2010 Annual Report

PREFERRED BANK

LOS ANGELES COUNTY

SAN BERNADINO COUNTY

ORANGE COUNTY

Northridge
Encino
Burbank
La Canada Flintridge
Pasadena
Arcadia
Alhambra
Covina
Century City
Los Angeles
Diamond Bar
City of Industry
Pico Rivera
El Segundo
Fullerton
Anaheim
Lakewood
Torrance
Long Beach
Rancho Palos Verdes
Santa Ana
Irvine

www.preferredbank.com

BRANCH LOCATIONS

Los Angeles Head Office
601 South Figueroa Street, 29th Floor
Los Angeles, CA 90017
213.891.1188

San Gabriel Valley Regional Office
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Alhambra, CA 91801
626.282.9700

South Bay Regional Office
21615 Hawthorne Boulevard, Suite 100
Torrance, CA 90503
310.921.0100

Century City Regional Office
1801 Century Park East, Suite 100
Los Angeles, CA 90067
310.286.2020

Irvine Branch
890 Roosevelt Avenue
Irvine, CA 92620
949.262.9800

City of Industry Branch
17515 Colima Road
City of Industry, CA 91748
626.935.1900

Arcadia Branch
1469 South Baldwin Avenue
Arcadia, CA 91006
626.294.9800

Diamond Bar Branch
1373 South Diamond Bar Boulevard
Diamond Bar, CA 91765
909.861.7200

Anaheim Branch
1045 North Tustin Avenue
Anaheim, CA 92807
714.575.8880

Pico Rivera Branch
7004 Rosemead Boulevard
Pico Rivera, CA 90660
562.641.2540

April 18, 2011

Dear Shareholders

We reported a net operating loss of $16.8 million for 2010. While we are deeply disappointed with the operating results, I must report to you regarding our efforts which will be of long term significance to the bank, because of the following, we are very optimistic:

1. In June 2010, we raised $77 million in new capital through a private offering. As of December 31, 2010, our capital ratios were well in excess of peer group and regulatory requirements.

2. Credit costs are declining. In 2008 our provision for loan losses was $30.6 million, in 2009 it was $70.3 million and in 2010 it declined to $16.6 million. Our costs of holding, valuing and disposing of OREO declined from $23.1 million in 2009 to $12.5 million in 2010. Also, credit charges from the investment portfolio (noted as other-than-temporary-impairment) decreased from $3.5 million in 2009 to $412,000 in 2010.

3. Over half of the $101.9 million non-performing loans that are on nonaccrual status were placed there in an abundance of caution. Payment status on a majority of our nonaccrual loans is current but interest we have received on these loans ($1.6 million to date) has been used to reduce the loan balances internally. It is very likely that a good portion of this "back-interest" will be a source of future income. We have also developed plans to resolve those nonaccrual loans that are delinquent in their payments. We are hopeful to achieve good results in reducing nonperforming loans in 2011.

4. The Bank's operations remain structurally profitable, even burdened with a large amount of nonperforming assets. Our net interest margin is satisfactory and operational costs are under control. With an inevitable reduction of nonperforming assets, we believe our net interest margin will continue to improve and operating costs will decline.

5. The Bank's loan portfolio was significantly restructured with reduced concentrations in loans which led to a large portion of our losses. In addition, the portfolio is more granular than in years past.

6. Preferred Bank retains a loyal customer base that has remained with us through this difficult period. Our staff continues to deliver a high level of service that has strengthened these relationships for the future.

7. The Bank continues to maintain strong liquidity and a rational loan to deposit ratio all through the difficult period of time which now provides a base for prudent future growth.

On behalf of the Board of Directors and our staff, we want to thank you for your continued support as we look toward a much brighter future. We are fully confident that we will be successful in achieving the objective of returning Preferred Bank back to a consistently high-performing financial institution.

Very truly yours,

Li Yu
Chairman of the Board,
President and Chief Executive Officer

FEDERAL DEPOSIT INSURANCE CORPORATION

Washington, D.C. 20429

FORM 10-K

Mark One

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

For the fiscal year ended December 31, 2010

or

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

For the transition period from to .

PREFERRED BANK

(Exact name of registrant as specified in its charter)

California	**33539**	**95-4340199**
(State or other jurisdiction of incorporation or organization)	(FDIC Certificate Number)	(I.R.S. Employer Identification No.)

601 S. Figueroa Street, 29th Floor, Los Angeles, California	**90017**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (213) 891-1188

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

Title of each class	Name of each exchange on which registered
Common Stock, No Par Value	The NASDAQ Stock Market LLC

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

None

(Title of class)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

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

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

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant, computed by reference to the price at which the common equity was last sold as of the last business day of the Registrant's most recently completed second fiscal quarter (June 30, 2010) was $33,447,578.

Number of shares of common stock of the Registrant outstanding as of March 28, 2011, was 65,942,527.

The following documents are incorporated by reference herein:

Document Incorporated By Reference	Part of Form 10-K Into Which Incorporated
Definitive Proxy Statement for the Annual Meeting of Shareholders which will be filed within 120 days of the fiscal year ended December 31, 2010	Part III

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PART I

Certain matters discussed in this Annual Report on Form 10-K may constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended ,and Section 21E of the Securities Exchange Act of 1934, as amended (, and as such, may involve risks and uncertainties. These forward-looking statements relate to, among other things, expectations of the environment in which the Bank operates and projections of future performance. Examples of forward-looking statements include but are not limited to: (i) projections of revenues, expenses, income or loss, earnings or loss per share, the payment or nonpayment of dividends, capital structure and other financial items; (ii) statements of plans, objectives and expectations of the Bank or its management or Board of Directors, including those relating to regulatory actions, business plans, products or services; (iii) statements of future economic performance; and (iv) statements of assumptions underlying such statements. Words such as "believes," "anticipates," "expects," "intends," "targeted," "continue," "remain," "will," "should," "may" and other similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. The Bank's actual results, performance, or achievements may differ significantly from the results, performance, or achievements expected or implied in such forward-looking statements. For discussion of some of the factors that might cause such differences, see "Item 1A. RISK FACTORS—Risk Factors That May Affect Future Results." We undertake no obligation to update these forward-looking statements to reflect events or circumstances that occur after the date on which such statements were made, except as required by law.

ITEM 1. BUSINESS

References in this Annual Report on Form 10-K to "we," "us," or "our," and the "Bank" mean Preferred Bank and its wholly-owned subsidiary, PB Investment and Consulting, Inc.

General

We are one of the larger commercial banks in California focusing on the Chinese-American market. We consider the Chinese-American market to encompass individuals born in the United States of Chinese ancestry, ethnic Chinese who have immigrated to the United States and ethnic Chinese who live abroad but conduct business in the United States.

We commenced operations in December 1991 as a California state-chartered bank in Los Angeles, California. Our deposits are insured by the Federal Deposit Insurance Corporation. We are a member of the Federal Home Loan Bank of San Francisco ("FHLB"). At December 31, 2010, our total assets were $1.3 billion, loans were $0.9 billion, deposits were $1.1 billion and shareholders' equity grew to $141.3 million with our equity raise in June 2010. We had a net loss per share on a diluted basis of $1.24 for the year ended December 31, 2010 as compared to net loss of $6.30 per share for the year ended December 31, 2009. The reduction in the net loss in 2010 was due to primarily to a reduction in our provision for loan loss in 2010 compared to 2009. We recorded a provision of $71.3 million in 2009, which was $54.7 million greater than the provision of $16.6 million recorded for 2010, and accounts for nearly all of the $56.7 million improvement in earnings performance. On a per share basis, the net loss was negatively impacted by $0.75 on a year-to-date basis to $1.24 loss per share because the beneficial conversion feature of our preferred stock was treated as a dividend for accounting purposes, thus reducing the income available to common shareholders. There was no actual reduction of the Bank's cash flow or other operating results due to the required accounting. We raised capital in 2010 in order to increase our capital ratios as a result of the loss incurred in 2009 and pursuant to the regulatory requirements discussed below. In addition we have worked successfully and continue to work to reduce our levels of non-performing assets which contributed significantly to our losses in 2009 and 2010.

We provide personalized deposit services as well as real estate finance, commercial loans and trade finance to small and mid-sized businesses and their owners, entrepreneurs, real estate developers and investors, professionals and high net worth individuals. We are generally focused on businesses as opposed to retail

customers and have a small number of customer relationships for whom we provide a high level of service and personal attention. We believe we have benefited, and will continue to benefit from the significant migration to Southern California of ethnic Chinese from China and other areas of East Asia. While our business is not solely dependent on the Chinese-American market, it represents an important element of our operating strategy, especially for our branch network and deposit products and services.

On March 16, 2010, our Board of Directors consented to the issuance of a Consent Order (the "Order") from the Federal Deposit Insurance Corporation (the "FDIC") and the California Department of Financial Institutions (the "DFI"). Pursuant to the Order, issued on March 22, 2010, we were required to, among other things, increase our capital and maintain certain regulatory capital ratios prior to specified dates. We raised over $70 million in net proceeds from the issuance of our convertible preferred stock to satisfy the capital requirements of the Order, which has essentially eliminated doubt about the Bank's ability to continue as a going concern. See "REGULATION AND SUPERVISION—Consent Order."

Our main office is located at 601 S. Figueroa Street, 29th Floor, Los Angeles, CA 90017 and our telephone number is (213) 891-1188. Our internet address is *www.preferredbank.com*. On our Investor Relations tab, which can be accessed through *www.preferredbank.com*, we post the following filings as soon as reasonably practicable after they are filed with or furnished to the Federal Deposit Insurance Corporation:

- Our annual report on Form 10-K,
- Our quarterly reports on Form 10-Q,
- Our current reports on Form 8-K,
- Our proxy statement related to our annual shareholders' meeting and any amendments to those reports or statements filed with or furnished to the FDIC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934,
- Our Form 4 statements of holdings of our directors and executive officers.

All such filings on our Investor Relations website are available free of charge. The reference to our website address does not constitute incorporation by reference of the information contained in the website and should not be considered part of this document. A copy of our Code of Personal and Business Conduct, including any amendments thereto or waivers thereof and Board Committee Charters can also be accessed on our website. We will provide, at no cost, a copy of our Code of Personal and Business Conduct and Board Committee Charters upon request by phone or in writing at the above phone number or address, attention: Edward J. Czajka, Executive Vice President and Chief Financial Officer.

Our Traditional Banking Business

We have historically provided a range of deposit and loan products and services to customers primarily within the following categories:

- *Real Estate Finance*—consisting of investors and developers within the real estate industry and of owner-occupied properties in Southern California. We have traditionally provided construction loans and mini-permanent ("mini-perm") loans for residential, commercial, industrial and other income producing properties, although construction lending is no longer a focus for new business. A portions of our real estate loans are to borrowers who are also international trade finance customers. We do not typically market single-family residential mortgages but provide them as an accommodation to our business customers.
- *Middle Market Business*—consisting of manufacturing, service and distribution companies with annual sales of approximately $5 million to $100 million and with borrowing requirements of up to approximately $12 million. We offer a range of lending products to customers in this market, including working capital loans, equipment financing and commercial real estate loans. In 2010, we increased our

focus on generation of working capital and equipment financing loans. Additionally, we provide a full range of deposit products and related services including safe deposit boxes, account reconciliation, courier service and cash management services.

- *International Trade Finance*—consisting of importers and exporters based in the U.S. requiring both borrowing and operational products. We offer a full range of products to international trade finance customers, including commercial and standby letters of credit, acceptance financing, documentary collections, foreign draft collections, international wires and foreign exchange.
- *Private Banking*—consisting of wealthy individuals residing in the Pacific Rim area with residences, real estate investments or businesses in Southern California. We offer all of our banking products and services to this segment through our multi-lingual team of professionals knowledgeable in the business environment and financial affairs of Pacific Rim countries. We believe our language capabilities provide us with a competitive advantage.
- *Professionals*—consisting generally of physicians, accountants, attorneys, business managers and other professionals. We provide specialized personal banking services to customers in this segment including courier service, several types of specialized deposit accounts and personal and business loans as well as lines of credit.

We provide a fully operational traditional Internet banking system with bill pay services for these customers.

Our Current Focus

As a result of the recession nationally and in California, beginning in 2009, we significantly curtailed making new loans and establishing new business relationships. Since that time, our primary focus has been management of our existing loan portfolio, capital management and liquidity management. We have adopted the following operating strategies as part of our current focus:

- *Managing our existing loan portfolio,* after having shifted our focus from the origination of new loans to portfolio management, through close monitoring and effective problem asset resolution;
- *Maintaining strong capital ratios,* after having raised capital to satisfy the requirements of the Order, we strive to continue to meet the requirements of the Order by reducing losses and by not growing our balance sheet;
- *Maintaining strong liquidity ratios* as we operate under the regulatory restrictions of the Order that restrict our ability to access brokered certificates of deposit (“CD’s”), we have significantly improved our liquidity monitoring process.

Our Market

The Bank has traditionally conducted operations from our main office in downtown Los Angeles, California and 12 full-service branch banking offices in Los Angeles, Orange and San Bernardino Counties. As part of the Bank’s focus on operating efficiency, in February 2010, the Bank combined its Chino Hills and Santa Monica branches into its Diamond Bar and Century City branches, respectively, and as a result, the Bank currently operates 10 branch offices. We market our services and conduct our business primarily in Los Angeles, Orange, Ventura, Riverside and San Bernardino counties.

We believe that Chinese-Americans continue to be the largest Asian ethnic group in Los Angeles County. According to the U.S. Census 2000, between 1990 and 2000, the Chinese-American population in the United States grew by approximately 48%, with 40% of all Chinese-Americans living in California. During this same period, it is estimated that the Chinese-American population in Los Angeles grew by 34%. According to the U.S.

Census Bureau, as of 2006, there were over 450,000 Chinese-Americans living in the three counties in which the Bank has branches, which represented 41% of all Chinese-Americans in California. As of March 2011, the ethnicity data was not yet available from the 2010 U.S. Census.

We believe that continuing consolidation and failures of banks generally in Southern California, and among the banks serving the Chinese-American market in particular, has created an underserved market of small and mid-sized businesses, real estate developers, investors and high net worth depositors that we can continue to attract as customers.

We believe we are well positioned to compete effectively with the Chinese-American community banks, the larger commercial banks and major publicly listed and foreign bank-owned Chinese banks operating in Southern California by offering the following:

- Deposit and cash management services to businesses and high net worth depositors with a high degree of personal service and responsiveness;
- An experienced, multi-lingual management team and staff who have an understanding of Asian markets and cultures who we believe can provide sophisticated credit solutions faster, more efficiently and with a higher degree of personal service than what is provided by our competition; and
- Loan products to customers requiring credit of a size in excess of what can be provided by our smaller competitors.

Our Lending Activities

Our current loan portfolio is comprised of the following four categories of loans:

- Real estate mini-perm loans;
- Real estate construction loans;
- Commercial loans; and
- Trade finance.

In addition to these loan types, we have historically made a small number of consumer loans principally as an accommodation to our business customers. We have also utilized our relationships within the banking industry to purchase and sell participations in loans that meet our underwriting criteria. As of December 31, 2010, we had a total of $109.8 million in purchased participation loans and $18.8 million in loans that we sold. We manage our loan portfolio to provide for an adequate return, but also to provide a diversification of risk. Due to the extremely difficult economic environment, we pared back in originating new loans as management was more focused on managing existing loan relationships, specifically, delinquent and non-performing loans.

We have historically originated our loans from our banking offices in Los Angeles, Orange, and San Bernardino counties. For mini-perm and construction loans, we have relied on referrals from existing clients who are real estate investors and developers as well as internal business development efforts. For our commercial and trade finance lending, we have sought referrals from existing banking clients as well as referrals from professionals, such as certified public accountants, attorneys and business managers.

At December 31, 2010, 79% of our loans carried interest rates that adjust with changes in the Prime Rate, 8% carried interest rates tied to LIBOR or other indices and 13% carried a fixed rate or were tied to CD rates. Approximately 73% of our loan portfolio has an interest rate floor.

The following table sets forth information regarding our four major loan portfolios:

	At December 31, 2010
	(Dollars in thousands)
Real Estate Mini Perm	
Portfolio size	$531,640
Number of loans	224
Average loan size	$ 2,373
Average LTV[(1)]	61.71%
Average DCR[(2)]	1.40x
Weighted average rate	5.47%
Average years since origination	3.1 years
Real Estate Construction[(3)]	
Portfolio size	$123,381
Number of loans	21
Average loan size	$ 5,875
Average LTV[(1)]	67.55%
Weighted average rate	5.75%
Average years since origination	3.1 years
Commercial Loans	
Portfolio size	$209,520
Number of loans	336
Average loan size	$ 624
Weighted average rate	5.33%
Average years since origination	3.4 years
Trade Finance	
Portfolio size	$ 50,520
Number of loans	106
Average loan size	$ 477
Weighted average rate	5.46%
Average years since origination	5.3 years

(1) Average loan-to-value at origination, or LTV, is calculated based upon a weighted average of outstanding principal loan balances (for mini-perm loans) or commitment (for construction loans) divided by the original value.
(2) Average debt coverage ratio at origination, or DCR, is calculated based upon the net operating income of the property divided by the debt service.
(3) Real estate construction includes loans held for sale of $2,556.

We had 143 loans with outstanding principal balances between $1 million to $5 million, 37 loans with outstanding principal balances between $5 million and $10 million, and 16 loans with outstanding principal balances over $10 million as of December 31, 2010.

Real Estate Mini-Perm Loans

Real estate mini-perm loans are secured by retail, industrial, office residential and residential multi-family properties and comprise 58% of our loan portfolio as of December 31, 2010. We seek diversification in our loan portfolio by maintaining a broad base of borrowers and monitoring our exposure to various property types as well as geographic concentrations. Total real estate mini-perm loans were $531.6 million at December 31, 2010 as compared to $565.3 million as of December 31, 2009. Net charge-offs of mini-perm loans accounted for 29.4% of our net loan charge-offs in 2010 compared to 44.1% in 2009. Excluding the land component of the portfolio, mini-perm net charge offs have accounted for 19.6% of our net charge-offs in 2010 compared to 18.3% in 2009.

We have worked to reduce the balance of land loans in our portfolio which totaled $133.6 million at December 31, 2010, due to the high loss rates experienced in this sector of the portfolio during 2009. The land component of the mini-perm portfolio has accounted for 9.8 % and 25.9% of our net charge-offs in 2010 and 2009, respectively.

The following table sets forth the breakdown of our real estate mini-perm portfolio by property type:

Property Type	At December 31, 2010	
	Amount	Percentage of Loans in Each Category in Total Loan Portfolio
	(Dollars in thousands)	
Commercial/Office	$ 75,295	8.23%
Retail	123,105	13.45
Industrial	60,157	6.57
Residential 1-4	32,098	3.51
Apartment 4+	107,385	11.73
Land / Special purpose	133,600	14.60
Total	$531,640	58.09%

The following table sets forth the maturity of our real estate mini-perm loan portfolio:

At December 31, 2010						
Less than					More Than 5-Years	Total Outstanding Balance
1-Year	2-Years	3-Years	4-Years	5-Years		
			(In thousands)			
$162,330	$121,970	$68,753	$54,679	$79,047	$44,861	$531,640

Loan Origination: The loan origination process for mini-perm loans begins with a loan officer collecting preliminary property information and financial data from a prospective borrower. After a preliminary deal sheet is prepared and approved by management, the loan officer collects the necessary third party reports such as appraisals, credit reports, environmental assessments and preliminary title reports as well as detailed financial information. We utilize third party appraisers from an appraiser list approved by our Board of Directors' loan committee. From that list, appraisers are selected by the Chief Credit Officer or Credit Administration.

All appraisals for loans over $1.0 million are reviewed by an additional outside appraiser. Appraisals for loans under that amount are reviewed by internal staff. A credit memorandum is then prepared by summarizing all third party reports and preparing an analysis of the adequacy of primary and secondary repayment sources; namely the property DCR and LTV as well as the outside financial strength and cash flow of the borrower(s) or guarantor(s). This completed credit memorandum is then submitted to an officer or committee having the appropriate authority for approval. For further information on our different levels of authority, see "—Loan Authorizations" below.

Once a loan is approved by the appropriate authority level, loan documents are drawn by our note department, which also funds the loan when approval conditions are met. On larger, relatively complex transactions, loan documents are prepared or reviewed by outside legal counsel.

Underwriting Standards: Our principal underwriting standards for real estate mini-perm loans are as follows:

- Maximum LTV of 75%-80%, depending on the property type. However, our practice is to lend at more conservative levels.
- Minimum DCR of 1.2-1.25, depending on the property type.
- Requirements of personal guarantees from the principals of any closely-held entity.

Monitoring: We monitor our mini-perm portfolio in different ways. First, for loans over $1.5 million, we conduct site inspections and gather rent rolls and operating statements on the subject properties at least annually. Using this information, we evaluate a given property's ability to service present payment requirements, and we perform "stress-testing" to evaluate the property's ability to service debt at higher debt levels or at lower cash flow levels. Second, on an annual basis, we request updated financial information from our borrowers and/or guarantors to monitor their financial capacity. In addition, to the extent any of our mini-perm loans become delinquent 90 days or more or become adversely classified loans, we order new appraisals every six months.

The vast majority of our mini-perm loans carry a five year maturity. However, it has been our practice to renew these loans for additional five-year periods based on a satisfactory payment record and an updated underwriting profile.

Real Estate Construction

Until we began reducing the origination of construction loans in the first quarter of 2008, we were an active construction lender with construction loans comprising well over 30% of our total loan portfolio as of September 30, 2007. Given the losses experienced in this portion of the portfolio, management worked to reduce total construction loans and as a result construction loans comprised only 13.5% of the total loan portfolio as of December 31, 2010 (13.2 % excluding the one construction loan held for sale) and 19.4% as of December 31, 2009. Construction loans comprised 46.4% of our net loan charge-offs during 2010. Management is actively working to continue to reduce our exposure to construction loans. We had 34 construction loans totaling $202.2 million as of December 31, 2009 which has been reduced to 21 construction loans totaling $123.4 million as of December 31, 2010. Because of our decision to curtail construction lending in early 2008 there was only $11.9 million of undisbursed construction funds remaining in this portfolio as of December 31, 2010. This would indicate that in aggregate, the construction projects supporting these loans are 91.2% complete. Our construction loans are typically short-term loans of up to 18 months for the purpose of funding the costs of constructing a building. Outstanding construction loans by property type including loans held for sale of $2.6 million are summarized as follows:

	At December 31, 2010	
Property Type	**Amount**	**Percentage of Loans in Each Category in Total Loan Portfolio**
	(Dollars in thousands)	
Commercial/Office	$ 795	0.09%
Retail	3,701	0.40
Industrial	—	—
For sale attached residential	66,788	7.29
For sale detached residential	23,379	2.56
Apartment	28,718	3.14
Land/Special purpose	—	—
Total	$123,381	13.48%

Loan Origination: The origination process for construction loans is identical to our real estate mini-perm origination process described above under "—Real Estate Mini-Perm Loans—Loan Origination," but with one additional step. We generally require a third party review of the developer's proposed building costs.

Underwriting Standards: Our underwriting standards for construction loans are identical to those described above under "—Real Estate Mini-Perm Loans—Underwriting Standards." For the for-sale-housing projects, however, the DCR requirement is not applicable. In addition, we require that the construction loan applicant have proven experience in the type of project under consideration. Finally, notwithstanding the maximum 75%-80% LTV discussed above under "—Real Estate Mini-Perm Loans—Underwriting Standards," we generally require a maximum 70% LTV for construction loans at origination.

Monitoring: The monitoring of construction loans is accomplished under the supervision of our Chief Credit Officer and the credit administration department. We engage third-party inspectors to report on the percentage of project completion as well as to evaluate whether the project is proceeding at an acceptable pace as compared to the original construction schedule. The third-party inspector also recommends whether we should approve or disapprove disbursement request amounts based on their site inspection and their review of the project budget. The third-party inspector produces a narrative report for each disbursement that contains evaluation and recommendation for each project. The CCO or credit administration reviews each report and makes a final determination regarding the disbursement requests. All approved disbursements are funded by our centralized note department.

Commercial Loans

We offer a variety of commercial loan products including lines of credit for working capital, term loans for capital expenditures and commercial and stand-by letters of credit. As a matter of practice, the Bank generally requires a deposit relationship with commercial borrowers. As of December 31, 2010, we had $209.5 million of commercial loans outstanding, which represented 22.8% of the overall loan portfolio. This loan category has traditionally experienced lower loss rates, particularly when compared to the loss rates on construction loans. During 2010, commercial loans comprised 22.2% of the Bank's net loan charge-offs but was concentrated on two credits. Currently, the Bank is seeking to slowly grow this line of business primarily because of the additional deposit relationships as well as the risk diversity that this portfolio brings to our overall loan portfolio. Lines of credit typically have a 12 month commitment and are secured by the borrower's assets. In cases of larger commitments, an updated certificate from the borrower may be required to determine eligibility at the time of any given advance. Term loans seldom exceed 60 months, but in no case exceed the depreciable life of the tangible asset being financed.

Trade Finance Credits: Our trade finance portfolio totaled $50.5 million, or 5.5% of our total loan portfolio as of December 31, 2010. Of this amount, virtually all loans were made to U.S. based importers who are also our current borrowers or depositors. Trade finance loans are essentially commercial loans but are typically made to importers or exporters. This portfolio has, similar to commercial loans, performed relatively well. During 2010, trade finance loans comprised 1.9% of the Bank's net loan charge-offs. We also provide standby letters of credit and foreign exchange services to our clients. Our new trade finance credit relationships result from contacts and relationships with existing clients, certified public accountants and trade facilitators such as customs brokers. In many cases, the ability to generate new trade finance business is also a result of cultivated social contacts and extended family.

We offer the following services to importers:

- Commercial letters of credit;
- Import lines of credit;
- Documentary collections;
- International wire transfers; and
- Acceptances/trust receipt financing.

We offer the following services to exporters:

- Export letters of credit;
- Export finance;
- Documentary collections;
- Bills purchase program; and
- International wire transfers.

Loan Origination: A commercial loan begins with a loan officer obtaining preliminary financial information from the borrower and guarantors and summarizing the loan request in a deal sheet. The deal sheet is then reviewed by senior management and/or those who have the loan authority to approve the credit. Following preliminary approval, the loan officer undertakes a formal underwriting analysis, including third party credit reports and asset verifications. From this information and analysis, a credit memorandum is prepared and submitted to an officer or committee having the appropriate approval authority for review. After approval, the note department prepares loan documentation reflecting the conditions of approval and funds the loan when those conditions are met.

Underwriting Standards: Our underwriting standards for commercial loans are designed to identify, measure, and quantify the risk inherent in these types of credits. Our underwriting process and standards help us identify the primary and secondary repayment sources. The following are our major underwriting guidelines:

- Cash flow is our primary underwriting criteria. We require a minimum 1.5:1 DCR for our commercial loans. We also review trends in the borrower's sales levels, gross profit and expenses.
- We evaluate the borrower's financial statements to determine whether a given borrower's balance sheet provides for appropriate levels of equity and working capital.
- Since most of our borrowers are closely held companies, we require the principals to guarantee the company debt. Our underwriting process, therefore, includes an evaluation of the guarantor's net worth, income and credit history. Where circumstances warrant, we may require guarantees be secured by collateral (generally with real estate).
- Where there is a reliance on the accounts receivable and inventory of a company, we evaluate their condition, which may include third party onsite audits.

Monitoring: For those borrowers whose credit availability is tied to a formula based on advances as a percentage of accounts receivable and inventory (typically ranging from 40%-80% and from 0%-50%, respectively), we review monthly borrowing base certificates for both availability and turnover trends. Periodically, we also conduct third party onsite audits, the frequency of which is dependent on the individual borrower. On a quarterly basis, we monitor the financial performance of a borrower by analyzing the borrower's financial statements for compliance with financial covenants.

Loan Concentrations

Financial instruments that potentially subject the Bank to concentrations of credit risk consist primarily of loans and investments. These concentrations may be impacted by changes in economics, industry or political factors. The Bank monitors its exposure to these financial instruments and obtains collateral as appropriate to mitigate such risk. The Order required that the Bank develop a plan to reduce its concentrations of risk in commercial real estate with a specific emphasis on construction and land loans. As such, the Bank has been and continues to work on reducing total construction and land loans.

As of December 31, 2010 and 2009, the percentage of loans secured by real estate in our total loan portfolio was approximately 71% and 74%, respectively. Over the course of 2010, the local and national economy continued to experience the effects of the economic downturn, which was led by a downturn in the residential real estate market. California has been particularly hard hit among a few other states. This has continued to put a substantial amount of pressure on the value of our residential construction and residential-use land loans. As such, we continue to experience a higher number of non-performing loans in these two sectors by comparison with pre-recession levels. This heightened number of non-performing loans has led to substantial loan losses and a significant increase in the provision for loan losses beginning in 2009 and continuing in 2010. We expect this trend to continue in 2011 but on a significantly diminished scale. Management is continuing to decrease our concentrations of residential construction loans and residential-use land loans through payoffs, foreclosure and note sales.

Our construction and mini-perm real estate loans by type of collateral including loans held for sale are as follows:

Property Type	At December 31, 2010	
	Amount	Percentage of Loans in Each Category in Total Loan Portfolio
	(Dollars in Thousands)	
Commercial/Office	$ 76,090	8.32%
Retail[1]	126,806	13.85
Industrial	60,157	6.57
1-4 family[2]	122,265	13.09
Multi-family	136,103	14.87
Land	44,664	4.88
Special purpose[3]	88,936	9.72
Total	$655,021	71.30%

(1) Includes shopping centers, strip malls or stand-alone properties which house retailers.
(2) Includes of loans held for sale of $2.556.
(3) Examples, other than land, include hospitality and self-storage.

To manage the risks inherent in this concentration in our loan portfolio, we have adopted a number of policies and procedures. Below is a list of the maximum loan-to-values used that must be met at loan origination, however, in practice, we rarely originate loans with loan-to-value ratios that are this high.

Collateral Type	LTV Maximum
Occupied 1-4	85%
Unimproved land	50%
Land development	60%
Improved properties	80%
Commercial construction	75%
1-4 SFR construction	80%

At December 31, 2010, the weighted average LTV of our construction and commercial real estate portfolio based on LTVs at the time of origination was 63%. Our practice is to require DCR's on commercial real estate loans of 1.2x to 1.25x, depending on the property type. We also underwrite our commercial real estate loans using a rate that is 1-2% greater than the proposed interest rate on the loan.

Our construction and mini-perm real estate loans including loans held for sale by geographic concentration are as follows.

(Dollars in thousands)	Inland Empire	So. CA	Other CA	Out of State	Total
Mini-Perm Residential	$ 1,214	$ 49,091	$ 3,009	$ 1,301	$ 54,615
Mini-Perm Commercial	40,748	343,937	50,943	41,397	477,025
Construction Residential*	6,859	79,259	—	4,049	90,167
Construction Commercial	3,701	29,513	—	—	33,214
Total Real Estate Loans	**$52,522**	**$501,800**	**$53,952**	**$46,747**	**$655,021**

* *Includes loans held for sale of $2,556 in Southern CA.*

In addition, we have established certain concentration limits for our real estate lending activities by property type. Our other real estate loan limitations include out of area (California) lending at no more than 10% of our portfolio. At December 31, 2010, 7.1% of our real estate portfolio was secured by real estate located outside of California. At December 31, 2010, the top 20 borrowing relationships of the Bank totaled $320.2 million in loans outstanding and comprised 35% of the total loan portfolio.

Except as described below, no individual or single group of related accounts is considered material in relation to our assets or deposits or in relation to our overall business. Approximately 71% of our loan portfolio at December 31, 2010 consisted of construction and real estate mini-perm loans. Moreover, our business activities are focused in Southern California. Consequently, our business is dependent on the trends of this regional economy, and in particular, the real estate markets. At December 31, 2010, we had 196 loans in excess of $1.0 million, totaling $802.8 million. These loans comprise approximately 28.4% of our loan portfolio based on number of loans and 87.7% based on total loans outstanding balance. Excluding credit card and consumer overdraft lines, our average loan size is $1.5 million.

Loan Maturities

In addition to measuring and monitoring concentrations in our loan portfolio, we also monitor the maturities and interest rate structure of our loan portfolio. The following table shows the amounts of loans outstanding as of December 31, 2010 which, based on remaining scheduled repayments of principal, were due in one year or less, more than one year through five years, and more than five years. The table also presents, for loans with maturities over one year, an analysis with respect to fixed interest rate loans and floating interest rate loans.

	At December 31, 2010 Maturity				Rate Structure for Loans Maturing Over One Year	
	One Year or Less	One through Five Years	Over Five Years	Total	Fixed Rate	Floating Rate
	(In thousands)					
Real estate mini-perm	$162,329	$324,450	$44,861	$531,640	$79,195	$290,116
Real estate-construction*	119,331	4,049	—	123,380	—	4,049
Commercial	149,208	57,950	2,362	209,520	381	59,931
Trade finance	43,972	6,548	—	50,520	—	6,548
Consumer	—	117	—	117	108	9
Other	232	—	—	232	—	—
Total	$475,072	$393,114	$47,223	$915,409	$79,684	$360,653

* *Includes loans held for sale of $2,556.*

The following table shows the amounts of loans outstanding as of December 31, 2009, which, based on remaining scheduled repayments of principal, were due in one year or less, more than one year through five years, and more than five years. Demand or other loans having no stated maturity and no stated schedule of repayments are reported as due in one year or less. The table also presents, for loans with maturities over one year, an analysis with respect to fixed interest rate loans and floating interest rate loans.

	At December 31, 2009 Maturity				Rate Structure for Loans Maturing Over One Year	
	One Year or Less	One through Five Years	Over Five Years	Total	Fixed Rate	Floating Rate
	(In thousands)					
Real estate mini-perm	$281,991	$252,329	$30,953	$ 565,273	$49,981	$233,301
Real estate-construction	165,146	37,040	—	202,187	—	37,040
Commercial	136,712	88,843	1,866	227,421	133	90,576
Trade finance	47,998	—	—	47,998	—	—
Consumer	—	119	—	119	107	12
Other	302	—	—	301	—	—
Total	$632,149	$378,331	$32,819	$1,043,299	$50,221	$360,929

As reflected in this data, the maturity of our portfolio is divided generally between loans maturing within one year or less and loans maturing between one and five years. Most of our shorter maturity loans are commercial, construction and trade finance loans. Most of the loans that have maturities between one and five years are real estate-mini-perm loans. Regardless of maturity, most of our loans have interest rates that adjust with changes in the Prime Rate.

Loan Authorizations

As a result of the deterioration of the credit portfolio during the last two years, the loan policy has been modified to reflect changes in the authorizations and approvals required to originate various loan types.

- *Individual Authorities*. Individual loan officers have approval authority up to $1.5 million for loans secured by first trust deeds or cash and up to $1,000,000 for unsecured transactions. The Chief Executive Officer and the Chief Credit Officer have combined approval authority up to $5.0 million. Loans in excess of $5.0 million are submitted to our Board of Directors Loan Committee for approval.
- *Board of Directors Loan Committee*. Our Board of Directors loan committee consists of five members of the Board of Directors and our Chief Executive Officer. It has approval authority up to our legal lending limit, which was approximately $45.1 million for real estate secured loans and $27.1 million for unsecured loans at December 31, 2010. The Bank has established internal loan limits which are lower than these legal lending limits. The Board of Directors loan committee also reviews all loan commitments granted in excess of $1.0 million on a quarterly basis for the preceding quarter.

All individual loan authorities are granted by the Loan Committee of our Board of Directors and are based on the individual's demonstrated credit judgment and lending experience.

If a credit falls outside of the guidelines set forth in our lending policies, the loan is not approved until it is reviewed by a higher level of credit approval authority. Credit approval authority has three levels, as listed above from lowest to highest level. Policy exceptions for cash flow, waiver of guarantee, excessive LTV or poor credit require approval of the President or Chief Credit Officer regardless of size.

We believe that the current authority levels provide satisfactory management and a reasonable percentage of secondary review. Any conditions placed on loans in the approval process must be satisfied before our Chief Credit Officer will release loan documentation for execution. Our Chief Credit Officer and his staff work entirely independent of loan production and have full responsibility for all loan disbursements.

Loan Grading and Loan Review

We seek to quantify the risk in our lending portfolio by maintaining a loan grading system consisting of eight different categories (Grades 1-8). The grading system is used to determine, in part, the allowance for loan losses. The first four grades in the system are considered acceptable risk; whereas the fifth grade is a short term transition grade. Loans in this category are subjected to enhanced analysis and either demonstrate their acceptableness and are returned to an acceptable grade or are moved to a "substandard" category should the loan's underlying credit elements so dictate. The other three grades range from a "substandard" category to a "loss" category. These three grades are further discussed below under the section subtitled "classified assets."

The originating loan officer initially assigns a grade to each credit as part of the loan approval process. Such grade may be changed as a loan application moves through the approval process.

Prior to funding, all new loans of $1.0 million or over are reviewed by the Credit Administration Officer who may assign a different grade to the credit. The grade on each individual loan is reviewed at least annually by the loan officer responsible for monitoring the credit. The Board of Directors reviews monthly the aggregate amount of all loans graded as special mention, substandard or doubtful, and each individual loan that has a grade within such range. Additionally, changes in the grade for a loan may occur through any of the following means:

- Monthly reviews by the Credit Administration Officer of a sample of loans approved under individual loan authority;

- Bank regulatory examinations; and
- Monthly action plans submitted to the Chief Credit Officer by the responsible lending officers for each credit graded 5-8.

Loan Delinquencies: When a borrower fails to make a committed payment, we attempt to cure the deficiency by contacting the borrower to seek payment. Habitual delinquencies and loans delinquent 30 days or more are reviewed for possible changes in grading.

Classified Assets: Federal regulations require that each insured bank classify its assets on a regular basis. In addition, in connection with examinations of insured institutions, examiners have authority to identify problem assets, and, if appropriate, classify them. We use grades 6-8 of our loan grading system to identify potential problem assets.

The Order required us to reduce the assets that were classified as 'substandard' within the Report of Examination dated September 30, 2009 to not more than 100% of Tier 1 capital and ALLL by September 17, 2010, which was 180 days from the effective date of the Order, and down to 50% of Tier 1 capital and ALLL by December 17, 2010, which was 270 days from the effective date of the Order. To date we have reduced these classified assets significantly but not down to the level required by the Order. We continue to work to achieve compliance with the requirements of the Order with respect to these classified assets.

Purchased Loan Participations

As of December 31, 2010, the Bank had $109.8 million in loans outstanding that were purchased from other financial institutions representing 12.0% of the loan portfolio. These loans include commercial real estate, construction and commercial loans. Loan participations comprised 43.7% of the Bank's loan charge-offs in 2010. The higher loss rate is primarily due to the fact that we are unable to control monitoring of the loan projects and loans for loss prevention as we do not have the primary relationship with the borrowers. Although these loans are underwritten using the same standards as loans that the Bank originates directly, it is the factors mentioned above that lead to higher loss rates. In light of the performance of this part of the portfolio, the Bank has ceased purchasing new loan participations and does not anticipate purchasing loan participations in the near future. However, the Bank may elect to renew existing loan participations.

Deposit Products and Other Sources of Funds

Our primary sources of funds for use in our lending and investment activities consist of:

- Deposits and related services;
- Maturities and principal and interest payments on loans and securities; and
- Borrowings.

Total deposits were $1.1 billion as of December 31, 2010, of which 20.5% were demand deposits, 14.5% were in savings and interest-bearing checking, 34.6% were in CD's > $100k and 30.4% were in other CD's. We closely monitor rates and terms of competing sources of funds and utilize those sources we believe to be the most cost effective consistent with our asset and liability management policies and consistent with the requirements of the Order

Deposits and Related Services: We have historically relied primarily upon, and expect to continue to rely primarily upon, deposits to satisfy our needs for sources of funds. An important balance sheet component impacting our net interest margin is the composition and cost of our deposit base. We can improve our net interest margin to the extent that growth in deposits can be focused in the less volatile and somewhat more traditional core deposits, or total deposits excluding CDs greater than $100,000, which are commonly referred to as Jumbo CDs.

We provide a wide array of deposit products. We offer regular checking, savings, negotiable order of withdrawal (NOW) and money market deposit accounts; fixed-rate, fixed maturity retail certificates of deposit ranging in terms from 14 days to two years; and individual retirement accounts and non-retail certificates of deposit consisting of Jumbo CDs. We attempt to price our deposit products in order to promote deposit growth and satisfy our liquidity requirements. We provide courier service to pick up non-cash deposits and, for those customers that use large amounts of cash, we arrange for armored car and vault service.

We provide a high level of personal service to our high net worth individual customers who have significant funds available to invest. We believe our Jumbo CDs are a stable source of funding because they are based primarily on service and personal relationships with senior Bank officers rather than interest rate. Further evidence of this is the fact that our average jumbo CD customer has been a customer of the Bank for over six years. Further, 5% of these Jumbo CDs are pledged as collateral for loans from us to the depositor or the depositor's affiliated business or family member. We monitor interest rates offered by our competitors and pay a rate we believe is competitive with the range of rates offered by such competitors. As of January 31, 2010, the Bank is subject to Part 337.6 of the FDIC Rules and Regulations which stipulates that a Bank that is not considered to be 'well-capitalized' (or is subject to a regulatory order) may not pay a rate of interest of any deposits that exceed 75 basis points over the national average. We monitor these national averages on a weekly basis and adjust our offering rates accordingly to maintain compliance with this FDIC rules.

Historically, the Bank has accessed the brokered deposit market for deposits to meet short-term liquidity requirements. In addition, we also are a member of the Certificate of Deposit Account Registry Service, or "CDARS". Our membership allows us to share our deposits that exceed FDIC insurance limits with other financial institutions and other financial institutions share their deposits with us in a reciprocal deposit-sharing transaction that allows our customers to receive full FDIC insurance coverage on their large deposit balances. This arrangement has been deemed to be a brokered deposit by the FDIC and thus must be reported as such even though the deposits represent customer relationships. During the fourth quarter of 2009, due to the fact that the Bank was no longer considered to be well-capitalized, the Bank is no longer allowed to access the brokered deposit market which also includes the CDARS reciprocal deposits. As such, the Bank will not renew any of these brokered deposits and have or will let all of them mature through the first quarter of 2012. CDARS reciprocal deposits are zero as of December 31, 2010.

In addition, pursuant to the Order, the Bank submitted to the FDIC and DFI a written plan for eliminating its reliance on brokered deposits. Management has also worked to create a more robust contingency funding plan to ensure that the Bank has sufficient liquidity to meet these brokered deposit maturities as well as to have specific plans in place to mitigate any previously unforeseen liquidity events to ensure a sufficient level of cash is always available. Although traditionally brokered deposits have not been a significant source of funding for the Bank, the Bank did begin to rely more on brokered deposits to augment its funding sources during the credit crisis of late 2008 due to all of the uncertainty in the market. At that time, as is the case now, the cost of brokered deposits was significantly lower than traditional retail deposits and thus represented an opportunity to reduce the Bank's cost of funds. In order to be able to meet the cash requirements of the maturities of the brokered deposits, management has worked to increase cash on hand, which as of December 31, 2010 was $108.2 million, representing 173% of total brokered deposits. In addition, management is anticipating a fairly significant level of pay-downs on the loan portfolio during 2011 which will also augment its cash position. Also, as the Bank will be selling OREO assets throughout the year and to the extent these are cash sales, this will also add to the Bank's immediate liquidity. Finally, the Bank is also able to raise deposits from time to time by posting our offering rates on certain websites which have investor subscribers who will open accounts with the Bank. Management is confident that these efforts will result in maintaining sufficient cash to be able to pay out maturing brokered deposits and also maintain a substantial level of contingent liquidity.

At December 31, 2010, excluding government deposits, brokered deposits and deposits as direct collateral for loans, we had 32 depositors with deposits in excess of $3.0 million that totaled $204 million, or 18.8% of our total deposits.

We intend to focus our efforts on attracting deposits from our business lending relationships in order to reduce our cost of funds and improve our net interest margin. Also, we believe that we have the ability to attract sufficient additional funding by advertising our CD rates on national Internet rate marketing web sites.

In addition to the marketing methods listed above, we seek to attract new clients and deposits by:

- Expanding long-term business customer relationships, including referrals from our customers, and
- Building deposit relationships through our branch relationship officers.

On October 3, 2008, the FDIC temporarily raised the basic limit on federal deposit insurance coverage from $100,000 to $250,000 per depositor through December 31, 2009, under the Emergency Economic Stabilization Act of 2008, as amended, and this increase was made permanent by Dodd-Frank, as defined and discussed below.

