2019 ANNUAL REPORT

PREFERRED BANK

California

New York

BRANCH LOCATIONS

www.preferredbank.com

- **Los Angeles Head Office**
  601 South Figueroa Street, 48th Floor
  Los Angeles, California 90017
  213.891.1188
- **San Gabriel Valley Regional Office**
  325 East Valley Boulevard
  Alhambra, California 91801
  626.282.9700
- **South Bay Regional Office**
  21615 Hawthorne Boulevard, Suite 100
  Torrance, California 90503
  310.921.0100
- **Century City Regional Office**
  1801 Century Park East, Suite 100
  Los Angeles, California 90067
  310.286.2020
- **Irvine Regional Office**
  890 Roosevelt Avenue
  Irvine, California 92620
  949.262.9800
- **City of Industry Regional Office**
  17515 Colima Road
  City of Industry, California 91748
  626.935.1900
- **Arcadia Branch**
  1469 South Baldwin Avenue
  Arcadia, California 91007
  626.294.9800
- **Diamond Bar Branch**
  1373 South Diamond Bar Boulevard
  Diamond Bar, California 91765
  909.861.7200
- **Pico Rivera Branch**
  7004 Rosemead Boulevard
  Pico Rivera, California 90660
  562.641.2540
- **San Francisco Regional Office**
  600 California Street, Suite 550
  San Francisco, California 94108
  415.230.3288
- **San Francisco Richmond Office**
  5160 Geary Boulevard
  San Francisco, California 94118
  415.213.8880
- **San Fernando Valley Regional Office**
  18321 Ventura Boulevard Suite 100
  Tarzana, California 91356
  818.668.8800
- **Flushing New York Regional Office**
  41-60 Main Street
  Flushing, New York 11355
  718.886.1788

April 7, 2020

Dear Shareholders

On March 25, 2020, S&P Global Market Intelligence released a research report which is titled "LA-based Preferred Bank takes top spot in 2019 large US community bank ranking." Among banks with assets from $3 to $10 billion, we are ranked number one overall with honors in the following:

- #2 in Pre-Tax Profitability
- #1 in Efficiency Ratio
- #2 in Texas ratio (credit quality measurement)
- #5 in net charge-offs (also a credit quality indicator)

Preferred Bank's honor is based upon the operations and results of 2019. But it was the culmination of many years of effort. Compared to 2017 and 2018, 2019 was a great improvement in almost all areas. It was due to the dedication and consistent performance of the entire staff and support of our loyal customers.

This past year did not go without challenges. After years of slow steady central bank rate hikes, the Federal Reserve reversed course by cutting rates three times between July and September. As an asset sensitive Bank we have responded proactively and timely. Net income per share for this year was $5.16, matching exactly the internally budgeted amount.

Beginning in February 2020, our nation is facing unprecedented difficulty from the COVID-19 pandemic. Working with less than full staff, we now have the additional tasks of providing relief to our economically affected customers and help facilitate the government's stimulus program. As a sound, profitable, and efficient Bank, we are as well-equipped as anyone to meet these challenges.

Very truly yours,

Li Yu
Chairman of the Board
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, 2019

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, 48th 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	*Trading Symbol*	*Name of each exchange on which registered*
Common Stock, No Par Value	**PFBC**	**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 every Interactive Data File required to be submitted 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 such files). Yes ☐ No ☐

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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, 2019) was $524,804,219.

Number of shares of common stock of the Registrant outstanding as of February 28, 2020, was 14,901,653.

