-wide marketing campaigns, specifically on new money market and time deposit products, focusing on non-jumbo products. As of June 30, 2006, we have approximately $113.2 million in the new money market account at a weighted average cost of approximately 4.84%, and approximately $248.5 million in the new time deposit at a weighted average cost of approximately 5.5%.

At June 30, 2006, 24% of total deposits were non-interest bearing demand deposits, 55% were time deposits, and 21% were interest bearing demand and saving deposits. By comparison, at December 31, 2005, 24% of the total deposits were non-interest bearing demand deposits, 56% were time deposits, and 20% were interest bearing demand and saving deposits. Time deposits continued to dominate the deposit composition primarily due to the current rate sensitive market environment.

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At June 30, 2006, we had a total of $50.7 million in brokered deposits and $80.0 million in State deposits compared to $118.3 million and $60.0 million at December 31, 2005, respectively. During the first half of 2006, we paid off $67.6 million in brokered deposits. The weighted average life of the brokered deposits is two years with a weighted average rate of 4.03%. The State deposits were primarily six month maturities with a weighted average interest rate of 4.78% collateralized with securities with a carrying value of $105.9 million at June 30, 2006. The State deposits are subject to withdrawal based on the State s periodic evaluations.

Other Borrowings. Advances may be obtained from the Federal Home Loan Bank of San Francisco (FHLB) as an alternative source of funds. Advances from the FHLB are typically secured by a pledge of mortgage loans and/or securities with a market value at least equal to the outstanding advances plus our investment in FHLB stock.

At June 30, 2006 and December 31, 2005, we had $31.0 million of fixed rate FHLB advances with remaining maturities ranging from 16 to 23 months. The weighted average rate was 4.38% at June 30, 2006. Although the Bank has no restrictions on borrowings as a result of the recent regulatory actions, the Company may not increase its borrowings, incur any debt or renew existing debt without the consent of the Federal Reserve Bank.

At June 30, 2006 and December 31, 2005, five wholly-owned subsidiary grantor trusts established by Nara Bancorp had issued $38 million of pooled Trust Preferred Securities (trust preferred securities). Trust preferred securities accrue and pay distributions periodically at specified annual rates as provided in the related indentures. The trusts used the net proceeds from the offering to purchase a like amount of subordinated debentures (the Debentures) of Nara Bancorp. The Debentures are the sole assets of the trusts. Nara Bancorp s obligations under the subordinated debentures and related documents, taken together, constitute a full and unconditional guarantee by Nara Bancorp of the obligations of the trusts. The trust preferred securities are mandatorily redeemable upon the maturity of the Debentures, or upon earlier redemption as provided in the indentures. Nara Bancorp has the right to redeem the Debentures in whole (but not in part) on or after specific dates, at a redemption price specified in the indentures plus any accrued but unpaid interest to the redemption date. The weighted average cost of the trust preferred securities was 8.94% and 8.69% for the three and six months ended June 30, 2006, respectively. The dividend payments on trust preferred securities require a pre-approval from the Federal Reserve Bank.

Off-Balance-Sheet Activities And Contractual Obligations

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

Traditional off-balance-sheet credit-related financial instruments are primarily commitments to extend credit and standby letters of credit. These activities could require us to make cash payments to third parties in the event certain specified future events occur. The contractual amounts represent the extent of our exposure in these off-balance-sheet activities. However, since certain off-balance-sheet commitments, particularly standby letters of credit, are expected to expire or be only partially used, the total amount of commitments does not necessarily represent future cash requirements. These activities are necessary to meet the financing needs of our customers.

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

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

We continue to lease our banking facilities and equipment under non-cancelable operating leases with terms providing monthly payments over periods up to 18 years.

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Stockholders Equity and Regulatory Capital

To ensure adequate levels of capital, we conduct an ongoing assessment of projected sources and uses of capital in conjunction with projected increases in assets and levels of risk. We consider on an ongoing basis, among other things, capital generated from operations, access to capital from financial markets or the issuance of additional securities, including common stock or notes, to meet our capital needs. Total stockholders equity was $162.5 million at June 30, 2006. This represented an increase of $15.8 million or 11% over total stockholders equity of $146.8 million at December 31, 2005. The increase is primarily attributed to the net income for the first half of 2006.

The federal banking agencies require a minimum ratio of qualifying total capital to risk-adjusted assets of 8% and a minimum ratio of Tier I capital to risk-weighted assets of 4%. In addition to the risk-based guidelines, federal banking regulators require banking organizations to maintain a minimum amount of Tier I capital to total assets, referred to as the leverage ratio. For a banking organization rated in the highest of the five categories used by regulators to rate banking organizations, the minimum leverage ratio of Tier I capital to total assets must be 4%. In addition to these uniform risk-based capital guidelines and leverage ratios that apply across the industry, the regulators have the discretion to set individual minimum capital requirements for specific institutions at rates significantly above the minimum guidelines and ratios.