Other Borrowings: In the past we have also borrowed from the FHLB pursuant to an existing commitment based on the value of the collateral pledged (both loans and securities) in our portfolio. We had no outstanding FHLB advances at December 31, 2010. We currently have $103.2 million in available borrowing capacity at the FHLB. In addition, we have pledged $60.7 million securities at the Federal Reserve Bank Discount Window and may borrow against that as well. On February 11, 2009, we issued $26.0 million of unsecured senior debt in a pooled private placement transaction which carries the FDIC guarantee under its Temporary Liquidity Guarantee Program. The issuance has a 3-year maturity and a fixed interest rate of 2.74% paid semiannually. Under the Temporary Liquidity Guarantee Program, the FDIC will provide a 100% guarantee of certain unsecured senior debt of eligible FDIC-insured institutions.

Our Investment Activities

Our investment strategy is designed to be complementary to and interactive with our other strategies (*i.e.*, cash position; borrowed funds; quality, maturity, stability and earnings of loans; nature and stability of deposits; capital and tax planning). The target percentage for our investment portfolio is between 10% and 40% of total assets. Our general objectives with respect to our investment portfolio are to:

- Achieve an acceptable asset/liability mix;
- Provide a suitable balance of quality and diversification to our assets;
- Provide liquidity necessary to meet cyclical and long-term changes in the mix of assets and liabilities;
- Provide a stable flow of dependable earnings;
- Maintain collateral for pledging requirements;
- Manage and mitigate interest rate risk; and
- Provide funds for local community needs.

The total fair value and historical cost of investment securities amounted to $183.3 million and $191.6 million as of December 31, 2010, respectively. Investment securities consist primarily of investment grade corporate notes, municipal bonds, collateralized mortgage obligations, U.S. government agency securities, and U.S agency mortgage-backed securities. In addition, for bank liquidity purposes, we use overnight federal funds, which are temporary overnight sales of excess funds to correspondent banks.

As of December 31, 2010 the Bank classified all of its investment securities as “available-for-sale” pursuant to Investments—Debt and Equity Securities Topic of FASB ASC. Available for sale securities are reported at fair value, with unrealized gains and losses excluded from earnings and instead reported as a separate component of shareholders’ equity. Held to maturity securities would be securities that we have both the intent and the ability to hold to maturity. These securities would be carried at cost adjusted for amortization of premium and accretion of discount.

Our securities portfolio is managed in accordance with guidelines set by our investment policy. Specific day-to-day transactions affecting the securities portfolio are managed by our Chief Financial Officer, in accordance with our written investment policy. These securities activities are reviewed periodically, as needed, by our investment committee and are reported to our Board of Directors.

Our investment policy addresses strategies, types and levels of allowable investments and is reviewed and approved annually by our Board of Directors. It also limits the amount we can invest in various types of securities, places limits on average life and duration of securities, and limits the securities dealers with whom we can conduct business.

Our Competition

The banking and financial services business in Southern California is highly competitive. This increasingly competitive environment faced by banks is a result primarily of changes in laws and regulation, changes in technology and product delivery systems, and the accelerating pace of consolidation among financial services providers. We compete for loans, deposits and customers with other commercial banks, savings and loan associations, securities and brokerage companies, mortgage companies, insurance companies, finance companies, money market funds, credit unions and other nonbank financial services providers. Many of these competitors are much larger in total assets and capitalization, have greater access to capital markets, including foreign ownership and/or offer a broader range of financial services than we can offer.

We also compete with two publicly listed Chinese-American banks, and subsidiary banks and branches of foreign banks, from countries such as Taiwan and China, many of which have greater lending limits, and a wider variety of products and services. Additionally, we compete with Chinese-American and mainstream community banks for both deposits and loans.

Competition for deposit and loan products remains strong from both banking and non-banking firms and this competition directly affects the rates of those products and the terms on which they are offered to customers.

Technological innovation continues to contribute to greater competition in domestic and international financial services markets. Many customers now expect a choice of several delivery systems and channels including physical branch offices, telephone, mail, Internet, ATMs, remote deposit capture and mobile banking.

Mergers between financial institutions have placed additional pressure on banks to consolidate their operations, reduce expenses and increase revenues to remain competitive. In addition, competition has intensified due to federal and state interstate banking laws, which permit banking organizations to expand geographically with fewer restrictions than in the past. These laws allow banks to merge with other banks across state lines, thereby enabling banks to establish or expand banking operations in our market. The competitive environment is also significantly impacted by federal and state legislation that make it easier for non-bank financial institutions to compete with us.

REGULATION AND SUPERVISION

The following discussion of statutes and regulations affecting banks is only a summary and does not purport to be complete. This discussion is qualified in its entirety by reference to such statutes and regulations. No assurance can be given that such statutes or regulations will not change in the future.

General

The Bank is extensively regulated under both federal and state laws. Regulation and supervision by the federal and state banking agencies is intended primarily for the protection of depositors and the Deposit Insurance Fund administered by the FDIC, and not for the benefit of shareholders.

As a California state-chartered bank which is not a member of the Federal Reserve System, we are subject to supervision, periodic examination and regulation by the DFI, as the Bank's state regulator, and by the FDIC as the Bank's primary federal regulator. The regulations of these agencies govern most aspects of our business, including the filing of periodic reports by us, and our activities relating to dividends, investments, loans, borrowings, capital requirements, certain check-clearing activities, branching, mergers and acquisitions, reserves against deposits and numerous other areas. The Bank is subject to significant regulation and restrictions by federal and state laws and regulatory agency. If, as a result of an examination, either the DFI or the FDIC should determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity, or other aspects of the Bank's operations are unsatisfactory or that the Bank or its management is violating or has violated any law or regulation, various remedies are available to the DFI and the FDIC. These remedies include the power to (i) require affirmative action to correct any conditions resulting from any violation or practice; (ii) direct an increase in capital and the maintenance of higher specific minimum capital ratios, which may preclude the Bank from being deemed well capitalized and restrict its ability to accept certain brokered deposits; (iii) restrict the Bank's growth geographically, by products and services, or by mergers and acquisitions, including bidding in FDIC receiverships for failed banks; (vi) enter into informal nonpublic or formal public memoranda of understanding or written agreements with the Bank to take corrective action; (v) issue an administrative cease and desist order that can be judicially enforced; (vi) enjoin unsafe or unsound practices; (vii) assess civil monetary penalties; and (viii) require prior approval of senior executive officers and director changes or remove officers and directors. Ultimately the FDIC could terminate the Bank's FDIC insurance and the DFI could revoke the Bank's charter or take possession and close and liquidate the Bank.

The Bank's profitability, like most financial institutions, is primarily dependent on our ability to maintain a favorable differential or "spread" between the yield on our interest-earning assets and the rate paid on our deposits and other interest-bearing liabilities. In general, the difference between the interest rates paid by the Bank on interest-bearing liabilities, such as deposits and other borrowings, and the interest rates received by the Bank on our interest-earning assets, such as loans extended to customers and securities held in our investment portfolio, will comprise the major portion of the Bank's earnings. These rates are highly sensitive to many factors that are beyond the control of the Bank, such as inflation, recession and unemployment, and the impact of future changes in domestic and foreign economic conditions might have on the Bank cannot be predicted.

The Bank's business is also influenced by the monetary and fiscal policies of the federal government, and the policies of the regulatory agencies, particularly the Board of Governors of the Federal Reserve System (the "FRB"). The FRB implements national monetary policies (with objectives such as curbing inflation and combating recession) through its open-market operations in United States government securities, by adjusting the required level of reserves for financial institutions subject to its reserve requirements and by varying the target federal funds and discount rates applicable to borrowings by depository institutions. The actions of the FRB in these areas influence the growth of bank loans, investments and deposits and also affect interest earned on interest-earning assets and paid on interest-bearing liabilities. The nature and impact of any future changes in monetary and fiscal policies on the Bank cannot be predicted.

Because California law permits commercial banks chartered by the state to engage in any activity permissible for national banks, the Bank may form subsidiaries to engage in the many so-called "closely related

to banking" or "nonbanking" activities commonly conducted by national banks in operating subsidiaries to the same extent as may a national bank, and, further, may conduct certain "financial" activities in a subsidiary as authorized by the Gramm-Leach-Bliley Act of 1999. Generally, a financial subsidiary is permitted to engage in activities that are "financial in nature" or incidental thereto, even though they are not permissible for a national bank to conduct directly within the bank. The definition of "financial in nature" includes, among other items, underwriting, dealing in or making a market in securities, including, for example, distributing shares of mutual funds. A financial subsidiary may not, however, under present law, engage as principal in underwriting insurance (other than credit life insurance), issue annuities or engage in real estate brokerage or development or in merchant banking activities. In order to form a financial subsidiary, the Bank must be "well-capitalized," "well-managed" and in satisfactory compliance with the Bank's obligations under Community Reinvestment Act ("CRA") to help meet the credit needs of their communities including low-and moderate-income neighborhoods. Further, the Bank would be required to exclude from its assets and capital all equity investments, including retained earnings, in a financial subsidiary, and the assets of a financial subsidiary may not be consolidated with the Bank's assets. The Bank would also be subject to the same risk management and affiliate transaction rules that apply to national banks with financial subsidiaries. The Bank presently has no financial subsidiaries.

Changes in federal or state banking laws or the regulations, policies or guidance of the federal or state banking agencies could have an adverse cost or competitive impact on the Bank's operations. We cannot predict whether or when potential legislation or new regulations will be enacted, and if enacted, the effect that new legislation or any implemented regulations and supervisory policies would have on our financial condition and results of operations. Such developments may further alter the structure, regulation, and competitive relationship among financial institutions, and may subject us to increased regulation, disclosure, and reporting requirements. Moreover, the bank regulatory agencies continue to be aggressive in responding to concerns and trends identified in examinations, and this has resulted in the increased issuance of enforcement actions to financial institutions requiring action to address credit quality, capital adequacy, liquidity and risk management, as well as other safety and soundness concerns. In addition, the outcome of any investigations initiated by federal or state authorities or the outcome of litigation may result in additional regulation, necessary changes in our operations and increased compliance costs.

Economic, Legislative and Regulatory Developments

From approximately December 2007 through June 2009, the U.S. economy was in recession. Business activity across a wide range of industries and regions in the United States was greatly reduced. Although economic conditions have improved, certain sectors, such as real estate, remain weak and unemployment remains high. Local governments and many businesses are still in serious difficulty due to reduced consumer spending and continued liquidity challenges in the credit markets. In response to this economic downturn and financial industry instability, legislative and regulatory initiatives were, and are expected to continue to be, introduced and implemented, which substantially intensify the regulation of the financial services industry.

The Dodd-Frank Wall Street Reform and Consumer Protection Act

The landmark Dodd-Frank Wall Street Reform and Consumer Protection Act financial reform legislation ("Dodd-Frank"), which became law on July 21, 2010, significantly revised and expanded the rulemaking, supervisory and enforcement authority of federal bank regulators. Dodd-Frank followed other legislative and regulatory initiatives in 2008 and 2009 in response to the economic downturn and financial industry instability. Dodd-Frank impacts many aspects of the financial industry and, in many cases, will impact larger and smaller financial institutions and community banks differently over time. Dodd-Frank includes, among other things, the following:

(i) the creation of a Financial Services Oversight Counsel to identify emerging systemic risks and improve interagency cooperation;

(ii) expanded FDIC resolution authority to conduct the orderly liquidation of certain systemically significant non-bank financial companies in addition to depository institutions;

(iii) the establishment of strengthened capital and liquidity requirements for banks and bank holding companies, including minimum leverage and risk-based capital requirements no less than the strictest requirements in effect for depository institutions as of the date of enactment;

(iv) the requirement by statute that bank holding companies serve as a source of financial strength for their depository institution subsidiaries;

(v) enhanced regulation of financial markets, including the derivative and securitization markets, and the elimination of certain proprietary trading activities by banks;

(vi) the termination of investments by the United States Department of the Treasury (the "U.S. Treasury") under the Troubled Asset Relief Program ("TARP");

(vii) the elimination and phase out of trust preferred securities from Tier 1 capital with certain exceptions;

(viii) a permanent increase of the previously implemented temporary increase of FDIC deposit insurance to $250,000 and an extension of federal deposit coverage until January 1, 2013 for the full net amount held by depositors in non-interesting bearing transaction accounts;

(ix) authorization for financial institutions to pay interest on business checking accounts;

(x) changes in the calculation of FDIC deposit insurance assessments, such that the assessment base will no longer be the institution's deposit base, but instead, will be its average consolidated total assets less its average tangible equity; and an increase in the minimum insurance ratio for the Deposit Insurance Fund from 1.15% to 1.35%;

(xi) the elimination of remaining barriers to de novo interstate branching by banks;

(xii) expanded restrictions on transactions with affiliates and insiders under Section 23A and 23B of the Federal Reserve Act and lending limits for derivative transactions, repurchase agreements and securities lending and borrowing transactions;

(xiii) the transfer of oversight of federally chartered thrift institutions to the Office of the Comptroller of the Currency and state chartered savings banks to the FDIC, and the elimination of the Office of Thrift Supervision;

(xiv) provisions that affect corporate governance and executive compensation at most U.S. publicly traded companies, including financial institutions, including (1) shareholder advisory votes on executive compensation, (2) executive compensation "clawback" requirements for companies listed on national securities exchanges in the event of materially inaccurate statements of earnings, revenues, gains or other criteria, (3) enhanced independence requirements for compensation committee members, and (4) authority for the SEC to adopt proxy access rules which would permit shareholders of publicly traded companies to nominate candidates for election as director and have those nominees included in a company's proxy statement; and

(xv) the creation of a Consumer Financial Protection Bureau, which is authorized to promulgate consumer protection regulations relating to bank and non-bank financial products and examine and enforce these regulations on banks with more than $10 billion in assets.

We cannot predict the extent to which the interpretations and implementation of this wide-ranging federal legislation by regulations and in supervisory policies and practices may affect us. Many of the requirements of Dodd-Frank will be implemented over time and most are subject to regulations to be implemented or which will not become fully effective for several years. Some of the regulations required by various sections of Dodd-Frank

have been issued as proposed rulemakings and/or interim rules and some have been adopted as final rules. There can be no assurance that these or future reforms (such as possible new standards for commercial real estate lending or new stress testing guidance for all banks) arising out of these regulations and studies and reports required by Dodd-Frank will not significantly increase our compliance or other operating costs and earnings or otherwise have a significant impact on our business, financial condition and results of operations. Dodd-Frank will likely result in more stringent capital, liquidity and leverage requirements on us and may otherwise adversely affect our business. For example, the provisions that affect the payment of interest on demand deposits and interchange fees are likely to increase the costs associated with deposits as well as place limitations on certain revenues those deposits may generate. Provisions that require revisions to the capital requirements of the Bank could require the Bank to seek other sources of capital in the future. As a result of the changes required by Dodd-Frank, we may be required to make changes to certain of our business practices. These changes may also require us to invest significant management attention and resources to evaluate and make any changes necessary to comply with new statutory and regulatory requirements.

Emergency Economic Stabilization Act and American Recovery and Reinvestment Act

Through its authority under the Emergency Economic Stabilization Act of 2008 (the "Emergency Economic Stabilization Act"), as amended by the American Recovery and Reinvestment Act of 2009 ("ARRA"), the U.S. Treasury implemented the TARP Capital Purchase Program (the "TARP CPP"), a program designed to temporarily inject capital into financial institutions. In order to participate in the TARP CPP, financial institutions were required to adopt certain standards for executive compensation and corporate governance. The ARRA included a wide variety of programs intended to stimulate the economy and provide for extensive infrastructure, energy, health, and education needs. The ARRA imposed certain new, more stringent executive compensation and corporate expenditure limits on all current and future TARP CPP recipients until the U.S. Treasury is repaid. The Bank elected not to participate in the TARP CPP.

Federal Banking Agencies Compensation Guidelines

Guidelines adopted by the federal banking agencies pursuant to the Federal Deposit Insurance Act ("FDI Act") prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal shareholder. In June 2010, the federal bank regulatory agencies jointly issued additional comprehensive guidance on incentive compensation policies (the "Incentive Compensation Guidance") intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The Incentive Compensation Guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon the key principles that a banking organization's incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the organization's ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the organization's board of directors. Any deficiencies in compensation practices that are identified may be incorporated into the organization's supervisory ratings, which can affect its ability to make acquisitions or perform other actions. The Incentive Compensation Guidance provides that enforcement actions may be taken against a banking organization if its incentive compensation arrangements or related risk-management controls or governance processes pose a risk to the organization's safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

On February 7, 2011, the Board of Directors of the FDIC approved a joint proposed rulemaking to implement Section 956 of Dodd-Frank for banks with $1 billion or more in assets. Section 956 prohibits incentive-based compensation arrangements that encourage inappropriate risk taking by covered financial institutions and are deemed to be excessive, or that may lead to material losses. The proposed rule would

move the United States closer to aspects of international compensation standards by (i) requiring deferral of a substantial portion of incentive compensation for executive officers of particularly large institutions; (ii) prohibiting incentive-based compensation arrangements for covered persons that would encourage inappropriate risks by providing excessive compensation; (iii) prohibiting incentive-based compensation arrangements for covered persons that would expose the institution to inappropriate risks by providing compensation that could lead to a material financial loss; (iv) requiring policies and procedures for incentive-based compensation arrangements that are commensurate with the size and complexity of the institution; and (v) requiring annual reports on incentive compensation structures to the institution's appropriate Federal regulatory agency. A joint rule making proposal will be published for comment by all of the banking agencies and the SEC, among other agencies.

The scope, content and application of the U.S. banking regulators' policies on incentive compensation continue to evolve in the aftermath of the economic downturn. It cannot be determined at this time whether compliance with such policies will adversely affect our ability to hire, retain and motivate key employees.

The Small Business Jobs Act of 2010

The Small Business Jobs Act of 2010 makes available up to $30 billion of funds for preferred stock capital investments by the U.S. Treasury in banks with less than $10 billion assets as of December 31, 2009 through the Small Business Lending Fund ("SBLF"). Banks with up to $1 billion assets may apply for up to 5%, and banks with more than $1 billion but less than $10 billion assets 3%, of their risk-weighted assets. In some cases, preferred stock issued under the SBLF may be exchanged for preferred stock issued to TARP CPP. Banks on or recently removed from the FDIC problem bank list may not apply and banks with other supervisory problems or enforcement actions may be required to raise matching capital or may have their application denied. The new law provides that the term of the preferred stock is a maximum of 10 years and that the capital is to receive Tier 1 treatment. The interest rate on the preferred starts at 5% and may later range between 1% and 9%, depending on, among other things, the amount of qualifying small business loans which the recipient bank makes. The Bank has not applied to participate in the SBLF.

Capital Standards

The federal banking agencies have adopted risk-based minimum capital guidelines for banks which are intended to provide a measure of capital that reflects the degree of risk associated with a banking organization's operations for both transactions reported on the balance sheet as assets, and transactions, such as letters of credit and recourse arrangements, which are recorded as off-balance sheet items.

The risk-based capital ratio is determined by classifying assets and certain off-balance sheet financial instruments into weighted categories, with higher levels of capital being required for those categories perceived as representing greater risk. Under the capital guidelines, a banking organization's total capital is divided into tiers. "Tier I capital" consists of (1) common equity, (2) qualifying noncumulative perpetual preferred stock, (3) a limited amount of qualifying cumulative perpetual preferred stock and (4) minority interests in the equity accounts of consolidated subsidiaries (including trust-preferred securities), less goodwill and certain other intangible assets. Qualifying Tier I capital may consist of trust-preferred securities, subject to certain criteria and quantitative limits for inclusion of restricted core capital elements in Tier I capital. "Tier II capital" consists of hybrid capital instruments, perpetual debt, mandatory convertible debt securities, a limited amount of subordinated debt, preferred stock and trust-preferred securities that do not qualify as Tier I capital, a limited amount of the allowance for loan and lease losses and a limited amount of unrealized holding gains on equity securities. "Tier III capital" consists of qualifying unsecured subordinated debt. The sum of Tier II and Tier III capital may not exceed the amount of Tier I capital.

The risk-based capital guidelines require a minimum ratio of qualifying total capital to risk-adjusted assets of 8.0%, and a minimum ratio of Tier 1 capital to risk-adjusted assets of 4.0%. In addition to the risk-based guidelines, the federal bank regulatory agencies require banking organizations to maintain a minimum amount of

Tier 1 capital to total assets, referred to as the leverage ratio. For a banking organization rated well capitalized, 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 3.0%.

An institution's risk-based capital, leverage capital and tangible capital ratios together determine the institution's capital classification. An institution is treated as well capitalized if its total capital to risk-weighted assets ratio is 10.00% or more; its core capital to risk-weighted assets ratio is 6.00% or more; and its core capital to adjusted total assets ratio is 5.00% or more.

The regulatory capital guidelines as well as Preferred Bank's actual capitalization as of December 31, 2010 are as follows:

Leverage Ratio	
Preferred Bank	11.16%
Minimum requirement for "Well-Capitalized" institution	5.00%
Minimum regulatory requirement	4.00%
Tier 1 Risk-Based Capital Ratio	
Preferred Bank	13.75%
Minimum requirement for "Well-Capitalized" institution	6.00%
Minimum regulatory requirement	4.00%
Total Risk-Based Capital Ratio	
Preferred Bank	15.02%
Minimum requirement for "Well-Capitalized" institution	10.00%
Minimum regulatory requirement	8.00%

As discussed immediately below, pursuant to the Order, the Bank must maintain the capital requirements contained in the Order and the FDIC's Statement of Policy on Risk-Based Capital. For further information regarding the capital ratios of the Bank, see the discussion under Note 11—"Restrictions on Cash Dividends, Regulatory Capital Requirements" in the notes to the consolidated financial statements.

Consent Order

The Order, among other things, requires that the Bank (i) have and maintain qualified management and notify the FDIC and the DFI in writing when it proposes to make any changes in its Board of Directors or senior executive officers at least 30 days prior to the date any change is to become effective; (ii) obtain and maintain the capital requirements contained in the Order and the FDIC's Statement of Policy on Risk-Based Capital; (iii) reduce assets classified as substandard as of 9/30/09 to not more than 50% of the Bank's Tier 1 capital and ALLL within 270 days of the Order; (iv) reduce concentrations of construction and land loans; (v) adopt an enhanced written liquidity management policy and adopt a written plan which addresses profit retention; and (vi) submit quarterly progress reports detailing actions taken to comply with the Order. The Order also prohibits the Bank from paying cash dividends or making any other payments to its shareholders without prior written consent of the FDIC and the DFI. The Board of Directors and management remain committed to addressing and resolving the matters identified in the Order and are in compliance with most of the Order's requirements.

As of December 31, 2010, the capital levels of the Bank exceeded the minimum capital levels required by the Order. Our capital ratios as of December 31, 2010 and the minimum capital ratios we are required to maintain pursuant to the Order are set forth in the table below:

Ratio	Preferred Bank at 12/31/10	Consent Order Requirement
Tier 1 Leverage Ratio	11.16%	10.0%
Tangible Common Equity Ratio	11.25%	10.0%
Total Risk-Based Capital Ratio	15.02%	12.0%

Because the Bank must maintain minimum capital ratios required by the Order, it is considered to be an "adequately capitalized bank," rather than a "well capitalized" bank, even though, as of December 31, 2010, the Bank maintained capital ratios in excess of those ratios required for "well-capitalized" status. See Prompt Corrective Action Regulations below.

The Order required us to reduce the assets that were classified as 'substandard' within the Report of Examination dated September 30, 2009 to not more than 100% of Tier 1 capital and ALLL by September 17, 2010, which was 180 days from the effective date of the Order, and down to 50% of Tier 1 capital and ALLL by December 17, 2010, which was 270 days from the effective date of the Order. To date we have reduced the level of assets classified as "Substandard" within the 2009 Report of Examination to not more than 102% of Tier 1 capital and ALLL and we are continuing our efforts to reduce such assets further to obtain full compliance with the Order.

To address the items contained in the Order, management has completed or is in the process of completing the following actions:

- We raised capital during the second quarter of 2010 to satisfy the requirements of the Order through the issuance of convertible Series A preferred stock, which automatically converted to common stock in the third quarter of 2010 by the vote of our outstanding shares at a special meeting of shareholders;
- We engaged an independent third party to conduct a comprehensive management study and our Board of Directors and management are working toward the implementation of some of the recommendations contained in the study;
- We reduced the level of assets classified as "Substandard" within the 2009 Report of Examination to obtain compliance with the initial limit of not more than 100% of Tier 1 capital and ALLL and we are continuing to make further reductions;
- We revised and significantly enhanced our ALLL adequacy determination process;
- We have created a written plan addressing the retention of profits and have a Board-approved budget for 2011; and
- We developed written Plans to reduce construction and land loan concentrations and we revised our liquidity and funds management policies.

The Order was filed as an exhibit to the Form 8-K filed by the Bank with the FDIC on March 31, 2010, and the FDIC has made a copy of the Order available on its website at www.fdic.gov. The contents of the FDIC website are not incorporated by reference into this filing. The Order will remain in effect until modified or terminated by the FDIC and DFI.

Prompt Corrective Action Regulations

The FDI Act provides a framework for regulation of depository institutions and their affiliates, including parent holding companies, by their federal banking regulators. Among other things, it requires the relevant federal banking regulator to take "prompt corrective action" with respect to a depository institution if that institution does not meet certain capital adequacy standards, including requiring the prompt submission of an acceptable capital restoration plan. Supervisory actions by the appropriate federal banking regulator under the prompt corrective action rules generally depend upon an institution's classification within five capital categories as defined in the regulations. The relevant capital measures are the capital ratio, the Tier 1 capital ratio, and the leverage ratio. However, the federal banking agencies have also adopted non-capital safety and soundness standards to assist examiners in identifying and addressing potential safety and soundness concerns before capital becomes impaired. These include operational and managerial standards relating to: (i) internal controls, information systems and internal audit systems, (ii) loan documentation, (iii) credit underwriting, (iv) asset quality and growth, (v) earnings, (vi) risk management, and (vii) compensation and benefits.

A depository institution's capital tier under the prompt corrective action regulations will depend upon how its capital levels compare with various relevant capital measures and the other factors established by the regulations. A bank will be: (i) "well capitalized" if the institution has a total risk-based capital ratio of 10.0% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater, and a leverage ratio of 5.0% or greater and is not subject to any order or written directive by any such regulatory authority to meet and maintain a specific capital level for any capital measure; (ii) "adequately capitalized" if the institution has a total risk-based capital ratio of 8.0% or greater, a Tier 1 risk-based capital ratio of 4.0% or greater, and a leverage ratio of 4.0% or greater and is not "well capitalized"; (iii) "undercapitalized" if the institution has a total risk-based capital ratio that is less than 8.0%, a Tier 1 risk-based capital ratio of less than 4.0%, or a leverage ratio of less than 4.0%; (iv) "significantly undercapitalized" if the institution has a total risk-based capital ratio of less than 6.0%, a Tier 1 risk-based capital ratio of less than 3.0%, or a leverage ratio of less than 3.0%; and (v) "critically undercapitalized" if the institution's tangible equity is equal to or less than 2.0% of average quarterly tangible assets. An institution may be downgraded to, or deemed to be in, a capital category that is lower than indicated by its capital ratios if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating with respect to certain matters.

The FDI Act generally prohibits a depository institution from making any capital distributions (including payment of a dividend) or paying any management fee to its parent holding company if the depository institution would thereafter be "undercapitalized." "Undercapitalized" institutions are subject to growth limitations and are required to submit a capital restoration plan. The regulatory agencies may not accept such a plan without determining, among other things, that the plan is based on realistic assumptions and is likely to succeed in restoring the depository institution's capital. If a depository institution fails to submit an acceptable plan, it is treated as if it is "significantly undercapitalized." "Significantly undercapitalized" depository institutions may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become "adequately capitalized," requirements to reduce total assets, and cessation of receipt of deposits from correspondent banks. "Critically undercapitalized" institutions are subject to the appointment of a receiver or conservator.

A bank that does not achieve and maintain the required capital levels may be issued a capital directive by the FDIC to ensure the maintenance of required capital levels. The appropriate federal banking agency may, under certain circumstances, reclassify a well capitalized insured depository institution as adequately capitalized. The FDI Act provides that an institution may be reclassified if the appropriate federal banking agency determines (after notice and opportunity for a hearing) that the institution is in an unsafe or unsound condition or deems the institution to be engaging in an unsafe or unsound practice. The appropriate agency is also permitted to require an adequately capitalized or undercapitalized institution to comply with the supervisory provisions as if the institution were in the next lower category (but not treat a significantly undercapitalized institution as critically undercapitalized) based on supervisory information other than the capital levels of the institution.

Basel Capital and Liquidity Initiatives

The current risk-based capital guidelines which apply to the Bank are based upon the 1988 capital accord (referred to as "Basel I") of the International Basel Committee on Banking Supervision (the "Basel Committee"), a committee of central banks and bank supervisors and regulators from the major industrialized countries. The Basel Committee develops broad policy guidelines for use by each country's supervisors in determining the supervisory policies they apply. A new framework and accord, referred to as Basel II evolved from 2004 to 2006 out of the efforts to revise capital adequacy standards for internationally active banks. Basel II emphasizes internal assessment of credit, market and operational risk; supervisory assessment and market discipline in determining minimum capital requirements and became mandatory for large or "core" international banks outside the United States in 2008 (total assets of $250 billion or more or consolidated foreign exposures of $10 billion or more). Basel II was optional for others, and if adopted, must first be complied with in a "parallel run" for two years along with the existing Basel I standards.

The United States federal banking agencies issued a proposed rule for banking organizations that do not use the "advanced approaches" under Basel II. While this proposed rule generally parallels the relevant approaches under Basel II, it diverges where U.S. markets have unique characteristics and risk profiles. A definitive final rule has not yet been issued. The U.S. banking agencies indicated, however, that they would retain the minimum leverage requirement for all U.S. banks.

In 2009, the Basel Committee proposed to reconsider regulatory capital standards, supervisory and risk-management requirements and additional disclosures to further strengthen the Basel II framework in response to the worldwide economic downturn. The Basel Committee released two consultative documents proposing significant changes to bank capital, leverage and liquidity requirements. The Group of Twenty Finance Ministers and Central Bank Governors (commonly referred to as the G-20), including the United States, endorsed the reform package, referred to as Basel III, and proposed phase in timelines in November, 2010. Basel III provides for increases in the minimum Tier 1 common equity ratio and the minimum requirement for the Tier 1 capital ratio. Basel III additionally includes a "capital conservation buffer" on top of the minimum requirement designed to absorb losses in periods of financial and economic distress; and an additional required countercyclical buffer percentage to be implemented according to a particular nation's circumstances. These capital requirements are further supplemented under Basel III by a non-risk-based leverage ratio. Basel III also reaffirms the Basel Committee's intention to introduce higher capital requirements on securitization and trading activities at the end of 2011.

Basel III standards, if adopted, would lead to significantly higher capital requirements, higher capital charges and more restrictive leverage and liquidity ratios. The regulations ultimately applicable to the Bank may be substantially different from the Basel III final framework as published in December 2010. Requirements to maintain higher levels of capital or to maintain higher levels of liquid assets could adversely impact the Bank's net income and return on equity. The Basel III standards would, among other things:

- Impose more restrictive eligibility requirements for Tier 1 and Tier 2 capital;
- Increase the minimum Tier 1 common equity ratio to 4.5 percent, net of regulatory deductions, and introduce a capital conservation buffer of an additional 2.5 percent of common equity to risk-weighted assets, raising the target minimum common equity ratio to 7 percent;
- Increase the minimum Tier 1 capital ratio to 8.5 percent inclusive of the capital conservation buffer;
- Increase the minimum total capital ratio to 10.5 percent inclusive of the capital conservation buffer; and
- Introduce a countercyclical capital buffer of up to 2.5 percent of common equity or other fully loss absorbing capital for periods of excess credit growth.

Basel III also introduces a non-risk adjusted Tier 1 leverage ratio of 3 percent, based on a measure of total exposure rather than total assets, and new liquidity standards. The new Basel III capital standards will be phased in from January 1, 2013 until January 1, 2019.

The Basel III liquidity proposals have three main elements: (i) a "liquidity coverage ratio" designed to meet the bank's liquidity needs over a 30-day time horizon under an acute liquidity stress scenario, (ii) a "net stable funding ratio" designed to promote more medium and long-term funding over a one-year time horizon, and (iii) a set of monitoring tools that the Basel Committee indicates should be considered as the minimum types of information that banks should report to supervisors.

Implementation of Basel III in the United States will require regulations and guidelines by United States banking regulators, which may differ in significant ways from the recommendations published by the Basel Committee. It is unclear how U.S. banking regulators will define "well-capitalized" in their implementation of Basel III and to what extent and when smaller banking organizations in the United States will be subject to these regulations and guidelines. U.S. banking regulators must also implement Basel III in conjunction with the

provisions of Dodd-Frank related to increased capital and liquidity requirements. Dodd-Frank Act requires the FRB, the Office of the Comptroller of the Currency and the FDIC to adopt regulations imposing a continuing "floor" of the minimum leverage and Basel I-based capital requirements, as in effect for depository institutions as of the date of enactment, July 21, 2010, in cases where the Basel II-based capital requirements and any changes in capital regulations resulting from Basel III otherwise would permit lower requirements. In December 2010, the FRB, the Office of the Comptroller of the Currency and the FDIC issued a joint notice of proposed rulemaking that would implement this requirement.

Dividends and Other Transfers of Funds

The Bank is subject to various statutory and regulatory restrictions on its ability to pay dividends. Under such restrictions, there was no amount available for payment of dividends at December 31, 2010. In addition, the banking agencies have the authority to prohibit the Bank from paying dividends, depending upon the Bank's financial condition, if such payment would be deemed to constitute an unsafe or unsound practice. Further, pursuant to the Order, we are currently prohibited from paying cash dividends or any other payments to our shareholders without the prior written consent of the FDIC and the DFI.

Deposit Insurance

The FDIC is an independent federal agency that insures deposits, up to prescribed statutory limits, of federally insured banks and savings institutions and safeguards the safety and soundness of the banking and savings industries. The FDIC insures our customer deposits through the Deposit Insurance Fund up to prescribed limits for each depositor. Pursuant to Dodd-Frank, the maximum deposit insurance amount has been permanently increased to $250,000 and all non-interest-bearing transaction accounts are insured through December 31, 2012. The amount of FDIC assessments paid by each Deposit Insurance Fund member institution is based on its relative risk of default as measured by regulatory capital ratios and other supervisory factors. Due to the greatly increased number of bank failures and losses incurred by the Deposit Insurance Fund, as well as the recent extraordinary programs in which the FDIC has been involved to support the banking industry generally, the FDIC's Deposit Insurance Fund was substantially depleted and the FDIC has incurred substantially increased operating costs. In November, 2009, the FDIC adopted a requirement for institutions to prepay in 2009 their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011, and 2012. In December 2009, the Bank was exempted from paying its quarterly risk-based assessment for the fourth quarter of 2009, and all of 2010, 2011 and 2012.

As required by Dodd-Frank, the FDIC adopted a new Deposit Insurance Fund restoration plan which became effective on January 1, 2011. Among other things, the plan: (i) raises the minimum designated reserve ratio, which the FDIC is required to set each year, to 1.35 percent (from the former minimum of 1.15 percent) and removes the upper limit on the designated reserve ratio (which was formerly capped at 1.5 percent) and consequently on the size of the fund; (ii) requires that the fund reserve ratio reach 1.35 percent by September 30, 2020 (rather than 1.15 percent by the end of 2016, as formerly required); (iii) requires that, in setting assessments, the FDIC offset the effect of requiring that the reserve ratio reach 1.35 percent by September 30, 2020, rather than 1.15 percent by the end of 2016 on insured depository institutions with total consolidated assets of less than $10 million; (iv) eliminates the requirement that the FDIC provide dividends from the fund when the reserve ratio is between 1.35 percent and 1.5 percent; and (v) continues the FDIC's authority to declare dividends when the reserve ratio at the end of a calendar year is at least 1.5 percent, but grants the FDIC sole discretion in determining whether to suspend or limit the declaration or payment of dividends. The FDI Act continues to require that the FDIC's Board of Directors consider the appropriate level for the designated reserve ratio annually and, if changing the designated reserve ratio, engage in notice-and-comment rulemaking before the beginning of the calendar year. The FDIC has set a long-term goal of getting its reserve ratio up to 2% of insured deposits by 2027.

On February 7, 2011, the FDIC approved a final rule, as mandated by Dodd-Frank, changing the deposit insurance assessment system from one that is based on total domestic deposits to one that is based on average consolidated total assets minus average tangible equity. In addition, the final rule creates a scorecard-based

assessment system for larger banks (those with more than $10 billion in assets) and suspends dividend payments if the Deposit Insurance Fund reserve ratio exceeds 1.5 percent, but provides for decreasing assessment rates when the Deposit Insurance Fund reserve ratio reaches certain thresholds. Larger insured depository institutions will likely pay higher assessments to the Deposit Insurance Fund than under the old system. Additionally, the final rule includes a new adjustment for depository institution debt whereby an institution would pay an additional premium equal to 50 basis points on every dollar of long-term, unsecured debt held as an asset that was issued by another insured depository institution (excluding debt guaranteed under the FDIC's Temporary Liquidity Guarantee Program) to the extent that all such debt exceeds 3 percent of the other insured depository institution's Tier 1 capital. The new rule is expected to take effect for the quarter beginning April 1, 2011. For Preferred Bank, we anticipate the impact of this new rule would be to lower our assessment, as our asset base has decreased from prior years.

FDIC insurance expense totaled $4.2 million for 2010. FDIC insurance expense includes deposit insurance assessments and Financing Corporation ("FICO") assessments related to outstanding FICO bonds to fund interest payments on bonds to recapitalize the predecessor to the Deposit Insurance Fund. These assessments will continue until the FICO bonds mature in 2017. The FICO assessment rates, which are determined quarterly, were 0.01060% of insured deposits for the first quarter of fiscal 2010 and 0.01040% of insured deposits for each of the last three quarters of fiscal 2010. The total FICO assessments we paid in 2010 was $123,000.

We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance. If there are additional bank or financial institution failures or if the FDIC otherwise determines, we may be required to pay even higher FDIC premiums than the recently increased levels. These announced increases and any future increases in FDIC insurance premiums may have a material and adverse affect on our earnings and could have a material adverse effect on the value of, or market for, our common stock.

Additionally, by participating in the Temporary Liquidity Guaranteed Program, banks temporarily become subject to "systemic risk special assessments" of 10 basis points for transaction account balances in excess of $250,000 through December 31, 2009. Subsequent to December 31, 2009, such assessments range from 15 basis to 25 basis points depending on the institutions risk category.

Federal Home Loan Bank System

We are a member of the FHLB. Among other benefits, each of the 12 Federal Home Loan Banks, serves as a reserve or central bank for its members within its assigned region. The FHLB makes available loans or advances to its members in compliance with the policies and procedures established by the board of directors of the individual FHLB. As an FHLB member, we are required to own a certain amount of restricted capital stock and maintain a certain amount of cash reserves in the FHLB. As of December 31, 2010, the Bank had no outstanding FHLB advances and borrowing capacity of $103.2 million. At December 31, 2010, the Bank was in compliance with the FHLB's stock ownership and cash reserve requirements. As of December 31, 2010 and 2009, our investment in FHLB capital stock totaled $4,440,000 and $4,996,000, respectively. Due to recent market developments, the FHLB could reduce the amount of dividends paid to the Bank and could also raise interest rates on future advances to the Bank. If dividends were reduced or interest rates on future advances were increased, the Bank's net interest margin would be negatively impacted.

Interstate Banking and Branching

Under the Riegle-Neal Interstate Banking and Branch Efficiency Act of 1994, as amended by Dodd-Frank, bank holding companies and banks generally have the ability to acquire or merge with banks in other states, and banks may also acquire or establish new branches in any other state to the same extent as. Interstate branches are subject to certain laws of the states in which they are located. The Bank presently has no interstate branches.

Securities Registration

The Bank's common stock is publicly held and listed on the NASDAQ Global Select Market ("NASDAQ"), and the Bank is subject to the periodic reporting information, proxy solicitation, insider trading, corporate governance and other requirements and restrictions of the Securities Exchange Act of 1934 and the regulations of the Securities and Exchange Commission (the "SEC") promulgated there under as well as listing requirements of NASDAQ. Dodd-Frank includes the following provisions that affect corporate governance and executive compensation, which are or, in the future, will be applicable to the Bank: (1) shareholder advisory votes on executive compensation, (2) executive compensation "clawback" requirements for companies listed on national securities exchanges in the event of materially inaccurate statements of earnings, revenues, gains or other criteria similar to the requirements of the ARRA for TARP CPP recipients (3) enhanced independence requirements for compensation committee members, and (4) SEC authority to adopt proxy access rules which would permit shareholders of publicly traded companies to nominate candidates for election as director and have those nominees included in a company's proxy statement.

The Sarbanes-Oxley Act

The Bank is subject to the accounting oversight and corporate governance requirements of the Sarbanes-Oxley Act of 2002, including among other things, required executive certification of financial presentations, requirements for board audit committees and their members, and disclosure of controls and procedures and internal control over financial reporting;

Federal Reserve System

The FRB requires all depository institutions to maintain reserves, which earned interest at an annual rate of 0.25% as of December 31, 2010 at specified levels against their transaction accounts (primarily checking, NOW and Super NOW checking accounts) and non-personal time deposits. As of December 31, 2010 and 2009, we were in compliance with these requirements as established by the Federal Reserve Bank to maintain reserve balances of $1.1 million and $989,000, respectively.

Loans-to-One Borrower Limitations

With certain limited exceptions, the maximum amount of obligations, secured or unsecured, that any borrower (including certain related entities) may owe to a California state bank at any one time may not exceed 25% of the sum of the shareholders' equity, allowance for loan losses, capital notes and debentures of the bank. Unsecured obligations may not exceed 15% of the sum of the shareholders' equity, allowance for loan losses, capital notes and debentures of the bank. The Bank has established internal loan limits which are lower than the legal lending limits for a California bank. At December 31, 2010, the Bank's largest single lending relationship had a combined outstanding balance of $25.4 million, secured predominantly by commercial real estate properties in the Bank's lending area, and which is performing in accordance with the terms of the Bank's loans.

Extensions of Credit to Insiders and Transactions with Affiliates

The Bank is subject to Federal Reserve Regulation O and companion California banking law limitations and conditions on loans or extensions of credit to:

- The Bank's executive officers, directors and principal shareholders (*i.e.*, in most cases, those persons who own, control or have power to vote more than 10% of any class of voting securities);
- Any company controlled by any such executive officer, director or shareholder; or
- Any political or campaign committee controlled by such executive officer, director or principal shareholder.

Loans extended to any of the above persons must comply with loan-to-one-borrower limits, require prior full board approval when aggregate extensions of credit to the person exceed specified amounts, must be made on substantially the same terms (including interest rates and collateral) as, and follow credit-underwriting procedures that are not less stringent than those prevailing at the time for comparable transactions with non-insiders, and must not involve more than the normal risk of repayment or present other unfavorable features. In addition, Regulation O provides that the aggregate limit on extensions of credit to all insiders of a bank as a group cannot exceed the bank's unimpaired capital and unimpaired surplus. Regulation O also prohibits a bank from paying an overdraft on an account of an executive officer or director, except pursuant to a written pre-authorized interest-bearing extension of credit plan that specifies a method of repayment or a written pre-authorized transfer of funds from another account of the officer or director at the bank. California has laws and the DFI has regulations which adopt and also apply Regulation O to the Bank.

The Bank also is subject to certain restrictions imposed by Federal Reserve Act Sections 23A and 23B and Federal Reserve Regulation W on any extensions of credit to, or the issuance of a guarantee or letter of credit on behalf of, any affiliates, the purchase of, or investments in, stock or other securities thereof, the taking of such securities as collateral for loans, and the purchase of assets of any affiliates. Such restrictions prevent any affiliates from borrowing from the Bank unless the loans are secured by marketable obligations of designated amounts. Further, such secured loans and investments to or in any affiliate are limited, individually, to 10.0% of the Bank's capital and surplus (as defined by federal regulations), and such secured loans and investments are limited, in the aggregate, to 20.0% of the Bank's capital and surplus. A financial subsidiary is considered an affiliate subject to these restrictions whereas other nonbanking subsidiaries are not considered affiliates. Additional restrictions on transactions with affiliates may be imposed on the Bank under the FDI Act prompt corrective action provisions and the supervisory authority of the federal and state banking agencies.

Operations and Consumer Compliance

The Bank must comply with numerous federal anti-money laundering and consumer privacy and protection statutes and implementing regulations, including the USA PATRIOT Act of 2001, the Bank Secrecy Act, the Community Reinvestment Act, the Fair Credit Reporting Act, as amended by the Fair and Accurate Credit Transactions Act, the Equal Credit Opportunity Act, the Truth in Lending Act, the Fair Housing Act, the Home Mortgage Disclosure Act, the Real Estate Settlement Procedures Act, the National Flood Insurance Act, the Americans with Disabilities Act and various federal and state privacy protection laws. Effective July 1, 2010, a new federal banking rule under the Electronic Fund Transfer Act prohibits financial institutions from charging consumers fees for paying overdrafts on automated teller machines and one-time debit card transactions, submit to certain exceptions, unless a consumer consents, or opts in, to the overdraft service for those type of transactions.