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, 2019	Part III

TABLE OF CONTENTS

		Page
PART I		**1**
ITEM 1.	BUSINESS	2
ITEM 1A.	RISK FACTORS	30
ITEM 1B.	UNRESOLVED STAFF COMMENTS	42
ITEM 2.	PROPERTIES	42
ITEM 3.	LEGAL PROCEEDINGS	42
ITEM 4.	MINE SAFETY DISCLOSURES	42
PART II		**43**
ITEM 5.	MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES	43
ITEM 6.	SELECTED FINANCIAL DATA	46
ITEM 7.	MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	49
ITEM 7A.	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	78
ITEM 8.	FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA	78
ITEM 9.	CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE	78
ITEM 9A.	CONTROLS AND PROCEDURES	78
ITEM 9B.	OTHER INFORMATION	82
PART III		**82**
ITEM 10.	DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE	82
ITEM 11.	EXECUTIVE COMPENSATION	82
ITEM 12.	SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS	82
ITEM 13.	CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE	83
ITEM 14.	PRINCIPAL ACCOUNTING FEES AND SERVICES	83
PART IV		**83**
ITEM 15.	EXHIBITS, FINANCIAL STATEMENT SCHEDULES	83
ITEM 16.	FORM 10-K SUMMARY	134
SIGNATURES		**135**

PART I

Forward-Looking Statements

Certain matters discussed in this Annual Report on Form 10-K ("Annual Report") may constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and as such, may involve risks and uncertainties. We claim the protection of the safe harbor contained in the Private Securities Litigation Reform Act of 1995. These forward-looking statements relate to, among other things, the Bank's financial condition, results of operations, plans, objectives, expectations of the environment in which we operate and projections of future performance or business. Such statements can generally be identified by the use of forward-looking language, such as "is expected to," "will likely result," "anticipated," "projected", "estimate," "forecast," "intends to," or may include other similar words, phrases, or future or conditional verbs such as "aims", "believes," "plans," "continue," "remain," "may," "might," "will," "would," "should," "could," "can," or similar language. Forward-looking statements by us are based on estimates, beliefs, projections and assumptions of management and are not guarantees of future performance. Our actual results, performance, or achievements may differ significantly from the results, performance, or achievements expected or implied in such forward-looking statements. When considering these statements, you should not place undue reliance on these statements, as they are subject to certain risks and uncertainties, as well as any cautionary statements made within this Annual Report, and should also note that these statements are made as of the date of this Annual Report and based only on information known to us at that time.

Factors causing risk and uncertainty, which could cause future results to be materially different from forward-looking statements contained in this Annual Report as well as from historical performance, include but are not limited to:

- Regulatory decisions regarding the Bank, and impact of future regulatory and governmental agency decisions including Basel III capital standards
- Adequacy of allowance for loan and lease loss estimates in comparison to actual future losses
- Necessity of additional capital in the future, and possible unavailability of that capital on acceptable terms
- Economic and market conditions that may adversely affect the Bank and our industry
- Possible loss of members of senior management or other key employees upon whom the Bank heavily relies
- Variations in interest rates which may negatively affect the Bank's financial performance
- Changes in governmental or bank-established interest rates or monetary policies, including the anticipated replacement of the LIBOR index on our loans which are tied to that index
- Strong competition from other financial service entities
- Possibility that the Bank's underwriting practices may prove not to be effective
- Changes in the commercial and residential real estate markets that could adversely affect the collateral value supporting our loans and increase charge-offs
- Adverse economic conditions in Asia which could negatively impact the Bank's business
- Catastrophic events, acts of war or terrorism, or natural disasters, such as earthquakes, drought, pandemic diseases (including the novel coronavirus) or extreme weather events, any of which

may affect services we use or affect our customers, employees or third parties with which we conduct business, could negatively impact the Bank's business

- Geographic concentration of our operations
- The economic impact of Federal budgetary policies
- Failure to attract deposits, inhibiting growth
- Interruption or break in the communication, information, operating, and financial control systems upon which the Bank relies
- Changes in federal and state laws or the regulatory environment including regulatory reform initiatives and policies of the U.S. Department of Treasury, the Board of Governors of the Federal Reserve Board System, the Federal Deposit Insurance Corporation, the Consumer Financial Protection Bureau and the California Department of Business Oversight
- Changes in accounting standards as may be required by the Financial Accounting Standards Board or other regulatory agencies and their impact on critical accounting policies and assumptions
- Potential changes in the U.S. government's monetary policies
- Environmental liability with respect to properties to which the Bank takes title
- Negative publicity
- Information technology and cyber security incidents, disruptions or attacks and the possible blocking, theft or loss of Bank or customer access, functionality, data, funding or money

These factors are further described in this Annual Report within Item 1A. We do not undertake, and we specifically disclaim any obligation to update any forward-looking statements to reflect the occurrence of events or circumstances after the date of such statements except as required by law.