At June 30, 2006, our Tier I capital, defined as stockholders equity less intangible assets, plus proceeds from the Trust Preferred Securities (subject to limitations), was $200.9 million, compared to $182.5 million at December 31, 2005, representing an increase of $18.4 million or 10.0%. This increase was primarily due to the net income and proceeds from options exercised offset by the cash dividends paid. At June 30, 2006, we had a ratio of total capital to total risk-weighted assets of 12.86% and a ratio of Tier I capital to total risk- weighted assets of 11.80%. The Tier I leverage ratio was 10.35% at June 30, 2006.

As of June 30, 2006, the Bank has met the criteria as a well capitalized institution under the regulatory framework for prompt corrective action. The following table presents the amounts of our regulatory capital and capital ratios for Nara Bancorp and Nara Bank, compared to their minimum regulatory capital requirements as of June 30, 2006.

Nara Bancorp, Inc.

	As of June 30, 2006 (Dollars in thousands)					
	Actual		Required		Excess	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Leverage ratio	$ 200,863	10.4%	$ 77,642	4.0%	$ 123,221	6.4%
Tier I risk-based capital ratio	$ 200,863	11.8%	$ 68,111	4.0%	$ 132,752	7.8%
Total risk-based capital ratio	$ 219,031	12.9%	$ 136,222	8.0%	$ 82,809	4.9%

Nara Bank

	As of June 30, 2006 (Dollars in thousands)					
	Actual		Required		Excess	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Leverage ratio	$ 192,018	9.9%	$ 77,549	4.0%	$ 114,469	5.9%
Tier I risk-based capital ratio	$ 192,018	11.3%	$ 68,027	4.0%	$ 123,991	7.3%
Total risk-based capital ratio	$ 210,185	12.4%	$ 136,054	8.0%	$ 74,131	4.4%

During 2005, our regulatory agencies placed additional restrictions and requirements on our Company including the requirement to obtain prior approval before payment of dividends or to issue debt, including trust preferred securities.

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Liquidity Management

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

Our 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. In addition, these funding sources are augmented by payments of principal and interest on loans and the routine liquidation of securities from our available-for-sale portfolio. Our uses of funds include withdrawal of and interest payments on deposits, originations of loans, purchases of investment securities, and payment of operating expenses.

We manage liquidity risk by managing interest-earning assets and interest-bearing liabilities, providing an adequate level of federal funds and by maintaining lines of credit with correspondent banks, the Federal Reserve Bank, and the advances from the Federal Home Loan Bank of San Francisco. The sale of investment securities available-for-sale can also serve as a contingent source of funds.

As a means of augmenting our liquidity, we have established federal funds lines with corresponding banks and borrowing lines with the Federal Home Loan Bank of San Francisco. At June 30, 2006, our borrowing capacity included $66.0 million in federal funds line facilities from correspondent banks and $332.4 million in unused Federal Home Loan Bank of San Francisco advances. In addition to these lines, our liquid assets include cash and due from banks, federal funds sold and securities available for sale that are not pledged. The aggregate book value of these assets totaled $196.8 million at June 30, 2006 compared to $142.5 million at December 31, 2005. We believe our liquidity sources to be stable and adequate.

Because our primary sources and uses of funds are deposits and loans, the relationship between gross loans and total deposits provides a useful measure of our liquidity. At June 30, 2006, our gross loan to deposit ratio was 92% a decrease from 95% at December 31, 2005, generally indicating a higher level of liquidity at June 30, 2006.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

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Interest Rate Risk

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

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

Swaps

As part of our asset and liability management strategy, we may enter into derivative financial instruments, such as interest rate swaps, with the overall goal of minimizing the impact of interest rate fluctuations on our net interest margin. Interest rate swaps involve the exchange of fixed-rate and variable-rate interest payment obligations without the exchange of the underlying notional amounts. During 2002, we entered into eight different interest rate swap agreements and six of these agreements are outstanding at June 30, 2006.

Under the interest rate swap agreements, we receive a fixed rate and pay a variable rate based on H.15 Prime. The majority of the swaps qualify as cash flow hedges under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, and are designated as hedges of the variability of cash flows we receive from certain of our Prime-indexed loans. In accordance with SFAS No. 133, these interest rate swap agreements are measured at fair value and reported as assets or liabilities on the consolidated statements of financial condition. The portion of the change in the fair value of the interest rate swaps that is deemed effective in hedging the cash flows of the designated assets are recorded in accumulated other comprehensive income (loss) (OCI), net of tax and reclassified into interest income when such cash flows occur in the future. Any ineffectiveness resulting from the hedges is recorded as a gain or loss in the consolidated statements of income as a part of non-interest income. As of June 30, 2006, the amounts in accumulated OCI associated with these cash flow hedges was a loss of $2.6 million (net of tax of $1.7 million), of which $1.6 million is expected to be reclassified as a reduction of interest income within the next 12 months. As of June 30, 2006, the maximum length of time over which we are hedging our exposure to the variability of future cash flows is approximately 6.5 years.