These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions must deal with customers when taking deposits, making loans, collecting loans, and providing other services. Failure to comply with these laws and regulations can subject the Bank to various penalties, including but not limited to enforcement actions, injunctions, fines or criminal penalties, punitive damages to consumers, and the loss of certain contractual rights. The Bank is also subject to federal and state laws prohibiting unfair or fraudulent business practices, untrue or misleading advertising and unfair competition.

Dodd-Frank provides for the creation of the Bureau of Consumer Financial Protection as an independent entity within the Federal Reserve. This bureau is a new regulatory agency for United States banks. It will have broad rulemaking, supervisory and enforcement authority over consumer financial products and services, including deposit products, residential mortgages, home-equity loans and credit cards, and contains provisions on mortgage-related matters such as steering incentives, determinations as to a borrower's ability to repay and prepayment penalties. The Bureau's functions include investigating consumer complaints, conducting market research, rulemaking, supervising and examining banks consumer transactions, and enforcing rules related to

consumer financial products and services. It is anticipated that the Bureau will begin regulating activities in 2011. Banks with less than $10 billion in assets, such as the Bank, will continue to be examined for compliance by their primary federal banking agency.

Employees

As of December 31, 2010, the Bank had a total of 120 full-time equivalent employees. None of the employees are represented by a union or collective bargaining group. The management of the Bank believes that their employee relations are satisfactory.

Executive Officers of the Bank

The following table sets forth our executive officers, their positions and their ages. Each officer is appointed by, and serves at the pleasure of the Board of Directors.

Name	Age(1)	Position with Bank
Li Yu	[70]	Chairman of the Board, President and Chief Executive Officer
Edward J. Czajka	[46]	Executive Vice President and Chief Financial Officer
Lucilio Couto	[42]	Executive Vice President
Robert Kosof	[67]	Executive Vice President and Head of Commercial and Industrial Loans and Regional Branch Manager
Nick Pi	[50]	Executive Vice President and Group Manager

(1) As of March 1, 2011.

Li Yu has been our President and Chief Executive Officer since 1993. From December 1991 to the present, he has served as Chairman of our Board of Directors. From 1987 to 1991, he was involved in several privately held companies of which he was the owner. From 1982 to 1987, he served as Chairman of the Board of California Pacific National Bank, which became a part of Bank of America. Mr. Yu received a Masters of Business Administration, or MBA, from the University of California, Los Angeles. He was also the past President of the National Association of Chinese American Bankers, and is currently a member of the Board of Visitors of UCLA's Anderson Graduate School of Management.

Edward J. Czajka has been Senior Vice President and Chief Financial Officer since 2006 and was promoted to Executive Vice President in 2008. Before joining Preferred Bank, Mr. Czajka was Chief Financial Officer of Presidio Bank, a San Francisco-based bank that was then in organization. Prior to this, Mr. Czajka was Executive Vice President and Chief Financial Officer of North Valley Bancorp, a publicly-traded multi-bank holding company located in Redding, California. From 1994 through 2000, Mr. Czajka held the position of Vice President, Corporate Controller for Pacific Capital Bancorp in Santa Barbara, California.

Lucilio Couto was recently appointed on February 22, 2010 as Executive Vice President. He has been with Preferred Bank since July 2009, previously serving as Senior Vice President and Special Assistant to the Chairman of the Board. Before joining Preferred Bank he served in senior management positions at two other Southern California financial institutions including Vineyard Bank, NA. Mr. Couto served as the Chief Risk Officer of Vineyard Bank from July 2007 to April 2009 and Executive Vice President and Chief Credit Officer from September 2008 to April 2009. Prior to joining Vineyard Bank, Mr. Couto spent 16 years working for the FDIC in a variety of positions, including most recently as Senior Risk Management Examiner. He has expertise in risk management, regulatory compliance, credit analysis and financial statement analysis. Mr. Couto received a Bachelor's degree of finance from California State University, San Bernardino in 1991 and graduated from the University of Wisconsin's Graduate School of Banking in 2004.

Robert Kosof was recently appointed on February 22, 2010 as Executive Vice President and Head of Commercial and Industrial Loans and Regional Branch Manager; prior to that, he served as Executive Vice

President and Chief Credit Officer and he has been with Preferred Bank since 2008. Before joining Preferred Bank he was Executive Vice President and Chief Credit Officer of RP Realty Partners Entrepreneurial Fund from 2006 to 2008. Prior to that, he was Senior Vice President and Chief Lending Officer for Bank Leumi USA from 1987 to 2006. His responsibilities included credit approval and credit quality for the California branches of the Bank. From 1985 to 1987 he was Executive Vice President and Director for Olympic National Bank. From 1974 to 1985 he was Senior Vice President and head of Loan Administration which included Loan Adjustments for Imperial Bank.

Nick Pi has been our Executive Vice President and Group Manager since 2006 and our Senior Vice President and Corporate Banking Officer from 2003 to 2006. Before joining Preferred Bank, Mr. Pi was the Senior Vice President and Commercial Real Estate Lending Team Leader of Chinatrust Bank (U.S.A.) from 2000 to 2003. Prior to this, he held various corporate titles from Assistant Vice President to Senior Vice President at Chinatrust Bank (U.S.A.), mainly in the branch operation and lending fields from 1995 to 2000. His lending and credit experience also includes Grand Pacific Financing Corporation from 1989 to 1995, an affiliate of China Trust Group. Mr. Pi received a BA degree in Business School from National Taiwan University, Taiwan and a MBA degree from Emporia State University.

Available Information

The Bank also maintains an Internet website at *www.preferredbank.com.* The Bank makes its website content available for information purposes only. It should not be relied upon for investment purposes.

We are subject to the reporting and other requirements of the Securities Exchange Act of 1934, as amended and as adopted by the FDIC (the "Exchange Act"). In accordance with Sections 12, 13 and 14 of the Exchange Act and as a bank that is not a member of the Federal Reserve System, we file certain reports, proxy materials, information statements and other information with the FDIC, copies of which can be inspected and copied at the public reference facilities maintained by the FDIC, at the Accounting and Securities Disclosure Section, Division of Supervision and Consumer Protection, 550 17th Street, N.W., Washington, DC 20429. Requests for copies may be made by telephone at (202) 898-8913 or by fax at (202) 898-3909. Forms 3, 4 and 5 are filed electronically with FDIC, at the FDIC's website at *http://www.fdic.gov.*

ITEM 1A. RISK FACTORS

Risk Factors That May Affect Future Results

In addition to the other information on the risks we face and our management of risk contained in this annual report or in our other filings, the following are significant risks which may affect us. Events or circumstances arising from one or more of these risks could adversely affect our business, financial condition, operations and prospects and the value and price of our common stock could decline. The risks identified below are not intended to be a comprehensive list of all risks we face and additional risks that we may currently view as not material may also impair our business operations and results.

We are subject to certain requirements and prohibitions under the Order and we cannot assure you whether or when the Order will be lifted.

The Bank has been subject to the Order since March 2010, which has required us to improve our capital position, asset quality, liquidity and management oversight, among other matters. The Order also prohibits the Bank from paying cash dividends or making any other payments to its shareholders without prior written consent of the FDIC and the DFI.

As of the date of this filing, we are not in compliance with all the requirements of the Order. We continue to work to achieve the required reduction in our classified assets. We cannot assure you whether or when we will be in full compliance with the requirements in the Order and whether or when the Order will be lifted or terminated.

Even if lifted or terminated, we may still be subject to memoranda of understanding or other agreements with regulators that restrict our activities or that continue to impose capital ratio requirements. The requirements and restrictions of the Order are judicially enforceable and the Bank's failure to comply with such requirements and restrictions may subject the Bank to additional regulatory restrictions including: the imposition of civil monetary penalties; the termination of insurance of deposits; the issuance of removal and prohibition orders against institution-affiliated parties; the appointment of a conservator or receiver for the Bank; the issuance of directives to increase capital or enter into a strategic transaction, whether by merger or otherwise, with a third party, if we again fall below the capital ratio requirements; and the enforcement of such actions through injunctions or restraining orders.

If our allowance for loan and lease losses is inadequate to cover actual losses, our financial results would be harmed.

A significant source of risk arises from the possibility that we could sustain losses because borrowers, guarantors and related parties may fail to perform in accordance with the terms of their loans. Although a substantial amount of loan losses have been incurred between 2008 and 2010, the underwriting and credit monitoring policies and procedures that we have adopted to address this risk may not prevent additional losses that could have an adverse effect on our business, financial condition, results of operations and cash flows. Additional losses may arise for a wide variety of reasons, many of which are beyond our ability to predict, influence or control. Some of these reasons could include a continued economic downturn in the State of California, a further decline in the California real estate market, changes in the interest rate environment, adverse economic conditions in Asia and natural disasters.

Like all financial institutions, we maintain an allowance for loan and lease losses to provide for loan and lease defaults and non-performance. Our allowance for loan and lease losses may not be adequate to cover actual loan and lease losses, and future provisions for loan and lease losses could materially and adversely affect our business, financial condition, results of operations and cash flows. Our allowance for loan and lease losses reflects our best estimate of the losses inherent in the existing loan and lease portfolio at the relevant balance sheet date and is based on management's evaluation of the collectability of the loan and lease portfolio, which evaluation is based on historical loss experience and other significant factors. For the year ended December 31, 2010, we recorded a provision for loan and lease losses and net loan charge-offs of $16.6 million and $26.5 million, respectively, compared to $71.3 million and $55.4 million for the year ended December 31, 2009.

The determination of an appropriate level of loan and lease loss allowance is an inherently difficult process and is based on numerous assumptions. The amount of future losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates, that may be beyond our control and future losses may exceed current estimates. While we believe that our allowance for loan and lease losses is adequate to cover current losses, we cannot ensure that we will not increase the allowance for loan and lease losses further or that regulators will not require us to increase our allowance. Either of these occurrences could materially adversely affect our business, financial condition and results of operations but would not affect cash flow directly.

If the risks inherent in construction lending are further realized, our net income could be adversely affected.

At December 31, 2010, our construction loans were $123.4 million, or 13.5% of our total loans held, and the average loan size of our construction loans was $5.8 million. The risks inherent in construction lending include, among other things, the possibility that contractors may fail to complete, or fail to complete on a timely basis, construction of the relevant properties; substantial cost overruns in excess of original estimates and financing; market deterioration during construction; and a lack of permanent take-out financing. Loans secured by these properties also involve additional risk because the properties have no operating histories. In these loans funds are advanced upon the security of the project under construction, which is of uncertain value prior to completion of construction, and the estimated operating cash flow to be generated, by the completed project. The borrowers'

ability to repay their obligations to us and the value of our security interest in the collateral will be materially adversely affected if the projects do not generate sufficient cash flow by being either sold or leased. Construction lending was a significant source of our loan losses incurred in 2009, albeit at a lower level in 2010.

Our operations may require us to raise additional capital in the future, but that capital may not be available or may not be on terms acceptable to us when it is needed.

We are required by federal and state banking regulatory authorities and the Order to maintain certain levels of capital to support our operations. We currently exceed the capital requirements of the Order and have adopted a capital plan to maintain a sufficient capital position. Should our asset quality erode and require significant additional provisions for credit losses, resulting in additional net operating losses, our capital levels may decline and we may need to raise capital to satisfy our agreement under the Order. Our ability to raise additional capital will depend on conditions in the capital markets at that time, which are outside our control, and on our financial performance. Accordingly, we cannot be certain of our ability to raise additional capital, if necessary, on terms acceptable to us.

The impact of the new Basel III capital standards will likely impose enhanced capital adequacy standards on us.

On September 12, 2010, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee, announced agreement on the calibration and phase-in arrangements for a strengthened set of capital requirements, known as Basel III, which were approved in November 2010 by the G20 leadership. Basel III increases the minimum Tier 1 common equity ratio to 4.5%, net of regulatory deductions, and introduces a capital conservation buffer of an additional 2.5% of common equity to risk-weighted assets, raising the target minimum common equity ratio to 7%. Basel III increases the minimum Tier 1 capital ratio to 8.5% inclusive of the capital conservation buffer, increases the minimum total capital ratio to 10.5% inclusive of the capital buffer and introduces a countercyclical capital buffer of up to 2.5% of common equity or other fully loss absorbing capital for periods of excess credit growth. Basel III also introduces a non-risk adjusted Tier 1 leverage ratio of 3%, based on a measure of total exposure rather than total assets, and new liquidity standards. The Basel III capital and liquidity standards will be phased in over a multi-year period. The Federal Reserve will likely implement changes to the capital adequacy standards applicable to us and the Bank which will increase our capital requirements and compliance costs.

Additional requirements imposed by the Dodd-Frank Act could adversely affect us.

Recent government efforts to strengthen the U.S. financial system have resulted in the imposition of additional regulatory requirements, including expansive financial services regulatory reform legislation. Dodd-Frank sets out sweeping regulatory changes. Changes imposed by Dodd-Frank include, among others: (i) new requirements on banking, derivative and investment activities, including modified capital requirements, the repeal of the prohibition on the payment of interest on business demand accounts, and debit card interchange fee requirements; (ii) corporate governance and executive compensation requirements; (iii) enhanced financial institution safety and soundness regulations, including increases in assessment fees and deposit insurance coverage; and (iv) the establishment of new regulatory bodies, such as the Bureau of Consumer Financial Protection. Certain provisions are effective immediately; however, much of the Financial Reform Act is subject to further rulemaking and/or studies. As such, while we are subject to the legislation, we cannot fully assess the impact of Dodd-Frank until final rules are implemented, which depending on the rule, could be within six to 24 months from the enactment of Dodd-Frank, or later.

Current and future legal and regulatory requirements, restrictions and regulations, including those imposed under Dodd-Frank, may adversely impact our profitability and may have a material and adverse effect on our business, financial condition, and results of operations, may require us to invest significant management attention and resources to evaluate and make any changes required by the legislation and accompanying rules and may make it more difficult for us to attract and retain qualified executive officers and employees.

Our interest expense may increase following the repeal of the federal prohibition on payment of interest on demand deposits.

The federal prohibition on the ability of financial institutions to pay interest on demand deposit accounts of business was repealed as part of Dodd-Frank. As a result, beginning on July 21, 2011, financial institutions could commence offering interest on demand deposits to business to compete for clients. We do not yet know what interest rates other institutions may offer. Our interest expense will increase and our net interest margin will decrease if the Bank begins offering interest on demand deposits to attract additional customers or maintain current customers, which could have a material adverse effect on our financial condition, net income and results of operations.

Difficult economic and market conditions have adversely affected our industry and us

Dramatic declines in the housing market, with decreasing home prices and increasing delinquencies and foreclosures, have negatively impacted the credit performance of mortgage and construction loans and resulted in significant write-downs of assets by many financial institutions. General downward economic trends, reduced availability of commercial credit and significantly higher unemployment have negatively impacted the credit performance of commercial and consumer credit, resulting in additional write-downs. Concerns over the stability of the financial markets and the economy have resulted in decreased lending by financial institutions to their customers and to each other. This market turmoil and tightening of credit has led to increased commercial and consumer delinquencies, lack of customer confidence, increased market volatility and widespread reduction in general business activity. Financial institutions have experienced decreased access to deposits and borrowings. The resulting economic pressure on consumers and businesses and the lack of confidence in the financial markets may adversely affect our business, financial condition, results of operations and stock price. We do not expect that the difficult conditions in the financial markets are likely to significantly improve in the near future. A worsening of these conditions would likely exacerbate the adverse effects of these difficult market conditions on us and others in the financial institutions industry. In particular, we may face the following risks in connection with these events:

- We potentially face increased regulation of our industry. Compliance with such regulation may increase our costs and limit our ability to pursue business opportunities. Proposals have been discussed that call for a complete overhaul of the current regulatory framework applicable to commercial banks. We cannot assess the impact of any such changes on our business at this time.
- The process we use to estimate losses inherent in our credit exposure requires difficult, subjective and complex judgments, including forecasts of economic conditions and how these economic conditions might impair the ability of our borrowers to repay their loans. The level of uncertainty concerning economic conditions may adversely affect the accuracy of our estimates which may, in turn, impact the reliability of the process.
- The classification of our criticized loans as substandard, doubtful and loss and the related provision for loan losses, and the estimated losses inherent in our loan portfolio, could be increased by our primary regulators in connection with an examination of our loan portfolio, which could subject us to restrictions on our operations and require us to increase our capital.
- We may be required to pay significantly higher FDIC premiums because market developments have significantly depleted the insurance fund of the FDIC and reduced the ratio of reserves to insured deposits. As previously discussed, the FDIC has increased assessments on FDIC-insured institutions and may impose further increases.
- Our banking operations are concentrated primarily in Southern California. Continued adverse economic conditions in this region in particular could further impair borrowers’ ability to service their loans, decrease the level and duration of deposits by customers, and further erode the value of loan collateral. This could increase the amount of our non-performing assets and have an adverse effect on

our efforts to collect our non-performing loans or otherwise liquidate our non-performing assets (including other real estate owned) on terms favorable to us, if at all, and could also cause a decline in demand for our products and services, or a lack of growth or a decrease in deposits, any of which may cause us to incur losses, adversely affect our capital, and hurt our business.

A continued deterioration in the California real estate market could hurt our business because most of our loans are secured by real estate located in Southern California. As of December 31, 2010, approximately 72% of the book value of our loan portfolio consisted of loans collateralized by various types of real estate. Real estate values and real estate markets are generally affected by changes in national, regional or local economic conditions, fluctuations in interest rates and the availability of loans to potential purchasers, changes in tax laws and other laws, regulations and policies and acts of nature. In addition, real estate values in California could be affected by, among other things, earthquakes and national disasters particular to the state. If real estate prices decline, particularly in California, the value of real estate collateral securing our loans could be significantly reduced. As a result, we may experience greater charge-offs and, similarly, our ability to recover on defaulted loans by foreclosing and selling the real estate collateral would then be diminished and we would be more likely to suffer losses on defaulted loans.

As a result of these financial and economic crises, we have experienced substantial increases in nonperforming loans in recent years. However, total nonperforming loans decreased to $101.9 million at December 31, 2010 from $144.9 million at December 31, 2009 and $66.8 million at December 31, 2008, representing 11.1%, 13.8% and 5.42% of total loans owned at December 31, 2010, December 31, 2009 and December 31, 2008, respectively. Total nonperforming assets decreased to $155.5 million at December 31, 2010 from $204.1 million at December 31, 2009 and $101.9 million at December 31, 2008, representing 12.4%, 15.6% and 6.9% of total assets at December 31, 2010, December 31, 2009 and December 31, 2008, respectively.

Declines in real estate prices and the volume of sales, especially in certain parts of California, along with the reduced availability of certain types of credit, have resulted in increases in delinquencies and losses in our portfolio of construction loans. Further declines in real estate prices with the continued economic recession in our markets and continued high or increased unemployment levels could cause additional losses which could continue to adversely affect our earnings and financial condition.

We and KPMG, our independent registered public accounting firm, have identified a material weakness in our internal control over financial reporting.

Management and KPMG, our independent registered public accountants, have identified a material weakness in our internal control over financial reporting related to the allowance for loan losses. The identified deficiency that was considered a material weakness related to management's policies and procedures for the monitoring and timely evaluation of and revision to management's approach for assessing credit risk inherent in the Bank's loan portfolios to reflect changes in the economic environment

While we are taking steps to address the identified material weakness and prevent additional material weaknesses from occurring, there is no guarantee that these steps will be sufficient to remediate the identified material weakness or prevent additional material weaknesses from occurring. If we fail to remediate the material weakness, or if additional material weaknesses are discovered in the future, we may fail to meet our future reporting obligations and our financial statements may contain material misstatements. Any such failure could also adversely affect the results of the periodic management evaluations and annual auditor attestation reports regarding the effectiveness of our internal control over financial reporting.

If the financial markets experience another period of significant volatility, there can be no assurance that we will not experience an adverse effect, which may be material, on our ability to access capital and on our business, financial condition and results of operations

Recent legislative and regulatory initiatives to address difficult market and economic conditions may not stabilize the U.S. banking system. On October 3, 2008, President Bush signed into law the Emergency Economic Stabilization Act and, on February 17, 2009, President Obama signed into law the ARRA in response to the current crisis in the financial sector. The U.S. Treasury and banking regulators have implemented a number of programs under this legislation to address capital and liquidity issues in the banking system. There can be no assurance, however, as to the ultimate impact that the Emergency Economic Stabilization Act and the ARRA will have on the financial markets, including the reduced credit availability currently being experienced. The failure of this legislation to address stability in the financial markets and a worsening of current financial market conditions could have a material adverse effect on our business, financial condition, results of operations, access to credit, or the value of our securities.

We rely heavily on our senior management team and other key employees, the loss of whom could materially and adversely affect our business.

Our success depends heavily on the abilities and continued service of our executive officers, especially Li Yu, our founder, Chairman, President and Chief Executive Officer. Mr. Yu, who founded the Bank, is integral to implementing our business plan. We currently do not have an employment agreement or non-competition agreement with Mr. Yu nor our other executives. Accordingly, members of our senior management team are not contractually prohibited from leaving or joining one of our competitors. If we lose the services of any of our executive officers, especially Mr. Yu, our business, financial condition, results of operations and cash flows may be adversely affected. Furthermore, attracting suitable replacements may be difficult and may require significant management time and resources.

We also rely to a significant degree on the abilities and continued service of our private banking, loan origination, underwriting, administrative, marketing and technical personnel. Competition for qualified employees and personnel in the banking industry is intense and there are a limited number of qualified persons with knowledge of, and experience in, the California community banking industry. The process of recruiting personnel with the combination of skills and attributes required to carry out our strategies is often lengthy. If we fail to attract and retain qualified management personnel and the necessary deposit generation, loan origination, underwriting, administrative, finance, marketing and technical personnel, our business, financial condition, results of operations and cash flows may be materially adversely affected.

A natural disaster or recurring energy shortage, especially in California, could harm our business.

Historically, Southern California has been vulnerable to natural disasters. Therefore, we are susceptible to the risks of natural disasters, such as earthquakes, wildfires, floods and mudslides. Natural disasters could harm our operations directly through interference with communications, as well as through the destruction of facilities and our operational, financial and management information systems. Uninsured or underinsured disasters may reduce a borrower's ability to repay mortgage loans. Disasters may also reduce the value of the real estate securing our loans, impairing our ability to recover on defaulted loans. Southern California has also experienced energy shortages which, if they recur, could impair the value of the real estate in those areas affected. The occurrence of natural disasters or energy shortages in Southern California could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Our business is subject to interest rate risk and variations in interest rates may negatively affect our financial performance.

Market interest rates are affected by many factors that are beyond our control and are hard to predict, including inflation, recession, performance of the stock markets, a rise in unemployment, tightening money supply, exchange rates, monetary and other policies of various governmental and regulatory agencies, domestic and international disorder and instability in domestic and foreign financial markets.

Changes in the interest rate environment may reduce our profits. Changes in interest rates will influence not only the interest we receive on our loans and investment securities and the amount of interest we pay on deposits, it will also affect our ability to originate loans and obtain deposits and our costs in doing so. Rising interest rates, generally, are associated with a lower volume of loan originations, while lower interest rates are usually associated with higher loan originations.

We expect that we will continue to realize a substantial portion of our income from the differential or "spread" between the interest earned on loans, securities and other interest-earning assets, and interest paid on deposits, borrowings and other interest-bearing liabilities. Because interest rates are based on the maturity, re-pricing and other characteristics of an instrument, conditions that trigger changes in interest rates do not produce equivalent changes in interest income earned on our interest-earning assets and interest expense paid on our interest-bearing liabilities. Accordingly, fluctuations in interest rates could adversely affect our interest rate spread and, in turn, our profitability.

In addition, an increase in the general level of interest rates may adversely affect the ability of some borrowers to pay the interest on and principal of their obligations, which could reduce our cash flows and harm our asset quality. In rising interest rate environments, loan repayment rates may decline and in falling interest rate environments, loan repayment rates may increase.

We face strong competition from financial services companies and other companies that offer banking services, and our failure to compete effectively with these companies could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We conduct our operations primarily in California. The banking and financial services businesses in California are highly competitive and increased competition within California may result in reduced loan originations and deposits. Ultimately, we may not be able to compete successfully against current and future competitors. Many competitors offer the types of loans and banking services that we offer in our service areas. These competitors include national banks, regional banks and other community banks. We also face competition from many other types of financial institutions, including saving and loan associations, finance companies, brokerage firms, insurance companies, credit unions, mortgage banks and other financial intermediaries. In particular, our competitors include financial institutions whose greater resources may afford them a marketplace advantage by enabling them to maintain numerous banking locations and mount extensive promotional and advertising campaigns. Areas of competition include interest rates for loans and deposits, efforts to obtain loan and deposit customers and a range in quality of products and services provided, including new technology-driven products and services. Competitive conditions may intensify as continued merger activity in the financial services industry produces larger, better-capitalized and more geographically diverse companies. Additionally, banks and other financial institutions with larger capitalization and financial intermediaries not subject to bank regulatory restrictions may have larger lending limits which would allow them to serve the credit needs of larger customers. These institutions, particularly to the extent they are more diversified than we are, may be able to offer the same loan products and services we offer at more competitive rates and prices.

We also face competition from out-of-state financial intermediaries that have opened loan production offices or that solicit deposits in our market areas. If we are unable to attract and retain banking customers, we may be unable to continue our loan growth and level of deposits, and our business, financial condition, results of operations and cash flows may be materially adversely affected.

If our underwriting practices are not effective, we may suffer further losses in our loan portfolio and our results of operations may be harmed.

We seek to mitigate the risks inherent in our loan portfolio by adhering to specific underwriting practices. Depending on the type of loan, these practices include analysis of a borrower's prior credit history, financial statements, tax returns and cash flow projections, valuation of collateral based on reports of independent appraisers and verification of liquid assets. Although we believe that our underwriting criteria are appropriate for

the types of loans we make, we cannot assure you that they will be effective in mitigating all risks. Although the Bank has significantly curtailed its lending activities and substantially tightened its underwriting standards, if our more conservative underwriting criteria in effect when loans were granted proves to be ineffective, we may incur additional losses in our loan portfolio, and these losses may exceed the amounts set aside as reserves in our allowance for loan losses.

If the appraised value of our real property collateral is greater than the proceeds we realize from a sale or foreclosure of the property, we may suffer a loss in our loan portfolio.

In considering whether to make a loan on or secured by real property, we require an appraisal on such property. However, an appraisal is only an estimate of the value of the property at the time the appraisal is made. If the appraisal does not reflect the amount that may be obtained upon any sale or foreclosure of the property, we may not realize an amount equal to the indebtedness secured by the property and we may suffer further losses in our loan portfolio.

Adverse economic conditions in Asia could impact our business adversely.

We believe that our Chinese-American customers maintain significant ties to many Asian countries and, therefore, could be affected by economic and other conditions in those countries. We cannot predict the behavior of the Asian economies. U.S. economic policies, the economic policies of countries in Asia, domestic unrest and/or military tensions, crises in leadership succession, currency devaluations, and an unfavorable global economic condition may among other things adversely impact the Asian economies. We generally do not loan to customers or take collateral located outside of Southern California. However, if Asian economic conditions should continue to deteriorate, we could experience an outflow of deposits by our Chinese-American customers. In addition, adverse economic conditions could prevent or delay these customers from meeting their obligations to us. This may adversely impact the recoverability of investments with or loans made to these customers. Adverse economic conditions may also negatively impact asset values and the profitability and liquidity of companies operating in Asia, which will also impact the Bank's liquidity.

At December 31, 2010, approximately $50.5 million, or 5.5%, of our loan portfolio consisted of loans made to finance international trade activities. Changes in monetary policy, including changes in interest rates, governmental regulation of international trade activities, currency valuation, price competition, competition from other financial institutions and general economic and political conditions could negatively impact the amount of goods imported to and exported from the United States, the ability of borrowers to repay loans made by us, and the number and extent of importers' and exporters' need for our trade finance products and services. It is possible that if the U.S. dollar weakens against other foreign currencies, the cost of imported goods will increase, which could have an adverse impact on some of our customers who import goods for resale in the United States. Such factors could have a material adverse effect on our business, financial condition, results of operations and cash flows.

If we cannot attract deposits, our growth may be inhibited.

Although we are not planning to grow the balance sheet in the immediate future, we intend to seek additional deposits by continuing to establish and strengthen our personal relationships with our customers and by offering deposit products that are competitive with those offered by other financial institutions in our markets. Due to the Order, we are restricted from accessing the brokered deposit market, which also includes the CDARS reciprocal deposits. As such, the Bank has not renewed any of these brokered deposits and has or will let the remainder of them mature during the course of 2011 and 2012. In addition, pursuant to the Order, the Bank submitted to the FDIC and the DFI a written plan for eliminating its reliance on brokered deposits. Accordingly, management has worked to create a more robust contingency funding plan to ensure that the Bank has sufficient liquidity to meet these brokered deposit maturities and to also have additional contingent cash on hand to meet all

of its obligations. Although we are confident that our liquidity is sufficient, we cannot assure you that these efforts will be successful. Our inability to attract additional deposits at competitive rates could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We rely primarily on large certificates of deposits to fund our operations, and the potential volatility of such deposits and the unavailability of any such funds in the future could adversely impact our growth strategy and prospects.

We primarily rely on deposits, in particular certificates of deposit of $100,000 or more, or Jumbo CDs, to fund our operations. Our average jumbo deposit customer has been a customer of the Bank for over six years which indicates that these are long-term customers who consistently renew their CD's. At December 31, 2010, we held $373.6 million of Jumbo CDs, representing 34.6% of total deposits. These deposits are considered by the banking industry to be volatile and could be subject to withdrawal. Withdrawal of a material amount of such deposits would adversely impact our liquidity, profitability, business, financial condition, results of operations and cash flows.

We rely on communications, information, operating and financial control systems technology from third-party service providers, and we may suffer an interruption in or break of those systems.

We rely on communications, information, operating and financial control systems technology from third-party service providers, and we may suffer an interruption in or break of those systems that may result in lost business and we may not be able to obtain substitute providers on terms that are as favorable if our relationships with our existing service providers are interrupted. We rely heavily on third-party service providers for much of our communications, information, operating and financial control systems technology, including customer relationship management, general ledger, deposit, servicing and loan origination systems. Any failure, interruption or breach in security of these systems could result in failures or interruptions in our customer relationship management, general ledger, deposit, servicing and/or loan origination systems. We cannot assure you that such failures or interruptions will not occur or, if they do occur, that they will be adequately addressed by us or the third parties on which we rely. The occurrence of any failures or interruptions could have a material adverse effect on our business, financial condition, results of operations and cash flows. If any of our third-party service providers experience financial, operational or technological difficulties, or if there is any other disruption in our relationships with them, we may be required to locate alternative sources of such services, and we cannot assure you that we could negotiate terms that are as favorable to us, or could obtain services with similar functionality as found in our existing systems without the need to expend substantial resources, if at all. Any of these circumstances could have a material adverse effect on our business, financial condition, results of operations and cash flows.

The U.S. government's monetary policies or changes in those policies could have a major effect on our operating results, and we cannot predict what those policies will be or any changes in such policies or the effect of such policies on us.

Our earnings will be affected by domestic economic conditions and the monetary and fiscal policies of the U.S. government and its agencies. The monetary policies of the Federal Reserve Bank, or the FRB, have had, and will continue to have, an important effect on the operating results of commercial banks and other financial institutions through its power to implement national monetary policy in order, among other things, to curb inflation or combat a recession.

The monetary policies of the FRB, implemented principally through open market operations and regulation of the discount rate and reserve requirements, have had major effects upon the levels of bank loans, investments and deposits. For example, in 2008-2009, multiple rate decreases in the Fed Funds rate by the Federal Open Market Committee placed tremendous pressure on the profitability of many financial institutions because of the resulting contraction of net interest margins due to high levels of adjustable rate loans. It is not possible to predict the nature or effect of future changes in monetary and fiscal policies.

In addition to the Order, governmental regulation and regulatory actions against us may further impair our operations or restrict our growth and could result in a decrease in the value of your shares.

In addition to the requirements of the Order, we are subject to significant governmental supervision and regulation. Because our business is highly regulated, the laws, rules and regulations and supervisory guidance and policies applicable to us are subject to regular modification and change, which may have the effect of increasing or decreasing the cost of doing business, modifying permissible activities or enhancing the competitive position of other financial institutions. These laws are primarily intended for the protection of consumers, depositors and the Deposit Insurance Fund and not for the protection of shareholders of bank holding companies or banks. Perennially, various laws, rules and regulations are proposed which, if adopted, could impact our operations by making compliance much more difficult or expensive, restricting our ability to originate or sell loans or further restricting the amount of interest or other charges or fees earned on loans or other products. We cannot assure you that these proposed laws, rules and regulations or any other laws, rules or regulations will not be adopted in the future, which could make compliance much more difficult or expensive, restrict our ability to originate loans, further limit or restrict the amount of commissions, interest or other charges earned on loans originated by us or otherwise adversely affect our business, financial condition, results of operations or cash flows.

Federal and state governments could pass additional legislation responsive to current credit conditions. As an example, we could experience higher credit losses because of federal or state legislation or regulatory action that reduces the principal amount or interest rate under existing loan contracts. Also, we could experience higher credit losses because of federal or state legislation or regulatory action that limits the Bank's ability to foreclose on property or other collateral or makes foreclosure less economically feasible.

We are exposed to risk of environmental liability with respect to properties to which we take title.

In the course of our business, we may foreclose on and take title to properties securing our loans. If hazardous substances were discovered on any of the properties, we may be held liable to governmental entities or to third parties for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination or may be required to investigate or clean up hazardous or toxic substances or chemical releases at a property. Many environmental laws can impose liability regardless of whether we knew of or were responsible for the contamination. In addition, if we arrange for the disposal of hazardous or toxic substances at another site, we may be liable for the costs of cleaning up and removing those substances from the site, even if we neither own nor operate the disposal site. Environmental laws may require us to incur substantial expenses and may materially limit use of properties we acquire through foreclosure, reduce their value or limit our ability to sell them in the event of a default on the loans they secure. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability.

Negative publicity could damage our reputation.

Reputation risk, or the risk to our earnings and capital from negative publicity or public opinion, is inherent in our business. Negative publicity or public opinion could adversely affect our ability to keep and attract customers and expose us to adverse legal and regulatory consequences. Negative public opinion could result from our actual or perceived conduct in any number of activities, including lending practices, corporate governance, regulatory compliance, mergers and acquisitions, and disclosure, sharing or inadequate protection of customer information, and from actions taken by government regulators and community organizations in response to that conduct.

Terrorist attacks may have depressed the economy in the past and if there are additional terrorist events especially in our market, the economy could be adversely affected.

The possibility of further terrorist attacks, as well as continued terrorist threats, may create and perpetuate this economic uncertainty. Future terrorist acts and responses to such activities could adversely affect us in a number of ways, including an increase in delinquencies, bankruptcies or defaults that could result in a higher level of non-performing assets, net charge-offs and provision for loan losses.

Pursuant to the Order, we are prohibited from paying cash dividends or any other payments to our shareholders.

Under the terms of the Order, we are prohibited from paying cash dividends or any other payments to our shareholders without the prior written consent of the FDIC and the DFI. We do not know when the Bank will receive regulatory approval to pay dividends to our shareholders. These restrictions could have a negative effect on the value of our common stock.

The price of our common stock may be volatile or may decline.

The trading price of our common stock has fluctuated and may in the future fluctuate widely as a result of a number of factors, many of which are outside our control. In addition, the stock market is subject to fluctuations in the share prices and trading volumes that affect the market prices of the shares of many companies. These broad market fluctuations could adversely affect the market price of our common stock. Among the factors that could affect our stock price are:

- Failure to comply with the terms of the Order;
- Actual or anticipated quarterly fluctuations in our operating results and financial condition;
- Changes in revenue or earnings estimates or publication of research reports and recommendations by financial analysts;
- Failure to meet analysts' revenue or earnings estimates;
- Speculation in the press or investment community;
- Strategic actions by us or our competitors, such as acquisitions or restructurings;
- Actions by institutional shareholders;
- Fluctuations in the stock price and operating results of our competitors;
- General market conditions and, in particular, developments related to market conditions for the financial services industry;
- Proposed or adopted regulatory changes or developments;
- Anticipated or pending investigations, proceedings or litigation that involve or affect us; or
- Domestic and international economic factors unrelated to our performance.

The stock market and, in particular, the market for financial institution stocks, has experienced significant volatility. As a result, the market price of our common stock has been and in the future may be volatile. In addition, the trading volume in our common stock may fluctuate more than usual and cause significant price variations to occur. The trading price of the shares of our common stock and the value of our other securities will depend on many factors, which may change from time to time, including, without limitation, our financial condition, performance, creditworthiness and prospects, future sales of our equity or equity related securities, and other factors identified above in "Forward-Looking Statements". Current levels of market volatility are still

historically high. The capital and credit markets have been experiencing volatility and disruption for more than two years. In some cases, the markets have produced downward pressure on stock prices and credit availability for certain issuers without regard to those issuers' underlying financial strength.

Your share ownership may be diluted by the issuance of additional shares of our common stock in the future.

Your share ownership may be diluted by the issuance of additional shares of our common stock in the future. Our amended and restated articles of incorporation do not provide for preemptive rights to the holders of our common stock. Any authorized but unissued shares are available for issuance by our Board of Directors. As a result, if we issue additional shares of common stock to raise additional capital or for other corporate purposes, you may be unable to maintain your pro rata ownership in the Bank.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our headquarters and main branch office are located at 601 S. Figueroa Street, Los Angeles, California, 90017. This lease expires in August of 2020.

At December 31, 2010, we maintained ten full-service branch offices in Alhambra, Arcadia, Century City, City of Industry, Diamond Bar, Los Angeles, Pico Rivera, Torrance, Anaheim, and Irvine, California all of which we lease, except the Irvine branch which we own. In February 2010, we consolidated our Chino and Diamond Bar branches and our Santa Monica and Century City branches. Since such consolidation, we maintain ten full-service branches. We believe that no single lease is material to our operations. Leases for branch offices are generally 3 to 12 years in length and generally provide renewal terms of 3 to 5 additional years.

We believe that our existing facilities are adequate for our present purposes. We believe that, if necessary, we could secure alternative facilities on similar terms without adversely affecting our operations. Total lease expense was $1,727,000 for the year ended December 31, 2010 and $1,829,000 for December 31, 2009.

The Bank accounts for its leases under the provision of ASC 840, Leases. Certain leases have scheduled rent increases, and certain leases include an initial period of free or reduced rent as an inducement to enter into the lease agreement ("rent holiday"). The Bank recognizes rent expense for rent increases and rent holiday on a straight line basis over the terms of the underlying lease without regard to when rent payments are made.

The following table provides certain information with respect to our owned and leased branch locations.

Location	Address	Current Lease Term Expiration Date	Square Footage	Total Deposits at December 31, 2010
				(in thousands)
Los Angeles County				
Alhambra	325 E. Valley Blvd.	05/31/19	6,000	$145,940
Arcadia	1469 S. Baldwin Avenue	02/01/14	2,600	75,656
Century City	1801 Century Park East, Suite 100	06/30/11	4,416	72,431
City of Industry	17515-A Colima Road	03/14/15	5,610	84,023
Diamond Bar	1373 S. Diamond Bar Blvd.	11/30/16	3,440	97,204
Los Angeles (Head Office & branch)	601 S. Figueroa Street, 29th Floor	08/31/20	22,627	374,064
Pico Rivera	7004 Rosemead Blvd.	02/10/19	2,850	11,621
Santa Monica (Vacant)	524 Wilshire Blvd.	08/31/12	1,355	—
Torrance	3501 Sepulveda Blvd., Suite 107	06/30/16	4,800	145,279
Valencia (Vacant)	24501 Town Center Drive, Suite 103	11/30/11	2,926	—
Orange County				
Anaheim	1055 N. Tustin Avenue	7/15/18	2,750	19,217
Irvine (Purchased Branch Premises)	890 Roosevelt Avenue	N/A	4,960	55,830

ITEM 3. LEGAL PROCEEDINGS

From time to time we are a party to claims and legal proceedings arising in the ordinary course of business. We accrue for any probable loss contingencies that are estimable and disclose any possible losses in accordance with ASC 450, "*Contingencies*." There are no pending legal proceedings or, to the best of our knowledge, threatened legal proceedings, to which we are a party which may have a material adverse effect upon our financial condition, results of operations and business prospects.

ITEM 4. REMOVED AND RESERVED

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock is on the NASDAQ Global Select Market under the symbol "PFBC." Our common stock closed at $1.49 on March 28, 2011 and there were 65,942,527 outstanding shares of our common stock on that date. The number of shares and per share data has been adjusted to reflect our February 20, 2007 three-for-two stock split effected in the form of a dividend.

The following table sets forth the high and low sales prices for our common stock for the periods indicated as reported by the NASDAQ, as well as the cash dividends declared per share during the last two years:

	High	Low	Cash Dividends Declared
2009			
First Quarter	$6.80	$4.85	$0.08
Second Quarter	$5.92	$3.76	*
Third Quarter	$3.91	$2.70	*
Fourth Quarter	$3.44	$1.25	*
2010			
First Quarter	$1.97	$1.18	*
Second Quarter	$3.68	$1.34	*
Third Quarter	$2.24	$1.55	*
Fourth Quarter	$1.86	$1.54	*

* On April 16, 2009, the Bank's Board of Directors elected to indefinitely suspend the Bank's cash dividend in order to preserve the Bank's capital.

Holders

As of March 28, 2011, 65,942,527 shares of the Bank's common stock were held by 169 shareholders of record.

Dividends

On April 16, 2009, the Bank's Board of Directors elected to indefinitely suspend the Bank's cash dividend in order to preserve the Bank's capital. Further, under the terms of the Order, we are prohibited from paying cash dividends or any other payments to our shareholders without the prior written consent of the FDIC and the DFI.

We began paying dividends on a quarterly basis in the first quarter of 2005, subject to regulatory, capital and contractual constraints. Our ability to pay dividends in the future will be determined by the FDIC and DFI and will depend upon our satisfaction of the requirements under the Order, which in turn will depend upon our earnings, financial condition, results of operations, capital requirements, available investment opportunities, regulatory restrictions, contractual restrictions and other factors that our board of directors may deem relevant. Accordingly, there can be no assurance that any stock or cash dividends will be declared in the future, and if any are declared, what amount they will be.

Because we are a California state-chartered bank, our ability to pay dividends or make distributions to shareholders are subject to restrictions set forth in the California Financial Code. California Financial Code Section 642 restricts the amount available for cash dividends by state-chartered banks to the lesser of: (1) retained earnings; or (2) the bank's net income for its last three fiscal years (less any distributions to shareholders made during such period).

However, Section 643 of the California Financial Code provides that notwithstanding the provisions of Section 642, a state-chartered bank may, with the prior approval of the California Commissioner, make a distribution to its shareholders in an amount not exceeding the greater of:

- Retained earnings;
- Net income for a bank's last preceding fiscal year; or
- Net income of the bank for its current fiscal year.

If the California Commissioner finds that the shareholders' equity of the Bank is not adequate or that the payment of a dividend would be unsafe or unsound for the Bank, the California Commissioner may order the Bank not to pay a dividend to the Bank's shareholders.

In addition, under California law, the California Commissioner has the authority to prohibit a bank from engaging in business practices which the California Commissioner considers to be unsafe or injurious to its business or financial condition. It is possible, depending on our financial condition and other factors, that the California Commissioner could assert that the payment of dividends or other payments to our shareholders might under some circumstances be unsafe or injurious to our business or financial condition and prohibit such payment.

The FDIC also has the authority to prohibit a bank from engaging in business practices which the FDIC considers to be unsafe or unsound. It is possible, depending upon our financial condition and other factors, that the FDIC could assert that the payment of dividends or other payments might under some circumstances be such an unsafe or unsound practice and prohibit such payment.

Recent Sales of Unregistered Securities

In June 2010, the Bank executed a successful $77 million capital raise through a private placement of Series A Mandatorily Convertible Non-Cumulative Non-Voting Perpetual Preferred Stock ("Series A Preferred Stock"). In connection with the sale of the Series A Preferred Stock, the Bank entered into a subscription agreement with selected institutional investors, directors, executive officers and certain other accredited investors. The proceeds from this private placement were used to meet the capital requirements of the Consent Order issued to the Bank by the DFI and FDIC.

The Bank sold 77,000 shares of Series A Preferred Stock to the investors in the private placement at a price of $1,000 per share ("Series A Share Price"). It should be noted that 3,154 of the 77,000 subscribed shares, 3,154 were issued as part of a deferred compensation arrangement.

The Series A Preferred Stock automatically converted into shares of the Company's common stock following receipt of the requisite shareholder approvals for the conversion from its common shareholders (under applicable NASDAQ listing rules) and from the holders of the Series A Preferred Stock. The conversion ratio for each share of Series A Preferred Stock was equal to the quotient obtained by dividing the Series A Share Price by the conversion price, which was $1.50. As such, each share of Series A Preferred Stock was convertible into approximately 666.67 shares of the Company's common stock. During the third quarter, the Series A Preferred Stock was converted to common shares in accordance with its beneficial conversion features, and 49,230,901 common shares were issued in August 2010.