ITEM 1. BUSINESS

References in this Annual Report to "we," "us," or "our," and the "Bank" mean Preferred Bank and its wholly-owned subsidiary, PB Investment and Consulting, Inc., or PB Consulting, which has no current operations.

General

We are one of the larger independent commercial banks in California focusing primarily on the diversified California market, with a historical niche in 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. Although founded as a Bank that primarily serves the Chinese-American community, the majority of our current business activities come from the diverse mainstream markets of Southern and Northern California as well as Flushing, New York. 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 ("FDIC"). We are a member of the Federal Home Loan Bank ("FHLB") of San Francisco and of the FHLB of New York.

At December 31, 2019, our total assets were $4.63 billion, loans were $3.72 billion, deposits were $3.98 billion and shareholders' equity grew to $470.0 million. These balances all saw increases from assets of $4.22 billion, loans of $3.33 billion, deposits of $3.64 billion, and shareholders' equity of $416.7 million as of December 31, 2018. We had net earnings per share on a diluted basis of $5.16 for the year ended December 31, 2019 as compared to net earnings of $4.64 per share for the year ended

December 31, 2018 and net earnings per share of $2.96 for the year ended December 31, 2017. Net interest income before provision for credit losses increased to $164.6 million for the year ended December 31, 2019, up from $154.2 million for the year ended December 31, 2018 and $129.7 million for the year ended December 31, 2017. We recorded a provision for credit losses of $3.5 million in 2019, down from the provision of $10.1 million recorded in 2018 and $5.5 million recorded in 2017.

We provide personalized deposit products and services as well as real estate finance, commercial loans and trade finance credit facilities to small and mid-sized businesses and their owners, entrepreneurs, real estate developers and investors, professionals and high net worth individuals. Traditionally, we have been more focused on businesses as opposed to retail customers and have a small relative number of customer relationships for whom we provide a high level of service and personal attention. During 2017, we created a home mortgage loan department and began originating home mortgage loans as well as purchasing certain pools of mortgage loans.

We derive our income primarily from interest received from our loan and investment portfolios as well as our cash, 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 mostly within Southern California, to fund our loan and investment activities.

We conduct operations from our main office in downtown Los Angeles, California and through eleven full-service branch banking offices in Los Angeles, Orange, and San Francisco Counties in California, as well as one location in Queens County in New York. We market our services and conduct our business primarily in the same markets as our branch office locations.

Our main office is located at 601 S. Figueroa Street, 47th Floor, Los Angeles, CA 90017 and our telephone number is (213) 891-1188. Our website is *www.preferredbank.com*. Under the Investor Relations tab on our web site (See "Company Filings"), 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 FDIC:

- Our annual report on Form 10-K;
- Our quarterly reports on Form 10-Q;
- Our current reports on Form 8-K;
- Any amendments to such reports filed with or furnished to the FDIC pursuant to Section 13(a) or 15(d) of the Exchange Act;
- 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 Exchange Act; and
- Our Form 4 statements of holdings of our directors and executive officers.

All such filings are available on our website 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 Annual Report. 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 portion of our real estate loans are to borrowers who are also international trade finance 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. Additionally, we provide a full range of deposit products and related services including safe deposit boxes, account reconciliation, courier service and cash management services.

- *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.

- *High-wealth 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.

- *Mortgage*—we provide a wide array of financing options for the purchase and refinance of single family residential homes and condominiums. Typically these loans are not 'Qualifying Mortgages' ("QM") as defined by the Consumer Financial Protection Bureau ("CFPB"). Loans originated that qualify as QM's are typically sold to the Federal Home Loan Mortgage Corporation ("FHLMC", or "Freddie Mac"). All other loans originated are for the Bank's own portfolio.