Interest Rate Sensitivity

We monitor interest rate risk through the use of a simulation model. The simulation model provides us with the ability to simulate our net interest income. In order to measure, at June 30, 2006, the sensitivity of our forecasted net interest income to changing interest rates, both rising and falling interest rate scenarios were projected and compared to base market interest rate forecasts. One application of our simulation model measures the impact of market interest rate changes on the net present value of estimated cash flows from our assets and liabilities, defined as our market value of equity. This analysis assesses the changes in market values of interest rate sensitive financial instruments that would occur in response to an instantaneous and sustained increase in market interest rates.

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At June 30, 2006, our net interest income and market value of equity exposed to immediate and parallel hypothetical changes in market interest rates are illustrated in the following table.

Simulated Rate Changes	Estimated Net Interest Income Sensitivity	Market Value of Equity Volatility
+ 200 basis points	5.48%	(7.42)%
+ 100 basis points	2.95%	(3.50)%
- 100 basis points	(3.32)%	3.38%
- 200 basis points	(6.64)%	5.50%

Item 4. Controls and Procedures

a. Evaluation of disclosure controls and procedures

We conducted an evaluation under the supervision and with the participation of our management, including our Acting President and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) under the Securities Exchange Act of 1934 (Exchange Act)) as of June 30, 2006. Based upon that evaluation, our Acting President and Chief Financial Officer have determined that our disclosure controls and procedures have been designed and are being operated in a manner that provides reasonable assurance that the information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms, and that such information is accumulated and communicated to our management, including our Acting President and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. In designing and evaluating the disclosure controls and procedures, our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

b. Management s responsibility for financial statements

Our management is responsible for the integrity and objectivity of all information presented in this report. The consolidated financial statements were prepared in conformity with accounting principles generally accepted in the United States of America and include amounts based on management s best estimates and judgments. Management believes the consolidated financial statements fairly reflect the form and substance of transactions and that the financial statements fairly represent the Company s condensed consolidated financial position and results of operations for the periods and as of the dates stated therein.

The Audit Committee of the Board of Directors, which is composed solely of independent directors, meets regularly with our independent registered public accounting firm, Crowe Chizek and Company LLP, and representatives of management to review accounting, financial reporting, internal control and audit matters, as well as the nature and extent of the audit effort. The Audit Committee is responsible for the engagement of the independent auditors. The independent auditors have free access to the Audit Committee.

c. Changes in internal control over financial reporting

There have been no changes in our internal control over financial reporting during the quarter ended June 30, 2006 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II

OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There were no material changes from risk factors previously disclosed in our 2005 Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None

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

(a) The Company held its Annual meeting of shareholders on June 30, 2006.

(b) All of the current directors were elected at the Annual meeting to serve for a one-year term.

(c) At the Annual meeting, shareholders approved the election of directors and the ratification of the selection of Crowe Chizek and Company LLP as the Company s independent public accountants for the fiscal year ending December 31, 2006. The results of the voting were as follows:

Matter	Votes For	Votes Against	Votes Withheld	Abstentions	Broker Non-Votes
Election of Directors					
Howard N. Gould	17,654,555			3,627,907	
Dr. Chong-Moon Lee	18,166,652			3,115,810	
Jesun Paik	17,792,565			3,489,897	
Hyon M. Park (aka John Park)	18,080,458			3,202,004	
Ki Suh Park	17,877,887			3,404,575	
James P. Staes	18,249,294			3,033,168	
Independent Public Accountants	20,635,035	591,100		56,327	

Item 5. Other Information

None

Item 6. Exhibits

See Index to Exhibits .

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SIGNATURES

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

	NARA BANCORP, INC.
Date: August 3, 2006	/s/ Min Jung Kim Min Jung Kim Acting President and Chief Operating Officer
Date: August 3, 2006	/s/ Alvin D. Kang Alvin D. Kang Chief Financial Officer (Principal financial officer)

INDEX TO EXHIBITS

Number	**Description of Document**
31.1.1	Certification of Principal Executive Officer pursuant to section 302 of Sarbanes-Oxley of 2002
31.1.2	Certification of Principal Executive Officer pursuant to section 302 of Sarbanes-Oxley of 2002
31.1.3	Certification of Principal Executive Officer pursuant to section 302 of Sarbanes-Oxley of 2002
31.2	Certification of Chief Financial Officer pursuant to section 302 of Sarbanes-Oxley of 2002
32.1.1	Certification of Principal Executive Officer pursuant to section 906 of the Public Company Accounting Reform and Investor Protection Act of 2002
32.1.2	Certification of Principal Executive Officer pursuant to section 906 of the Public Company Accounting Reform and Investor Protection Act of 2002
32.1.3	Certification of Principal Executive Officer pursuant to section 906 of the Public Company Accounting Reform and Investor Protection Act of 2002
32.2	Certification of Chief Financial Officer pursuant to section 906 of the Public Company Accounting Reform and Investor Protection Act of 2002