Shares of the Bank's common stock are exempt from registration with the SEC under Section 3(a)(2) of the Securities Act of 1933, as amended, and were issued pursuant to a stock permit issued by the DFI. The Bank's shares are listed and freely tradable on the NASDAQ Global Select Market under the symbol "PFBC."

Issuer's Purchases of Equity Securities.

No repurchases of the Bank's common stock were made by or on behalf of the Bank in 2010.

Securities Authorized for Issuance Under Equity Compensation Plans.

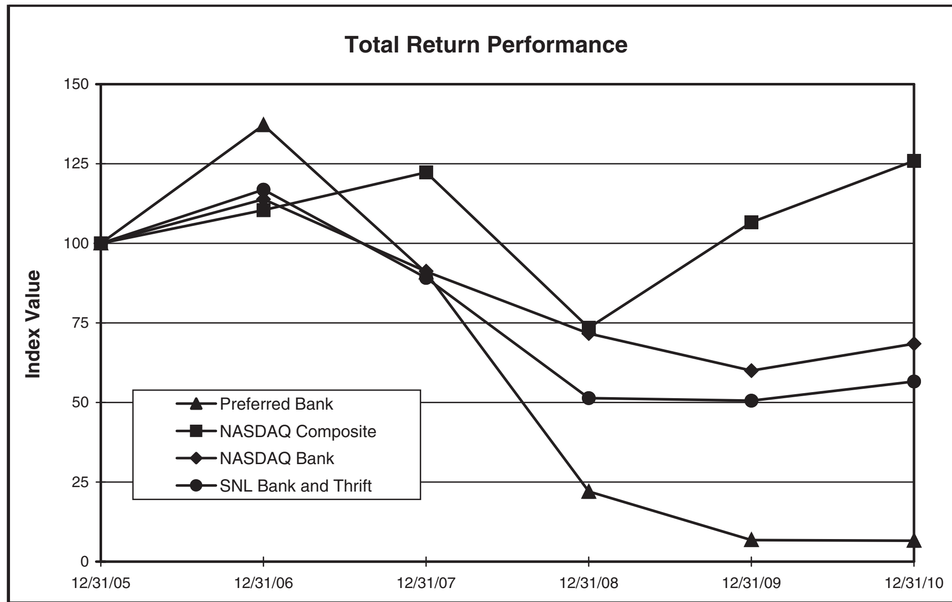
The following table provides information as of December 31, 2010, regarding equity compensation plans under which equity securities of the Bank were authorized for issuance.

Plan Category	Number of securities to be issued upon exercise of outstanding options (a)	Weighted average exercise price of outstanding options (b)	Number of securities available for future issuance under equity compensation plans excluding securities reflected in column (a) (c)
Equity incentive plans approved by security holders	949,392	$10.40	5,510,108
Equity incentive plans not approved by security holders	—	—	—
	949,392		5,510,108

The shares data reflected above has been adjusted to reflect our February 20, 2007 three-for-two stock split effected in the form of a dividend; and shares under the 2004 Equity Plan available as a result of the Bank's tender offer and repurchase of certain options On October 29, 2010.

Stock Performance Graph

The following graph shows a comparison of shareholder return on the Bank's common stock based on the market price of the common stock assuming the reinvestment of dividends, for the period beginning December 31, 2005 assuming an investment of $100 in each as of December 31, 2005. The Bank is not included in either of these indices. Total shareholder return for the Bank, as well as for the indices, is based on the cumulative amount of dividends for a given period (assuming dividend reinvestment) and the difference between the share price at the beginning and at the end of the period. This graph is historical only and may not be indicative of possible future performance of the common stock.



	Period Ending					
Index	**12/31/05**	**12/31/06**	**12/31/07**	**12/31/08**	**12/31/09**	**12/31/10**
Preferred Bank	100.00	137.08	90.77	21.87	6.64	6.49
NASDAQ Composite	100.00	110.39	122.15	73.32	106.57	125.91
NASDAQ Bank	100.00	113.82	91.16	71.52	59.87	68.34
SNL Bank and Thrift	100.00	116.85	89.10	51.24	50.55	56.44

ITEM 6. SELECTED FINANCIAL DATA

The following table shows our selected historical financial data for the periods indicated. You should read our selected historical financial data, together with the notes thereto, in conjunction with the more detailed information in our consolidated financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this Form 10-K.

Our financial condition data as of December 31, 2010 and 2009 and our statement of operations data for the years ended December 31, 2010, 2009 and 2008 have been derived from our audited historical financial statements included elsewhere in this Form 10-K.

Our financial condition data as of December 31, 2008, 2007 and 2006 and our statement of operations data for the year ended December 31, 2007 and 2006 have been derived from our audited historical financial statements that are not included in this Form 10-K.

	At or for the Year Ended December 31,				
	2010	2009	2008	2007	2006
	(Dollars in thousands, except per share data)				
Financial Condition Data:					
Total assets	$1,255,866	$1,306,781	$1,483,231	$1,542,610	$1,348,841
Total deposits	1,081,265	1,160,412	1,257,323	1,253,110	1,161,344
Investments securities available-for- sale, at fair value sale	183,269	114,464	104,406	245,268	198,689
Loans and leases, gross	915,410	1,043,299	1,231,232	1,233,099	997,317
Cash and cash equivalents	108,233	68,071	69,586	22,803	26,878
Other real estate owned[1]	53,268	59,190	35,127	8,444	—
Shareholders' equity	141,334	85,374	137,491	152,952	145,932
Statement of Operations Data:					
Interest income	$ 52,088	$ 58,876	$ 85,959	$ 112,607	$ 90,262
Interest expense	14,822	22,812	34,634	44,199	31,424
Net interest income	37,266	36,064	51,325	68,408	58,838
Provision for credit losses	16,550	71,250	30,560	4,900	1,960
Net interest (loss) income after provision for loan and lease losses	20,716	(35,186)	20,765	63,508	56,878
Noninterest income	2,807	6,476	4,941	3,090	3,028
Noninterest expense	41,037	51,953	35,594	21,461	20,017
(Loss) income before provision for income taxes	(17,514)	(80,663)	(9,888)	45,137	39,889
(Benefit) provision for income taxes	(704)	(8,128)	(4,876)	18,670	16,538
Net (loss) income	$ (16,810)	$ (72,535)	$ (5,012)	$ 26,467	$ 23,351
Accretion of beneficial conversion feature	(25,600)	—	—	—	—
Net (loss) income available to common shareholders	$ (42,410)	$ (72,535)	$ (5,012)	$ 26,467	$ 23,351

	At or for the Year Ended December 31,				
	2010	2009	2008	2007	2006
	(Dollars in thousands, except per share data)				
Share Data:					
Net (loss) income per share, basic(2)(10)	$ (1.24)	$ (6.30)	$ (0.51)	$ 2.56	$ 2.29
Net (loss) income per share, diluted(2)(10)	$ (1.24)	$ (6.30)	$ (0.51)	$ 2.50	$ 2.21
Book value per share(3)(10)	$ 2.14	$ 5.41	$ 14.09	$ 15.37	$ 14.20
Shares outstanding at period end(10)	65,941,527	15,767,126	9,755,207	9,953,532	10,274,706
Weighted average number of shares outstanding, basic(2)(10)	34,148,670	11,518,145	9,790,858	10,330,232	10,194,515
Weighted average number of shares outstanding, diluted(2)(10)	34,148,670	11,518,145	9,810,391	10,580,949	10,556,282
Selected Other Balance Sheet Data(4):					
Average assets	$ 1,343,450	$ 1,440,279	$1,506,228	$ 1,405,311	$ 1,180,749
Average earning assets	1,276,478	1,357,385	1,444,340	1,362,433	1,142,126
Average shareholders' equity	127,289	129,959	149,635	156,217	134,384
Selected Financial Ratios(4):					
Return on average assets	(1.25)%	(5.04)%	(0.33)%	1.88%	1.98%
Return on average shareholders' equity(3)	(13.21)	(55.81)	(3.35)	16.94	17.38
Shareholders' equity to assets(5)	11.25	6.53	9.27	9.92	10.82
Net interest margin(6)	2.98	2.72	3.62	5.06	5.18
Efficiency ratio(7)	102.41	122.13	63.26	30.02	32.35
Selected Asset Quality Ratios:					
Non-performing loans to total loans and leases(8)	11.13%	13.89%	5.42%	1.69%	0.11%
Non-performing assets to total assets(9)	12.30	15.62	6.87	1.90	0.08
Allowance for loans and lease losses to total loans and leases	3.60	4.10	2.19	1.21	1.03
Allowance for loans and lease losses to non-performing loans	32.30	29.55	40.33	71.27	913.93
Net charge-offs (recoveries) to average loans and leases	2.71	4.76	1.52	0.02	0.08

(1) These amounts include all property held by us as a result of foreclosure.

(2) Net income per share, basic is computed by dividing net income adjusted by presumed dividend payments and earnings on unvested restricted stock by the weighted average number of common shares outstanding. Losses are not allocated to participating securities. Unvested shares of restricted stock are excluded from basic shares outstanding. Net income per share, diluted reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shares in the loss or earnings of the Bank.
The net loss available to common shareholders was $1.24 per common share for year ended December 31, 2010, and included $0.75 loss per share due to the recognition of the intrinsic value of the beneficial conversion feature of the preferred stock.

(3) Book value per share represents our shareholders' equity divided by the number of shares of common stock issued and outstanding at the end of the period indicated (exclusive of shares exercisable under our stock option plans).

(4) Average balances used in this chart and throughout this annual report are based on daily averages. Percentages as used throughout this annual report have been rounded to the closest whole number, tenth or hundredth as the case may be.

(5) For a discussion of the components of the capital ratios, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Capital Resources.”
(6) Net interest margin is net interest income expressed as a percentage of average total interest-earning assets.
(7) The efficiency ratio is the ratio of noninterest expense divided by the sum of net interest income before the provision for credit losses plus noninterest income.
(8) Non-performing loans consist of loans on nonaccrual and loans past due 90 days or more and restructured debt.
(9) Non-performing assets consist of non-performing loans and other real estate owned.
(10) Adjusted to reflect 3-for-2 stock split effected in the form of a dividend, distributed on February 20, 2007.

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

Our discussion and analysis of earnings and related financial data are presented herein to assist investors in understanding the financial condition of our Company at December 31, 2010 and 2009, and the results of operations for the years ended December 31, 2010, 2009 and 2008. This discussion should be read in conjunction with the consolidated financial statements and related footnotes of our Company presented elsewhere herein. Historical share and per share data has been adjusted to reflect our February 2007 three-for-two stock split, and the conversion of preferred stock to common shares in August 2010

Overview

We experienced growth in assets, loans, deposits and net income in 2008; however, as a result of the rapid slowdown in the real estate market, deteriorating economic conditions, and volatile interest rate movements, the Bank incurred net operating losses in 2009 due to significant credit quality issues as well as losses on its investment portfolio. These losses continued in 2010. More specifically:

- Our net interest margin increased primarily due to the decrease in the average cost of the average interest-bearing liabilities.
- The provision for credit losses in 2010 decreased substantially from 2009, as the 2009 provision reflected the rapid increase in classified and nonperforming loans due to the unprecedented economic conditions, especially in the real estate market during that year and the preceding year of 2008.
- OREO expenses also declined significantly compared to 2009 when the Bank recorded significant expenses in connection with the decline in value and the disposition of other real estate owned. This improvement was offset somewhat, by a modest loss, as opposed to last year's gain on the sale of investment securities.
- The level of non-performing loans decreased notably during 2010 from $144.9 million to $101.9 million.
- The net loss applicable to common shareholders was further impacted by the accretion of the beneficial conversion feature of the preferred stock issued during the third quarter, which for accounting purposes, was treated as a dividend (without impact to cash flow or other financial results of the bank beyond the earnings per share calculation).

If general economic conditions and the real estate market do not improve on a sustained basis, these trends could continue. Our national economy and California in particular are in the midst of a recovery from an unprecedented recession that has its roots in real estate values. As a result, Management's primary focus during 2011 will remain on credit quality, capital preservation and liquidity management.

We derive our income primarily from interest received on our loan and investment securities portfolios, and fee income we receive in connection with servicing our loan and deposit customers. Our major operating expenses are the interest we pay on deposits and borrowings, and the salaries and related benefits we pay our management and staff. We rely primarily on locally-generated deposits, approximately half of which we receive from the Chinese-American market within Southern California, to fund our loan and investment activities.

For the year-ended December 31, 2010 the Bank recorded a net loss of $16.8 million as compared to a net loss of $72.5 million for December 31, 2009. The decrease in net loss during 2010 is primarily due to a significant decrease in the provision for loan losses, a valuation allowance recorded on the Bank's deferred tax asset in 2009 and an increase in our net interest margin as a result lower nonaccrual loans in 2010. See—"Results of Operations".

For the year-ended December 31, 2009 the Bank recorded a net loss of $72.5 million as compared to a net loss of $5.0 million for December 31, 2008. The increase in net loss during 2009 is primarily due to increases in

the provision for loan losses, a valuation allowance recorded on the Bank's deferred tax asset, increased expenses associated with OREO including valuation allowance and a decrease in our net interest income as a result lower overall loans outstanding and a significant increase in non-accrual loans in 2009. See —"Results of Operations".

Regulatory Matters

Consent Order

On March 16, 2010, the members of the Board of Directors of the Bank consented to the issuance of the Order from the FDIC and the DFI. The Order was signed on March 22, 2010 and among other things, requires that the Bank (i) have and maintain qualified management and notify the FDIC and the DFI in writing when it proposes to make any changes in its Board of Directors or senior executive officers at least 30 days prior to the date any change is to become effective; (ii) obtain and maintain the capital requirements contained in the Order and the FDIC's Statement of Policy on Risk-Based Capital; (iii) reduce classified assets to not more than 50% of the Bank's Tier 1 capital and ALLL within 270 days of the Order; (iv) reduce concentrations of construction and land loans; (v) adopt an enhanced written liquidity management policy and adopt a written plan which addresses profit retention; and (vi) submit quarterly progress reports detailing actions taken to comply with the Order. The Order also prohibits the Bank from paying cash dividends or making any other payments to its shareholders without prior written consent of the FDIC and the DFI. As of December 31, 2010, the minimum capital levels of the Bank exceeded the capital levels required by the Order. To date we have not reduced the Bank's assets classified as "Substandard" within the Report of Examination dated September 30, 2009 down to the level required to be in compliance with the Order. The Board of Directors and management remain committed to addressing and resolving this and the other matters identified in the Order. The following actions have already been undertaken to comply with each requirement:

- We raised a sufficient amount of new capital during the second quarter of 2010 to satisfy the requirements of the Order through the issuance of convertible Series A Preferred Stock, which automatically converted to common stock in the third quarter of 2010 by the vote of our outstanding shares at a special meeting of shareholders;
- We engaged an independent third party to conduct a comprehensive management study and our Board of Directors and management are working toward the implementation of some of the recommendations contained in the study;
- We reduced the level of assets classified as "Substandard" within the 2009 Report of Examination to try to obtain compliance with the initial limit of not more than 100% of Tier 1 capital and ALLL and we are continuing to make further reductions;
- We revised and significantly enhanced our ALLL adequacy determination process;
- We have created a written plan addressing the retention of profits and have a Board-approved budget for 2011; and
- We developed written Plans to reduce construction and land loan concentrations and we revised our liquidity and funds management policies.

Brokered Deposits

The Bank utilizes a variety of funding sources in conducting its operations, including the use of "brokered deposits" as defined by banking regulators. Such brokered deposits totaled $62.7 million at December 31, 2010. Due to the fact that the Bank is not considered to be well-capitalized, the Bank is not allowed to access the brokered deposit market, which also includes the CDARS reciprocal deposits, and ceased doing so during the fourth quarter of 2009. As such, the Bank will not renew any of these brokered deposits and will let all of them mature during the course of 2010 and 2011. In addition, pursuant to the Order, the Bank has submitted to the FDIC and the DFI a written plan for eliminating its reliance on brokered deposits. Accordingly, we have worked and planned diligently to ensure that the Bank has sufficient liquidity to meet these brokered deposit maturities

and to also have additional contingent cash on hand. We have worked to increase cash on hand which, as of December 31, 2010, was $108.2 million. Due to sales of loans, OREO and due to loan maturities, the Bank's cash position was enhanced during 2010 even after the payout of maturing brokered deposits. In addition, management is also sold certain of its investment securities which cannot be pledged as collateral at the FHLB for future borrowings. Finally, the Bank is also able to raise deposits from time to time from other financial institutions to augment its cash position. Management is confident that these efforts will result in maintaining sufficient cash to be able to pay out maturing brokered deposits and also maintain a substantial level of contingent liquidity.

Critical Accounting Policies

Our accounting policies are integral to understanding the financial results reported. Our most complex accounting policies require management's judgment to ascertain the valuation of assets, liabilities, commitments and contingencies. We have established detailed policies and control procedures that are intended to ensure valuation methods are well controlled and consistently applied from period to period. In addition, these policies and procedures are intended to ensure that the process for changing methodologies occurs in an appropriate manner. The following is a brief description of our current accounting policies involving significant management valuation judgments.

Allowance for Loan and Lease Losses

The allowance for loan and lease losses, or ALLL, represents our best estimate of losses inherent in the existing loan and lease portfolio. The allowance for loan and lease losses is increased by the provision for credit losses charged to expense and reduced by loans and leases charged off, net of recoveries.

We evaluate our allowance for loan and lease losses quarterly. We believe that the allowance for loan and lease losses is a "critical accounting estimate" because it is based upon management's assessment of various factors affecting the collectability of the loans and leases, including current economic conditions, past credit experience, delinquency status, the value of the underlying collateral, if any, and a continuing review of the portfolio of loans and leases. On a recurring basis, the Bank measures the fair value of impaired collateral dependent loans based on fair value of the collateral value which is derived from appraisals that take into consideration prices in observable transactions involving similar assets in similar locations in accordance with Receivables Topic of FASB ASC covering loan impairments.

Like all financial institutions, we maintain an ALLL based on a number of quantitative and qualitative factors. The amount of the allowance is based on management's evaluation of the collectability of the loan and lease portfolio and that evaluation is based on historical loss experience and other significant factors. These other significant factors include the level and trends in delinquent, nonaccrual and adversely classified loans and leases, trends in volume and terms of loans and leases, levels and trends in credit concentrations, effects of changes in underwriting standards, policies, procedures and practices, national and local economic trends and conditions, changes in capabilities and experience of lending management and staff and other external factors including industry conditions, competition and regulatory requirements.

The allowance adequacy analysis requires a significant amount of judgment and subjectivity by management especially in regards to the qualitative portion of the analysis. We cannot provide you with any assurance that further economic difficulties or other circumstances which would adversely affect our borrowers and their ability to repay outstanding loans and leases will not occur. These difficulties or other circumstances could result in increased losses in our loan and lease portfolio, which could result in actual losses that exceed reserves previously established.

Investment Securities

The classification and accounting for investment securities are discussed in detail in Note 1 of the Consolidated Financial Statements presented elsewhere herein. Under Investments – Debt and Equity Securities Topic of FASB ASC, investment securities must be classified as held-to-maturity, available-for-sale, or trading. The appropriate classification is based partially on our ability to hold the securities to maturity and largely on management's intentions with respect to either holding or selling the securities. The classification of investment securities is significant since it directly impacts the accounting for unrealized gains and losses on securities. Unrealized gains and losses on trading securities flow directly through earnings during the periods in which they arise, whereas unrealized gains and losses on available-for-sale securities are recorded as a separate component of shareholders' equity (accumulated other comprehensive income or loss) and do not affect earnings until realized. The fair values of our investment securities are generally determined by an independent pricing service and are considered to be level 2 or 3 categories as defined by Fair Value Measurements and Disclosures Topic of FASB ASC. Management reviews the fair value of investment securities on a monthly basis for reasonableness. On a quarterly basis, management thoroughly assesses the fair values of impaired investment securities by looking at other data regarding the fair values such as: recent trading levels of the same or similarly rated securities, reviewing assumptions used in discounted cash flow analyses for reasonableness and other information such as general market conditions.

We are obligated to assess, at each reporting date, whether there is an "other-than-temporary" impairment to our investment securities. For debt securities, we assess whether (a) we have the intent to sell the security and (b) it is more likely than not that we will be required to sell the security prior to its anticipated recovery. These steps are done before assessing whether we will recover the cost basis of the investment. This assessment requires us to assert we have both the intent and the ability to hold a security for a period of time sufficient to allow for an anticipated recovery in fair value to avoid recognizing an other-than-temporary impairment. In instances when a determination is made that an other-than-temporary impairment exists but we do not intend to sell the debt security and it is not more likely than not that we will be required to sell the debt security prior to its anticipated recovery, the newly adopted FASB guidance covering recognition and presentation of other-than-temporary impairments, changes the presentation and amount of the other-than-temporary impairment recognized in the income statement. The other-than-temporary impairment is separated into (a) the amount of the total other-than-temporary impairment related to a decrease in cash flows expected to be collected from the debt security (the credit loss) and (b) the amount of the total other-than-temporary impairment related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the total other-than-temporary impairment related to all other factors is recognized in other comprehensive income. The determination of other-than-temporary impairment is a subjective process, requiring the use of judgments and assumptions. We examine all individual securities that are in an unrealized loss position at each reporting date for other-than-temporary impairment. Specific investment-related factors we examine to assess impairment include the nature of the investment, severity and duration of the loss, the probability that we will be unable to collect all amounts due, an analysis of the issuers of the securities and whether there has been any cause for default on the securities and any change in the rating of the securities by the various rating agencies. Additionally, we evaluate whether the creditworthiness of the issuer calls the realization of contractual cash flows into question.

The Bank considers all available information relevant to the collectability of the pooled trust preferred securities, including information about past events, current conditions, and reasonable and supportable forecasts, when developing the estimate of future cash flows and making its other-than-temporary impairment assessment for our portfolio of pooled trust preferred securities. The Bank considers factors such as remaining payment terms of the security, prepayment speeds, the financial condition of the underlying issuers and expected defaults.

We re-examine the financial resources, intent and the overall ability of the Bank to hold the securities until their fair values recover. Management does not believe that there are any investment securities, other than those identified in the current and previous periods, which are deemed to be "other-than-temporarily" impaired as of December 31, 2010. Investment securities are discussed in more detail in Note 2 to the Bank's consolidated financial statements presented elsewhere in this report.

Income Taxes

The Bank accounts for income taxes using the asset and liability method. The objective of the asset and liability method is to establish deferred tax assets and liabilities for the temporary differences between the financial reporting basis and the tax basis of the Bank's assets and liabilities at enacted tax rates expected to be in effect when such amounts are realized or settled. A valuation allowance is established for deferred tax assets if based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The valuation allowance is sufficient to reduce the deferred tax assets to the amount that is more likely than not to be realized. Income taxes are discussed in more detail in *"Notes to Consolidated Financial Statements, Note 1—Summary of Significant Accounting Policies"* and *"Note 6—Income Taxes*"

Stock Split Effected in the form of a Stock Dividend

On January 25, 2007 the Bank announced that its Board of Directors had approved a 3-for-2 stock split to be effected in the form of a stock dividend. Each shareholder of record at the close of business on February 5, 2007 received one additional share of common stock for every two shares of common stock that they owned as of such date. The additional shares were distributed on February 20, 2007. A shareholder who would otherwise be entitled to receive a fractional share of common stock received in lieu thereof, cash in a proportional amount based on the closing price of the common stock on the NASDAQ on the record date. As a result of the stock split, and in accordance with the 1992 Equity Incentive Stock Option Plan, the Interim Plan, and the 2004 Equity Incentive Plan, all outstanding stock options and exercise prices were adjusted based on the same 3-for-2 formula.

Results of Operations

The following tables summarize key financial results for the periods indicated:

	Year Ended December 31,		
	2010	2009	2008
	(Dollars in thousands, except per share data)		
Net (loss) income	$(16,810)	$(72,535)	$(5,012)
Net (loss) income per share, basic[1]	$ (1.24)	$ (6.30)	$ (0.51)
Net (loss) income per share, diluted[1]	$ (1.24)	$ (6.30)	$ (0.51)
Return on average assets	(1.25)%	(5.04)%	(0.33)%
Return on average shareholders' equity	(13.21)%	(55.81)%	(3.35)%

(1) Adjusted to reflect 3-for-2 stock split effected in the form of dividend, distributed on February 20, 2008.

Year Ended December 31, 2010 Compared to Year Ended December 31, 2009

	Year Ended December 31,		
	2010	**2009**	**Increase (Decrease)**
	(Dollars in thousands, except per share data)		
Statement of Operations Data:			
Interest income	$ 52,088	$ 58,876	$ (6,788)
Interest expense	14,822	22,812	(7,990)
Net interest income	37,266	36,064	1,202
Provision for credit losses	16,550	71,250	(54,700)
Net interest (loss) income after provision for loan and lease losses	20,716	(35,186)	55,902
Noninterest income	2,807	6,476	(3,669)
Noninterest expense	41,037	51,953	(10,916)
Loss before income taxes	(17,514)	(80,663)	63,149
Income tax benefit	(704)	(8,128)	(7,424)
Net loss	$(16,810)	$(72,535)	$ 55,725
Accretion of beneficial conversion feature	(25,600)	—	(25,600)
Net loss available to common shareholders	$(42,410)	$(72,535)	$ 30,125
Net loss per share, basic	$ (1.24)	$ (6.30)	$ 5.06
Net loss per share, diluted	$ (1.24)	$ (6.30)	$ 5.06

The Bank's net loss decreased to $16.8 million, or $1.24 per diluted share, for the year-ended December 31, 2010, from a net loss of $72.5 million, or $6.30 per diluted share, for the year ended December 31, 2009. Our return on average assets was (1.25)% and return on average shareholders' equity was (13.21)% for the year ended December 31, 2010, compared to (5.04)% and (55.81)%, respectively, for the year ended December 31, 2009.

Net loss decreased from 2009 to 2010, principally as a result of a decrease in the provision for credit losses and a decrease in noninterest expense. The decline in non-interest expense was due primarily to lower credit related noninterest expenses during 2010.

The $1.2 million, or 3.3%, increase in net interest income was due primarily to lower rates paid on deposits partially offset by lower interest on loans. Our overall cost of funds in 2010 decreased by 56 basis points to 1.52%, compared to 2.08% for 2009 while yields on earning assets decreased only 26 basis points to 4.14% from 4.40%. The impact of the low interest rate environment in 2010 was the primary driver of our decreased cost of funds during 2010.

As of December 31, 2010, 79% of our loan portfolio was tied to the Prime Rate, which has the potential to re-price daily, and 8% was tied to the London Interbank Offer Rate, or LIBOR, or other indices, which re-price periodically. Approximately 73% of our loan portfolio had a floor interest rate at various levels, which provides us with some protection in the current environment with the Prime Rate at a level below the floor interest rate. Approximately 2% of our loan portfolio had interest rate ceilings at various rates limiting the amount of interest rate increases that can be passed on to the borrower. Our weighted average maturity of certificates of deposit at December 31, 2010 was 6.4 months.

Year Ended December 31, 2009 Compared to Year Ended December 31, 2008

	Year Ended December 31,		
	2009	**2008**	**Increase (Decrease)**
	(Dollars in thousands, except per share data)		
Statement of Operations Data:			
Interest income	$ 58,876	$85,959	$(27,083)
Interest expense	22,812	34,634	(11,822)
Net interest income	36,064	51,325	(15,261)
Provision for credit losses	71,250	30,560	40,690
Net interest income after provision for loan and lease losses	(35,186)	20,765	(55,951)
Noninterest income	6,476	4,941	1,535
Noninterest expense	51,953	35,594	16,359
(Loss) income before income taxes	(80,663)	(9,888)	(70,775)
Income tax (benefit) expenses	(8,128)	(4,876)	(3,252)
Net (loss) income	$(72,535)	$ (5,012)	$(67,523)
Net (loss) income per share, basic[1]	$ (6.30)	$ (0.51)	$ (5.79)
Net (loss) income per share, diluted[1]	$ (6.30)	$ (0.51)	$ (5.79)

(1) Adjusted to reflect 3-for-2 stock split effected in the form of dividend distributed on February 20, 2007.

The Bank's net loss increased to $72.5 million, or $6.30 per diluted share, for the year-ended December 31, 2009, from a net loss of $5.0 million, or $0.51 per diluted share, for the year ended December 31, 2008. Our return on average assets was (5.04)% and return on average shareholders' equity was (55.81)% for the year ended December 31, 2009, compared to (0.33)% and (3.35)%, respectively, for the year ended December 31, 2008.

Net loss increased from 2008 to 2009, principally as a result of a decrease in net interest income of $15.3 million, a $40.7 million increase in the provision for credit losses and an increase in OREO expenses of $20.0 million, partially offset by a increase in the benefit for income taxes by $3.3 million as the Bank recorded a valuation on its deferred tax asset in 2009 of $27.1 million. Without the valuation allowance on the deferred tax asset, the benefit for income taxes would have been $35.1 million.

The $15.3 million, or 29.7%, decrease in net interest income was due primarily to the lower loan totals as well as a significant increase in nonaccrual loans in 2009. Our overall cost of funds in 2009 decreased by 98 basis points to 2.08%, compared to 3.06% for 2008 while yields on earning assets decreased 162 basis points to 4.40% from 6.02%. The impact of a declining interest rate environment in 2009 was the primary driver of our decreased cost of funds during 2009.

As of December 31, 2009, 81% of our loan portfolio was tied to the Prime Rate, which has the potential to re-price daily, and 10% was tied to the London Interbank Offer Rate, or LIBOR, or other indices, which re-price periodically. Approximately 71% of our loan portfolio had a floor interest rate at various levels, which would provide us with some protection in a falling interest rate environment should the Prime Rate decline to a level below the floor interest rate. Approximately 2% of our loan portfolio had interest rate ceilings at various rates limiting the amount of interest rate increases that can be passed on to the borrower. Our weighted average maturity of certificates of deposit at December 31, 2009 was 7.6 months.

Net Interest Income and Net Interest Margin

Year ended December 31, 2010 compared to 2009

Net interest income before the provision for credit losses for the year ended December 31, 2010 increased $1.2 million, or 3.3%, to $37.3 million from $36.1 million for the year ended December 31, 2009. This increase was due to a decrease in interest expense of $8.0 million, partially offset by a decrease in interest income of $6.8 million. Total decrease in interest income is primarily due to the lower loan totals as well as an increase in average nonaccrual loans in 2010.

The average yield on our interest-earning assets decreased to 4.14% in the year ended December 31, 2010 from 4.40% in the year ended December 31, 2009. The decrease was mainly due to a lower yield on investment securities, partially offset by a slightly higher yield on loans.

The cost of average interest-bearing liabilities decreased to 1.52% in the year ended December 31, 2010 from 2.08% in the year ended December 31, 2009. The decrease was primarily driven by generally lower rates paid on deposits during 2010 versus 2009, and the repayment of higher-rate, short and long-term borrowings.

Year ended December 31, 2009 compared to 2008

Net interest income before the provision for credit losses for the year ended December 31, 2009 decreased $15.2 million, or 29.7%, to $36.1 million from $51.3 million for the year ended December 31, 2008. This decrease was due to a decrease in interest income of $27.1 million, partially offset by a decrease in interest expense of $11.8 million. Total decrease in net interest income is primarily due to lower loan totals as well as a significant increase in nonaccrual loans in 2009.

The average yield on our interest-earning assets decreased to 4.40% in the year ended December 31, 2009 from 6.02% in the year ended December 31, 2008. The decrease was mainly due to lower rates earned on loans and an increase in loans on nonaccrual status.

The cost of average interest-bearing liabilities decreased to 2.08% in the year ended December 31, 2009 from 3.06% in the year ended December 31, 2008. The decrease was primarily driven by generally lower rates paid on deposits during 2009 over 2008 which is a result of lower market rates.

	Year Ended December 31, 2010			Year Ended December 31, 2009			Year Ended December 31, 2008		
	Average Balance	Interest Income or Expense	Average Yield or Cost	Average Balance	Interest Income or Expense	Average Yield or Cost	Average Balance	Interest Income or Expense	Average Yield or Cost
	(Dollars in thousands)								
ASSETS									
Interest-earning assets:									
Loans and leases[(2)] [(3)]	$ 977,188	$46,130	4.72%	$1,162,221	$53,055	4.56%	$1,220,348	$75,120	6.16%
Investment securities[(1)]	125,275	6,327	5.05%	102,378	6,520	6.37%	209,714	11,458	5.46%
Federal funds sold	444	1	0.13%	14,983	37	0.25%	9,073	96	1.06%
Other earning assets[(4)]	173,571	413	0.24%	77,803	176	0.23%	5,204	253	4.86%
Total interest-earning assets	$1,276,478	$52,871	4.14%	$1,357,385	$59,788	4.40%	$1,444,339	$86,927	6.02%
Noninterest-earning assets:									
Cash and due from banks	4,706			10,571			22,200		
Other assets	62,266			72,323			39,699		
Total assets	$1,343,450			$1,440,279			$1,506,238		

table continues in the next page

	Year Ended December 31, 2010			Year Ended December 31, 2009			Year Ended December 31, 2008		
	Average Balance	Interest Income or Expense	Average Yield or Cost	Average Balance	Interest Income or Expense	Average Yield or Cost	Average Balance	Interest Income or Expense	Average Yield or Cost
	(Dollars in thousands)								
LIABILITIES AND SHAREHOLDERS' EQUITY									
Interest-bearing liabilities:									
Deposits									
Interest-bearing demand	$ 41,153	$ 151	0.37%	$ 30,395	$ 223	0.73%	$ 33,650	$ 265	0.79%
Money market	85,309	504	0.59%	89,740	619	0.69%	109,383	1,099	1.01%
Savings	40,967	208	0.51%	58,433	687	1.18%	73,042	1,433	1.96%
Time certificates of deposit	768,607	12,532	1.63%	843,108	18,602	2.21%	823,249	28,396	3.45%
Total interest-bearing deposits	936,036	13,395	1.43%	1,021,676	20,131	1.97%	1,039,324	31,193	3.00%
Short-term borrowings	16,197	677	4.18%	1	—	0.50%	19,547	533	2.73%
Long-term debt (FHLB and Senior)	25,996	750	2.89%	72,761	2,681	3.69%	72,691	2,908	4.00%
Total interest-bearing liabilities	978,229	14,822	1.52%	1,094,438	22,812	2.08%	1,131,562	34,634	3.06%
Noninterest-bearing liabilities:									
Demand deposits	226,929			201,998			205,764		
Other liabilities	11,003			13,884			19,267		
Total liabilities	1,216,161			1,310,320			1,356,593		
Shareholders' equity	127,289			129,959			149,635		
Total liabilities and shareholders' equity	$1,343,450			$1,440, 279			$1,506,238		
Net interest income		$38,049			$36,976			$52,294	
Net interest spread			2.63%			2.32%			2.96%
Net interest margin			2.98%			2.72%			3.62%

(1) Yields on securities have been adjusted to a tax-equivalent basis.
(2) Includes average nonaccrual loans and leases.
(3) Net loan and lease fees income (expense) of ($974,000), ($1.1) million and $250,000 for the year ended December 31, 2010, 2009 and 2008, respectively, are included in the yield computations.
(4) Includes Federal Home Loan Bank stock.

While our interest income decreased, primarily due to the lower total loans in 2010, decreases in interest expense on our deposits reflecting lowering of interest paid on all types of deposits, and the reduction of higher-rate, short-term and long-term borrowings caused our net interest margin to increase from 2.72% in 2009 to 2.98% in 2010. In addition to the distribution, yields and costs of our assets and liabilities, our net income is also affected by changes in the volume of and rates on our assets and liabilities. The following table shows the change in interest income and interest expense and the amount of change attributable to variances in volume, rates and the combination of volume and rates based on the relative changes of volume and rates.

	Year Ended December 31,					
	2010 vs. 2009			2009 vs. 2008		
	Net Change	Rate	Volume	Net Change	Rate	Volume
	(In thousands)					
Interest income:						
Loans and leases	$(6,923)	$ 1,760	$(8,683)	$(22,065)	$(18,631)	$(3,434)
Investment securities[1]	(193)	(1,494)	1,301	(4,938)	1,659	(6,597)
Federal funds sold	(36)	(12)	(24)	(60)	(100)	40
Other earning assets	236	9	227	(76)	(456)	380
Total interest income	(6,916)	263	(7,179)	(27,139)	(17,528)	(9,611)
Interest expense:						
Interest-bearing demand	(72)	(135)	63	(42)	(17)	(25)
Money market	(114)	(85)	(29)	(481)	(306)	(175)
Savings	(479)	(314)	(165)	(745)	(497)	(248)
Time certificates of deposit	(6,071)	(4,548)	(1,523)	(9,795)	(9,893)	98
Short-term borrowings	677	—	677	(533)	(240)	(293)
Long-term debt	(1,931)	(487)	(1,444)	(226)	(229)	3
Total interest expense	(7,990)	(5,569)	(2,421)	(11,822)	(11,182)	(640)
Net interest income	$ 1,074	$ 5,832	$(4,758)	$(15,317)	$ (6,346)	$(8,971)

(1) Amounts have been adjusted to a tax-equivalent basis.

As reflected above, the impact of the decrease in average total loans was more significant than their higher rates in 2010. The combination of lower rates paid on deposits due to overall lower market rates and reduction of higher rate debt more than offset the lower investment asset yields.

Provision for Credit Losses

In response to the credit risk inherent in our lending business and the recent ongoing financial crisis, we set aside allowances for loan losses through charges to earnings. Such charges were not made only for our outstanding loan portfolio, but also for off-balance sheet items, such as commitments to extend credits or letters of credit. The charges made for our outstanding loan portfolio were credited to allowance for loan losses, whereas charges for off-balance sheet items were credited to the reserve for off-balance sheet items, which is presented as a component of other liabilities.

The provision for credit losses for 2010 decreased $54.7 million to $16.6 million from $71.3 million for 2009. The bank's net loans and lease charge-offs decreased to $26.5 million during 2010 from $55.4 million in 2009. The decrease in the provision for credit losses during 2010 is due to a lower level of classified loans and nonperforming loans at December 31, 2010 and is the result of the application of management's established allowance for loan and lease loss adequacy calculation. In 2009, the Bank made refinements in the assumptions for calculating its adequacy of allowance for loan losses as prescribed under Contingencies Topic of FASB ASC. In calculating the need for allowance levels based on historical losses, the Bank shortened its historical loss measurement period from seven years to four years starting in third quarter of 2009 and down to three years in

the first quarter of 2010. The shortening of the historical loss measurement period served to require a higher ALLL. Also, the Bank has increased qualitative factors such as the mix of the loan portfolio, local and national economic conditions as well as the overall level of classified and non-performing loans in determining the overall allowance. Thus, 2010 results do not reflect adjustments to the provision of the same magnitude. Nonperforming loans decreased from $144.9 million as of December 31, 2009 to $101.9 million as of December 31, 2010. This improvement in credit quality occurred despite the placement of $42.0 million of loans on non-accrual status for reason other than payment delinquencies at year end 2010. These new nonaccrual loans that are current were placed on nonaccrual status either due to an elevated LTV or because they are on interest only payments for an extended period of time. See Management's Discussion and Analysis regarding loans and leases and Footnote 4 for further details.

Throughout 2010, management has worked to decrease the balances of two loan types that represent the largest categories of non-performing loans, i.e., residential construction and residential land loans**.** The combined balances of these two loan types decreased by 37.5% from $180.3 million to $112.7 million from December 31, 2009 to December 31, 2010**.** The ratio of allowance for loan losses to total loans decreased from 4.10% of total loans at December 31, 2009 to 3.60% at December 31, 2010. Management believes that through the application of the methodology's quantitative and qualitative components, that the provision and overall level of reserve is adequate for losses estimated to be inherent in the portfolio as of December 31, 2010.

The provision for credit losses for 2009 increased $40.7 million to $71.3 million from $30.6 million for 2008. The bank's net loans and lease charge-offs increased $36.9 million to $55.4 million during 2009 from $18.5 million in 2008. The increase in the provision for credit losses during 2009 is due to a higher level of classified loans and nonperforming loans at December 31, 2009 and is the result of the application of management's established allowance for loan and lease loss adequacy calculation. In addition to this, the Bank made refinements in the assumptions for calculating its adequacy of allowance for loan losses as discussed above. Nonperforming loans increased from $66.8 million as of December 31, 2008 to $144.9 million as of December 31, 2009. This decrease in credit quality was primarily centered in two types of loans; residential construction and residential land. As of December 31, 2009, these two loan types comprised 60% of nonperforming loans. The ratio of allowance for loan losses to total loans increased from 2.19% of total loans at December 31, 2008 to 4.10% at December 31, 2009.

Noninterest Income

We earn noninterest income primarily through fees related to:

- Services provided to deposit customers
- Services provided in connection with trade finance
- Services provided to current loan customers
- Increases in the cash surrender value of bank owned life insurance policies
- Sale of investment securities

The following table presents, for the periods indicated, the major categories of noninterest income:

	Year Ended December 31,		
	2010	2009	2008
	(In thousands)		
Service charges and fees on deposit accounts	$1,865	$2,189	$1,764
Trade finance income	382	384	652
Increase in cash surrender value of life insurance	329	318	362
Net gain (loss) on sale of investment securities	(61)	3,142	(11)
Other income	292	443	2,174
Total noninterest income	$2,807	$6,476	$4,941

Total noninterest income decreased by $3.7 million or 57%, to $2.8 million during 2010 from $6.5 million during 2009. The decrease in noninterest income was due mainly to the gain on sale of investment securities of $3.1 million recorded in 2009.

Total noninterest income increased by $1.6 million or 31%, to $6.5 million during 2009 from $4.9 million during 2008. The increase in noninterest income was due mainly to the gain on sale of investment securities of $3.1 million which was partially offset by life insurance proceeds of $1.6 million recorded in connection with the passing of a former Bank executive during 2008.

Our results can be influenced by the unpredictable nature of gains and losses in connection with the sale of investment securities and other real estate owned. We do not engage in active securities trading; however, from time to time we sell securities in our portfolio to change the duration of the portfolio or to re-position the portfolio for various reasons. It is likely we may continue this practice in the future. From time to time, we acquire real estate in connection with non-performing loan transactions, and sell such real estate to recoup a portion of the principal amount of the defaulted loans. These sales can result in gains or losses from all or time to time that are not expected to occur in predictable patterns during future periods.

Noninterest Expense

Noninterest expense is the cost, other than interest expense and the provision for credit losses, associated with providing banking and financial services to customers and conducting our business.

The following table presents, for the periods indicated, the major categories of noninterest expense:

	Year Ended December 31,		
	2010	2009	2008
	(In thousands)		
Salaries and employee benefits	$ 9,591	$ 7,629	$ 8,557
Net occupancy expense	3,271	3,416	2,822
Business development and promotion expense	246	201	424
Professional services	3,504	4,063	3,023
Office supplies and equipment expense	1,122	1,246	1,269
Total other-than-temporary impairment losses	843	4,774	12,371
Portion of loss recognized in other comprehensive income	(431)	(1,319)	—
Loss on sale of OREO and related expense	12,481	23,071	3,016
Other expense	10,410	8,872	4,112
Total noninterest expense	$41,037	$51,953	$35,594

Total noninterest expense decreased $10.9 million, or 21.0% to $41.0 million during 2010 from $52.0 million during 2009. Salaries and benefits increased $2.0 million due primarily to lower capitalized loan costs. We had 120 and 126 full-time equivalent employees at December 31, 2010 and 2009, respectively. Net occupancy expense decreased by $145,000 from $3.4 million in 2009 to $3.3 million in 2010 mainly due to consolidation of our Chino and Diamond Bar branches and our Santa Monica and Century City branches in February 2010. Professional fees decreased by $.6 million to $3.5 million during 2010 from $4.1 million in 2009 due primarily to a decrease in legal costs associated with non-performing loans and OREO. Net other-than-temporary impairment ("OTTI") credit-related charges totaled $0.4 million compared to $3.5 million during 2009. OREO related expenses totaled $12.5 million in 2010, decreasing $10.6 million from $23.1 million in 2009. OREO expense in 2010 consisted of $8.5 million in OREO valuation charges, loss on sale of OREO of $1.0 million and other OREO related charges of $3.0 million. Other expenses were $10.4 million in 2010, an increase of $1.5 million over $8.9 million in 2009 due mainly to increases in loan collection related expenses and higher FDIC insurance premiums.