We provide an internet banking website with bill pay and treasury management services as well as mobile banking for phone and tablet applications for our clients. In 2019, we also began to offer online account opening for certain deposit products. Our focus on technology and on providing the most relevant products and services to our clients is of utmost importance.

Our Current Focus

Our current business focus is maintaining a high level of credit quality while continuing our organic growth which has been such a successful part of our operating strategy. Traditionally the Bank has always placed a greater emphasis on gathering deposits rather than loans, knowing that the deposit relationships are what drive a great deal of the franchise value of the Bank.

Our organic growth generally has come from our business development personnel which includes loan officers, deposit officers and relationship managers. Our historic success in our ability to grow organically has come from our ability to attract and retain top level bankers in the markets we serve.

Our continued success in organic growth will be somewhat dependent on our ability to continue to grow our business development personnel ranks.

Our Market

We conduct operations from our main office in downtown Los Angeles, California and through eleven full-service branch banking offices in Los Angeles, Orange, and San Francisco Counties in California, and one full-service branch in Queens County, New York, as of December 31, 2019. We market our services and conduct our business primarily in the same markets as our branch office locations.

We believe we compete effectively with the Chinese-American community banks, the mainstream community banks, larger commercial banks and major publicly listed and foreign-owned Chinese banks operating in both California and in New York by offering the following:

- Deposit and cash management services, internet, mobile and tablet banking 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;
- Credit decisioning and execution on a pace far exceeding that of larger banks and which our clients value greatly 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 primarily of the following four categories of loans:

- Real estate mortgage loans;
- Real estate construction loans;
- Commercial loans; and
- Trade finance.

We manage our loan portfolio to provide for an adequate return, but also provide for diversification of risk. We also 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, 2019, we had a total of $488.0 million in purchased participation loans and $69.9 million in loan participations that we sold. Of the $488.0 million in purchased participations, $115.5 million are loans made to our own relationship customers, which have outgrown our lending limits, but who desire to continue their relationship with us. We believe this is a very important characteristic of the purchased loan portfolio, as we have a very good understanding of these clients which we believe helps mitigate the risk of defaults.

We have historically originated our loans from our banking offices in Los Angeles, Orange, and San Francisco counties. During 2015, the acquisition of United International Bank, or UIB, resulted in an additional office from which loans could be originated in the Northeast Tri-State Area (New York, New Jersey and Connecticut). For mini-perm and construction loans, we have relied on referrals from existing clients who are real estate investors, owner/operators, 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 consultants.

At December 31, 2019, 67% of our loans carried interest rates that adjust with changes in the Prime Rate, 24% carried interest rates tied to the London Interbank Offered Rank (“LIBOR”) or other indices and 9% carried a fixed rate or were tied to rates on certificates of deposit (“CDs”). Approximately 75% of our loan portfolio has an interest rate floor.

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

	At December 31, 2019
	(Dollars in thousands)
Real Estate Mini-Perm	
Portfolio size	$1,984,236
Number of loans	616
Average loan size	$ 3,221
Average LTV(1)	55%
Average DCR(2)	1.84x
Weighted average rate	5.57%
Average years since origination	2.7 years
Residential Mortgage	
Portfolio size	$ 213,523
Number of loans	332
Average loan size	$ 643
Average LTV(1)	60%
Weighted average rate	4.48%
Average years since origination	1.5 years
Real Estate Construction	
Portfolio size	$ 392,513
Number of loans	101
Average loan size	$ 3,886
Average LTV(1)	53%
Weighted average rate	6.00%
Average years since origination	2.0 years
Commercial Loans	
Portfolio size	$1,112,276
Number of loans	1,340
Average loan size	$ 830
Weighted average rate	5.23%
Average years since origination	2.7 years
Trade Finance	
Portfolio size	$ 20,353
Number of loans	103
Average loan size	$ 198
Weighted average rate	5.05%
Average years since origination	1.5 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.