Total noninterest expense increased $16.4 million, or 46.0% to $52.0 million during 2009 from $35.6 million during 2008. Salaries and benefits decreased $0.9 million due primarily to staff reductions and decrease in bonus expense which is based on overall profitability. We had 126 and 142 full-time equivalent employees at December 31, 2009 and 2008, respectively. Net occupancy expense increased by $594,000 from $2.8 million in 2008 to $3.4 million in 2009 mainly due to two new branches opened in the fourth quarter of 2008 located in Anaheim and Pico Rivera, California. Professional fees increased by $1.1 million to $4.1 million during 2009 from $3.0 million in 2008 due primarily to an increase in legal costs associated with non-performing loans and OREO as well as higher audit fees. Net other-than-temporary impairment ("OTTI") credit-related charges totaled $3.5 million compared to $12.4 million during 2008. OREO related expenses totaled $23.1 million in 2009, increasing $20.1 million from $3.0 million in 2008. OREO expense in 2009 consistent of $15.0 million in OREO valuation charges, loss on sale of OREO of $4.1 million and other OREO related charges of $4.0 million. Other expenses were $8.9 million in 2009, an increase of $4.8 million over $4.1 million in 2008 due mainly to increases in loan collection related expenses and higher FDIC insurance premiums.

Provision for Income Taxes

We accounted for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enacted date.

We record net tax assets to the extent it believes these assets will more likely than not be realized. In making such determination, we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent financial operations. Based upon management's analysis of the realization of the Bank's deferred tax assets at December 31, 2009 management determined that the realization of the deferred tax asset was not more likely than not and therefore the Bank recorded a valuation allowance on the deferred tax asset of $27.1 million as a charge to 2009 income tax expense. To the extent future earnings are recognized, the realization of the deferred tax asset will be recorded as a credit to income tax expense. In the meantime until such time as the valuation allowance or a portion of it is reversed, the Bank will generally not record an income tax provision or benefit on the statement of operations. A tax benefit of $0.7 million has been recorded for the year ended December 31, 2010. We recorded an income tax benefit of $8.1 million for 2009 and $4.9 million for 2008. Our effective tax rates were (4.3) %, (10.1) %, and (49.3) % for 2010, 2009 and 2008, respectively, as compared to the statutory tax rate of 42.05%.

The difference from the statutory rate for 2009 is mainly due to the impact of the preferential tax treatment of life insurance proceeds received, the earnings on cash surrender value of Bank-Owned Life Insurance, the interest income from municipal securities and stock option expense associated with the adoption of ASC 718.

Financial Condition

For the period between December 31, 2010 and December 31, 2009, our assets, loans and deposits declined at the rate of 3.8%, 12.5% and 6.8%, respectively. Our total assets at December 31, 2010 were $1.26 billion compared to $1.31 billion at December 31, 2009. Our earning assets at December 31, 2010 totaled $1.21 billion compared to $1.23 billion at December 31, 2009. Total deposits at December 31, 2010 and December 31, 2009 were $1.08 billion and $1.16 billion, respectively.

Loans and Leases

The largest component of our assets and largest source of interest income is our loan portfolio. The following table sets forth the amount of our loans and leases outstanding at the end of each of the periods indicated. We had no foreign loans or energy-related loans as of the dates indicated.

	Year Ended December 31				
	2010	2009	2008	2007	2006
			(In thousands)		
Loans and leases (by portfolio and class):					
Real Estate—Mini-Perm:					
Real estate—Residential	$162,000	$ 201,285	$ 252,706	$ 223,331	$157,525
Real estate—Commercial	369,640	363,988	339,991	306,555	291,410
Total Real Estate—Mini-perm	$531,640	$ 565,273	$ 592,697	$ 529,886	$448,935
Real Estate—Construction:					
R/E Construction—Residential*	90,167	143,905	191,073	208,796	189,975
R/E Construction—Commercial	33,214	58,282	99,730	146,328	70,391
Total Real Estate Construction Loans	$123,381	$ 202,187	$ 290,803	$ 355,124	$260,366
Commercial & Industrial	209,520	227,421	273,890	255,912	201,385
Trade Finance	50,520	47,998	73,205	91,565	86,067
Other Loans	349	420	637	612	564
Total gross loans and leases	$915,410	$1,043,299	$1,231,232	$1,233,099	$997,317
Less: allowance for loan and lease losses	(32,898)	(42,810)	(26,935)	(14,896)	(10,236)
Deferred loan and lease fees, net	58	585	(167)	(682)	(1,759)
Total net loans and leases	$882,570	$1,001,074	$1,204,130	$1,217,521	$985,322

* *Includes loans held for sale of $2,556 for the year ended December 31, 2010.*

Total gross loans at December 31, 2010 were $915.4 million, down from the $1.04 billion as of December 31, 2009. Real estate mini-perm loans which are real estate loans collateralized by various types of commercial and residential real estate, were down from $565.3 million as of December 31, 2009 to $531.6 million at December 31, 2010. Real estate construction loans which are loans made to borrowers and developers for the purpose of constructing residential or commercial properties, decreased $78.8 million from December 31, 2009. Commercial & industrial loans and trade finance loans which are primarily working capital revolving and term loans for business operations decreased $17.9 million and grew slightly by $2.5 million, respectively from December 31, 2009 to December 31, 2010. The combined decrease in loan volumes within these two portfolios are the result in a reduction in the demand for credit as well as a decision to emphasize the management and supervision of the Bank's loan portfolio as opposed to growth in the loan portfolio. We anticipate that this trend will continue a significant portion of 2011.

During 2010, loans with a recorded investment of $32.9 million were sold for a net loss of $1.5 million. One loan, with a recorded investment of $2.6 million was transferred, and remained a loan held for sale as of December 31, 2010. During 2009, loans with a recorded investment of $11.5 million were transferred to loans held for sale, with none remaining as of December 31, 2009. These loans were sold in 2009, with a net loss of $95,000. No loans were acquired in either 2010 or 2009.

Our real estate mini-perm loan portfolio declined in 2010 by $33.6 million or 5.9% to $531.6 million from $565.3 million at December 31, 2009. The decline was due to repayment of existing mini-perm loans during 2010, transfers to OREO, and net charge-offs of $7.8 million . Residential real estate loans declined by $39.3 million, or 19.5%, while commercial real estate loans grew slightly by $5.7 million or 1.6%. Residential 1-4 property loans account for much of the decline, with a decrease of $25.2 million, or 44.0%, and residential land

loans decreased $13.9 million, or 38.1%. The modest increase in commercial real estate loans offset these declines somewhat, spurred by retail property and special purpose loans. See further details regarding the real estate mini perm portfolio by property type in the table below. For the four years prior to 2010, the trends in our real estate mini-perm loan portfolio have been as follows. During the year 2009 mini-perm loans decreased by $27.4 million, or 4.6%, to $565.3 million from $592.7 million at December 31, 2008; during the year 2008 it grew by $62.8 million, or 11.9%, to $592.7 million from $529.9 million at December 31, 2007; during 2007 it grew by $81.0 million, or 18.0%, to $529.9 million from $448.9 million at December 31, 2006.

The following table provides information about our real estate mini-perm portfolio by property type:

	At December 31, 2010		At December 31, 2009	
Property Type	**Amount**	**Percentage of Loans in Each Category in Total Loan Portfolio**	**Amount**	**Percentage of Loans in Each Category in Total Loan Portfolio**
	(Dollars in thousands)		(Dollars in thousands)	
Commercial/Office	$ 75,295	8.23%	$ 84,092	8.06%
Retail	123,105	13.45	113,435	10.87
Industrial	60,157	6.57	61,785	5.92
Residential 1-4	32,098	3.51	57,280	5.49
Apartment 4+	107,385	11.73	107,626	10.32
Land/Special purpose	133,600	14.60	141,055	13.51
Total	$531,640	58.09%	$565,273	54.19%

During 2010 real estate construction loans declined by $78.8 million or 39.0% to $123.4 million at December 31, 2010 from $202.2 million at December 31, 2009; and declined in 2009 by $88.6 million or 30.5% from $290.8 million at December 31, 2008; and decreased in 2008 by $64.3 million or 18.1%, from $355.1 million at December 31, 2007; and grew in 2007 by $94.8 million or 36.4%, from $260.4 million at December 31, 2006. Real estate construction-residential has been one the hardest hit of our loan classes due to the combination of deterioration in residential real estate values and lack of available financing. We expect the construction portfolio will continue to decrease at an increasing pace during 2011 as nearly all construction projects have completed construction and are in the sales phase.

Commercial loans outstanding at December 31, 2010 decreased by $17.9 million, or 7.9%, to $209.5 million from $227.4 million at December 31, 2009; and decreased by $46.5 million, or 17.0%, to $227.4 million from $273.9 million at December 31, 2008; and increased by $17.9 million, or 7.0%, to $273.8 million at December 31, 2008 from $255.9 million at December 31, 2007; and increased by $54.5 million, or 27.1%, to $255.9 million at December 31, 2007 from $201.4 million at December 31, 2006. Total commercial loan commitments (including undisbursed amounts) at December 31, 2010 decreased $86.9 million or 20.9% to $327.4 from $414.3 million at December 31, 2009 while the rate of credit utilization increased to 69.6% as of December 31, 2010 from 66.1% at December 31, 2009. We believe that this increase in utilization is primarily incidental and secondarily due to the increased need for funding by our business customers. Subject to market conditions and interest rates, we may expand our commercial loans in the future through enhanced marketing efforts and expansion of our branch network.

Trade finance loans grew $2.5 million or 5.3% during 2010 to $50.5 million from $48.0 million at December 31, 2009, and decreased $25.2 million or 34.4% during 2009 to $48.0 million from $73.2 million at December 31, 2008, and decreased in 2008 by $12.9 million, or 15.0%, from $86.1 million at December 31, 2007. The decreases stem from the Bank's shifting focus away from production to portfolio management.

Other loans, which include installment/consumer debt, leases receivable and other unallocated loans, are relatively insignificant.

Non-Performing Assets

Generally, loans and leases are placed on nonaccrual status when they become 90 days or more past due or at such earlier time as management determines timely recognition of interest to be in doubt. Accrual of interest is discontinued on a loan or lease when management believes, after considering economic conditions, business conditions and collection efforts, that the borrower's financial condition is such that collection of principal and all contractually due interest is not likely.

The following table summarizes the loans and leases for which the accrual of interest has been discontinued and loans and leases more than 90 days past due and still accruing interest, including those loans and leases that have been restructured, and OREO:

	Year Ended December 31,				
	2010	2009	2008	2007	2006
	(Dollars in thousands)				
Nonaccrual loans and leases*	$101,860	$137,301	$ 66,588	$20,900	$1,120
Accruing loans and leases past due 90 days or more	7	7,571	—	—	—
Total non-performing loans (NPLs)	101,867	144,872	66,588	20,900	1,120
OREO	52,663	59,190	35,127	8,444	—
Total non-performing assets (NPAs)	$154,530	$204,062	$101,715	$29,344	$1,120
Selected ratios:					
NPLs to total gross loans and leases held for investment	11.15%	13.88%	5.40%	1.69%	0.11%
NPAs to total assets	12.30%	15.61%	6.85%	1.90%	0.08%

* Non-accrual Troubled Debt Restructurings (TDRs) that are included in nonaccrual loans are as follows: 2010—$15,397; 2009—$34,875; 2008—$0; 2007—$0; 2006—$0. Also, TDRs that are performing according to their revised terms are not reflected as a non-performing loans (NPLs) starting with the fourth quarter 2010.

The amount of interest income that we would have been recorded on impaired loans that were nonaccrual loans and leases had the loans and leases been current totaled $5,570,000, $6,170,000 and $4,953,000, for 2010, 2009, and 2008, respectively. When an asset is placed on non-accrual status, previously accrued but unpaid interest is reversed against current income. Subsequent collections of cash are applied as principal reductions when received, except when the ultimate collectability of principal is probable, in which case interest payments are credited to income. See Note 4 of the Consolidated Financial Statements for further details regarding non-accrual and past due loans by loan class.

As of December 31, 2010, we had 23 OREO properties for $52.7 million as compared 19 OREO properties for $59.2 million as of December 31, 2009. During 2010, the Bank sold 10 OREO properties at a net loss of $1.0 million. The following table summarizes the Bank's OREO (or foreclosed assets), which are included in non-performing assets of $155.5 million.

Foreclosed assets (OREO) as of December 31, 2010 and 2009 were as follows:

	2010		2009	
	#	$	#	$
	($ in thousands)			
OREO by loan class:				
Real Estate-Mini-Perm:				
Residential	14	$30,054	13	$28,078
Commercial	7	14,659	4	28,568
Real Estate-Construction:				
Residential	2	7,950	1	933
Commercial	—	—	1	1,611
Commercial & Industrial	—	—	—	—
Trade Finance	—	—	—	—
Other	—	—	—	—
Total as of December 31	23	$52,663	19	$59,190

Management anticipates that the balances of the Bank's OREO will remain at these historically elevated levels in future quarters as the Bank eventually takes title to more non-performing loans through the foreclosure process and then seeks to dispose of such properties. The Bank has placed a particular emphasis on the effort of disposing of OREO properties as soon as is practicable.

OREO is initially stated at fair value of the property based on appraisal, less estimated selling cost. Any cost in excess of the fair value at the time of acquisition is accounted for as a loan charge-off and deducted from the allowance for loan and lease losses. A valuation allowance is established for any subsequent declines in value through a charge to earnings. Operating expenses of such properties, net of related income, and gains and losses on their disposition are included in other operating income or expense, as appropriate.

Impaired Loans and Leases

Impaired loans and leases are considered impaired when it is probable that we will not be able to collect all amounts due according to the contractual terms of the loan or lease agreement. The category of impaired loans and leases is not comparable with the category of nonaccrual loans and leases. Management may choose to place a loan or lease on nonaccrual status due to payment delinquency or uncertain collectability, while not classifying the loan or lease as impaired if it is probable that we will collect all amounts due in accordance with the original contractual terms of the loan or lease or the loan.

In determining whether or not a loan or lease is impaired, we apply our normal loan and lease review procedures on a case-by-case basis taking into consideration the circumstances surrounding the loan or lease and borrower, including the collateral value, the reasons for the delay, the borrower's prior payment record, the amount of the shortfall in relation to the principal and interest owed and the length of the delay. We measure impairment on a loan-by-loan basis using either the present value of expected future cash flows discounted at the loan's or lease's effective interest rate or at the fair value of the collateral if the loan or lease is collateral dependent, less estimated selling costs. Loans or leases for which an insignificant shortfall in amount of payments is anticipated, but where we expect to collect all amounts due, are not considered impaired.

We had $139.0 million, $106.1 million and $117.6 of impaired loans or leases at December 31, 2010, 2009, and 2008, respectively. The total allowance for loan and lease losses related to these loans and leases were $14.1 million, $10.6 million and $16.0 million at December 31, 2010, 2009 and 2008, respectively. Interest income recognized on such loans and leases during 2010, 2009 and 2008 was $2.7 million, $4.2 million and $4.3 million, respectively. The average recorded investment on impaired loans and leases during 2010, 2009 and 2008 was $115.5 million, $103.1 million and $94.2 million, respectively.

Allowance for Loan and Lease Losses

The allowance for loan and lease losses is maintained at a level which, in management's judgment, is adequate to absorb loan and lease losses inherent in the loan and lease portfolio. The amount of the allowance is based on management's evaluation of the collectability of the loan and lease portfolio and that evaluation is based on historical loss experience and other significant factors.

The methodology we use to estimate the amount of our allowance for loan and lease losses is based on both objective and subjective criteria. While some criteria are formula driven, other criteria are subjective inputs included to capture environmental and general economic risk elements which may trigger losses in the loan portfolio,.

Specifically, our allowance methodology contains four elements: (a) amounts based on specific evaluations of impaired loans; (b) amounts of estimated losses on loans classified as 'special mention' and 'substandard' that are not already included in impaired loan analysis; (c) amounts of estimated losses on loans not adversely classified which we refer to as 'pass' based on historical loss rates by loan type; and (d) amounts for estimated losses on loans rated as pass based on economic and other factors that indicate probable losses were incurred but were not captured through the other elements of our allowance process.

Impaired loans are identified at each reporting date based on certain criteria and individually reviewed for impairment. A loan is considered impaired when it is probable that a creditor will be unable to collect all amounts due according to the original contractual terms of the loan agreement. We measure impairment of a loan based upon the fair value of the loan's collateral if the loan is collateral dependent or the present value of cash flows, discounted at the loan's effective interest rate, if the loan is not collateralized or is not collateral dependent. The impairment amount on a collateralized loan and a non-collateralized loan is set up as a specific reserve or is charged off.

Our loan portfolio, excluding impaired loans which are evaluated individually, is categorized into several pools for purposes of determining allowance amounts by loan pool. The loan pools we currently evaluate are: commercial & industrial, international trade finance, real estate and real estate construction. Real estate is further segmented by individual product type with a general class, residential or commercial. The commercial class is represented by–office, industrial, retail, special purpose and land commercial product types. The residential class is represented by multi family, SFR, land residential. Real estate construction is similarly further segmented by the office, industrial, and retail product types; with multifamily and SFR product types representing the commercial loan class. Within these loan pools, we then evaluate loans rated as pass credits, separately from adversely classified loans. The allowance amounts for pass rated loans, which are not reviewed individually, are determined using historical loss rates developed through migration analyses. The adversely classified loans are further grouped into three credit risk rating categories: substandard, doubtful and loss.

Finally, in order to ensure our allowance methodology is incorporating recent trends and economic conditions, we apply environmental and general economic factors to our allowance methodology including: credit concentrations; delinquency trends; economic and business conditions; the quality of lending management and staff; lending policies and procedures; loss and recovery trends; nature and volume of the portfolio; nonaccrual and problem loan trends; and other adjustments for items not covered by other factors.

Although we believe that our allowance for loan losses is adequate and believe that we have considered all risks within the loan portfolio, there can be no assurance that our allowance will be adequate to absorb future losses. Factors such as a prolonged and deepened recession, higher unemployment rates than we have already anticipated, continued deterioration of California real estate values as well as natural disasters, civil unrest and terrorism can have a significantly negative impact on the performance of our loan portfolio and the occurrence of any single one of these factors may lead to additional future losses which can negatively impact our earnings, capital and liquidity.

The table below summarizes loans and leases, average loans and leases, non-performing loans and leases and changes in the allowance for loan and lease losses arising from loan and lease losses and additions to the allowance from provisions charged to operating expense:

Allowance for Loan and Lease Loss History

	Year Ended December 31,				
	2010	2009	2008	2007	2006
	(Dollars in thousands)				
Allowance for loan losses:					
Balance at beginning of period	$ 42,810	$ 26,935	$ 14,896	$ 10,236	$ 8,939
Actual charge-offs:					
Commercial	6,672	7,716	4,686	240	273
Trade finance	—	3,246	—	—	390
Real estate-construction	12,600	24,293	8,636	—	—
Real estate-mini-perm	7,806	24,456	5,206	—	—
Other (credit card)	17	—	—	—	—
Total charge-offs	27,095	59,711	18,528	240	663
Less recoveries:					
Commercial	289	3,924	—	—	—
Trade finance	—	—	—	—	—
Real estate-construction	316	397	—	—	—
Real estate-mini-perm	28	15	7	—	—
Other	—	—	—	—	—
Total recoveries	633	4,336	7	—	—
Net loans charged-off (recovered)	26,462	55,375	18,521	240	663
Provision for credit losses	16,550	71,250	30,560	4,900	1,960
Balance at end of period	$ 32,898	$ 42,810	$ 26,935	$ 14,896	$ 10,236
Total gross loans and leases at end of period	915,410	1,043,299	1,231,232	1,233,099	997,317
Average total loans and leases	977,188	1,162,221	1,220,348	1,103,248	867,674
Non-performing loans and leases	101,867	144,872	66,588	20,900	1,120
Selected ratios:					
Net charge-offs (recoveries) to average loans and leases	2.71%	4.76%	1.52%	0.02%	0.08%
Provision for loan losses to average loans and leases	1.69%	6.13%	2.50%	0.44%	0.23%
Allowance for loan losses to loans and leases at end of period	3.60%	4.10%	2.19%	1.21%	1.03%
Allowance for loan losses to non-performing loans and leases	32.29%	29.55%	40.33%	71.27%	913.93%

The allowance for loan losses of $32.9 million at December 31, 2010, represented 3.60% of total loans and 32.29% of non-performing loans. The allowance for loan losses of $42.8 million at December 31, 2009, represented 4.10% of total loans and 29.55% of non-performing loans. The increase in the coverage ratio for the allowance for loan losses to non-performing loans from 29.55% at December 31, 2009 to 32.29% at December 31, 2010 was primarily a result of decline in non-performing loans in 2010. Net charge-offs (recoveries) to average loans were 2.71% for the year-ended December 31, 2010 compared to 4.76% for the year-ended December 31, 2009. See “Critical Accounting Policies,” and Note 4 of the “Notes to Consolidated Financial Statements.”

In allocating our allowance for loan and lease losses, management has considered the credit risk in the various loan and lease categories in our portfolio. As such, the allocations of the allowance for loan and lease losses are based upon our historical net loan and lease loss experience and the other factors discussed above. While every effort has been made to allocate the allowance to specific categories of loans, management believes that any allocation of the allowance for loan and lease losses into loan categories lends an appearance of precision that does not exist.

The following table reflects management's allocation of the allowance and the percent of loans in each portfolio to total loans and leases as of each of the following dates:

	At December 31,									
	2010		2009		2008		2007		2006	
	Allocation of the Allowance	Percent of Loans in Each Category in Total Loans	Allocation of the Allowance	Percent of Loans in Each Category in Total Loans	Allocation of the Allowance	Percent of Loans in Each Category in Total Loans	Allocation of the Allowance	Percent of Loans in Each Category in Total Loans	Allocation of the Allowance	Percent of Loans in Each Category in Total Loans
	(Dollars in thousands)									
Real estate-Mini-perm	$16,400	58.3%	$17,376	54.2%	$ 9,484	48.1%	$ 4,779	32.1%	$ 3,822	43.9%
Real estate-construction	6,501	13.2	14,885	19.4	11,108	23.6	6,213	41.7	3,169	27.2
Commercial	8,215	23.0	8,314	21.8	3,018	22.2	3,095	20.8	2,262	20.2
Trade finance	1,559	5.5	1,411	4.6	2,317	5.9	803	5.4	897	8.6
Other:										
Lease	—	0.0	—	0.0	—	0.0	1	0.0	3	0.0
Other	5	0.0	7	0.0	1,004	0.1	5	0.0	4	0.1
Unallocated	218	0.0	817	0.0	4	0.1	—	0.0	79	0.0
Total	$32,898	100%	$42,810	100.0%	$26,935	100.0%	$14,896	100.0%	$10,236	100.0%

Allowance for Losses Related to Undisbursed Loan and Lease Commitments

We maintain a reserve for undisbursed loan and lease commitments. Management estimates the amount of probable losses by applying the loss factors used in our allowance for loan and lease loss methodology to our estimate of the expected usage of undisbursed commitments for each loan and lease type. Provisions for allowance for undisbursed loan and lease commitments are recorded in other expense. The allowance for undisbursed loan and lease commitments totaled $350,000 and $60,000 at December 31, 2010 and 2009, respectively.

Investment Securities Available for Sale

The Bank classifies its debt and equity securities in two categories: held-to-maturity or available-for-sale. Securities that could be sold in response to changes in interest rates, increased loan demand, liquidity needs, capital requirements, or other similar factors are classified as securities available-for-sale. These securities are carried at fair value. Unrealized holding gains or losses, net of the related tax effect, on available-for-sale securities are excluded from income and are reported as a separate component of shareholders' equity as other comprehensive income net of applicable taxes until realized. Realized gains and losses from the sale of available-for-sale securities are determined on a specific-identification basis. Securities classified as held-to-maturity are those that the Bank has the positive intent and ability to hold until maturity. These securities are carried at amortized cost, adjusted for the amortization or accretion of premiums or discounts. At December 31, 2010 and 2009, there were no securities classified in the held-to-maturity portfolio.

The Bank performs regular impairment analysis on its investment securities portfolio. On January 1, 2009, the Bank adopted new FASB standards which provide further guidance on; identifying whether a market for an asset or liability is distressed or inactive, determining whether an entity has the intent and ability to hold a security to its anticipated recovery and whether an investment is other-than-temporarily-impaired. If it is determined that the impairment is other than temporary for equity securities, the impairment loss is recognized in earnings equal to the difference between the investment's cost and its fair value. If it is determined that the impairment is other-than-temporary for debt securities, the Bank will recognize the credit component of an other-than-temporary impairment in earnings and the non-credit component in other comprehensive income when the Bank does not intend to sell the security and it is more likely than not that the Bank will not be required to sell the security prior to recovery. The new cost basis is not changed for subsequent recoveries in fair value.

Premiums and discounts are amortized or accreted over the life of the related held-to-maturity or available-for-sale security as an adjustment to yield using the effective-interest method. Dividend and interest income are recognized when earned.

Our portfolio of investment securities consists primarily of investment grade corporate notes, U.S Agency mortgage-backed securities (MBS), municipal bonds, collateralized mortgage obligations (CMO's) and U.S. Government agency securities. During 2010, the Bank invested in a number of securities which included U.S. Agency securities, MBS, CMO's, corporate and other highly rated securities. We have traditionally categorized our entire securities portfolio as available-for-sale securities. We invest in securities to generate interest income and to maintain a liquid source of funding for our lending and other operations, including withdrawals of deposits. We do not engage in active trading in our investment securities portfolio. While management has the intent and ability to hold all securities until maturity, we have realized and from time to time may realize gains from sales of selected securities primarily in response to changes in interest rates. At December 31, 2010, investment securities classified as available-for-sale with a carrying value of $33.2 million were pledged to secure public deposits.

The carrying value of our investment securities at December 31, 2010 totaled $183.3 million compared to $114.5 million at December 31, 2009. During 2010, our investment securities portfolio increased which was due to investment of excess cash. The carrying value of our portfolio of investment securities at December 31, 2010, 2009 and 2008 was as follows:

	Estimated Fair Value At December 31,		
	2010	2009	2008
		(In thousands)	
U.S. Government agency securities	$ 15,800	$ —	$ 23,115
SBA securities	10,743		
U.S. Treasury notes	9,208		
Corporate notes	40,671	24,741	22,722
Mortgage-backed securities	26,875	25,228	13,601
Collateralized mortgage obligations	33,632	18,116	—
Municipal securities	30,436	44,178	42,778
Principal-only strip securities	7,578	—	—
Collateralized debt obligations	1,119	2,201	2,075
USDA Security	7,207	—	115
Total securities available-for-sale	$183,269	$114,464	$104,406

The following table shows the maturities of investment securities at December 31, 2010, and the weighted average yields of such securities. The table does not consider the impact of prepayments on the maturities:

	At December 31, 2010									
	Within One Year		After One Year but within Five Years		After Five Years but within Ten Years		After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
	(Dollars in thousands)									
U.S. Gov agency securities	$—	—%	$5,007	2.01%	$ —	—%	$ 10,793	3.45%	$ 15,800	2.99%
SBA Securities	—	—	—	—	—	—	10,743	3.74	10,743	3.74
U.S. Treasury notes	—	—	—	—	—	—	9,208	3.99	9,208	3.99
Corporate notes	—	—	—	—	30,184	5.55	10,487	4.96	40,671	5.40
Mortgage-backed securities	—	—	—	—	2,607	3.77	24,268	2.22	26,875	2.37
Collateralized mortgage obligations	—	—	4,926	3.12	6,277	1.70	22,429	4.31	33,632	3.65
Municipal securities	—	—	—	—	4,215	6.49	26,221	7.02	30,436	6.95
Principal-only strip securities	—	—	—	—	—	—	7,578	2.34	7,578	2.34
Collateralized debt obligations	—	—	—	—	—	—	1,119	6.96	1,119	6.96
USDA	—	—	—	—	—	—	7,207	—	7,207	—
Total securities Available-for-sale	$—	—%	$9,933	2.56%	$43,283	4.98%	$130,053	4.98%	$183,269	4.19%

The Bank owns three collateralized debt obligations ("CDO's") which consist of pools of bank trust preferred securities. As of December 31, 2010, the amortized cost of all three CDO's exceeded the fair value. The fair value was determined based on future expected cash flows which were estimated using a discount rate that is an interest rate that represents a market equivalent rate on a similarly-rated corporate security with a similar maturity date that trades in an active market. Added to that rate was an illiquidity premium of 300 basis points which determined the actual discount rate. Management then used current deferrals and defaults and estimated the expected future defaults within the underlying pool of issuers which was based on taking the current deferrals/defaults in the pools and then determining which banks were likely to default in the future. This future expectation of defaults was based on the individual banks' tier 1 leverage capital (compared to regulatory requirements), tangible common equity ("TCE") ratios and levels of non-performing assets compared to total assets. Based on this information, Management estimated whether each bank issuer was likely to defer interest payments or default altogether at some future date. In addition to those specific defaults, Management estimated additional default rates as a percentage of the overall pool, with higher default rates applied over the next few years and then decreasing over the remaining term of the securities.

Management then proceeded to determine credit-related OTTI based on guidance of Investments—Debt and Equity Securities Topic of FASB ASC. In this analysis, Management ran expected cash flows on all three securities using a discount rate that was equal to the accretable yield on each of the three securities and using all of the same default assumptions as described above. The result of this analysis indicated that these securities had credit-related other-than-temporary impairments totaling $.4 million which was recognized in income during 2010. The non-credit related impairment for these securities at December 31, 2010 was $1.1 million and is reflected in accumulated other comprehensive loss. Total credit-related other-than-temporary impairments recognized in income relating to these securities were $3.2 million in 2009, with the non-credit amount of $1.3 million reflected in accumulated other comprehensive loss. The 2009 amounts are exclusive of the retroactive adjustment of $4.3 million for prior pre-tax credit and non-credit losses that were reclassified from the opening balance of retained earnings to other comprehensive income as of March 31, 2009 upon implementation of the FASB guidance related to OTTI on January 1, 2009.

As of December 31, 2010, the Bank owned ten corporate securities where the amortized cost exceeded fair value. The total amortized cost of these securities was $29.1 million and their fair value was $27.4 million. Management performed an analysis on all of the issuers of these securities which focused on the recent financial results of the companies, capital ratios and long-term prospects of the issuer and deemed the all ten corporate securities to be temporarily impaired. The Bank had recorded no credit-related OTTI charges on corporate securities during 2010. This compares to OTTI charges relating to corporate securities of $220,000 in 2009 and $1.7 million in 2008.

As of December 31, 2010, the Bank owned five collateralized mortgage obligations ("CMO's) where the amortized cost exceeded fair value. The total amortized cost of these securities was $33.8 million and their fair value was $32.6 million. Management determined that none of the CMO securities was other-than-temporarily impaired as of December 31, 2010. This determination was made based on several factors such as debt rating of these securities, amount of credit protection, the Bank's intent and ability to hold the securities until a recovery in value and the determination that it is not more likely than not that the Bank will be required to sell the securities prior to recovery of amortized cost basis.

The Bank owns 38 municipal investment securities. 37 of these securities carry an investment-grade rating. As of December 31, 2010, 19 of these issues with a total amortized cost of $24.8 million were in an unrealized loss position. The unrealized loss on these 19 securities was $2.9 million. Management determined that none of the municipal securities was other-than-temporarily impaired as of December 31, 2010. This determination was made based on several factors such as the Bank's intent and ability to hold the securities until a recovery in value and the determination that it is not more likely than not that the Bank will be required to sell the securities prior to recovery of amortized cost basis. In addition, management reviews all of the ratings on the municipal investment securities, recent ratings changes, as well as the length of time that the security has been impaired to determine whether the security is other than temporary impaired.

At December 31, 2010, the Bank held one new principal-only (PO) strip security with an unamortized cost of $8.2 million and a fair value of $7.6 million. This PO strip is an agency security (FHLMC) with a short duration and a current yield of 2.34% which is expected to increase as the prepayment speed of the underlying pool of mortgages accelerates. The Bank also held one new USDA security whose fair value approximates its unamortized cost of $7.2 million. This is an AAA security guaranteed by the USDA and represents the guaranteed portion of a loan made to a hospital. Additional information concerning investment securities is provided in Note 3 of the "Notes to Consolidated Financial Statements" in this annual report.

Deposits

Total deposits were $1.08 billion at December 31, 2010 compared to $1.16 billion at December 31, 2009. Noninterest-bearing demand deposits increased $17.4 million or 8.5%. The ratio of noninterest-bearing deposits to total deposits was 20.5% at December 31, 2010 and 17.6% at December 31, 2009. Interest-bearing deposits are comprised of interest-bearing demand deposits, money market accounts, regular savings accounts, time deposits of under $100,000 and time deposits of $100,000 or more. Interest-bearing demand and savings deposits decreased by $6.5 million or 4.0%, and time deposits decreased $90.0 million or 11.4%.

The following table shows the average amount and average rate paid on the categories of deposits for each of the periods indicated:

	Year Ended December 31,					
	2010		2009		2008	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
	(Dollars in thousands)					
Noninterest-bearing deposits	$ 226,929	0.00%	$ 201,972	0.00%	$ 205,764	0.00%
Interest-bearing demand	41,153	0.37	30,395	0.73	33,650	0.79
Money market	85,309	.59	89,740	0.69	109,383	1.01
Savings	40,967	.51	58,433	1.18	73,042	1.96
Time certificates of deposit	768,607	1.63	843,108	2.21	823,249	3.45
Total	$1,162,965	1.15%	$1,223,648	1.97%	$1,245,088	3.00%

Average total deposits decreased in 2010. The decrease in average total deposits for 2010 was primarily driven by a decrease of $74.5 million in time certificates of deposits. Time deposits held as brokered accounts decreased by $103.6 million, while CDARS dropped by $72.1 million, offset by a $118.3 million increase in regular time deposits under $100 thousands. Savings accounts decreased by $17.5 million. Also offsetting these decreases was a $24.9 million increase in non-interest bearing accounts. Additional information concerning deposits is provided in Note 5 of the "Notes to Consolidated Financial Statements" in the annual report.

The largest component of our deposits has been, and in the near term is likely to be, time certificates of deposit of $100,000 or more. We market and receive time certificates of deposit from our existing and new high net worth customers, especially from the Chinese communities within our branch network. While we do not attempt to be a market leader in offered interest rates, we attempt to offer competitive rates on these time certificates of deposit within a range offered by other banks with which we compete.

The following table shows the maturities of time certificates of deposit and other time deposits of $100,000 or more at December 31, 2010 and 2009:

	At December 31,	
	2010	2009
	(In thousands)	
Three months or less	$ 53,256	$290,738
Over three months through six months	97,303	140,336
Over six months through twelve months	264,446	206,690
Over twelve months	287,636	154,902
Total	$702,641	$792,666

Capital Resources

Current risk-based regulatory capital standards generally require banks to maintain a ratio of "core" or "Tier 1" capital (consisting principally of common equity) to risk-weighted assets of at least 4%, a ratio of Tier 1 capital to adjusted total assets (leverage ratio) of at least 4% and a ratio of total capital (which includes Tier 1 capital plus certain forms of subordinated debt, a portion of the allowance for loan and lease losses and preferred stock) to risk-weighted assets of at least 8%. Risk-weighted assets are calculated by multiplying the balance in each category of assets by a risk factor, which ranges from zero for cash assets and certain government obligations to 100% for some types of loans, and adding the products together.

Our goal is to exceed the minimum regulatory capital requirements for well-capitalized institutions as well as maintain tier 1 leverage and tangible common equity above 10% as required by the Order. At December 31, 2010, our capital ratios were above the minimum requirements for well capitalized institutions. Although due to

the order, we are considered to be adequately capitalized. The Bank raised additional capital in order to strengthen its capital ratios and to maintain compliance with the provisions of the Order. In addition, we made adjustments to our balance sheet which will include reducing the total size of the balance sheet in order to effectively manage our capital ratios. In addition, in the future, we intend to originate credit lines when possible with an original maturity of less than one year, which have a zero percent conversion factor, instead of one year or more, which are 50% risk weighted assets. On a quarterly basis, we perform a stress test on our capital to determine our level of capital in various economic circumstances looking out twelve months into the future.

	At December 31, 2010	At December 31, 2009
Leverage Ratio		
Preferred Bank	11.16%	6.16%
Minimum requirement for "Well-Capitalized" institution	5.00%	5.00%
Minimum regulatory requirement	4.00%	4.00%
Tier 1 Risk-Based Capital Ratio		
Preferred Bank	13.75%	7.24%
Minimum requirement for "Well-Capitalized" institution	6.00%	6.00%
Minimum regulatory requirement	4.00%	4.00%
Total Risk-Based Capital Ratio		
Preferred Bank	15.02%	8.52%
Minimum requirement for "Well-Capitalized" institution	10.00%	10.00%
Minimum regulatory requirement	8.00%	8.00%

Contractual Obligations and Off-Balance Sheet Arrangements

The following table presents our contractual cash obligations, excluding deposits and unrecognized tax benefits, as of December 31, 2010:

	Amount of Commitment Expiring per Period				
Contractual Obligations[(1)]	Total Amounts Committed	Less Than 1 year	1-3 Years	3-5 Years	After 5 Years
			(In thousands)		
Senior Debt	$25,996	$ —	$25,996	$ —	$ —
Operating Lease Obligations	17,214	2,612	4,449	3,599	6,504
Total	$43,180	$2,614	$35,465	$3,599	$6,504

(1) Contractual obligations do not include interest.

In the normal course of business, we enter into off-balance sheet arrangements consisting of commitments to extend credit, to fund commercial letters of credit and standby letters of credit. Commercial letters of credit are originated to facilitate transactions both domestic and foreign while standby letters of credit are originated to issue payments on behalf of the Bank's customers when specific future events occur. Historically, the Bank has rarely issued payment under standby letters of credit, which the Bank's customer is obligated to reimburse the Bank. The Bank could also liquidate collateral or offset a customer's deposit accounts to satisfy this payment. The following table presents these off-balance sheet arrangements at December 31, 2010:

	Amount of off-balance sheet Expiring per Period				
Off-balance sheet arrangements	Total Amounts Committed	Less Than 1 year	1-3 Years	3-5 Years	After 5 Years
			(In thousands)		
Commitments to extend credit	$105,329	$ 94,286	$8,790	$183	$2,070
Commercial letters of credit	5,425	5,210	215	—	—
Standby letter of credit	6,684	6,684	—	—	—
Total	$117,438	$106,180	$9,005	$183	$2,070

Liquidity

Based on our existing business plan, we believe that our level of liquid assets is sufficient to meet our current and presently anticipated funding needs. We rely on deposits as the principal source of funds and, therefore, must be in a position to service depositors' needs as they arise. We attempt to maintain a loan-to-deposit ratio below approximately 95%. Our loan-to-deposit ratio was 84.7% at December 31, 2010 compared to 89.9% at December 31, 2009.

Borrowings from the FHLB are another source of funding for our loan and investment activities. At December 31, 2010, we could borrow up to $103.2 million with collateral of specifically identified loans and securities. In addition, we have pledged securities with a market value of $60.7 million at the Federal Reserve Discount Window which we may borrow from on an overnight basis. We have no uncommitted borrowing lines with other financial institutions. As an additional condition of borrowing from the FHLB, we are required to purchase FHLB stock. For the year ended December 31, 2010, the Bank was required to purchase the greater of $3,453,000 of FHLB stock based on the volume of "membership assets" as defined by the FHLB or $0 in FHLB stock based on 4.7% of outstanding borrowings with the FHLB. At December 31, 2010, the Bank held $4,440,000 in FHLB stock.

The Bank took additional steps during 2010 to both preserve and enhance its future liquidity needs:

In June 2010, the Bank sold 77,000 shares of convertible Series A Preferred Stock to investors in a private placement at a price of $1,000 per share, with net proceeds exceeding $70 million.

The Bank retired debt with higher interest rates during the year, preventing further erosion of interest margins,

We also attempt to maintain a liquidity ratio (liquid assets, including cash and due from banks, federal funds sold and investment securities not pledged as collateral expressed as a percentage of total deposits) above approximately 18%. Our liquidity ratios were 31% at December 31, 2010 and 18% at December 31, 2009. We believe that in the event the level of liquid assets (our primary liquidity) does not meet our liquidity needs, other available sources of liquid assets (our secondary liquidity), including the sales of securities under agreements to repurchase, sales of unpledged investment securities or loans, utilizing the discount window borrowings from the Federal Reserve Bank as well as borrowing from the FHLB could be employed to meet those funding needs. We have a Contingency Funding Plan Policy which is reviewed annually by the Board of Directors which sets forth actions to be taken in the event that our liquidity ratios fall below Board-established guidelines. Although we believe that our funding resources will be more than adequate to meet our obligations, we cannot be certain of this adequacy if further economic deterioration or other negative events occur that could impair our ability to meet our funding obligations.

Quantitative and Qualitative Disclosures about Market Risk

Market risk is the risk of loss in a financial instrument arising from adverse changes in market prices and rates, foreign currency exchange rates, commodity prices and equity prices. Our market risk arises primarily from interest rate risk inherent in our lending and deposit taking activities. To that end, management actively monitors and manages our interest rate risk exposure. We do not have any market risk sensitive instruments entered into for trading purposes. We manage our interest rate sensitivity by matching the re-pricing opportunities on our earning assets to those on our funding liabilities. Management uses various asset/liability strategies to manage the re-pricing characteristics of our assets and liabilities designed to ensure that exposure to interest rate fluctuations is limited and within our guidelines of acceptable levels of risk-taking. Hedging strategies, including the terms and pricing of loans and deposits and managing the deployment of our securities, are used to reduce mismatches in interest rate re-pricing opportunities of portfolio assets and their funding sources.

Interest rate risk is addressed by our Investment Committee which is comprised of the Chief Executive Officer and members of the board of directors. The Investment Committee monitors interest rate risk by analyzing the potential impact on the net portfolio of equity value and net interest income from potential changes

in interest rates, and considers the impact of alternative strategies or changes in balance sheet structure. The Investment Committee manages our balance sheet in part to maintain the potential impact on net portfolio value and net interest income within acceptable ranges despite rate changes in interest rates.

Our exposure to interest rate risk is monitored continuously by senior management and is reviewed by the Investment Committee at least quarterly by management and our board of directors. Interest rate risk exposure is measured using interest rate sensitivity analysis to determine our change in net portfolio value and net interest income in the event of hypothetical changes in interest rates. If potential changes to net portfolio value and net interest income resulting from our analysis of hypothetical interest rate changes are not within board-approved limits, the board may direct management to adjust the asset and liability mix to bring interest rate risk within board-approved limits. This analysis of hypothetical interest rate changes is performed on a monthly basis by a third party vendor utilizing detailed data that we provide to them.

Market Value of Portfolio Equity

We measure the impact of market interest rate changes on the net present value of estimated cash flows from our assets and liabilities defined as market value of portfolio equity, using a simulation model. This simulation model assesses the changes in the market value of interest rate sensitive financial instruments that would occur in response to an instantaneous and sustained increase or decrease in market interest rates.

The following table presents forecasted changes in net portfolio value using a base market rate and the estimated change to the base scenario given an immediate and sustained upward and downward movement in interest rates of 100, 200 and 300 basis points at December 31, 2010.

Market Value of Portfolio Equity

Interest Rate Scenario	Market Value	Percentage Change from Base	Percentage of Total Assets	Percentage of Portfolio Equity Book Value
		(Dollars in thousands)		
Up 300 basis points	$134,426	(4.91)%	10.70%	95.11%
Up 200 basis points	$135,364	(4.24)	10.78	95.78
Up 100 basis points	$137,426	(2.79)	10.94	97.23
Base	$141,363	—	11.26	100.02
Down 100 basis points	$144,889	2.49	11.54	102.52
Down 200 basis points	$152,702	8.02	12.16	108.04
Down 300 basis points	$160,561	13.58	12.78	113.60

The computation of prospective effects of hypothetical interest rate changes are based on numerous assumptions, including relative levels of market interest rates, asset prepayments and deposit decay, and should not be relied upon as indicative of actual results. Further, the computations do not contemplate any actions we may undertake in response to changes in interest rates. Actual amounts may differ from the projections set forth above should market conditions vary from the underlying assumptions.

Net Interest Income

In order to measure interest rate risk at December 31, 2010, we used a simulation model to project changes in net interest income that result from forecasted changes in interest rates. This analysis calculates the difference between net interest income forecasted using a rising and a falling interest rate scenario and a net interest income forecast using a base market interest rate derived from the current treasury yield curve. The income simulation model includes various assumptions regarding the re-pricing relationships for each of our products. Many of our assets are floating rate loans, which are assumed to re-price immediately, and to the same extent as the change in

market rates according to their contracted index. Some loans and investment vehicles include the opportunity of prepayment (embedded options), and accordingly the simulation model uses national indexes to estimate these prepayments and reinvest their proceeds at current yields. Our non-term deposit products re-price more slowly, usually changing less than the change in market rates and at our discretion.

This analysis indicates the impact of changes in net interest income for the given set of rate changes and assumptions. It assumes no growth in the balance sheet and that its structure will remain similar to the structure at year end. It does not account for all factors that impact this analysis, including changes by management to mitigate the impact of interest rate changes or secondary impacts such as changes to our credit risk profile as interest rates change. Furthermore, loan prepayment rate estimates and spread relationships change regularly. Interest rate changes create changes in actual loan prepayment rates that will differ from the market estimates incorporated in this analysis. Changes that vary significantly from the assumptions may have significant effects on our net interest income.

For the rising and falling interest rate scenarios, the base market interest rate forecast was increased or decreased on an instantaneous and sustained basis.

Sensitivity of Net Interest Income December 31, 2010

Interest Rate Scenario	Adjusted Net Interest Income	Percentage Change from Base	Net Interest Margin Percent	Net Interest Margin Change (in basis points)
	(Dollars in thousands)			
Up 200 basis points	$46,467	10.69%	3.85%	0.37
Up 200 basis points	$42,350	0.89	3.51	0.03
Up 100 basis points	$41,405	(1.37)	3.43	(0.05)
Base	$41,978	—	3.48	—
Down 100 basis points	$43,351	3.27	3.59	0.11
Down 200 basis points	$42,185	0.49	3.50	0.02
Down 300 basis points	$40,677	(3.10)	3.37	(0.11)

At December 31, 2010, we had $880.3 million in assets and $732.5 million in liabilities re-pricing within one year. This indicates that approximately $147.8 million more of our interest rate sensitive assets than our interest rate sensitive liabilities will change to the then current rate (changes occur due to the instruments being at a variable rate or because the maturity of the instrument requires its replacement at the then current rate). The ratio of interest-earning assets to interest-bearing liabilities maturing or re-pricing within one year at December 31, 2010 is 120.2%. Changes in the mix of earning assets or supporting liabilities can either increase or decrease the net interest margin without affecting interest rate sensitivity. In addition, the interest rate spread between an asset and its supporting liability can vary significantly while the timing of re-pricing of both the asset and its supporting liability can remain the same, thus impacting net interest income. This characteristic is referred to as basis risk, and generally relates to the re-pricing characteristics of short-term funding sources such as certificates of deposit.

Recently Issued Accounting Standards

In June 2009, the FASB issued guidance now codified as ASC Section 260-10-45, *Earnings Per Share.* This guidance requires all outstanding unvested share-based payment awards that contain rights to non-forfeitable dividends to be considered participating securities and requires entities to apply the two-class method of computing basic and diluted earnings per share. The Bank adopted this standard on January 1, 2010 and the adoption did not have a significant impact on the Bank's consolidated financial statements.

In June 2009 the FASB issued guidance now codified as ASC 860, *Transfers and Servicing*. This guidance removes the concept of a qualifying special-purpose entity (QSPE) from ASC 860, Transfers and Servicing and removes the exception from applying variable interest accounting to variable interest entities that are QSPE's.

This statement also clarifies the requirements for isolation and limitations on portions of financial assets that are eligible for sale accounting. This statement is effective for fiscal years beginning after November 15, 2009. Accordingly, the Bank adopted this guidance on January 1, 2010. The adoption of this guidance did not have a material effect on the Bank's consolidated financial statements.

In June 2009, the FASB issued guidance now codified as ASC 810, *Consolidation*. This guidance amends ASC 810, Consolidation to require an analysis to determine whether a variable interest gives a company a controlling financial interest in a variable interest entity (VIE). This statement requires an ongoing reassessment of and eliminates the quantitative approach previously required for determining whether a company is the primary beneficiary. This statement is effective for fiscal years beginning after November 15, 2009. Accordingly, the Bank adopted this guidance on January 1, 2010. The adoption of this guidance did not have a material effect on the Bank's consolidated financial statements.

In December 2009, the FASB issued ASU 2009-16, which codifies FASB Statement No. 166, Accounting for Transfers of Financial Assets into Codification Topic 860. ASU 2009-16 represents a revision to former FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. ASU 2009-16 expands required disclosures about transfers of financial assets and a transferor's continuing involvement with transferred assets. It also removes the concept of "qualifying special-purpose entity" from U.S. GAAP. This statement is effective for fiscal years beginning after November 15, 2009. Accordingly, the Bank adopted SFAS 166 on January 1, 2010. The Bank's adoption of this guidance in the first quarter of 2010 did not have a material effect on the Bank's consolidated financial statements.

In December 2009, the FASB issued ASU 2009-17, which codifies FASB Statement No. 167, *Amendments to FASB Interpretation No. 46(R)*, into Codification Topic 810, Consolidations. ASU 2009-17 revises former FASB Interpretation No. 46 (Revised December 2003), Consolidation of Variable Interest Entities. The revised guidance requires, among other things, that an entity perform both a quantitative and qualitative analysis to determine if it is the primary beneficiary of a variable interest entity ("VIE") and therefore required to consolidate the VIE. The qualitative analysis includes determining whether an entity has the power to direct the most significant activities of the VIE. The amended guidance also requires consideration of related party relationships in the determination of the primary beneficiary of a VIE and enhanced disclosures about an enterprise's involvement with a VIE. This statement is effective for fiscal years beginning after November 15, 2009. Accordingly, the Bank adopted SFAS 167 on January 1, 2010. The Bank's adoption of this guidance in the first quarter of 2010 did not have a material effect on the Bank's consolidated financial statements.

In January 2010, the FASB issued ASC Update No. 2010-01, "*Equity (Topic 505), Accounting for Distributions to Shareholders with Components of Stock and Cash a consensus of the FASB Emerging Issues Task Force*". This update clarifies that the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a potential limitation on the total amount of cash that all shareholders can elect to receive in the aggregate is considered a share issuance that is reflected in EPS prospectively and is not a stock dividend for purposes of applying Topic 505 (Equity) and Topic 260 (Earnings Per Share). The update is effective for annual and interim periods ending after December 15, 2009. The adoption of this update, during the fourth quarter of 2009, did not have a material impact on the Bank's financial statements.

In January 2010, the FASB issued ASC Update No. 2010-06, "*Fair Value Measurements and Disclosures (Topic 820)-Improving Disclosures about Fair Value Measurements*". This update provides amendments to Subtopic 820-10 and requires the following new disclosures: 1) Transfers in and out of Levels 1 and 2; and 2) Activity in Level 3 fair value measurements that discloses separately information about Level 3 purchases, sales, issuances, and settlements on a gross basis rather than as one net number. Additionally, this update clarifies existing disclosures of the level of disaggregation, and disclosures about inputs and valuation techniques. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about gross purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for

fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The Bank has adopted the new disclosures for Level 1 and Level 2 fair value measurements. The adoption of the disclosure requirements did not have a material effect on the Bank's consolidated financial statements.

In March 2010, the FASB issued ASC Update No 2010-11, *Derivatives and Hedging (Topic 815) Scope Exception Related to Embedded Credit Derivatives.* All entities that enter into contracts containing an embedded credit derivative feature related to the transfer of credit risk that is not only in the form of subordination of one financial instrument to another will be affected by the amendments in this Update because the amendments clarify that the embedded credit derivative scope exception in paragraphs 815-15-15-8 through 15-9 does not apply to such contracts. The amendments address how to determine which embedded credit derivative features, including those in collateralized debt obligations and synthetic collateralized debt obligations, are considered to be embedded derivatives that should not be analyzed (under Section 815-15-25) for potential bifurcation and separate accounting. As of December 31, 2010, the Bank owns three collateralized debt obligations ("CDO's") which consist of pools of bank trust preferred securities, with a total unamortized cost of $2.4 million. These investments comprise an immaterial portion of the Bank's total assets and annual interest income, and do not contain any feature other than subordination of credit risk. Therefore, this ASU Update is not currently applicable for us.

In April 2010, the FASB issued ASC Update No 2010-18*, Effect of a Loan Modification When the Loan Is Part of a Pool That Is Accounted for as a Single Asset.* The amendments in this Update affect any entity that acquires loans subject to Subtopic 310-30, that accounts for some or all of those loans within pools, and that subsequently modifies one or more of those loans after acquisition. This Update clarifies that modifications of loans that are accounted for within a pool under Subtopic 310-30, which provides guidance on accounting for acquired loans that have evidence of credit deterioration upon acquisition, do *not* result in the removal of those loans from the pool even if the modification would otherwise be considered a troubled debt restructuring. An entity will continue to be required to consider whether the pool of assets in which the loan is included is impaired if expected cash flows for the pool change. The amendments do not affect the accounting for loans under the scope of Subtopic 310-30 that are not accounted for within pools. Loans accounted for individually under Subtopic 310-30 continue to be subject to the troubled debt restructuring accounting provisions within Subtopic 310-40. The amendments in this Update are effective for modifications of loans accounted for within pools under Subtopic 310-30 occurring in the first interim or annual period ending on or after July 15, 2010 and are to be applied prospectively, with early application permitted. Upon initial adoption of the guidance in this Update, an entity may make a onetime election to terminate accounting for loans as a pool under Subtopic 310-30. This election may be applied on a pool-by-pool basis and does not preclude an entity from applying pool accounting to subsequent acquisitions of loans with credit deterioration. The Bank has not acquired loans and has no plans to do so. Adoption of this ASC update had no material impact on our financial statements.

In June 2010, the FASB issued guidance now codified as ASC 810, *Consolidation*. This guidance amends ASC 810, Consolidation to require an analysis to determine whether a variable interest gives a company a controlling financial interest in a variable interest entity (VIE). This statement requires an ongoing reassessment of and eliminates the quantitative approach previously required for determining whether a company is the primary beneficiary. This statement is effective for fiscal years beginning after November 15, 2010. Accordingly, the Bank adopted this guidance on January 1, 2010. the effect the adoption of this guidance had no material impact on our consolidated financial statements.

FASB ASU 2010-20, "Receivable (Topic 310), Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses"—ASU 2010-20 requires new and enhanced disclosures about the credit quality of an entity's financing receivables and its allowance for credit losses. The new and amended disclosure requirements focus on such areas as nonaccrual and past due financing receivables, allowance for credit losses related to financing receivables, impaired loans, credit quality information and modifications. The ASU requires an entity to disaggregate new and existing disclosures based on how it develops its allowance for credit losses and how it manages credit exposures. For public entities, the disclosures as of the end of a reporting

period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. See Note 4 to these Consolidated Financial Statements for the required disclosures at December 31, 2010.

In January 2011, the FASB issued ASC Update No. 2011-01, " Receivables (Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20". The amendments in this Update temporarily delay the effective date of the disclosures about troubled debt restructurings in Update 2010-20 for public entities. The delay is intended to allow the Board time to complete its deliberations on what constitutes a troubled debt restructuring. The effective date of the new disclosures about troubled debt restructurings for public entities and the guidance for determining what constitutes a troubled debt restructuring will then be coordinated. Currently, that guidance is anticipated to be effective for interim and annual periods ending after June 15, 2011. Accordingly, the Bank would adopt the Troubled Debt Restructuring guidance effective for the quarter ended June 30, 2011. We are currently evaluating the effect the adoption of this update will have on our consolidated financial statements.

Inflation

The majority of our assets and liabilities are monetary items held by us, the dollar value of which is not affected by inflation. Only a small portion of total assets is in premises and equipment. The lower inflation rate of recent years has not had the positive impact on us that was felt in many other industries. Our small fixed asset investment minimizes any material effect of asset values and depreciation expenses that may result from fluctuating market values due to inflation. Higher inflation rates may increase operating expenses or have other adverse effects on borrowers of the banks, making collection on extensions of credit more difficult for us. Rates of interest paid or charged generally rise if the marketplace believes inflation rates will increase.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES OF MARKET RISKS

For quantitative and qualitative disclosures regarding market risks in our portfolio, see, "Management's Discussion and Analysis of Financial Condition and Results of Operations—Quantitative and Qualitative Disclosure About Market Risk."

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements of the Bank, including the "Report of Independent Registered Public Accounting Firm," are included in this report immediately following Part IV.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As of December 31, 2010, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures and internal controls over financial reporting pursuant to SEC rules, as such rules are adopted by the FDIC. Based upon that evaluation, and the identification of the material weakness in our internal control over financial reporting as described below under "Management's Report on Internal Control over Financial Reporting", the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of December 31, 2010. Nevertheless, based on a number of factors, including the performance of additional procedures by

management designed to ensure the reliability of our financial reporting, we believe that the financial statements in this Annual Report on Form 10-K fairly present, in all material respects, our financial position, results of operations and cash flows for the periods presented in conformity with GAAP.

Management's Report on Internal Control over Financial Reporting

The Management of the Bank is responsible for establishing and maintaining adequate internal control over financial reporting pursuant to the rules and regulations of the SEC. The Bank's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. Internal control over financial reporting includes those written policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles;
- provide reasonable assurance that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the consolidated financial statements.

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

There are inherent limitations in the effectiveness of any internal control including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective internal control can provide only reasonable effectiveness of internal control may vary over time.

Management under the supervision and with the participation of the Bank's principal executive officer and principal financial officer assessed the effectiveness of the Bank's internal control over financial reporting as of December 31, 2010. Management based this assessment on criteria for effective internal control over financial reporting described in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management's assessment included an evaluation of the design of Preferred Bank's internal control over financial reporting and testing of the operational effectiveness of its internal control over financial reporting. Management reviewed the results of its assessment with the Audit Committee of our Board of Directors.

A material weakness in internal controls over financial reporting was identified in the prior year and continues to exist related to the monitoring and control activities necessary to respond to potential risks identified in the Company's loan portfolio. Although management has implemented enhanced internal controls to obtain updated value indicators for impaired loans and owned real estate, management's controls failed to properly identify and incorporate all significant aspects of credit risk into the determination of the allowance for loan and lease loss. As a result, internal controls should have been revised to require (a) reflection of credit weaknesses in determining the loan grades assigned to individual credits and (b) sufficient documentation in the loan credit files and criticized loan analyses to support management's conclusion of the assigned loan grades and amount of specific allowance. In addition, management's review process did not detect that such controls were not appropriately revised.

Based on management's assessment and the criteria discussed above, we have concluded that, as of December 31, 2010, internal control over financial reporting was not effective as a result of the aforementioned material weakness.

KPMG LLP, the independent registered public accounting firm that audited the Bank's financial statements included in this Annual Report on Form 10-K, has issued an attestation report on the effectiveness of the Bank's internal control over financial reporting as of December 31, 2010. This report which expresses an adverse opinion on the effectiveness of the Bank's internal control over financial reporting as of December 31, 2010, was filed with the FDIC and is included in Exhibit 99.1.

Remediation of Material Weakness

As part of the execution of the remediation plans to address the material weaknesses, we:

- Engaged an external credit review firm, during the second quarter of 2010, to conduct a loan review of a significant majority of the loan portfolio and the entire OREO portfolio, assess and validate the appropriateness of loan grades, and assess the methodology for determining the allowance for loan and lease losses to strengthen our internal loan review function. This firm also reviewed credit administration processes, note department operations, and overall portfolio monitoring practices.
- Engaged another external credit review firm, during the third quarter of 2010, to conduct a focused and comprehensive assessment of the methodology for determining the allowance for loan and lease losses which included a review of loan grading and impairment determination and measurement.
- Implemented a tracking system to identify due dates for obtaining updated valuations on classified loans and OREO assets in order to ensure that updated valuations are obtained in a timely manner, every six months.
- Revised and enhanced our concentrations of credit policy including enhancing our internal monitoring and reporting of concentrations.
- Revised our allowance for loan and lease loss policy to enhance portfolio segment granularity, improve the timeliness of collateral valuations, and incorporate more robust loan grading practices.
- Revised our policy and procedures for OREO.

By implementing the above actions, we believe that our financial reporting will be significantly improved. However, there can be no assurances that our efforts will be successful or that additional efforts will not be necessary to remediate this material weakness.

ITEM 9B. OTHER INFORMATION

None

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information concerning directors and executive officers of the Bank, to the extent not included under "Item 1 under the heading "*Executive Officers of the Bank*", will appear in the Bank's definitive proxy statement for the 2011 Annual Meeting of Shareholders (the "2011 Proxy Statement"), and such information either shall be (i) deemed to be incorporated herein by reference from the section entitled "ELECTION OF DIRECTORS" AND "SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE" and "THE COMMITTEES OF THE BOARD," if filed with the Federal Deposit Insurance Corporation pursuant to Regulation 14A not later than 120 days after the end of the Bank's most recently completed fiscal year or (ii) included in an amendment to this report filed with the Federal Deposit Insurance Corporation on Form 10-K/A not later than the end of such 120 day period.

Code of Ethics

The Bank has adopted a code of ethics that applies to its principal executive officer, principal financial and accounting officer, controller, and persons performing similar functions. The code of ethics is posted on our internet website at www.preferredbank.com.

ITEM 11. EXECUTIVE COMPENSATION

Information concerning executive compensation will appear in the 2011 Proxy Statement, and such information either shall be (i) deemed to be incorporated herein by reference from the sections entitled "COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION," "COMPENSATION COMMITTEE'S REPORT," "COMPENSATION DISCUSSION AND ANALYSIS," "SUMMARY COMPENSATION TABLE," "OUTSTANDING EQUITY AWARDS," "NON-QUALIFIED DEFERRED COMPENSATION," "CHANGE OF CONTROL AGREEMENTS," and "COMPENSATION OF DIRECTORS," if filed with the Federal Deposit Insurance Corporation pursuant to Regulation 14A not later than 120 days after the end of the Bank's most recently completed fiscal year or (ii) included in an amendment to this report filed with the Federal Deposit Insurance Corporation on Form 10-K not later than the end of such 120 day period.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

Information concerning security ownership of certain beneficial owners and management and information related to the Bank's equity compensation plans will appear in the 2011 Proxy Statement, and such information either shall be (i) deemed to be incorporated herein by reference from the sections entitled "SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT" and "EQUITY COMPENSATION PLANS," if filed with the Federal Deposit Insurance Corporation pursuant to Regulation 14A not later than 120 days after the end of the Bank's most recently completed fiscal year or (ii) included in an amendment to this report filed with the Federal Deposit Insurance Corporation on Form 10-K/A not later than the end of such 120 day period.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information concerning certain relationships and related transactions will appear in the 2011 Proxy Statement, and such information either shall be (i) deemed to be incorporated herein by reference from the section entitled "CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS and "BOARD INDEPENDENCE," if filed with the Federal Deposit Insurance Corporation pursuant to Regulation 14A not later

than 120 days after the end of the Bank's most recently completed fiscal year, or (ii) included in an amendment to this report filed with the Federal Deposit Insurance Corporation on Form 10-K/A not later than the end of such 120 day period.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information concerning principal accountant fees and services will appear in the 2011 Proxy Statement, and such information either shall be (i) deemed to be incorporated herein by reference from the section entitled "INDEPENDENT AUDITOR FEES," and "AUDIT COMMITTEE PRE-APPROVAL POLICY" if filed with the Federal Deposit Insurance Corporation pursuant to Regulation 14A not later than 120 days after the end of the Bank's most recently completed fiscal year or (ii) included in an amendment to this report filed with the Federal Deposit Insurance Corporation on Form 10-K/A not later than the end of such 120 day period.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a)(1) Financial Statements

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(a)(2) Financial Statement schedules

Schedules have been omitted because they are not applicable, not material or because the information is included in the consolidated financial statements or the notes thereto.

(a)(3) Exhibits

Exhibit No.	Exhibit Description
3.1	Amended and Restated Articles of Incorporation(1)
3.2	Certificate of Determination of the Series A preferred Stock(5)
3.3	Amended and Restated Bylaws(1)
4.1	Common Stock Certificate(2)
10.1	Lease relating to the Bank's principal executive office at 601 S. Figueroa Street, 20th Floor, Los Angeles, California with Mitsui Fudoson (U.S.A.), Inc.(1)
10.2	Agreement for Item-Processing Services with Fiserv Solutions, Inc., dated as of July 31, 2002(1)
10.3	Agreement for Data-Processing with Fiserv Solutions, Inc., dated as of May 1, 2003(1)
10.4	Maintenance and Service Agreement, dated August 1, 2003 with Exilcom, Inc. d/b/a Northstar Technologies(1)
10.5*	1992 Stock Option Plan(1)
10.6*	Management Incentive Bonus Plan(1)
10.7*	Deferred Compensation Plan(1)
10.8*	Stock Option Gain Deferred Compensation Plan(1)
10.9*	2004 Equity Incentive Plan(1)
10.10*	Form of Indemnification Agreement for directors and executive officers(1)
10.11*	Revised Bonus Plan
10.12	Lease relating to the Bank's principal executive office at 601 S. Figueroa Street, 29th Floor, Los Angeles, California with 601 Figueroa Co. LLC, dated March 9, 2008.(3)
10.13	Lease relating to the Bank's retail branch office at 1045-1055 North Tustin Avenue, Anaheim, California with Tustin Retail Center, LLC, dated July 8, 2009(4)

Exhibit No.	Exhibit Description
10.14	Lease relating to the Bank's retail branch office at 7004 Rosemead Blvd., Pico Rivera, California with Thaddeus J. Moriarty, Jr. and Joan F. Moriarty, Trustees of the Moriarty Family Trust, Jacqueline Steward, Trustee of the Steward Family Trust, dated July 25, 2009(4)
10.15*	Deferred Compensation Plan-Deferred Stock Unit Agreement and Rabbi Trust
21.1	Subsidiaries of the Registrant
31.1	Chief Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Chief Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Chief Executive Officer Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Chief Financial Officer Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 of the Sarbanes-Oxley Act of 2002
99.1	Report of Independent Registered Public Accounting Firm
99.2	Management's Report on Internal Control over Financial Reporting

(1) Incorporated by reference from Registrant's Registration Statement on Form 10 filed with the Federal Deposit Insurance Corporation on January 18, 2006.

(2) Incorporated by reference from Registrant's Registration Statement on Form 10 Amendment No. 1 filed with the Federal Deposit Insurance Corporation on February 2, 2006.

(3) Incorporated by reference from Quarterly Report on Form 10-Q filed with the Federal Deposit Insurance Corporation on May 9, 2008.

(4) Incorporated by reference from Quarterly Report on Form 10-Q filed with the Federal Deposit Insurance Corporation on November 7, 2009.

(5) Incorporated by reference from Current Report on Form 8-K filed with the Federal Deposit Insurance Corporation on June 10, 2010.

* Denotes management contract or compensatory plan or arrangement.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Preferred Bank:

We have audited the accompanying consolidated statements of financial condition of Preferred Bank and subsidiary as of December 31, 2010 and 2009, and the related consolidated statements of operations and comprehensive (loss) income, changes in shareholders' equity, and cash flows for each of the years in the three year period ended December 31, 2010. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Preferred Bank and subsidiary as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the years in the three year period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles.

We also have audited in accordance with attestation standards of the Public Company Accounting Oversight Board (United States), the Bank's internal control over financial reporting as of December 31, 2010 based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 30, 2011, expressed an adverse opinion on the effectiveness of the Bank's internal control over financial reporting.

/s/ KPMG LLP

Los Angeles, California
March 30, 2011

PREFERRED BANK

Consolidated Statements of Financial Condition
December 31, 2010 and 2009
(In thousands, except for shares)

	2010	2009
Assets		
Cash and due from banks	$ 108,233	$ 14,071
Federal funds sold	—	54,000
Cash and cash equivalents	108,233	68,071
Securities available-for-sale, at fair value	183,269	114,464
Loans and leases	912,854	1,043,299
Less allowance for loan and lease losses	(32,898)	(42,810)
Less unamortized deferred loan costs, net	58	585
Net loans and leases	880,014	1,001,074
Loans held for sale, at lower of cost or fair value	2,556	—
Other real estate owned	52,663	59,190
Customers' liability on acceptances	92	—
Bank furniture and fixtures, net	5,418	6,325
Bank-owned life insurance	7,556	7,304
Accrued interest receivable	5,375	5,582
Federal Home Loan Bank ("FHLB") stock, at cost	4,440	4,996
Net deferred tax assets	—	3,604
Income tax receivable	3,630	30,148
Other assets	2,620	6,023
Total assets	$1,255,866	$1,306,781
Liabilities and Shareholders' Equity		
Deposits:		
Demand	$ 221,967	$ 204,545
Interest-bearing demand	125,517	119,168
Savings	31,140	44,033
Time certificates of $100,000 or more	373,621	328,597
Other time certificates	329,020	464,069
Total deposits	1,081,265	1,160,412
Acceptances outstanding	92	—
Advances from the Federal Home Loan Bank	—	23,000
Senior debt	25,996	25,996
Accrued interest payable	1,716	2,949
Other liabilities	5,463	9,050
Total liabilities	1,114,532	1,221,407
Commitments and contingencies		
Shareholders' equity:		
Preferred stock. Authorized 5,000,000 shares; no shares issued and outstanding at December 31, 2010 and 2009.	—	—
Common stock, no par value. Authorized 100,000,000 shares; issued and outstanding 65,941,527 and 15,767,126 shares at December 31, 2010 and 2009, respectively.	162,884	89,038
Treasury stock, at cost (743,425 and 715,425 shares at December 31, 2010 and 2009, respectively)	(19,115)	(19,115)
Additional paid-in capital	22,539	6,291
Retained earnings (accumulated deficit)	(18,767)	13,267
Accumulated other comprehensive loss:		
Non-credit portion of other-than-temporary impairment on securities available-for-sale, net of tax of $367 and $555 at December 31, 2010 and December 31, 2009, respectively.	(743)	(764)
Unrealized loss on securities available-for-sale, net of tax of $1,579 and $2,426 at December 31, 2010 and December 31, 2009, respectively.	(5,464)	(3,343)
Total shareholders' equity	141,334	85,374
Total liabilities and shareholders' equity	$1,255,866	$1,306,781

See accompanying notes to the consolidated financial statements.

PREFERRED BANK

Consolidated Statements of Operations and Comprehensive (Loss) Income
Years Ended December 31, 2010, 2009 and 2008
(In thousands, except share and per share data)

	2010	2009	2008
Interest income:			
Loans and leases	$ 46,130	$ 53,055	$ 75,120
Investment securities, available for sale	5,957	5,784	10,743
Federal funds sold	1	37	96
Total interest income	52,088	58,876	85,959
Interest expense:			
Interest-bearing demand	655	842	1,364
Savings	208	687	1,433
Time certificates of $100,000 or more	5,768	10,521	20,047
Other time certificates	6,764	8,080	8,349
Federal funds purchased	—	—	533
FHLB borrowings	677	2,014	2,908
Senior debt	750	668	—
Total interest expense	14,822	22,812	34,634
Net interest income before provision for credit losses	37,266	36,064	51,325
Provision for credit losses	16,550	71,250	30,560
Net interest (loss) income after provision for credit losses	20,716	(35,186)	20,765
Noninterest income:			
Fees and service charges on deposit accounts	1,865	2,189	1,764
Trade finance income	382	384	652
BOLI income	329	318	362
Net gain (loss) on sale of investment securities	(61)	3,142	(11)
Other income	292	443	2,174
Total noninterest income	2,807	6,476	4,941
Noninterest expense:			
Salaries and employee benefits	9,591	7,629	8,557
Net occupancy expense	3,271	3,416	2,822
Business development and promotion expense	246	201	424
Professional services	3,504	4,063	3,023
Office supplies and equipment expense	1,122	1,246	1,269
Total other-than-temporary impairment losses	843	1,645	12,371
Portion of loss reclassified in other comprehensive income	(431)	1,810	—
Net of other-than-temporary impairment losses	412	3,455	12,371
Loss on sale of OREO and related expense	12,481	23,071	3,016
Other	10,410	8,872	4,112
Total noninterest expense	41,037	51,953	35,594
(Loss) income before income taxes	(17,514)	(80,663)	(9,888)
Income tax (benefit) expense	(704)	(8,128)	(4,876)
Net loss	$ (16,810)	$ (72,535)	$ (5,012)
Accretion of beneficial conversion feature	(25,600)	—	—
Net loss available to common shareholders	$ (42,410)	$ (72,535)	$ (5,012)
Other comprehensive income (loss):			
Unrealized net gain (loss) on securities available-for-sale	984	6,541	(18,116)
Less reclassification adjustments included in net (loss) income	(2,049)	(1,905)	12,071
Other comprehensive (loss) income, before tax	(1,065)	4,636	(6,045)
Income taxes related to items of other comprehensive income	(1,035)	(2,177)	2,542
Other comprehensive income (loss) , net of tax	(2,100)	2,459	(3,503)
Comprehensive loss	$ (44,510)	$ (70,076)	$ (8,515)
Net (loss) income per share			
Basic	$ (1.24)	$ (6.30)	$ (0.51)
Diluted	$ (1.24)	$ (6.30)	$ (0.51)
Weighted-average common shares outstanding			
Basic	34,148,670	15,518,145	9,790,858
Diluted	34,148,670	15,518,145	9,810,391
Dividends per share	$ 0.00	$ 0.08	$ 0.47

See accompanying notes to the consolidated financial statements.

PREFERRED BANK

Consolidated Statements of Changes in Shareholders' Equity
Years Ended December 31, 2010, 2009 and 2008
(In thousands, except share and dividends declared per share data)

	Preferred Stock	Common Stock		Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
		Shares	Amount					
Balance as of December 31, 2007	$ —	9,953,532	$ 71,863	$(14,976)	$ 2,948	$ 94,595	$(1,478)	$152,952
Cash dividends paid ($0.47 per share)		—	—	—	—	(4,587)	—	(4,587)
Tax benefit—exercise of share-based payment		—	—	—	11	—	—	11
Stock options exercised		17,100	146	—	—	—	—	146
Stock buyback		(215,425)	—	(4,139)	—	—	—	(4,139)
Share-based compensation expense		—	—	—	1,623	—	—	1,623
Net loss		—	—	—	—	(5,012)	—	(5,012)
Change in unrealized loss on securities available-for-sale, net of taxes		—	—	—	—	—	(3,503)	(3,503)
Balance as of December 31, 2008	$ —	9,755,207	$ 72,009	$(19,115)	$ 4,582	$ 84,996	$(4,981)	$137,491
Cumulative effect adjustment for reclassification of the previously recognized non-credit related impairment write-downs, net of taxes		—	—	—	—	1,586	(1,586)	—
Balance as of December 31, 2008, as revised	$ —	9,755,207	$ 72,009	$(19,115)	$ 4,582	$ 86,582	$(6,567)	$137,491
Issuance of Stock		5,912,919	17,029	—	—	—	—	17,029
Stock issuance costs		—	—	—	(104)	—	—	(104)
Cash dividends paid ($0.08 per share)		—	—	—	—	(780)	—	(780)
Restricted stock award grant		99,000	—	—	—	—	—	—
Share-based compensation expense		—	—	—	1,813	—	—	1,813
Net loss		—	—	—	—	(72,535)	—	(72,535)
Noncredit related impairment loss on investment securities recorded in the current year, net of taxes		—	—	—	—	—	822	822
Change in unrealized loss on securities available-for-sale, net of taxes		—	—	—	—	—	1,638	1,638
Balance as of December 31, 2009	$ —	15,767,126	$ 89,038	$(19,115)	$ 6,291	$ 13,267	$(4,107)	$ 85,374
Issuance of mandatorily convertible, Series A preferred stock (73,846 shares), net of deferred compensation	48,246	—	—	—	21,797	—	—	70,043
Accretion of preferred stock discount	142	—	—	—	—	(142)	—	—
Conversion of preferred stock to common stock	(48,388)	49,230,901	73,846	—	(10,376)	(15,082)	—	—
Deferred compensation		—	—	—	3,154	—	—	3,154
Restricted stock award grant		971,500	—	—	373	—	—	373
Restricted stock award forfeitures		(28,000)	—	—	—	—	—	—
Share-based compensation		—	—	—	1,300	—	—	1,300
Net loss		—	—	—	—	(16,810)	—	(16,810)
Change in Non-credit OTTI in AOCI, net of taxes		—	—	—	—	—	21	21
Change in unrealized loss, net of tax		—	—	—	—	—	(2,121)	(2,121)
Balance as of December 31, 2010	$ —	65,941,527	$162,884	$(19,115)	$ 22,539	$(18,767)	$(6,207)	$141,334

See accompanying notes to consolidated financial statements.

PREFERRED BANK

Consolidated Statements of Cash Flows
Years Ended December 31, 2010, 2009 and 2008
(In thousands)

	2010	2009	2008
Cash flows from operating activities:			
Net (loss) income	$ (16,810)	$(72,535)	$ (5,012)
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	16,550	71,250	30,560
Net change in deferred loan fees	526	(751)	(515)
Loss on sale of loans	1,518	—	—
Net loss on sale of other real estate owned	1,041	4,078	359
Loss on sale of securities available for sale	61	(3,142)	11
Net loss on disposal of equipment	23	—	—
Write-down of other real estate owned	8,476	15,015	1,756
Impairment of securities available for sale	412	3,455	12,371
Federal Home Loan Bank stock dividends	556	—	(296)
Amortization (accretion) of investment securities discounts and premiums, net	554	626	(145)
Depreciation and amortization	895	1,113	782
Share-based compensation expense	1,671	1,813	1,623
Excess tax benefit from share-based payment arrangement	—	—	(11)
Deferred tax expense (benefits)	2,569	20,170	(11,082)
Decrease (increase) in BOLI, accrued interest receivable and other assets	29,878	(17,966)	(9,337)
(Decrease) increase in accrued expenses and other liabilities	(1,665)	(17,631)	9,164
Net cash provided by operating activities	46,255	5,495	30,228
Cash flows from investing activities:			
Proceeds from maturities and redemptions of securities available-for-sale	18,559	21,432	133,162
Proceeds from sale of securities available-for-sale	56,904	48,262	105,003
Purchase of securities available-for-sale	(146,359)	(76,056)	(115,585)
Proceeds from sale of other real estate owned	30,607	34,336	848
Proceeds from sale of loans	20,693	8,812	—
Net decrease (increase) in loans	44,985	46,255	(46,301)
Proceeds from the recovery of loans previously written off	633	—	—
Purchase of bank premises and equipment	(11)	(281)	(3,217)
Net cash provided by investing activities	26,011	82,760	73,910
Cash flows from financing activities:			
(Decrease) increase in deposits	(79,147)	(96,911)	4,214
Proceeds from FHLB borrowings	—	—	—
Decrease in other borrowings	(23,000)	(35,000)	(53,000)
Proceeds from senior debt borrowings, net of issuance cost	—	25,996	—
Excess tax benefit from share-based payment arrangement	—	—	11
Net proceeds of stock options exercised	—	—	146
Net proceeds from stock issuance	70,043	16,925	—
Stock buyback	—	—	(4,139)
Cash payment of dividends	—	(780)	(4,587)
Net cash used in financing activities	(32,104)	(89,770)	(57,355)
Net increase (decrease) in cash and cash equivalents	40,162	(1,515)	46,783
Cash and cash equivalents at beginning of year	68,071	69,586	22,803
Cash and cash equivalents at end of year	$ 108,233	$ 68,071	$ 69,586
Supplemental disclosure of cash flow information			
Cash paid during the period for:			
Interest	$ 16,054	$ 25,309	$ 34,681
Income taxes	$ 58	$ 975	$ 4,475
Noncash activities:			
Real estate acquired in settlement of loans	$ 33,598	$ 58,694	$ 28,439
Loans to facilitate the sale of other real estate owned	$ 21,392	$ 34,941	$ 5,010
Transfer of loan receivable to loans held for sale	$ 35,643	$ 11,510	$ —
Transfer liabilities to equity	$ 3,154	$ —	$ —

See accompanying notes to consolidated financial statements.

PREFERRED BANK

Notes to Consolidated Financial Statements

(1) REGULATORY MATTERS

The Board of Directors of the Bank consented to the issuance of the Order in March 2010, which addresses the Bank's management, capital requirements, a reduction in certain classified assets and concentration of construction and land loans, and liquidity, among other things. The Order also prohibits the Bank from paying cash dividends or making any other payments to its shareholders without prior written consent of the FDIC and the DFI. As of December 31, 2010, the minimum capital levels of the Bank exceeded the capital levels required by the Order. To date we have not reduced the Bank's assets classified as "Substandard" within the Report of Examination dated September 30, 2009 down to the level required to be in compliance with the Order. The Board of Directors and management remain committed to addressing and resolving this and the other matters identified in the Order.

(2) Summary of Significant Accounting Policies

Preferred Bank (the Bank) is a full service commercial bank and is engaged primarily in commercial, real estate, and international lending to customers with businesses domiciled in the state of California. The accounting and reporting policies of the Bank are in accordance with accounting principles generally accepted in the United States of America and conform to general practices in the banking industry. The following is a summary of the Bank's significant accounting policies.

(a) Basis of Presentation

The financial statements include the accounts of Preferred Bank and its subsidiary, PB Investment and Consulting, Inc. (collectively the "Bank" or the "Company"). The audited consolidated financial statements of the Company have been prepared in conformity with accounting principles generally accepted in the United States of America.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods.

Material estimates that are particularly susceptible to significant changes in the near-term relate to the determination of the allowance for loan losses. In connection with the determination of the allowance for loan losses, management obtains independent appraisals for significant properties, evaluates overall loan portfolio characteristics and delinquencies and monitors economic conditions.

The consolidated financial statements reflect management's evaluation of subsequent events through the date of issuance of this Annual Report on Form 10-K.

(b) Principles of Consolidation

The financial statements include the accounts of the Company and its subsidiary, PB Investment and Consulting, Inc. All intercompany transactions and accounts have been eliminated in consolidation.

(c) Cash and Cash Equivalents

Cash and cash equivalents include cash and due from banks, and federal funds sold, all of which have original or purchased maturities of less than 90 days. Included in the Bank's cash balances are cash reserves required by FRB in the amounts of $1,077,000 and $989,000 as of December 31, 2010 and 2009, respectively.

(d) Investment Securities

The Bank classifies its debt and equity securities in two categories: held-to-maturity or available-for-sale. Securities that could be sold in response to changes in interest rates, increased loan demand, liquidity needs, capital requirements, or other similar factors are classified as securities available-for-sale. These securities are carried at fair value. Unrealized holding gains or losses, net of the related tax effect, on available-for-sale securities are excluded from income and are reported as a separate component of shareholders' equity as other comprehensive income net of applicable taxes until realized. Realized gains and losses from the sale of available-for-sale securities are determined on a specific-identification basis. Securities classified as held-to-maturity are those that the Bank has the positive intent and ability to hold until maturity. These securities are carried at amortized cost, adjusted for the amortization or accretion of premiums or discounts. At December 31, 2010 and 2009, there were no securities classified in the held-to-maturity portfolio.

The Bank performs regular impairment analysis on its investment securities portfolio on January 1, 2009, the Bank adopted new FASB standards which provide further guidance on; identifying whether a market for an asset or liability is distressed or inactive, determining whether an entity has the intent and ability to hold a security to its anticipated recovery and whether an investment is other-than-temporarily-impaired. If it is determined that the impairment is other than temporary for equity securities, the impairment loss is recognized in earnings equal to the difference between the investment's cost and its fair value. If it is determined that the impairment is other-than-temporary for debt securities, the Bank will recognize the credit component of an other-than-temporary impairment in earnings and the non-credit component in other comprehensive income when the Bank does not intend to sell the security and it is more likely than not that the Bank will not be required to sell the security prior to recovery. The new cost basis is not changed for subsequent recoveries in fair value. The adoption of the provisions of these standards resulted in a cumulative effect after-tax adjustment of $1.6 million to the opening balance of retained earnings and accumulated other comprehensive income.

Premiums and discounts are amortized or accreted over the life of the related held-to-maturity or available-for-sale security as an adjustment to yield using the effective-interest method. Dividend and interest income are recognized when earned.

(e) Loans and Loan Origination Fees and Costs

Loans that the Bank has both the intent and ability to hold for the foreseeable future, or until maturity, are carried at face value, less payments received, the allowance for loan and lease losses, and net deferred loan fees. Interest income is recorded on an accrual basis in accordance with the terms of the loans.

Loan origination fees, offset by certain direct loan origination costs and commitment fees, are deferred and recognized in income as a yield adjustment using the effective interest yield method over the contractual life of the loan, which approximates the interest method. If a commitment expires unexercised, the commitment fee is recognized as income.

Loans on which the accrual of interest has been discontinued are designated as nonaccrual loans. The accrual of interest on loans is discontinued when principal or interest is past due 90 days or more unless the loan is both well secured and in the process of collection. In addition, a loan that is current may be placed on nonaccrual status if the Bank believes substantial doubt exists as to whether the Bank will collect all principal and contractual due interest. When loans are placed on nonaccrual status, all interest previously accrued, but not collected, is reversed against current period interest income. Interest received on nonaccrual loans is subsequently recognized as interest income or applied against the principal balance of the loan. The

loan is generally returned to accrual status when the borrower has brought the past due principal and interest payments current and, in the option of management, the borrower has demonstrated the ability to make future payments of principal and interest as scheduled.

Loans are considered for full or partial charge-offs in the event that they are impaired, considered collateral dependent, principal or interest is over 90 days past due, the loan lacks sufficient collateral protection and are not in the process of collection. The Bank also considers charging off loans in the event of any of the following circumstances: 1) the impaired loan balances are not covered by the fair value of the collateral or discounted cash flow; 2) the loan has been identified for charge-off by regulatory authorities; and 3) any overdrafts greater than 90 days.

The Bank measures a loan for impairment when it is "probable" that it will be unable to collect all amounts due (i.e. both principal and interest) according to the contractual terms of the loan agreement. A loan is also considered impaired when the recorded investment in the loan is less than the present value of expected future cash flows (discounted at the loan's effective interest rate). By definition, all loans classified as troubled debt restructures are considered impaired and measured for impairment. The measurement of impairment is based on (1) the present value of the expected future cash flows of the impaired loan discounted at the loan's original effective interest rate, (2) the observable market price of the impaired loan, or (3) the fair value of the collateral of a collateral-dependent loan. The amount by which the recorded investment of the loan exceeds the measure of the impaired loan is recognized by recording a valuation allowance with a corresponding charge to the provision for loan losses. All loans classified as "substandard" or "doubtful" are analyzed for impairment. The Bank recognizes interest income on impaired loans based on its existing methods of recognizing interest income on nonaccrual loans.

Troubled Debt Restructured ("TDR") loans are defined by ASC 310-40, "Troubled Debt Restructurings by Creditors" and ASC 470-60, "Troubled Debt Restructurings by Debtors," and evaluated for impairment in accordance with ASC 310-10-35. The concessions may be granted in various forms, including reduction in the stated interest rate, reduction in the amount of principal amortization, forgiveness of a portion of a loan balance or accrued interest, or extension of the maturity date.

(f) Allowance for Loan and Lease Losses

The allowance for loan and lease losses is maintained at a level considered adequate to provide for losses that are probable and reasonably estimable. The adequacy of the allowance for loan losses is based on management's evaluation of the collectability of the loan and lease portfolio and that evaluation is based on historical loss experience and other significant factors.

The allowance for loan and lease losses is maintained at a level which, in management's judgment, is adequate to absorb loan and lease losses inherent in the loan and lease portfolio. The amount of the allowance is based on management's evaluation of the collectability of the loan and lease portfolio and that evaluation is based on historical loss experience and other significant factors.

The methodology we use to estimate the amount of our allowance for loan and lease losses is based on both objective and subjective criteria. While some criteria are formula driven, other criteria are subjective inputs included to capture environmental and general economic risk elements which may trigger losses in the loan portfolio.

Specifically, our allowance methodology contains four elements: (a) amounts based on specific evaluations of impaired loans; (b) amounts of estimated losses on loans classified as 'special mention' and 'substandard' that are not already included in impaired loan analysis; (c) amounts of estimated losses on loans not adversely classified which we refer to as 'pass' based on historical loss rates by loan type; and (d) amounts for estimated losses on loans rated as pass based on economic and other factors that indicate probable losses were incurred but were not captured through the other elements of our allowance process.

Impaired loans are identified at each reporting date based on certain criteria and individually reviewed for impairment. A loan is considered impaired when it is probable that the Bank will be unable to collect all amounts due according to the original contractual terms of the loan agreement.

Our loan portfolio, excluding impaired loans which are evaluated individually, is categorized into several pools for purposes of determining allowance amounts by loan pool. The loan pools we currently evaluate are: commercial & industrial, trade finance, real estate – land, mini-perm, real estate construction and other loans. Within these loan pools, we then evaluate loans rated as pass credits, separately from adversely classified loans. The allowance amounts for pass rated loans which are not reviewed individually are determined using historical loss rates developed through migration analyses. The adversely classified loans are further grouped into three credit risk rating categories: special mention, substandard and doubtful.

Finally, in order to ensure our allowance methodology is incorporating recent trends and economic conditions, we apply environmental and general economic factors to our allowance methodology including: credit concentrations; delinquency trends; economic and business conditions; the quality of lending management and staff; lending policies and procedures; loss and recovery trends; nature and volume of the portfolio; nonaccrual and problem loan trends; and other adjustments for items not covered by other factors. We base our allowance for loan losses on an estimation of probable losses inherent in our loan portfolio.

(g) Other Real Estate Owned (OREO)

Other real estate owned, consisting of real estate acquired through foreclosure or other proceedings, is initially stated at fair value of the property based on appraisal, less estimated selling costs. Any cost in excess of the fair value at the time of acquisition is accounted for as a loan charge-off and deducted from the allowance for loan and lease losses. A valuation allowance is established for any subsequent declines in value through a charge to earnings. Operating expenses of such properties, net of related income, and gains and losses on their disposition are included in other operating income or expense, as appropriate.