As of December 31, 2019, we had 523 loans with outstanding principal balances between $1 million to $5 million, 100 loans with outstanding principal balances between $5 million and $10 million, and 71 loans with outstanding principal balances over $10 million.

Real Estate Mortgage Loans

Our Real Estate Mortgage portfolio consists primarily of real estate mini-perm loans, as well as residential mortgages. Real estate loans are secured by retail, industrial, office, special purpose, and residential single and multi-family properties and comprise 59% of our loan portfolio as of December 31, 2019. 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 and industry concentrations. Total real estate loans were $2.20 billion at December 31, 2019 as compared to $1.96 billion as of December 31, 2018. Net recoveries of real estate loans totaled $314,000 and accounted for 99.7% of total net recoveries during 2019. Net charge-offs of real estate loans were $5.7 million and accounted for 63.9% of total net loan charge-offs during 2018 and primarily were related to charge-offs associated with a single New York nonperforming loan relationship. Through bankruptcy proceedings, we acquired the title to and liquidated the New York multi-family properties in the first quarter of 2019. Charge-offs associated with these loans totaled $5.7 million during 2018.

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

	At December 31, 2019	
Property Type	**Amount**	**Percentage of Loans in Each Category in Total Loan Portfolio**
	(Dollars in thousands)	
Commercial / Office	$ 307,241	8.25%
Retail(1)	444,007	11.92
Industrial	239,181	6.42
Residential 1 - 4	461,528	12.39
Apartment 4+	225,378	6.05
Land	7,838	0.21
Special purpose(2)	514,165	13.80
Total	$2,199,338	59.04%

(1) Includes shopping centers, strip malls or stand-alone properties which house retailers.

(2) Examples include hospitality and self-storage.

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

At December 31, 2019						
Less than						
1 Year	**2 Years**	**3 Years**	**4 Years**	**5 Years**	**More Than 5 Years**	**Total Outstanding Balance**
(In thousands)						
$468,702	$345,194	$296,164	$315,988	$361,885	$411,405	$2,199,338

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 and guarantor(s). 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 our Credit Administration Department.

All appraisals for loans over $250,000 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 the loan officer 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 senior management or a 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 Centralized 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 50%-85%, depending on the property type. However, our practice is to lend at a maximum LTV of 65%.
- Minimum DCR of 1.10-1.25, 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 adversely classified loans, we order new appraisals every twelve months.

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

In addition to originating real estate mini-perm loans, from time to time the Bank will purchase a portfolio of residential single family mortgage loans. The total residential single family mortgage loan balance was $213.5 million at December 31, 2019 and was $123.4 million at December 31, 2018. Of that, $103.5 million and $79.3 million were purchased residential mortgage loans and the remainder were originated by our mortgage department at December 31, 2019 and 2018, respectively.

Real Estate Construction

Our construction loans are typically short-term loans of up to 24 months for the purpose of funding the costs of constructing a building. Construction loan net charge-offs during 2019 and 2018 were zero, respectively, during each of these periods. We had 101 construction loans totaling

$392.5 million as of December 31, 2019, and 88 construction loans totaling $346.7 million as of December 31, 2018. Outstanding construction loans by property type are summarized as follows:

	At December 31, 2019	
Property Type	Amount	Percentage of Loans in Each Category in Total Loan Portfolio
	(Dollars in thousands)	
Commercial / Office	$ 34,762	0.93%
Retail(1)	24,693	0.66
Industrial	11,665	0.31
For sale attached residential	77,333	2.08
For sale detached residential	96,618	2.59
Apartment 4+	78,768	2.11
Land / Special Purpose(2)	68,674	1.84
Total	$392,513	10.54%

(1) Includes shopping centers, strip malls or stand-alone properties which house retailers.