(h) Bank Furniture and Fixtures

Bank furniture and fixtures are stated at cost, less accumulated depreciation and amortization. Depreciation on furniture and equipment is computed on a straight-line method over the estimated useful lives of the assets, generally three to five years. Leasehold improvements are capitalized and amortized on the straight-line method over the estimated useful life of the improvement or the term of lease, whichever is shorter. Buildings are amortized on the straight-line method over 30 years.

(i) Comprehensive Income

Comprehensive income consists of net income and net unrealized gains (losses) on securities available-for-sale and is presented in the statements of operations and comprehensive (loss) income.

(j) Income Taxes

The Bank accounts for income taxes using the asset and liability method. The objective of the asset and liability method is to establish deferred tax assets and liabilities for the temporary differences between the financial reporting basis and the tax basis of the Bank's assets and liabilities at enacted tax rates expected to be in effect when such amounts are realized or settled. A valuation allowance is established for deferred tax assets if based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The valuation allowance is sufficient to reduce the deferred tax assets to the amount that is more likely than not to be realized.

(k) Earnings per Share

Earnings per share (EPS) are computed on a basic and diluted basis. Basic EPS is computed by dividing net income adjusted by presumed dividend payments and earnings on unvested restricted stock by the weighted average number of common shares outstanding. Losses are not allocated to participating securities. Unvested shares of restricted stock are excluded from basic shares outstanding. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shares in the earnings of the Bank.

(l) Share-Based Compensation

Employees and directors participate in the following stock option compensation plans—the 1992 Stock Option Plan, Interim Stock Option Plan and the 2004 Equity Incentive Plan. Share-based compensation expense for all share-based payment awards is based on the grant-date fair value estimated in accordance with the provisions of ASC 718. The Bank recognizes these compensation costs on a straight-line basis over the requisite service period for the entire award of generally three to five years, and options expire between four and ten years from the date of grant. See Note 13 for further discussion.

(m) Bank-Owned Life Insurance (BOLI)

Bank-owned life insurance policies are carried at their cash surrender value. Income from BOLI is recognized when earned.

(n) Use of Estimates

Management of the Bank has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from these estimates. The most significant estimate subject to change relates to the allowance for loan losses and the valuation of other real estate owned. If the allowance is not adequate as of December 31, 2010 then additional losses could be realized in 2011. The carrying value of other real estate owned; if real estate values deteriorate further then the Bank could suffer additional losses on the disposition of its other real estate owned. If estimates related to future cash flows used to determine fair value of investment securities is incorrect then the Bank could be subject to further other-than-temporary impairment charges.

(o) Risk and Uncertainties

Preferred Bank is a commercial bank which takes in deposits from businesses and individuals and provides loans to real estate developers/owners and individuals. The Bank’s main source of revenue is interest income from loans and investment securities and its main expenses are interest expense paid on deposits and borrowings and compensation expenses to its employees. The Bank’s operations are located and concentrated primarily in Southern California and are likely to remain so for the foreseeable future.

As of December 31, 2010, approximately 95% of the total dollar amount of the Bank’s loans and commitments was related to collateral or borrowers located within California. Because the Bank’s loan portfolio is concentrated in commercial and residential real estate, the performance of these loans may be affected by further continued weakness or further negative changes in California’s economic and business conditions and the real estate market of Southern California. Deterioration in economic conditions could

have a material adverse effect on the quality of the Bank's loan portfolio and the demand for its products and services. In addition, during this period of economic slowdown, the Bank has experienced a decline in collateral values and an increase in delinquencies and defaults. Further declines in collateral values and an increase in delinquencies and defaults increase the possibilities and severity of losses. California real estate is also subject to certain natural disasters, such as earthquakes, fires, floods and mud slides, as well as civil unrest, which are typically not covered by the standard hazard insurance policies maintained by the borrowers. Uninsured disasters may render borrowers unable to repay loans made by the Bank and lower collateral values.

(p) Segment Reporting

Through our branch network, the Bank provides a broad range of financial services to individuals and companies located primarily in Southern California. Their services include demand, time and savings deposits and real estate, business and consumer lending. While our chief decision makers monitor the revenue streams of our various products and services, operations are managed and financial performance is evaluated on a company-wide basis. Accordingly, the Bank considers all of our operations are aggregated in one reportable operating segment.

(q) Recently Issued Accounting Standards

Following are the recently issued updates to the codification of U.S. Accounting Standards (ASUs), which are the most relevant to the Bank.

In June 2009, the FASB issued guidance now codified as ASC Section 260-10-45, *Earnings Per Share.* This guidance requires all outstanding unvested share-based payment awards that contain rights to non-forfeitable dividends to be considered participating securities and requires entities to apply the two-class method of computing basic and diluted earnings per share. The Bank adopted this standard on January 1, 2010 and the adoption did not have a significant impact on the Bank's consolidated financial statements.

In January 2010, the FASB issued ASC Update No. 2010-06, "*Fair Value Measurements and Disclosures (Topic 820)-Improving Disclosures about Fair Value Measurements*". This update provides amendments to Subtopic 820-10 and requires the following new disclosures: 1) Transfers in and out of Levels 1 and 2; and 2) Activity in Level 3 fair value measurements that discloses separately information about Level 3 purchases, sales, issuances, and settlements on a gross basis rather than as one net number. Additionally, this update clarifies existing disclosures of the level of disaggregation, and disclosures about inputs and valuation techniques. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about gross purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The Bank has adopted the new disclosures for Level 1 and Level 2 fair value measurements (see Note 21 of the Notes to Consolidated Financial Statements). The adoption of the disclosure requirements did not have a material effect on the Bank's consolidated financial statements.

FASB ASU 2010-20, "Receivable (Topic 310), Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses" —ASU 2010-20 requires new and enhanced disclosures about the credit quality of an entity's financing receivables and its allowance for credit losses. The new and amended disclosure requirements focus on such areas as nonaccrual and past due financing receivables, allowance for credit losses related to financing receivables, impaired loans, credit quality information and modifications. The ASU requires an entity to disaggregate new and existing disclosures based on how it

develops its allowance for credit losses and how it manages credit exposures. For public entities, the disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. See Note 4 to these Consolidated Financial Statements for the required disclosures at December 31, 2010.

In January 2011, the FASB issued ASC Update No. 2011-01, " *Receivables (Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20*". The amendments in this Update temporarily delay the effective date of the disclosures about troubled debt restructurings in Update 2010-20 for public entities. The delay is intended to allow the Board time to complete its deliberations on what constitutes a troubled debt restructuring. The effective date of the new disclosures about troubled debt restructurings for public entities and the guidance for determining what constitutes a troubled debt restructuring will then be coordinated. Currently, that guidance is anticipated to be effective for interim and annual periods ending after June 15, 2011. Accordingly, the Bank would adopt the Troubled Debt Restructuring guidance effective for the quarter ended June 30, 2011. We are currently evaluating the effect the adoption of this update will have on our consolidated financial statements.

(3) Securities Available for Sale

Financial instruments that potentially subject the Bank to concentrations of credit risk consist primarily of loans and investments. The Bank monitors its exposure to such risks and the concentrations may be impacted by changes in economics, industry or political factors.

The Bank aims to maintain a diversified investment portfolio including issuer, sector and geographic stratification, where applicable, and has established certain exposure limits, diversification standards and review procedures to mitigate credit risk.

Other than U.S. government agencies (Fannie Mae and Freddie Mac, when combined), the Bank has no exposure within its investment portfolio to any single issuer greater that 10% of equity capital.

The table below shows the amortized cost, the total other-than-temporary impairment recognized in accumulated other comprehensive income, gross unrealized gains and losses, estimated fair value of securities available for sale as of December 31, 2010 and 2009.

	2010				
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Non-credit other-than-temporary impairment	Estimated fair value
			(In thousands)		
U.S. government agency securities	$ 16,179	$ 9	$ (387)		$ 15,801
U.S. Treasury notes	9,800	—	(593)	—	9,207
Corporate notes	42,201	168	(1,698)	—	40,671
Mortgage-backed securities	26,701	278	(104)	—	26,875
Collateralized mortgage obligations	34,785	2	(1,155)	—	33,632
Municipal securities	33,234	81	(2,879)	—	30,436
Principal-only strip securities	8,208	—	(630)	—	7,578
Collateralized debt obligations[1]	2,228	—	—	(1,109)	1,119
SBA securities	10,879	—	(136)		10,743
USDA security	7,207	—	—	—	7,207
Total securities available-for-sale	$191,422	$538	$(7,582)	$(1,109)	$183,269

	2009				
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Non-credit other-than-temporary impairment	Estimated fair value
			(In thousands)		
Corporate notes	$ 26,564	$ 54	$(1,877)	$ —	$ 24,741
Mortgage-backed securities	25,002	229	(3)	—	25,228
Collateralized mortgage obligations	20,118	—	(2,002)	—	18,116
Municipal securities	46,348	122	(2,292)	—	44,178
Collateralized debt obligations[1]	3,520	—	—	(1,319)	2,201
Total securities available-for-sale	$121,552	$405	$(6,174)	$(1,319)	$114,464

(1) As of December 31, 2008, the Company recorded an OTTI charge of $4.3 million for CDO securities. Upon adoption of new FASB OTTI impairment guidance, the Company reclassified the noncredit portion of previously recognized OTTI CDO totaling $3.1 million, on a pre-tax basis, from the opening balance of retained earnings to other comprehensive income as of March 31, 2009.

Gross unrealized losses on securities available-for-sale and the fair value of the related securities, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position, at December 31, 2010 and 2009 are as follows:

	2010					
	Less than 12 months		12 months or greater		Total	
	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses
			(In thousands)			
U.S. government agency securities	$ 10,792	$ (387)	$ —	$ —	$ 10,792	$ (387)
SBA securities	10,743	(136)			10,743	(136)
U.S. Treasury notes	9,208	(593)			9,208	(593)
Corporate notes	22,917	(589)	4,448	(1,109)	27,365	(1,698)
Mortgage-backed securities	10,696	(104)	—	—	10,696	(104)
Collateralized mortgage obligations	32,617	(1,155)	—	—	32,617	(1,155)
Municipal securities	9,747	(535)	12,157	(2,344)	21,904	(2,879)
Principal-only strip securities	7,577	(630)	—	—	7,577	(630)
Collateralized debt obligations	—	—	1,119	(1,109)	1,119	(1,109)
Total securities available-for-sale	$114,297	$(4,129)	$17,724	$(4,562)	$132,021	$(8,691)

	2009					
	Less than 12 months		12 months or greater		Total	
	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses
			(In thousands)			
Corporate notes	$ 9,411	$ (111)	$10,648	$(1,766)	$ 20,059	$(1,877)
Mortgage-backed securities	18,116	(2,002)	388	(3)	18,504	(2,005)
Municipal securities	11,394	(204)	16,821	(2,088)	28,215	(2,292)
Collateralized debt obligations	1,262	(982)	939	(337)	2,201	(1,319)
Total securities available-for-sale	$ 40,183	$(3,299)	$28,796	$(4,194)	$ 68,979	$(7,493)

The Bank's investment portfolio is primarily comprised of corporate notes, U.S. government securities, collateralized mortgage obligations, municipal securities, and mortgage-backed securities.

Preferred Bank performs a regular impairment analysis on its investment securities portfolio. On January 1, 2009, the Bank adopted new FASB standards which provide further guidance on identifying whether a market for an asset or liability is distressed or inactive, determining whether an entity has the intent and ability to hold a security to its anticipated recovery and whether an investment is other-than-temporarily-impaired ("OTTI"). In accordance with the adoption of these FASB standards, management has analyzed all investment securities which have an amortized cost that exceeds fair value as of December 31, 2010.

The Bank owns three collateralized debt obligations ("CDO's") which consist of pools of bank trust preferred securities. As of December 31, 2010, the amortized cost of all three CDO's exceeded the fair value. The fair value was determined based on future expected cash flows which were estimated using a discount rate that is an interest rate that represents a market equivalent rate on a similarly-rated corporate security with a similar maturity date that trades in an active market. Added to that rate was an illiquidity premium of 300 basis points which determined the actual discount rate. Management then used current deferrals and defaults and estimated the expected future defaults within the underlying pool of issuers which was based on taking the current deferrals/defaults in the pools and then determining which banks were likely to default in the future. This future expectation of defaults was based on the individual banks' tier 1 leverage capital (compared to regulatory requirements), tangible common equity ("TCE") ratios and levels of non-performing assets compared to total assets. Based on this information, Management would then make an assertion as to whether each bank issuer was likely to defer interest payments or default altogether at some future date. In addition to those specific defaults, Management estimated additional default rates as a percentage of the overall pool, with higher default rates applied over the next few years and then decreasing over the remaining term of the securities.

Management then proceeded to determine credit-related OTTI based on guidance of Investments – Debt and Equity Securities Topic of FASB ASC. In this analysis, Management ran expected cash flows on all three securities using a discount rate that was equal to the accretable yield on each of the three securities and using all of the same default assumptions as described above. The result of this analysis indicated that these securities had credit-related other-than-temporary impairments totaling $.4 million which was recognized in income during 2010. The non-credit related impairment for these securities at December 31, 2010 was $1.1 million and is reflected in accumulated other comprehensive loss. Total credit-related other-than-temporary impairments recognized in income relating to these securities were $3.2 million in 2009, with the non-credit amount of $1.3 million reflected in accumulated other comprehensive loss. The 2009 amounts are exclusive of the retroactive adjustment of $4.3 million for prior pre-tax credit and non-credit losses that were reclassified from the opening balance of retained earnings to other comprehensive income as of March 31, 2009 upon implementation of the FASB guidance related to OTTI on January 1, 2009.

As of December 31, 2010, the Bank owned ten corporate securities where the amortized cost exceeded fair value. The total amortized cost of these securities was $29.1 million and their fair value was $27.4 million. Management performed an analysis on all of the issuers of these securities which focused on the recent financial results of the companies, capital ratios and long-term prospects of the issuer and deemed the all ten corporate securities to be temporarily impaired. The Bank recorded no credit-related OTTI charges on corporate securities in 2010. This compares to an OTTI charges relating to corporate securities of $220,000 in 2009 and $1.7 million in 2008.

As of December 31, 2010, the Bank owned five collateralized mortgage obligations ("CMO's) where the amortized cost exceeded fair value. The total amortized cost of these securities was $33.8 million and their fair value was $32.6 million. Management determined that none of the CMO securities was other-than-temporarily

impaired as of December 31, 2010. This determination was made based on several factors such as debt rating of these securities, amount of credit protection, the Bank's intent to hold the securities until a recovery in value and the determination that it is not more likely than not that the Bank will be required to sell the securities prior to recovery of amortized cost basis.

The Bank owns 38 municipal investment securities. Thirty-seven of them carry an investment-grade rating. The Bank's strategy with respect to municipal bond investing is to provide liquidity and federal tax-exempt interest income. Typically, the Bank buys general obligation ("GO") bonds and seek to minimize its investments in revenue bonds as GO bonds have multiple sources of revenue with which this debt can be serviced. The Bank also seeks to purchase municipal bonds that are insured by a major municipal bond insurer as an enhancement to credit. The Bank typically purchases municipal bonds that have at least an underlying rating of "A" or better. As of December 31, 2010, there was one non-rated municipal security and all of the remaining securities were rated investment-grade. The size of the average fair value or each bond in the municipal portfolio is $800,000. As of December 31, 2010, 19 of these issues with a total amortized cost of $24.8 million were in an unrealized loss position. The unrealized loss on these 19 securities was $2.9 million. Management determined that none of the municipal securities was other-than-temporarily impaired as of December 31, 2010. This determination was made based on several factors such as the Bank's intent to hold the securities until a recovery in value and the determination that it is not more likely than not that the Bank will be required to sell the securities prior to recovery of amortized cost basis. In addition, management reviews all of the ratings on the municipal investment securities, recent ratings changes, as well as the length of time that the security has been impaired to determine whether the security is other than temporary impaired.

At December 31, 2010, the Bank held one agency-backed principal-only strip security with an unamortized cost of $8.2 million and a fair value of $7.6 million. The Bank also held one new USDA security with a fair value approximating its unamortized cost of $7.2 million, as it was acquired near year-end 2010.

At December 31, 2010, there were 35 and 14 investment securities that were in an unrealized loss position for less than 12 months and for 12 months or greater, respectively. Temporary impairments related to corporate notes, mortgage-backed securities, and municipal securities are primarily attributable to declining market prices caused by lack of trading liquidity in these instruments and in the case of corporate notes, resulted from increases in credit spreads between U.S. Treasuries and corporate bonds subsequent to the date that these securities were purchased. None of the securities in the Bank's investment portfolio rely on an insurance wrap as a credit enhancement. Management believes that it is not probable that the Bank will not receive all amounts due under the contractual terms of these securities. If economic conditions worsen, or if the financial condition of specific issuers within these portfolios deteriorates, then the Bank could record OTTI charges in 2011 on specific investments within these portfolios.

Cash proceeds from sales of securities available-for-sale totaled $56.9 million, $48.3 million and $105.0 in 2010, 2009, and 2008, respectively. Gross realized losses on sales of securities available-for-sale totaled $929,000 offset with gross realized gains of $868,000 in 2010. Gross realized gains on sales of securities available-for-sale totaled $3.3 million offset with gross realized losses of $20,000 in 2009. Investment securities having a fair value of approximately $158.8 million and $90.1 million were pledged to secure governmental deposits, treasury tax and loan deposits, borrowing lines from the Federal Reserve Bank and FHLB as of December 31, 2010 and 2009, respectively.

The amortized cost and estimated fair value of securities at December 31, 2010 and 2009, by contractual maturity, are shown below. Mortgage-backed securities are classified in accordance with their estimated average life. The average yield on mortgage-backed securities was 3.90% and 4.68% in 2010 and 2009, respectively. Expected maturities differ from contractual maturities mainly due to prepayment rates; changes in prepayment rates will affect a security's average life.

	2010	
	Amortized cost	Estimated fair value
	(In thousands)	
Due in one year or less	$ —	$ —
Due after one year through five years	9,953	9,933
Due after five years through ten years	43,760	43,283
Due after ten years	137,709	130,053
Total securities available-for-sale	$191,422	$183,269

The following table provides a roll-forward of the amounts recognized in earnings for those debt securities that have been other-than-temporarily impaired because of credit losses which also have an other-than-temporary impairment due to non-credit factors recorded as a component of other comprehensive income for twelve months ended December 31, 2010:

	Beginning Balance as of December 31, 2009	Additions for the amount related to the credit loss for which OTTI was not previously recognized	Reductions for Securities Sold	Reductions for securities for which the amount previously recognized in OCI was recognized in earnings	Additional increases to the amount related to credit loss for which OTTI loss was previously recognized	Reductions for increases in cash flows expected to be collected that are recognized over the remaining life of the security	Ending Balance as of December 31, 2010
				(in thousands)			
Amounts related to credit losses on debt securities for which a portion of OTTI was recognized in OCI	$4,580	$—	$(3,407)	$—	$412	$—	$1,585

(4) Loans and Leases and Allowance for Loan and Lease Losses

The loans and leases portfolio as of December 31, 2010 and 2009 is summarized as follows:

	2010	2009
	(In thousands)	
Real estate-mini perm	$531,640	$ 565,273
Real estate-construction	120,825	202,187
Commercial	209,520	227,421
Trade finance	50,520	47,998
Other Loans	349	420
Gross loans	912,854	1,043,299
Less:		
Allowance for loan and lease losses	(32,898)	(42,810)
Deferred loan and fees, net	58	585
Loans excluding loans held for sale	880,014	1,001,074
Loans held for sale	2,556	—
Total loans, net	$882,570	$1,001,074

The majority of the Bank's loans is to customers and businesses in the state of California and/or secured by properties located primarily in the greater Los Angeles metropolitan area. All loans are made based on the same credit standards regardless of where the customers and/or collateral properties are located.

The Bank had $101.9 million of nonaccrual loans and leases at December 31, 2010 compared to $137.3 million at December 31, 2009. These loans and leases had interest due, but not recognized, of approximately $7.9 million and $6.6 million in 2010 and 2009, respectively. The Bank had $7.1 thousand and $7.6 million in loans past due 90 or more days and still accruing interest as of December 31, 2010 and 2009, respectively.

The following tables depict the Bank's past due loans by class for the years ended December 31, 2010 and 2009:

Loan Class	30-89 Days Accruing*	90 + Days & Still Accruing*	Non-accrual-non-current	Total Past Due	Non-accrual-current
			(In Thousands)		
2010					
Real estate-Mini-Perm:					
R/E—Residential	$ 232	$—	$ 6,497	$ 6,729	$ 3,431
R/E—Commercial	3,371	—	10,177	13,548	21,860
Total R/E-Mini-Perm	3,603	—	16,674	20,277	25,291
Real estate-Construction:					
Construction—Residential	—	—	21,964	21,964	3,512
Construction—Commercial	795	—	2,104	2,899	13,501
Total R/E-Construction	795	—	24,068	24,863	17,013
Commercial and Industrial	1,006	—	5,095	6,101	13,611
Trade Finance	—	—	108	108	—
Other	81	7	—	88	—
Total as of December 31, 2010	$5,485	$ 7	$45,945	$51,437	$55,915

* Loans are accruing interest during the periods shown above.

Loan Class	30-89 Days Accruing*	90 + Days & Still Accruing*	Non-accrual-non-current	Total Past Due	Non-accrual-current
			(In Thousands)		
2009					
Real estate-Mini-Perm:					
R/E—Residential	$ 1,095	$ —	$10,374	$11,469	$14,878
R/E—Commercial	3,177	7,570	31,155	41,902	12,398
Total R/E-Mini-Perm	4,272	7,570	41,529	53,371	27,276
Real estate-Construction:					
Construction—Residential	—	—	32,542	32,542	29,248
Construction—Commercial	8,759	—	3,090	11,849	2,048
Total R/E-Construction	8,759	—	35,632	44,391	31,296
Commercial & Industrial	359	—	840	1,199	—
Trade Finance	—	—	728	728	—
Other	—	—	—	—	—
Total as of December 31, 2009	$13,390	$7,570	$78,729	$99,689	$58,572

* Loans are accruing interest during the periods shown above.

The following tables depict the Bank's total non-accrual loans by class for the years ended December 31, 2010 and 2009:

Loan Class	December 31, 2010	December 31, 2009
	(In thousands)	
Real Estate-Mini-Perm:		
R/E—Residential	$ 9,928	$ 25,252
R/E—Commercial	32,037	43,553
Total R/E-Mini-Perm	41,965	68,805
Real Estate—Construction:		
Construction-Residential	25,476	61,790
Construction-Commercial	15,605	5,138
Total Real Estate—Construction	41,081	66,928
Commercial and Industrial	18,706	840
Trade Finance	108	728
Other	—	—
Total Non-accrual loans-current	$101,860	$137,301

Impaired loans totaled $139.0 million and $106.1 million at December 31, 2010 and 2009, respectively. The total allowance for loan and lease losses related to these loans was $14.1 million and $10.6 million at December 31, 2010 and 2009, respectively. Interest income recognized on impaired loans during 2010, 2009 and 2008 was $2.7 million, $4.2 million and $4.3 million, respectively. At December 31, 2010, the Bank had total commitments of $3.9 million to lend additional funds to debtors whose loans are impaired.

Impaired loans, disaggregated by loan class, as of December 31, 2010 and 2009 are set forth in the following tables:

	Unpaid Principal Balance	Recorded Investment with allowance	Recorded Investment without allowance	Total Recorded investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
				(in thousands)			
2010							
Real estate—mini-perm:							
Residential	$ 14,097	$ 10,655	$ —	$ 10,655	$ 1,754	$ 13,286	$ 889
Commercial	56,560	54,058	—	54,058	4,484	55,560	1,798
Total R/E mini-perm	70,657	64,713	—	64,713	6,238	68,846	2,687
Real estate—construction:							
Residential	40,871	21,995	3,482	25,477	3,080	28,916	—
Commercial	16,144	15,605	—	15,605	119	13,982	676
Total R/E mini-perm	57,014	37,600	3,482	41,082	3,199	42,898	676
Commercial	36,002	25,237	7,838	33,075	4,633	36,951	1,395
Trade Finance	3,354	108	—	108	3	172	—
Other loans	—	—	—	—	—	—	—
Total impaired loans	$167,028	$127,658	$11,320	$138,978	$14,073	$148,868	$4,758

	Unpaid Principal Balance	Recorded Investment with allowance	Recorded Investment without allowance	Total Recorded investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
				(in thousands)			
2009							
Real estate—mini-perm:							
Residential	$ 20,450	$10,238	$ 136	$ 10,374	$ 582	$ 16,307	$ 201
Commercial	46,041	38,671	—	38,671	3,960	48,455	633
Total R/E mini-perm	66,491	48,909	136	49,045	4,542	64,761	834
Real estate—construction:							
Residential	59,062	42,404	3,964	46,368	4,293	28,624	951
Commercial	5,138	5,138	—	5,138	1,692	3,189	4
Total R/E mini-perm	64,200	47,542	3,964	51,506	5,985	31,813	955
Commercial	6,191	870	3,949	4,819	48	7,271	183
Trade Finance	3,974	500	228	728	25	14,977	—
Other loans		—	—	—	—	—	—
Total impaired loans	$140,855	$97,821	$8,277	$106,098	$10,600	$118,822	$1,971

Trouble Debt Restructured (TDR) loans are defined by FASB ASC 310-40, "Troubled Debt Restructurings by Creditors" and FASB ASC 470-60, "Troubled Debt Restructurings by Debtors" and evaluated for impairment in accordance with FASB ASC 310-10-35. At December 31, 2010, loans classified as a TDR totaled $50.0 million, of which $34.7million was on non-accrual status and $15.3 million was on accrual status. At December 31, 2009, loans classified as a TDR totaled $35.3 million of which $.4 million was on accrual status. As of December 31, 2009, we had $84,000 of outstanding commitments to extend additional funds to a single borrower whose loan was a TDR on an accrual basis.

During 2010 and 2009, respectively, the Bank recorded approximately $633,000 and $4.3 million in recovery of loan balances that were previously charged-off. During 2010, loans with a recorded investment of $32.9 million were sold for a net loss of $1.5 million. One loan, with a recorded investment of $2.6 million was transferred, and remained a loan held for sale as of December 31, 2010. During 2009, loans with a recorded investment of $11.5 million were transferred to loans held for sale, with none remaining as of December 31, 2009. These loans were sold in 2009, with a net loss of $95,000. No loans were acquired in either 2010 or 2009.

The following table details activity in the allowance for credit losses by portfolio segment for the year ended December 31, 2010. Allocation of a portion of the allowance to one particular portfolio segment does not indicate that is no longer available to absorb losses in other portfolio segments.

2010	Real estate-Mini-perm Residential	Real estate-Mini-perm Commercial	Real estate-Construction Residential	Real estate-Construction Commercial	Commercial & Industrial	Trade Finance	Other	Unallocated	Total
	(In thousands)								
Balance at beginning of period	$5,100	$12,276	$12,028	$2,857	$8,314	$1,411	$ 7	$ 817	$42,810
Provision for credit losses	(408)	7,210	1,635	2,265	5,784	648	15	(599)	16,550
Loans and leases charged off	2,071	5,735	8,221	4,379	6,172	500	17	—	27,095
Recoveries	—	28	189	127	289	—	—	—	633
Net charge offs	2,071	5,707	8,032	4,252	5,883	500	17	—	26,462
Balance at end of period	$2,621	$13,779	$ 5,631	$ 870	$8,215	$1,559	$ 5	$ 218	$32,898
Period-end amount allocated to:									
Loans individually evaluated for impairment	$1,754	$ 4,484	$ 3,080	$ 119	$4,633	$ 3	$—		$14,073
Loans collectively evaluated for impairment	867	9,295	2,551	751	3,582	1,556	5	218	18,825
Total	$2,621	$13,779	$ 5,631	$ 870	$8,215	$1,559	$ 5	$ 218	$32,898

The Bank's recorded investment in loans as of December 31, 2010 related to each balance in the allowance for credit losses by portfolio segment and disaggregated on the basis of the Bank's impairment methodology was as follows:

	Real estate-Mini-perm Residential	Real estate-Mini-perm Commercial	Real estate-Construction Residential	Real estate-Construction Commercial	Commercial	Trade Finance	Other	Total
	(In thousands)							
Loans individually evaluated for impairment	$10,655	$ 54,058	$25,477	$15,605	$ 33,075	$ 108	$—	$138,978
Loan collectively evaluated for impairment	43,960	422,967	64,690	17,609	176,445	50,412	349	$776,432
Ending balance	$54,615	$477,025	$90,167	$33,214	$209,520	$50,520	$349	$915,410

The following table detail activity in the allowance for credit losses by portfolio segment for the year ended December 31, 2009. Allocation of a portion of the allowance to one particular portfolio segment does not indicate that is no longer available to absorb losses in other portfolio segments.

2009	Real estate-Mini-perm Residential	Real estate-Mini-perm Commercial	Real estate-Construction Residential	Real estate-Construction Commercial	Commercial & Industrial	Trade Finance	Other	Unallocated	Total
	(In thousands)								
Balance at beginning of period	$ 5,672	$ 3,812	$ 8,558	$2,550	$3,018	$2,317	$ 4	$1,004	$26,935
Provision for credit losses	16,452	15,881	23,839	3,833	9,089	2,340	3	(187)	71,250
Loans and leases charged off	17,024	7,432	20,767	3,526	7,716	3,246	0	—	59,711
Recoveries	—	15	397	—	3,924	—	—	—	4,336
Net charge offs	17,024	7,417	20,370	3,526	3,792	3,246	0	—	55,375
Balance at end of period	$ 5,100	$12,276	$12,027	$2,857	$8,315	$1,411	$ 7	$ 817	$42,810
Period-end amount allocated to:									
Loans individually evaluated for impairment	$ 582	$ 3,960	$ 4,293	$1,692	$ 48	$ 25	$—	$ —	$10,600
Loans collectively evaluated for impairment	4,518	8,316	7,734	1,165	8,267	1,386	7	817	32,210
Total	$ 5,100	$12,276	$12,027	$2,857	$8,315	$1,411	$ 7	$ 817	$42,810

The Bank's recorded investment in loans as of December 31, 2009 related to each balance in the allowance for credit losses by portfolio segment and disaggregated on the basis of the Bank's impairment methodology was as follows:

	Real estate-Mini-perm Residential	Real estate-Mini-perm Commercial	Real estate-Construction Residential	Real estate-Construction Commercial	Commercial	Trade Finance	Other	Total
	(In thousands)							
Loans individually evaluated for impairment	$10,374	$ 38,671	$ 46,368	$ 5,138	$ 4,819	$ 728	$—	$ 106,098
Loan collectively evaluated for impairment	83,285	432,943	97,537	53,144	222,602	47,270	420	937,201
Ending balance	$93,659	$471,614	$143,905	$58,282	$227,421	$47,998	$420	$1,043,299

As required by federal regulations, we classify our assets on a regular basis. In order to monitor the quality of our lending portfolio and quantify the risk therein, we maintain a loan grading system consisting of eight different categories (Grades 1-8). The grading system is used to determine, in part, the allowance for loan losses. The first four grades in the system are considered satisfactory, whereas the fifth grade is a transition grade known as "special mention". The other three grades (6-8) range from a "substandard" to "doubtful" to a "loss" category. Loans graded as "loss" are charged-off in the period so rated. We use grades 6 and 7 of our loan grading system to identify potential problem assets for impairment analysis. The grade on each individual loan rated in the first

four grades is reviewed on a regular basis by the loan officer responsible for monitoring the credit whereas the grade for loans rated special mention, substandard, or doubtful are reviewed at least quarterly for appropriateness. Credit Administration reviews a sample of loans assigned a grade in the first four grades and all loans assigned a grade of 5 or above each quarter for appropriateness. Additionally, loan grades are subject to further review by the Chief Credit Officer, the Audit Committee (via contracted external loan reviews) and the Board of Directors. In reviewing loans and evaluating the adequacy of the allowance, there are several risk characteristics considered. Those most relevant to the major portfolio segments includes vacancy and lease rates on commercial real estate, state of the general housing market, home prices and the impact of economic conditions and employment levels on the various businesses in our market area.

The following table presents weighted average risk grades and classified loans by class of loan as of December 31, 2010. Classified loans include loans in risk grades 6 and 7, which correlate to substandard and doubtful for risk classification purposes.

	Real Estate Mini-Perm		Real Estate–Construction					
Grade:	Residential	Commercial	Residential	Commercial	Commercial & Industrial	Trade Finance	Other	Total Loans
				(In thousands)				
Pass	$35,664	$376,714	$18,679	$17,609	$149,724	$44,921	$349	$643,660
Special Mention	—	—	4,049	—	1,229	5,599	—	10,877
Substandard	18,951	100,311	64,883	15,605	55,789	—	—	255,539
Doubtful	—	—	2,556	—	2,778	—	—	5,334
Total	$54,615	$477,025	$90,167	$33,214	$209,520	$50,520	$349	$915,410

(5) Bank, Premises, Furniture and Fixtures

As of December 31, 2010 and 2009, furniture and fixtures consists of the following:

	2010	2009
	(In thousands)	
Land and Building	$ 2,782	$ 2,782
Leasehold improvements	6,142	6,630
Furniture and fixtures	4,275	4,428
	13,199	13,840
Less accumulated depreciation and amortization	(7,781)	(7,515)
	$ 5,418	$ 6,325

Depreciation and amortization expense was $895,000, $1,113,000 and $782,000 for the years ended December 31, 2010, 2009 and 2008, respectively.

(6) Deposits

Time deposit accounts at December 31, 2010 mature as follows:

Year	Maturities of time deposits
	(In thousands)
2011	$415,005
2012	268,514
2013 & thereafter	19,122
	$702,641

At December 31, 2010 and 2009, approximately $33,175,000 and $2,234,000, respectively, of the Bank's investment securities were pledged as collateral for certain public deposits. The aggregate amount of overdrafts that have been reclassified as loan balances was $55,000 and $15,000 at December 31, 2010 and 2009, respectively.

(7) Income Taxes

The income taxes expense (benefit) for the years ended December 31, 2010, 2009 and 2008 was as follows:

	2010	2009	2008
		(In thousands)	
Current income tax (benefit) expense:			
Federal	$(3,474)	$(27,828)	$ 4,190
State	111	(470)	2,016
	(3,363)	(28,298)	6,206
Deferred income tax (benefit) expense:			
Federal	3,045	19,570	(8,189)
State	(386)	600	(2,893)
	2,659	20,170	(11,082)
Income tax benefit	$ (704)	$ (8,128)	$ (4,876)

At December 31, 2010 and 2009, the current income taxes receivables were $3.6 million and $30.1 million, respectively.

The components of the deferred tax assets and deferred tax liabilities as of December 31, 2010 and 2009 are as follows:

	2010	2009
	(In thousands)	
Deferred tax assets:		
Allowance for loan lease losses	$ 13,758	$ 11,761
State taxes	1	126
Deferred compensation	195	1,574
Bank furniture and fixtures, net	687	394
Deferred stock units	1,379	—
Unrealized losses on securities available-for-sale	3,428	2,980
Other than temporary impairment on securities	666	1,606
ASC 718 non-qualified stock options	1,210	1,058
OREO reserve	7,667	6,024
Net operating loss carryforward	6,632	5,178
Other	1,144	1,002
Gross deferred tax assets	36,767	31,703
Deferred tax liabilities:		
Discount accretion	(543)	(543)
FHLB stock	(426)	(426)
Gross deferred liabilities	(969)	(969)
Valuation allowance	(35,798)	(27,130)
Net deferred tax assets	$ —	$ 3,604

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes that the realization of the deferred tax asset is not more likely than not and therefore has established a valuation allowance in the amount of $35.8 million and $27.1 million as a charge to income tax expense in 2010 and 2009, respectively. The change in the valuation allowance is mainly due to net operating losses established during the year.

Pursuant to Sections 382 and 383 of the Internal Revenue Code, annual use of net operating loss and credit carryforwards may be limited in the event a cumulative change in ownership of more than 50 percent occurs within a three-year period. We determined that such an ownership change occurred as of June 21, 2010 as a result of stock issuances. Based on preliminary calculations, this ownership change resulted in estimated limitations on the utilization of tax attributes, including net operating loss carryforwards and tax credits. We estimate that approximately $5.18 million of our California net operating loss carryforward deferred tax asset will be effectively eliminated. Pursuant to Section 382, a portion of the limited net operating loss carryforwards becomes available for use each year. We estimate that approximately $1.58 million of the restricted net operating loss carryforwards become available each year.

Prior to the impact of the preliminary Section 382 analysis, the Bank has net operating loss carryforwards of approximately $92.8 million and $73.5 million for California franchise tax purposes at December 31, 2010 and 2009, respectively. California net operating loss carry forwards, to the extent not used, will begin to expire in 2029.

The Bank has federal net operating loss carryforwards of approximately $257,000 at December 31, 2010.

It is the policy of management to include any interest or penalties from income tax liabilities in the provision for income taxes. As of December 31, 2010 and 2009, the total amount of tax reserve, net of federal tax benefit, was $116,000 and $25,000, respectively, for an uncertain tax position in relation to enterprise zone net interest deductions.

A reconciliation of the income tax benefit and the amount computed by applying the statutory federal income tax rate to the loss before income taxes is as follows for the years ended December 31, 2010, 2009 and 2008:

	2010		2009		2008	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
			(In thousands)			
Statutory U.S. federal income tax	$(6,130)	35.0%	(28,232)	35.0%	$(3,461)	35.0%
State taxes, net of federal benefit	(1,337)	7.6	(6,262)	7.8	(873)	8.8
Life insurance policies	(88)	0.5	(87)	0.1	(674)	6.8
Valuation allowance	7,185	(41.0)	27,127	(33.6)	—	
Other	(334)	1.9	(674)	0.8	132	(1.3)
	$ (704)	4.0%	$ (8,128)	10.1%	$(4,876)	49.3%

The income tax benefit is mainly comprised of the deferred taxes which had been included in other comprehensive income and was recognized upon the sale of certain securities. The Bank files income tax returns in the U.S. federal jurisdiction and in the State of California. Under the statute of limitations by the Internal Revenue Service, we are open for audit for the years ended December 31, 2007 through 2009. Our state income tax returns are open to audit under the statute of limitations by state tax authority for the year ended December 31, 2006 through 2009. The Bank was under audit by the California's Franchise Tax Board for the 2008 tax year and was assessed for an additional tax liability of $168,000 including interest in February 2011. For the tax year 2007, the Bank was assessed for an additional tax liability of $65,000 including interest in March 2010. Bank is not currently under examination by any other income or franchise tax authorities. The Bank does not believe that the conclusion of unresolved matters or claims from any tax jurisdiction is likely to have a material effect on the Bank's financial position, results of operations or cash flows.

(8) Other Real Estate Owned

At December 31, 2010, OREO was comprised of 23 properties compared to 19 properties at December 31, 2009. During 2010, the Bank sold 10 OREO properties at a loss of $1.0 million. These losses are included in Loss on Sale of OREO and Related Expense in the Consolidated Statements of Operations and Comprehensive (Loss) Income.

An analysis of the activity in the valuation allowance for other real estate losses for the years ended on December 31, 2010, 2009, and 2008 is as follows:

	2010	2009	2008
		(In thousands)	
Balance, beginning of the year	$14,326	$ 1,752	$ —
Provision for losses	8,477	15,015	1,752
OREO disposal	(4,568)	(2,441)	—
Balance, end of the year	$18,235	$14,326	$1,752

The following table depicts Preferred Bank's OREO properties by loan class for the years indicated:

	2010		2009	
	#	$	#	$
	($ in thousands)			
OREO by loan class:				
Real Estate-Mini-Perm:				
Residential	14	$30,054	13	$28,078
Commercial	7	14,659	4	28,568
Real Estate-Construction:				
Residential	2	7,950	1	933
Commercial	—	—	1	1,611
Commercial & Industrial	—	—	—	—
Trade Finance	—	—	—	—
Other	—	—	—	—
Total as of December 31	23	$52,663	19	$59,190

(9) Senior Debt and Other Borrowed Funds

On February 11, 2009, the Bank issued $26.0 million of unsecured senior debt in a pooled private placement transaction which carries the Federal Deposit Insurance Corporation's ("FDIC") guarantee under its Temporary Liquidity Guarantee Program. The issuance has a 3-year maturity and a fixed interest rate of 2.74% paid semiannually. Under the Temporary Liquidity Guarantee Program, the FDIC will provide a 100% guarantee of certain unsecured senior debt of eligible FDIC-insured institutions.

Advances from the Federal Home Loan Bank of San Francisco (FHLBSF) were zero and $23 million at December 31, 2010 and 2009. The average rate on the fixed rate debt was 0% and 4.20% at December 31, 2010 and 2009, respectively. All advances are collateralized by commercial or residential real estate loans. At December 31, 2010, approximately $111,574,000 of the Bank's real estate loans were pledged as collateral.

The Bank had an approved short-term borrowings line available through the discount window at the Federal Reserve Bank of San Francisco (FRBSF) in the amount of $60.7 million. The Bank had no borrowing outstanding through the discount window outstanding as of December 31, 2010.

(10) Commitments and Contingencies

Credit Extensions: As a financial institution, the Bank enters into a variety of financial transactions with its customers in the normal course of business. Many of these products do not necessarily entail present or future funded asset or liability positions, instead the nature of these are considered in the form of executor contracts.

Financial instrument transactions are subject to the Bank's normal credit standards, financial controls and risk-limiting, and monitoring procedures. Collateral requirements are determined on a case-by-case evaluation of each customer and product.

The Bank's exposure to credit risk under commitments to extend credit, standby letters of credit, and financial guarantees written is limited to the contractual amount of those instruments.

At December 31, 2010 and 2009, the Bank had commitments to fund loans of $117,438,000 and $208,078,000, respectively. Other financial instruments with off-balance-sheet risk at December 31, 2010 and 2009 are as follows:

	2010	2009
	(In thousands)	
Commitments to extend credit	$105,329	$199,430
Commercial letters of credit	5,425	1,009
Standby letters of credit	6,684	7,639
Total	$117,438	$208,078

The Bank's exposure to credit losses in the event of non-performance by the other party to commitments to extend credit and standby letters of credit is represented by the contractual notional amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for extending loan facilities to customers. The Bank evaluates each customer's credit-worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counterparty.

Lease Commitments: The Bank is obligated under non-cancellable operating leases for the premises of its head office and certain branch offices. As of December 31, 2010, the future total minimum lease payments for the Bank's premises are as follows:

Year	Total lease payment
	(In thousands)
2011	$ 2,093
2012	1,910
2013	1,893
2014	1,867
2015	1,731
Thereafter	6,504
	$15,998

Rental expense was $1,727,000, $1,829,000 and $1,700,000 for the years ended December 31, 2010, 2009 and 2008, respectively.

(11) Related Party Transactions

Loan and Commitments: The Bank has extended credit to certain directors and officers and companies in which they have an interest and certain shareholders which beneficially own more than 5% of the Bank's capital stock. In management's opinion, the loans to these related parties are made on substantially the same terms, including interest rates and collateral, as those made to nonrelated persons.

At December 31, 2010 and 2009, the aggregate loans (including commitments) to related parties were approximately $14.0 million (of which $10.3 million was outstanding) and $14.6 million (of which $5.8 million was outstanding), respectively. All related party loans were current at December 31, 2010 and 2009.

Changes in the outstanding loans to related parties are summarized as follows:

	2010	2009	2008
	(In thousands)		
Balance at beginning of year	$ 5,817	$ 266	$ 723
New loans	4,447	5,816	264
Net drawdowns (repayments)	—	(265)	(721)
Balance at end of year	$10,264	$5,817	$ 266

Deposits: The amount of deposits from related parties was $2,406,000 and $489,000 at December 31, 2010 and 2009, respectively.

(12) Restrictions on Cash Dividends, Regulatory Capital Requirements

The Bank has authorized 5,000,000 shares of preferred stock. The Board has the authority to issue the preferred stock in one or more series, and to fix the designations, rights, preferences, privileges, qualifications, and restrictions, including dividend rights, conversion rights, voting rights and terms of redemptions, liquidation preferences, and sinking fund terms, any or all of which may be greater than the rights of the common stock.

Under Section 642 of the California Financial Code, funds available for cash dividend payments by a bank are restricted to the lesser of: (i) retained earnings or (ii) the bank's net income for its last three fiscal years (less any distributions to shareholders made during such period). Cash dividends may also be paid out of the greatest of: (i) retained earnings, (ii) net income for a bank's last preceding fiscal year, or (iii) net income of the Bank for its current fiscal year upon the prior approval of the Commissioner of Financial Institutions, State of California, without regard to retained earnings or net income for its prior three fiscal years.

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

The quantitative measures established by the regulation to ensure capital adequacy require the Bank to maintain amounts and ratios (set forth in the table below) of total and Tier 1 risk-based capital (as defined in the regulation) to risk-weighted assets (as defined) and of Tier 1 risk-based capital (as defined) to average assets (as defined). Management believes, as of December 31, 2010, that the Bank meets all capital adequacy requirements to which it is subject.

The Bank's actual and required capital amounts and ratios are presented in the following table:

	Actual		For capital adequacy purposes		To be well capitalized under prompt corrective action provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(In thousands)			
As of December 31, 2010:						
Total risk-based capital	$161,199	15.02%	$85,843	≥ 8.00%	$107,304	≥ 10.00%
Tier 1 risk-based capital	147,541	13.75%	42,922	4.00%	64,382	6.00%
Leverage ratio	147,541	11.16%	42,922	4.00%	53,652	5.00%
As of December 31, 2009:						
Total risk-based capital	$105,268	8.52%	$98,896	≥ 8.00%	$123,620	≥ 10.00%
Tier 1 risk-based capital	89,477	7.24%	49,448	4.00%	74,172	6.00%
Leverage ratio	89,477	6.16%	49,448	4.00%	61,810	5.00%

The Bank utilizes a variety of funding sources in conducting its operations, including the use of "brokered deposits" as defined by banking regulators. Such brokered deposits totaled $62.7 million at December 31, 2010. During 2010, due to the Order, we are no longer allowed to access the brokered deposit market, which also includes the CDARS reciprocal deposits. As such, the Bank has not renewed any of these brokered deposits and will let the balance of them mature during the course of 2011 and 2012. Cash on hand increased as of December 31, 2010 to $108.2 million, from $68.1 million at December 31, 2009. A substantial pay down in the loan portfolio also resulted in additional cash on the balance sheet. In addition, Management also sold certain of its investment securities which could not be pledged as collateral at the Federal Home Loan Bank for future borrowings. Finally, the Bank is also able to raise deposits by posting its offered rates on certain websites to subscribers of these websites who open accounts at the bank to augment its cash position.

(13) Share-Based Compensation

The Bank remunerates employees and directors through stock option compensation plans; the 1992 Stock Option Plan, Interim Stock Option Plan and the 2004 Equity Incentive Plan which are discussed below. Effective January 1, 2007, the Bank adopted FASB Accounting Standards Codification ("ASC") 718 "Compensation—Stock Compensation" ("ASC 718"). Share-based compensation expense for all share-based payment awards is based on the grant-date fair value estimated in accordance with the provisions of ASC 718. The Bank recognizes these compensation costs on a straight-line basis over the requisite service period for the entire award, which is the option vesting term of generally three to five years, for only those options expected to vest. The fair value of stock option awards was estimated using the Black-Scholes option pricing model with the grant-date assumptions and weighted-average fair value. When options are exercised, the Bank's policy is to issue new shares of stock. For the year ended December 31, 2010, 2009 and 2008, the Bank recognized share-based compensation expense of $1.7 million, $1.8 million and $1.6 million, respectively, resulting in the recognition of $561,000, $461,000 and $443,000 in related tax benefits, respectively.

The number of stock options and per stock option data has been adjusted to reflect the Bank's February 20, 2007 three-for-two stock split effected in the form of a dividend, as well the Bank's repurchase on October 29, 2010 of certain vested options issued under the 2004 Equity Plan.

1992 Stock Option Plan and Interim Stock Option Plan

The Bank's 1992 Stock Option Plan (the "1992 Plan") provides for granting of non-statutory stock options and incentive stock options to key full-time employees, officers, and the directors of the Bank. The number of shares authorized in this plan is 2,171,880 shares. The 1992 Stock Option Plan expired by its terms in 2003, and no shares are available for future grants. The options vest in installments of 20% each year and become fully vested after five years. Options under the 1992 Plan expire ten years after the grant date.

Because the 1992 Plan expired in 2003, the Bank did not issue any options under this Plan during 2010, 2009 or 2008.

In May 2003, April 2004 and June 2004, the Bank granted an additional 81,000, 48,000 and 150,000 stock options, respectively, to our employees and directors at exercise prices ranging from $10.69 to $19.04 per share under the Bank's Interim Stock Option Plan ("Interim Plan") which expired in 2004. Even though the terms of these stock options are consistent with the terms of the stock options granted under our 1992 Plan, these stock options are outside of the 1992 Plan because they were granted after the 1992 Plan's expiration. The Bank did not issue any options under the expired Interim Plan during 2010, 2009 and 2008.

The total intrinsic value of share options exercised during the year ended December 31, 2010, 2009 and 2008 was $0, $0, and $218,000, respectively, from the 1992 Plan and the Interim Plan. As of December 31, 2010, there was no compensation cost not yet recognized that relates to options granted under the 1992 Plan and Interim Plans.

The following information under the 1992 Plan and the Interim Plan is presented for the years ended December 31, 2010, 2009 and 2008:

	December 31,		
	2010	2009	2008
	(In thousands)		
Grant Date Fair Value of Options Granted	$—	$—	$—
Fair Value of Options Vested	—	84	97
Total Intrinsic Value of Options Exercised	—	—	218
Cash Received from Options Exercised	—	—	146
Actual Tax Benefit Realized from Options Exercised	—	—	11

The following is a summary of the transactions under the 1992 Plan and the Interim Plan for the years ended December 31, 2010:

	1992 Plan and Interim Plan	
	Number of Options	Weighted Average Exercise Price
Options outstanding as of December 31, 2007	284,200	15.87
Granted	—	—
Exercised	(17,100)	8.57
Forfeited or expired	—	—
Options outstanding as of December 31, 2008	267,100	16.32
Granted	—	—
Exercised	—	—
Forfeited or expired	(6,300)	8.58
Options outstanding as of December 31, 2009	260,800	16.51
Granted	—	—
Exercised	—	—
Forfeited or expired	—	—
Options outstanding as of December 31, 2010	260,800	$16.51

As of December 31, 2009, the aggregate intrinsic value of options outstanding under the 1992 Plan and the Interim Plan was $0. As of December 31, 2010, stock options outstanding under the 1992 Plan and the Interim Plan were as follows:

	Options Outstanding			Options Exercisable		
Exercise Price Range	Number of Outstanding Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Number of Outstanding Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
$5.00 - $9.99	—	$ —	—	—	$ —	—
$10.00 - $14.99	75,150	10.69	2.32	75,150	10.69	2.32
$15.00 - $19.99	185,650	18.87	3.31	185,650	18.87	3.31

2004 Equity Incentive Plan

The Bank's 2004 Equity Incentive Plan (the "2004 Plan") provides for granting of non-statutory stock options and incentive stock options to key full-time employees, officers, and the directors of the Bank. Stock options granted under the 2004 Plan have an exercise price equal to the fair value of the underlying common stock on the date of grant. Stock options granted under the 2004 Plan generally vest in installments between 20-33% each year, become fully vested after three to five years and expire between four to ten years from the date of grant. Certain option and share awards provide for accelerated vesting if there is a change in control (as defined in the 2004 Plan). The number of shares authorized in this plan is 7,276,650 shares, as adjusted for the shares repurchased by the Company pursuant to the tender offer described below, whereby the shares repurchased were made available for future issuance under the 2004 Plan.

The total intrinsic value of share options exercised during the year ended December 31, 2010, 2009 and 2008 was $0, $0 and $0, respectively. As of December 31, 2010, the total compensation cost not yet recognized that relates to unvested options granted under the 2004 Plan was $494,000 with a weighted-average recognition period of 1.5 years.

For the years ended December 31, 2010, 2009 and 2008, the estimated weighted-average fair value per share of options granted under the 2004 Plan were as follows:

December 31,		
2010	2009	2008
$0.84	$1.40	$2.22

The estimated weighted-average fair value per share of options granted was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	December 31,		
	2010	2009	2008
Weighted Average Assumptions:			
Expected Dividend Yield	0.00%	6.85%	5.74%
Expected Volatility	82.24%	57.76%	26.53%
Expected Term	3.0 Yrs.	3.0 Yrs.	3.34 Yrs.
Risk-Free Interest Rate	1.06%	1.50%	3.18%

Historically, expected volatility was determined based on the historical daily volatility of a set of California peer banks whose share volatility data are publicly available over a period equal to the expected term of the options granted, as a proxy for the Bank's historical daily volatility. Currently, the expected volatility is determined based on the historical daily volatility of the Bank's stock price over a period equal to the expected term of the options granted because there now exists enough historical daily trading price information of the common stock of Preferred Bank. The risk-free interest rate is based on the U.S. Treasury yield curve at the time of grant for a period equal to the expected term of the options granted. Dividend yield is computed over the four consecutive quarters preceding the date of grant.

On July 23, 2010, the Bank's Board of Directors executed an Offer to Purchase Outstanding Stock Options having an exercise price greater than $25.33 Per Share (options that were issued under the Bank's 2004 Equity Incentive Plan between November 17, 2004 and November 14, 2007). Eligible employees, officers, and directors of the Bank (or one of its subsidiaries) were offered a cash payment of $0.10 per qualifying option and could voluntarily elect to accept the offer between July 23, 2010 and October 20, 2010, with payout on October 29,

2010. The offer was compensatory in nature and reflects the Bank's effort to provide value in its share-based compensation package since the economic downturn has eroded the intrinsic value in these awards. The Offer price was determined by using the Black-Scholes Model, since options on the Bank's stock are not actively traded, and takes into account numerous factors, as described above. Based upon the option-pricing model, the offer price exceeded the then-current fair value of the eligible options, whose exercise prices ranged from $25.33 to $43.50 per share. Because the exercise prices of these options exceed the current market value of the Bank's stock, the value of the options was determined to be insignificant, and thus the Bank's offer price was $0.10 per option, and accounted for as compensation cost.

Under U.S. GAAP, an entity that repurchases an equity award for which the requisite service has not been rendered (in the case of unvested options), has effectively modified the requisite service period to the date of the repurchase. Thus, in accordance with ASC 718-20-35-7, any unrecognized compensation cost for the eligible options have been recognized upon repurchase; and to the extent that the $0.10 offer price was less than or equal to the determined option fair value, the offer price reduced the Bank's paid in capital. The Bank recognized unrecognized compensation cost for the eligible options in the amount of $294,000 and recognized share-based compensation expense for any excess of the $0.10 offer price over the fair value of options repurchased which amounted to $62,000. The options repurchased will become available for distribution at a future date under the 2004 Plan.

The following information under the 2004 Plan is presented for the years ended December 31, 2010, 2009 and 2008:

	December 31,		
	2010	2009	2008
		(In thousands)	
Grant Date Fair Value of Options Granted	$296	$ 125	$ 831
Fair Value of Options Vested	233	1,767	1,627
Total Intrinsic Value of Options Exercised	—	—	—
Cash Received from Options Exercised	—	—	—
Cash Paid for Options Repurchased by the Bank	62		
Actual Tax Benefit Realized from Options Exercised	—	—	—

The following is a summary of the transactions under the 2004 Plan for the years ended December 31, 2010, 2009 and 2008.

	2004 Plan	
	Number of Options	Weighted Average Exercise Price
Options outstanding as of December 31, 2007	822,200	30.55
Granted	375,300	14.38
Exercised	—	—
Forfeited or expired	(71,400)	25.99
Options outstanding as of December 31, 2008	1,126,100	$25.36
Granted	89,000	5.17
Exercised	—	—
Forfeited or expired	(47,900)	24.57
Options outstanding as of December 31, 2009	1,167,200	$23.85
Granted	350,000	1.59
Exercised	—	—
Forfeited or expired	(84,158)	10.24
Repurchased by the Bank via tender offer	(744,450)	28.63
Options outstanding as of December 31, 2010	688,592	$ 8.08

As of December 31, 2010, the aggregate intrinsic value of options outstanding under the 2004 Plan was $0. As of December 31, 2010, stock options outstanding under the 2004 Plan were as follows:

	Options Outstanding			Options Exercisable		
Exercise Price Range	Number of Outstanding Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Number of Outstanding Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
$0.00 - $4.99	375,000	$ 1.75	1.51	13,333	$ 4.22	1.82
$5.00 - $9.99	147,867	7.43	1.73	81,735	7.89	1.63
$20.00 - $24.99	150,000	21.84	2.05	75,000	21.84	2.05
$25.00 - $29.99	13,850	26.69	2.94	13,850	26.69	2.94
$30.00 - $34.99	—	—	—	—	—	—
$35.00 - $39.99	—	—	—	—	—	—
$40.00 - $44.99	1,875	43.50	1.14	1,875	43.50	1.14

Restricted Stock Awards

The Bank's 2004 Plan provides for granting of restricted stock awards ("RSAs") to key full-time employees, officers, and the directors of the Bank. The Bank began granting RSA's in calendar year 2009. During the year ended December 31, 2010, the Bank granted 971,500 RSAs. The RSAs granted under the 2004 Plan have a one to three year vesting period and are to be distributed at the end of the vesting period. The total unrecognized compensation expense for outstanding RSAs was $1,361,000 as of December 31, 2010, and will be recognized over 1.71 years.

The following is a summary of the transactions for non-vested RSAs under the 2004 Plan for the year ended December 31, 2010:

	Number of Shares	Weighted Average Grant Date Fair Value
Non-Vested RSAs as of December 31, 2008	99,000	$5.40
Granted	99,000	$5.40
Forfeited or expired	—	$ —
Vested	—	$ —
Non-Vested RSAs outstanding as of December 31, 2009	99,000	$5.40
Granted	971,500	$1.71
Forfeited or expired	(28,000)	$2.66
Vested	(5,500)	$5.40
Non-Vested RSAs outstanding as of December 31, 2010	1,037,000	$2.02

(14) Employee Benefit Plan

Effective January 1, 1994, the Bank began a 401k profit sharing plan for its eligible employees. Under the plan, the Bank matches 50% of a participant's contributions up to 6% of his/her salary subject to federal limitations on maximum contributions. Contributions made by the Bank for the years ended December 31, 2010, 2009 and 2008 totaled $174,000, $189,000 and $158,000, respectively.

(15) Bonus Plan

In April 1994, the Management Incentive Bonus Plan was approved. In December 2007 this Plan was amended and approved by the Board of Directors. The plan is administered by the Compensation Committee of the Board of Directors (the Committee). The Committee determines which employees may participate in the plan, the total amount of bonus payable to our employees each year, the amount of bonus to be carried over and paid in subsequent years and the allocation of the total amounts among our chairman, officers, and other employees. All awards are contingent upon the Bank attaining certain financial objectives with the exception of certain bonuses which may be awarded by the Compensation Committee irrespective of the certain financial targets as part of new employees' first year compensation. This is typically done as an alternative to a signing bonus. Total expense of the plan recorded by the Bank was $0, $0 and $294,000 for 2010, 2009 and 2008, respectively. As of December 31, 2010 and 2009, the total bonus accrual included in the other liabilities amounted to $0 and $0, respectively.

(16) Deferred Compensation Arrangements

In 1996, the Bank implemented deferred compensation arrangements for the Bank's senior officers and directors. Pursuant to the Plan, each participant receives benefits for his/her deferred compensation upon his/her retirement or termination of service with the Bank prior to retirement. At December 31, 2010 and 2009, liabilities recorded for the deferred compensation plan totaled approximately $463,000 and $3,742,000, respectively.

In order to economically fund its obligation under the deferred compensation arrangements, the Bank purchased single-premium life insurance policies under which the executive officers and directors are the insured, while the Bank is the owner and beneficiary thereof. At December 31, 2010 and 2009, the cash surrender value of the policies totaled $7,556,000 and $7,304,000, respectively. During 2010, 2009 and 2008, the income on the insurance policies was $329,000, $318,000 and $362,000, respectively.

(17) Litigation

From time to time, the Bank is a party to claims and legal proceedings arising in the ordinary course of business. There are no pending legal proceedings or, to the best of management's knowledge, threatened legal proceedings, to which the Bank is a party which may have a material adverse effect upon the Bank's financial condition, results of operations, or liquidity.

(18) Stock dividend

On January 25, 2007 Preferred Bank announced that its Board of Directors had declared a 3-for-2 stock split to be paid in the form of a dividend. Each shareholder of record at the close of business on February 5, 2007 received one additional share of common stock for every two shares of common stock that they owned as of such date. The additional shares were distributed on February 20, 2007. A shareholder who would otherwise be entitled to receive a fractional share of common stock will receive in lieu thereof, cash in a proportional amount based on the closing price of the common stock on the Nasdaq Stock Exchange on the record date. After giving effect to the stock split, the Bank retroactively adjusted the number of common shares outstanding at December 31, 2006 to 10,274,632. Accordingly, all references in the accompanying statements of financial condition, income and comprehensive income, statement of changes in shareholders' equity, and footnotes to the number of common shares and earnings per share amounts have been retroactively adjusted for all periods presented.

(19) Earnings per Share

During the third quarter of 2010, our preferred stock was converted to common shares in accordance with its beneficial conversion features. The conversion ratio for each share of Series A Preferred Stock was equal to the quotient obtained by dividing the Series A Share Price by the $1.50 conversion price. As such, each share of Series A Preferred Stock was convertible into approximately 666.67 shares of the Company's common stock. The net loss available to common shareholders was $1.24 per common share for year ended December 31, 2010, and included $0.75 loss per share due to the recognition of the intrinsic value of the beneficial conversion feature of the preferred stock. The intrinsic value is the difference between the conversion price of $1.50 per share for the 73,846 preferred shares and the $2.02 per share market value of the Bank's common stock as of May 26, 2010, the commitment date. This difference was treated as a discount on the Series A Preferred Stock, and reduced the reported income available to common shareholders, though it does not affect total capital, or the regulatory or common capital ratios of the Bank, or cash outflow from operations. It should be noted that 3,154 of the 77,000 subscribed shares were issued as part of a deferred compensation arrangement.

The following table summarizes the basic and diluted earnings (loss) per share calculations for the periods indicated:

	2010	2009	2008
	(In thousands, except per share data)		
Basic earnings (loss) per share:			
Net (loss) income	$ (16,810)	$ (72,535)	$ (5,012)
Less: preferred stock discount accretion	(25,600)	—	—
Less: income and dividends allocated to participating securities	—	(6)	—
Net income (loss) allocated to common shareholders-basic	$ (42,410)	$ (72,541)	$ (5,012)
Basic weighted average common shares outstanding	34,148,670	11,518,145	9,790,858
Basic earnings (loss) per share	$ (1.24)	$ (6.30)	$ (0.51)
Diluted earnings (loss) per share:			
Net (loss) income	$ (16,810)	$ (72,535)	$ (5,012)
Less: preferred stock discount accretion	(25,600)		
Less: income and dividends allocated to participating securities	—	(6)	—
Net income (loss) allocated to common shareholders-diluted	$ (42,410)	$ (72,541)	$ (5,012)
Basic weighted average common shares outstanding	34,148,670	11,518,145	9,790,858
Effect of dilutive securities — stock options	—	—	—
Diluted weighted average shares outstanding	34,148,670	11,518,145	9,790,858
Diluted earnings (loss) per share	$ (1.24)	$ (6.30)	$ (0.51)

Basic EPS excludes dilution and is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding for the period. 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, excluding common shares in treasury. At December 31, 2010, 2009 and 2008, respectively, there were 949,392, 1,428,200 and 1,393,200 shares, respectively, related to such awards which were excluded from the computation of diluted EPS due to their anti-dilutive effect.

PREFERRED BANK

Notes to Consolidated Financial Statements—(Continued)

(20) Quarterly Financial Data (Unaudited)

The following tables summarize the quarterly unaudited financial data for 2010 and 2009:

Quarterly Financial Data (Unaudited)

Year Ended December 31, 2010	Three months ended			
	March 31	June 30	September 30	December 31
	(In thousands, except per share data)			
Interest income	$13,895	$12,918	$ 13,524	$ 11,751
Interest expense	4,201	3,857	3,575	3,189
Interest income before provision for credit losses	9,694	9,061	9,949	8,562
Provision for credit losses	—	—	9,300	7,250
Noninterest income	759	666	1,479	(97)
Noninterest expense	7,344	12,811	7,626	13,256
Income tax expense (benefit)	—	—	—	(704)
Net income (loss)	$ 3,109	$ (3,084)	$ (5,498)	$(11,337)
Accretion of beneficial conversion feature	—	(142)	(25,458)	—
Net income (loss) available to common shareholders	$ 3,109	$ (3,226)	$(30,956)	$(11,337)
Earnings (loss) per share				
Basic	$ 0.20	$ (0.21)	$ (0.78)	$ (0.17)
Diluted	$ 0.20	$ (0.21)	$ (0.78)	$ (0.17)

Year Ended December 31, 2009	Three months ended			
	March 31	June 30	September 30	December 31
	(In thousands, except per share data)			
Interest income	$16,926	$16,423	$ 12,111	$ 13,416
Interest expense	7,222	5,867	4,956	4,767
Interest income before provision for credit losses	9,704	10,556	7,155	8,649
Provision for credit losses	6,550	15,450	48,250	1,000
Noninterest income	1,278	925	3,355	918
Noninterest expense	6,583	10,304	24,042	11,024
Income taxes	(829)	(7,443)	(25,798)	25,942
Net income (loss)	$ (1,322)	$ (6,830)	$(35,984)	$(28,399)
Earnings (loss) per share				
Basic	$ (0.14)	$ (0.69)	$ (3.32)	$ (1.80)
Diluted	$ (0.14)	$ (0.69)	$ (3.32)	$ (1.80)

(21) Fair Value of Financial Instruments

ASC Topic 825, *Financial Instruments*, requires that an entity disclose the fair value of all financial instruments, as defined, regardless of whether recognized in the financial statements of the reporting entity. For purposes of determining fair value, Financial Instruments Topic of FASB ASC provides that the fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments.

(a) Cash Due from Banks, Federal Funds Sold and Securities Purchased under Resale Agreements

For cash and short-term instruments whose original or purchased maturity is less than 90 days, the carrying amount was assumed to be a reasonable estimate of fair value.

(b) Securities available-for-sale

For securities available-for-sale, fair values were based on quoted market prices obtained from market quotes. If a quoted market price was not available, fair value was estimated using quoted market prices for similar securities or if no quotes on similar securities were available, a discounted cash flow analysis was used based on a market discount rate and adjusted for pre-payments and defaults.

(c) Loans

Loans are not measured at fair value on a recurring basis. Therefore, the following valuation discussion relates to estimating the fair value disclosures under Financial Instruments Topic of FASB ASC. Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type and further segmented into fixed and adjustable rate interest terms. The fair value estimates do not take into consideration an exit price concept as contemplated in ASC Topic 820, Fair Value Measurements and Disclosures. As a result, the value of the loan portfolio in the event the loans have to be sold outside the parameters of normal operating activities may differ from the fair value disclosed. As a result, the fair value of performing fixed rate loans is estimated by discounting scheduled cash flows through the estimated maturity using estimated market prepayment speeds and discount rates that reflect the market rate of the loans. The fair value of performing adjustable rate loans is estimated by discounting scheduled cash flows through the next repricing date. As these loans reprice frequently at market rates and the credit risk is not considered to be greater than normal, the market value is typically close to the carrying amount of these loans.

Loans measured for impairment based on the fair value of the underlying collateral are considered recorded at fair value on a non-recurring basis. Impaired loans include all of the Bank's non-accrual loans and certain restructured loans, all of which are reviewed individually for the amount of impairment, if any. The fair value of each loan's collateral is generally based on estimated market prices from an independently prepared appraisal, which is then adjusted for the cost related to liquidating such collateral; such valuation inputs result in a non-recurring fair value measurement that is categorized as a Level 2 measurement. When adjustments are made to an appraised value to reflect various factors such as the age of the appraisal or known changes in the market or the collateral or if an appraisal value is based on a discount cash flow rather than a market comparable, such valuation inputs are considered unobservable and the fair value measurement is categorized as a Level 3 measurement. In addition, unsecured impaired loans are measured at fair value based generally on unobservable inputs, such as the strength of a guarantor, discounted cash flow models and management's judgment; the fair value measurement of these loans is also categorized as a Level 3 measurement. Fair values were estimated for portfolios of loans with similar financial characteristics. Each loan category was further segmented into fixed and adjustable rate interest terms and by performing and nonperforming categories.

(d) Loans held for sale

Loans held for sale are required to be measured based on the lower of cost or fair value. If the fair value of a loan is less than its cost basis, a valuation adjustment is recognized in the consolidated statement of operations and the loan's carrying value is adjusted accordingly. When Bank has loans held for sale, it obtains quotes or bids on all or part of these loans directly from the purchasing parties.

(e) Accrued Interest Receivable and Accrued Interest Payable

The carrying amounts of accrued interest receivable and accrued interest payable approximate its fair value due to their short-term nature.

(f) Deposits

The fair value of demand deposits, saving accounts, and certain money market deposits were assumed to be the amount payable on demand at the reporting date. The fair value of fixed maturity certificates of deposit was estimated using the rates currently offered for deposits with similar remaining maturities.

(g) FHLB Borrowings and Senior Debt

The fair value of FHLB borrowings and Senior debt was based on rates currently offered for borrowings with similar remaining maturities.

(h) Commitment to Extend Credit and Letters of Credit

The majority of our commitments to extend credit carry market interest rates if converted to loans. Because these commitments are generally unassignable by either the borrower or us, they only have value to the borrower and us. The estimated fair value is not material. The fair value of letters of credit was based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reporting date.

	December 31, 2010		December 31, 2009	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
	(In thousands)			
Assets:				
Cash and cash equivalents	$108,223	$108,223	$ 68,071	$ 68,071
Securities available-for-sale	183,269	183,269	114,464	114,464
Loans, net of allowance and net deferred loan fees	880,014	880,179	1,001,074	1,007,058
Accrued interest receivable	5,375	5,375	5,582	5,582
Loans held for sale	2,556	2,556		
Federal Home Loan Bank stock	4,440	4,440	4,996	4,996
Customers' liabilities on acceptances	92	92	—	—
Liabilities:				
Demand deposits and savings:				
Noninterest-bearing	$221,967	$221,967	$ 204,545	$ 204,545
Interest-bearing	156,657	156,389	163,201	163,820
Time deposits	702,641	705,329	792,666	795,967
FHLB borrowings and Senior Debt	25,996	25,996	48,996	49,033
Accrued interest payable	1,716	1,716	2,949	2,949
Bank's liabilities on acceptances outstanding	92	92	—	—
Off-balance sheet financial instruments				
Commitments to extend credit and letters of credit	183	183	217	217

The fair value estimates do not reflect any premium or discount that could result from offering the instruments for sale. Potential taxes and other expenses that would be incurred in an actual sale or settlement are not reflected in amounts disclosed. The fair value estimates are dependent upon subjective estimates of market conditions and perceived risks of financial instruments at a point in time and involve significant uncertainties resulting in variability in estimates with changes in assumptions.

The Bank adopted ASC Topic 820, *Fair Value Measurements and Disclosures,* or ASC 820, on January 1, 2008, and determined the fair values of its financial instruments based on the fair value hierarchy established in ASC 820. ASC 820 defines fair value, establishes a three-level fair value hierarchy based on the quality of inputs used to measure fair value and expands disclosures about fair value measurements.

The three-level categorizations to measure the fair value of assets and liabilities are as follows:

Level 1—Quoted prices in active markets for identical assets or liabilities.

Level 2—Observable prices in active markets for similar assets or liabilities; prices for identical or similar assets or liabilities in markets that are not active; directly observable market inputs for substantially the full term of the asset and liability; market inputs that are not directly observable but are derived from or corroborated by observable market data.

Level 3—Unobservable inputs based on the Bank's own judgments about the assumptions that a market participant would use.

The Bank uses the following methodologies to measure the fair value of its financial assets on a recurring basis:

Corporate notes—The Bank measures fair value of corporate notes by using quoted market prices for similar securities or dealer quotes, a level 2 measurement.

Municipal securities—The Bank measures fair value of state and municipal securities by using quoted market prices for similar securities or dealer quotes, a level 2 measurement.

Mortgage-backed securities—The Bank measures fair value of mortgage-backed securities by using quoted market prices for similar securities or dealer quotes, a level 2 measurement.

Collateralized mortgage obligations—The Bank measures fair value of collateralized mortgage obligations by using quoted market prices for similar securities or dealer quotes, a level 2 measurement.

Collateralized debt obligations—The Bank uses a discounted cash flow analysis to determine the fair value of the four collateralized debt obligations which is level 3 measurement. The discount rate is determined by using a market interest rate for a similarly rated single issuer corporate security plus 300 basis points of illiquidity premium using loss rates determined by the financial health of the underlying issuer banks in each pool.

Principal-only strip securities—The Bank measures fair value of principal-only strip securities by using quoted market prices for similar securities or dealer quotes, a level 2 measurement.

USDA security—The Bank measures fair value of USDA securities by using quoted market prices for similar securities or dealer quotes, a level 2 measurement.

The following table presents the Bank's hierarchy for its assets and liabilities measured at fair value on a recurring basis at December 31, 2010:

(In thousands)	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31,
Assets				
Securities, available-for-sale:				
U.S. Government Agency securities	$—	$ 15,800	$ —	$ 15,800
Corporate notes	—	40,671	—	40,671
Principal-only strips	—	7,578	—	7,578
Mortgage-backed securities	—	26,875	—	26,875
Collateralized mortgage obligations	—	33,632	—	33,632
Municipal securities	—	30,436	—	30,436
Collateralized debt obligations	—	—	1,119	1,119
SBA securities	—	10,743	—	10,743
U.S. Treasury notes	—	9,208	—	9,208
USDA security		7,207	—	7,207
Total	$—	$182,150	$1,119	$183,269

The following table presents the Bank's hierarchy for its assets and liabilities measured at fair value on a recurring basis at December 31, 2009:

(In thousands)	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31,
Assets				
Securities, available-for-sale:				
Corporate notes	$—	$ 24,741	$ —	$ 24,741
Mortgage-backed securities	—	25,228	—	25,228
Collateralized mortgage obligations	—	18,116	—	18,116
Municipal securities	—	44,178	—	44,178
Collateralized debt obligations	—	—	2,201	2,201
Total	$—	$112,263	$2,201	$114,464

There were no significant transfers in or out of Level 1 and Level 2 fair value measurements during the year ended December 31, 2010.

The following table presents the Bank's reconciliation and income statement classification of gains and losses for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for year ended December 31, 2010:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) (Dollars in thousands)				
	Beginning Balance as of December 31, 2009	Purchases, Issuance and Settlements	Realized Gains or Losses in Earnings (Expense)	Unrealized Gains or Losses in Other Comprehensive Income	Ending Balance as of December 31, 2010
ASSETS:					
Securities, available-for-sale:					
Collateral debt obligations	$2,201	$(657)	$(1,233)	$808	$1,119

The following table presents the Bank's reconciliation and income statement classification of gains and losses for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for year ended December 31, 2009:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) (Dollars in thousands)				
	Beginning Balance as of December 31, 2008	Purchases, Issuance and Settlements	Realized Gains or Losses in Earnings (Expense)	Unrealized Gains or Losses in Other Comprehensive Income	Ending Balance as of December 31, 2009
ASSETS:					
Securities, available-for-sale:					
Collateral debt obligations	$2,075	$—	$(3,211)	$3,337	$2,201

Impaired loans—On a non-recurring basis, the Bank measures the fair value of impaired collateral dependent loans based on fair value of the collateral value which is derived from appraisals that take into consideration prices in observable transactions involving similar assets in similar locations in accordance with Receivables Topic of FASB ASC covering loan impairments. Impaired loans held for sale that have a sales contract are considered a level 1 measurement. Collateral value determined based on recent independent appraisals are considered a level 2 measurement. Collateral values based on unobservable inputs that are supported by little or no market data and less current appraisals are considered a level 3 measurement.

Other real estate owned—Real estate acquired in the settlement of loans is initially recorded at fair value, less estimated costs to sell. The Bank records other real estate owned at fair value on a non-recurring basis. However, from time to time, nonrecurring fair value adjustments to other real estate owned are recorded based on current appraisal value of the property, a Level 2 measurement, or management's judgment and estimation based on reported appraisal value, a Level 3 measurement.

The following table presents the Bank's hierarchy for its assets measured at estimated fair value on a nonrecurring basis through twelve months ended December 31, 2010, and the total losses resulting from these fair value adjustments for the twelve months ended December 31, 2010:

(In thousands)	Fair Value Measurements Using				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2010	Twelve Months Ended December 31, 2010 Total Losses
Assets					
Impaired loans	$—	$4,534	$ 55,323	$ 59,857	$12,214
Other real estate owned	$—	$ —	$ 52,663	$ 52,663	$ 9,519
Total Assets	$—	$4,534	$107,986	$112,520	$21,733

The following table presents the Bank's hierarchy for its assets measured at estimated fair value on a nonrecurring basis through twelve months ended December 31, 2009:

(In thousands)	Fair Value Measurements Using				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2009	Twelve Months Ended December 31, 2009 Total Losses
Assets					
Impaired loans	$—	$16,593	$34,941	$ 51,533	$ 23,967
Other real estate	$—	$ —	$59,190	$ 59,190	$ 19,093
Total Assets	$—	$16,593	$94,131	$110,724	$110,724

SIGNATURES

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

Dated: March 30, 2011

PREFERRED BANK
(Registrant)

By /s/ Li Yu

Li Yu
Chairman of the Board, President and Chief Executive Officer

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

Signature	Title	Date
/s/ Li Yu **Li Yu**	Chairman of the Board, President, Chairman and Chief Executive Officer (Principal executive officer)	March 30, 2011
/s/ Edward J. Czajka **Edward J. Czajka**	Executive Vice President and Chief Financial Officer (Principal financial and accounting officer)	March 30, 2011
/s/ J. Richard Belliston **J. Richard Belliston**	Director	March 30, 2011
/s/ William C. Y. Cheng **William C.Y. Cheng**	Director	March 30, 2011
/s/ Clark Hsu **Clark Hsu**	Director	March 30, 2011
/s/ Gary S. Nunnelly **Gary S. Nunnelly**	Director	March 30, 2011
/s/ Albert Yu **Albert Yu, Ph.D.**	Director	March 30, 2011
/s/ Ching-Hsing Kao **Ching-Hsing Kao**	Director	March 30, 2011
/s/ Kenneth Wang **Kenneth Wang**	Director	March 30, 2011

INDEX TO EXHIBITS

Exhibit No.	Exhibit Description
3.1	Amended and Restated Articles of Incorporation[1]
3.2	Certificate of Determination of the Series A preferred Stock[5]
3.3	Amended and Restated Bylaws[1]
4.1	Common Stock Certificate[2]
10.1	Lease relating to the Bank's principal executive office at 601 S. Figueroa Street, 20th Floor, Los Angeles, California with Mitsui Fudoson (U.S.A.), Inc.[1]
10.2	Agreement for Item-Processing Services with Fiserv Solutions, Inc., dated as of July 31, 2002[1]
10.3	Agreement for Data-Processing with Fiserv Solutions, Inc., dated as of May 1, 2003[1]
10.4	Maintenance and Service Agreement, dated August 1, 2003 with Exilcom, Inc. d/b/a Northstar Technologies[1]
10.5*	1992 Stock Option Plan[1]
10.6*	Management Incentive Bonus Plan[1]
10.7*	Deferred Compensation Plan[1]
10.8*	Stock Option Gain Deferred Compensation Plan[1]
10.9*	2004 Equity Incentive Plan[1]
10.10*	Form of Indemnification Agreement for directors and executive officers[1]
10.11*	Revised Bonus Plan
10.12	Lease relating to the Bank's principal executive office at 601 S. Figueroa Street, 29th Floor, Los Angeles, California with 601 Figueroa Co. LLC, dated March 9, 2008.[3]
10.13	Lease relating to the Bank's retail branch office at 1045-1055 North Tustin Avenue, Anaheim, California with Tustin Retail Center, LLC, dated July 8, 2009[4]
10.14	Lease relating to the Bank's retail branch office at 7004 Rosemead Blvd., Pico Rivera, California with Thaddeus J. Moriarty, Jr. and Joan F. Moriarty, Trustees of the Moriarty Family Trust, Jacqueline Steward, Trustee of the Steward Family Trust, dated July 25, 2009[4]
10.15*	Deferred Compensation Plan-Deferred Stock Unit Agreement and Rabbi Trust
21.1	Subsidiaries of the Registrant
31.1	Chief Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Chief Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Chief Executive Officer Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Chief Financial Officer Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 of the Sarbanes-Oxley Act of 2002
99.1	Report of Independent Registered Public Accounting Firm
99.2	Management's Report on Internal Control over Financial Reporting

(1) Incorporated by reference from Registrant's Registration Statement on Form 10 filed with the Federal Deposit Insurance Corporation on January 18, 2006.

(2) Incorporated by reference from Registrant's Registration Statement on Form 10 Amendment No. 1 filed with the Federal Deposit Insurance Corporation on February 2, 2006.
(3) Incorporated by reference from Quarterly Report on Form 10-Q filed with the Federal Deposit Insurance Corporation on May 9, 2008.
(4) Incorporated by reference from Quarterly Report on Form 10-Q filed with the Federal Deposit Insurance Corporation on November 7, 2009.
(5) Incorporated by reference from Current Report on Form 8-K filed with the Federal Deposit Insurance Corporation on June 10, 2010.
* Denotes management contract or compensatory plan or arrangement.

Exhibit 21.1

SUBSIDIARIES OF THE REGISTRANT

Preferred Bank Investment and Consulting, Inc. (PBICI)

Exhibit 31.1

CERTIFICATION PURSUANT TO RULE
13a-14(a) AND 15d-14(a),
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Li Yu, certify that:

1. I have reviewed this Annual Report on Form 10-K of Preferred Bank;

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

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

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

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

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 30, 2011

/s/ Li Yu

Li Yu Chairman, President and Chief Executive Officer

Exhibit 31.2

**CERTIFICATION PURSUANT TO RULE
13a-14(a) AND 15d-14(a),
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Edward J. Czajka, certify that:

1. I have reviewed this Annual Report on Form 10-K of Preferred Bank;

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

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

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

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

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 30, 2011

/s/ Edward J. Czajka

Edward J. Czajka
Executive Vice President and Chief Financial Officer

Exhibit 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Preferred Bank (the “Bank”) on Form 10-K for the period ending December 31, 2010 as filed with the Federal Deposit Insurance Corporation on the date hereof (the “Report”), I, Li Yu, Chairman, President and Chief Executive Officer of the Bank, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Bank.

Date: March 30, 2011

/s/ Li Yu

Li Yu
Chairman, President and Chief Executive Officer

A signed original of this written statement required by Section 906, or other document authenticating acknowledging, or otherwise adopting the signature that appears in typed form within this version of this written statement required by Section 906, has been provided to the Bank and will be retained by the Bank and furnished to the Federal Deposit Insurance Corporation or its staff upon request.

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Preferred Bank (the "Bank") on Form 10-K for the period ending December 31, 2010 as filed with the Federal Deposit Insurance Corporation on the date hereof (the "Report"), I, Edward J. Czajka, Executive Vice President and Chief Financial Officer of the Bank, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Bank.

Date: March 30, 2011

/s/ Edward J. Czajka

Edward J. Czajka
Executive Vice President & Chief Financial Officer

A signed original of this written statement required by Section 906, or other document authenticating acknowledging, or otherwise adopting the signature that appears in typed form within this version of this written statement required by Section 906, has been provided to the Bank and will be retained by the Bank and furnished to the Federal Deposit Insurance Corporation or its staff upon request.

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Exhibit 99.1

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Preferred Bank:

We have audited Preferred Bank's internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Bank's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Bank's internal control over financial reporting based on our audit.

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

An entity's internal control over financial reporting is a process affected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. Because management's assessment and our audit were conducted to meet the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA), our audit of the Bank's internal control over financial reporting included controls over the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and with the instructions to the Federal Financial Institutions Examination Council for Consolidated Reports of Condition and Income. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

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

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's annual or interim financial statements will not be prevented, or detected and corrected on a timely basis. As described in the accompanying Management's Report on Internal Control over Financial Reporting, a material weakness was identified.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial position of the Bank and subsidiary as of December 31, 2010 and 2009, and the related consolidated statements of operations and comprehensive (loss) income, changes

in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2010. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2010 consolidated financial statements, and this report does not affect our report dated March 30, 2011, which expressed an unqualified opinion on those consolidated financial statements.

In our opinion, because of the effect of the aforementioned material weakness on the achievement of the objectives of the control criteria, the Bank has not maintained effective internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We do not express an opinion or any other form of assurance on management's statement referring to compliance with laws and regulations.

/s/ KPMG LLP

Los Angeles, California

March 30, 2011

Exhibit 99.2

Management's Report on Internal Control over Financial Reporting

March 30, 2011

Financial Statements

Management of Preferred Bank is responsible for the preparation, integrity and fair presentation of its published financial statements as of December 31, 2010, and for the year then ended. The consolidated financial statements of the Preferred Bank have been prepared in accordance with accounting principles generally accepted in the United States of America and, as such, include some amounts that are based on judgments and estimates of managements.

Internal Control over Financial Reporting

Management is responsible for establishing and maintaining effective internal control over financial reporting presented in conformity with accounting principles generally accepted in the United States of America and presented in conformity with such accounting principles and the instructions for the Federal Financial Institutions Examination Council for Consolidated Reports of Condition and Income. The system contains monitoring mechanisms and actions are taken to correct deficiencies identified.

There are inherent limitations in the effectiveness of any internal control including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective internal control can provide only reasonable effectiveness of internal control may vary over time.

Management under the supervision and with the participation of the Bank's principal executive officer and principal financial officer assessed the effectiveness of the Bank's internal control over financial reporting as of December 31, 2010. Management based this assessment on criteria for effective internal control over financial reporting described in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management's assessment included an evaluation of the design of Preferred Bank's internal control over financial reporting and testing of the operational effectiveness of its internal control over financial reporting. Management reviewed the results of its assessment with the Audit Committee of our Board of Directors.

A material weakness is a control deficiency, or combination of control deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Bank's annual or interim financial statements will not be prevented or detected on a timely basis. A material weakness in internal controls over financial reporting was identified in the prior year and continues to exist related to the monitoring and control activities necessary to respond to potential risks identified in the Company's loan portfolio. Although management has implemented enhanced internal controls to obtain updated value indicators for impaired loans and owned real estate, management's controls failed to properly identify and incorporate all significant aspects of credit risk into the determination of the allowance for loan and lease loss. As a result, internal controls should have been revised to require (a) reflection of credit weaknesses in determining the loan grades assigned to individual credits and (b) sufficient documentation in the loan credit files and criticized loan analyses to support management's conclusion of the assigned loan grades and amount of specific allowance. In addition, management's review process did not detect that such controls were not appropriately revised.

Based on management's assessment and the criteria discussed above, we have concluded that, as of December 31, 2010, internal control over financial reporting was not effective as a result of the aforementioned material weakness.

Compliance with Laws and Regulations

Management is responsible for compliance with federal and state laws and regulations concerning dividend restrictions and federal laws and regulations concerning loans to insiders designated by the FDIC as safety and soundness and regulations.

Management assessed compliance by the Bank with the designated laws and regulations related to safety and soundness. Based on this assessment, management believes that the Bank complied, in all significant respects, with the designated laws and regulations related to safety and soundness for the year ended December 31, 2010.

/s/ Li Yu

Li Yu
Chairman, President and Chief Executive Officer

/s/ Edward J. Czajka

Edward J. Czajka
Executive Vice President & Chief Financial Officer

Board of Directors

J. Richard Belliston
Vice Chairman, Retired
Tokai Bank of California
CPA (Inactive)

William C.Y. Cheng
President
H&C Industries

Clark Hsu
Chairman & CEO
Lotus Creek Investments

Frank T. Lin
President
New Century BMW

Gary S. Nunnelly
President
American Thermoform Corporation

Albert Yu, Ph.D.
Senior Vice President, Retired
Intel Corporation

Li Yu
Chairman, President & CEO
Preferred Bank

Ching-Hsing Kao
Executive Vice President
Shanghai Commercial Bank, Limited

Kenneth Wang
Information Technology Officer
All Seasons Resources, Inc.

Executive Officers

Li Yu
Chairman, President and
Chief Executive Officer

Edward J. Czajka
Executive Vice President
Chief Financial Officer

Lucilio Couto
Executive Vice President

Robert J. Kosof
Executive Vice President
Regional Manager

Nick Pi
Executive Vice President
Group Manager

Sandy Ho
Executive Vice President
Regional Manager

Pamela Lau
Executive Vice President
Corporate Banking

Corporate Headquarters

601 South Figueroa Street 29th Floor
Los Angeles, California 90017
213.891.1188

Investor Relations Contact

Lasse Glassen
Financial Relations Board
213.486.6546

Independent Accountants

KPMG LLP
Los Angeles, California

Corporate Counsel

Manatt, Phelps & Phillips, LLP
Los Angeles, California

Transfer Agent

Computershare
Glendale, California 91204
818.254.3161

Preferred Bank is a publicly traded company and our common stock is traded on the NASDAQ Global Select Market under the ticker symbol PFBC. Even though we are a public company, we are not a Securities & Exchange Commission (SEC) Registrant even though we follow and adhere to all SEC rules and reporting regulations. Thus our company filings cannot be accessed through EDGAR as we file all of our SEC-required filings with the FDIC. Therefore, we have made all of our SEC-required filings available on our website at www.preferredbank.com. To view our filings, click on the Investor Relations tab and then click on the Company Filings tab.

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