(2) Examples include hospitality and self-storage

Loan Origination: The origination process for construction loans is similar to our real estate mini-perm origination process described above under "—Real Estate Mortgage Loans—Loan Origination," but with one additional step. For construction loans, we require a third party review of the developer's proposed building costs for large scale projects, and for other building projects on a case-by-case basis.

Underwriting Standards: Our underwriting standards for construction loans are identical to those described above under "—Real Estate Mortgage Loans—Underwriting Standards." For the for-sale-housing projects, DCR analysis is required. In addition, we require that the construction loan applicant has proven experience in the type of project under consideration. Finally, notwithstanding the maximum 50-80% LTV discussed above under "—Real Estate Mortgage Loans—Underwriting Standards," we generally require a maximum 65% 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 an evaluation and recommendation for each project. The Chief Credit Officer or Credit Administration Department 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 typically requires a deposit relationship with commercial borrowers. As of December 31, 2019, we had $1.11 billion of commercial loans outstanding, which represented 29.8% of the overall loan portfolio, compared to $1.01 billion outstanding as of December 31, 2018, which represented 30.2% of

the overall portfolio as of that time. This loan category has traditionally experienced lower loss rates, particularly when compared to the loss rates on construction and land loans. Currently, the Bank is working to 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 which is typically more concentrated in real estate-related loans. Lines of credit typically have a one to two year commitment and are secured by the borrower's assets. In cases of larger commitments, an updated borrowing base 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 $20.4 million, or 0.5% of our total loan portfolio as of December 31, 2019, compared to $22.0 million, or 0.7%, as of December 31, 2018. 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 both 2019 and 2018, there were no charge-offs or recoveries on trade finance loans. 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 or trade finance loan begins with a loan officer obtaining preliminary financial information from the borrower and guarantor(s) 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 by the loan officer and submitted to senior management or the loan committee having the appropriate approval authority for review. After approval, the Centralized 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 and trade finance 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 criterion. We require a minimum 1.25:1 DCR for our commercial and trade finance 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 the 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 their company's 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 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.

As of both December 31, 2019 and 2018, the percentage of loans secured by real estate in our total loan portfolio was approximately 70% and 69%, respectively.

Our combined construction and real estate loans by type of collateral are as follows:

	At December 31, 2019	
Property Type	Amount	Percentage of Loans in Each Category in Total Loan Portfolio
	(Dollars in thousands)	
Commercial/Office	$ 342,003	9.18%
Retail(1)	468,700	12.58
Industrial	250,846	6.73
Residential 1 - 4	538,861	14.47
Apartment 4+	321,996	8.64
Land	86,606	2.33
Special purpose(2)	582,839	15.65
Total	$2,591,851	69.58%

(1) Includes shopping centers, strip malls or stand-alone properties which house retailers.

(2) Examples include hospitality and self-storage.

To manage the risks inherent in concentrations 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 as high as the maximum loan-to-values listed below.

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, 2019, the weighted average LTV of our construction and commercial real estate portfolio based on LTVs at the time of origination was 55%. Our practice is to require DCR's on commercial real estate loans of 1.10x to 1.25x, depending on the property type. We also underwrite our commercial real estate loans using a rate that is approximately 1% greater than the proposed interest rate on the loan. This is because a majority of our loans are floating rate.

Except as described above, 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 70% of our loan portfolio at December 31, 2019 consisted of real estate secured loans. At December 31, 2019, we had 694 loans in excess of $1.0 million, totaling $3.28 billion. These loans comprise approximately 28% of our loan portfolio based on number of loans and 88% based on the total outstanding balance. Excluding 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, 2019 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, 2019				Rate Structure for Loans Maturing Over One Year	
	Maturity					
	One Year or Less	One through Five Years	Over Five Years	Total	Fixed Rate	Floating Rate
	(In thousands)					
Real estate mortgage	$ 468,702	$1,319,230	$411,406	$2,199,338	$159,156	$1,571,480
Real estate construction	346,114	46,399	—	392,513	—	46,399
Commercial	454,444	544,417	113,415	1,112,276	42,100	615,732
Trade finance	11,153	9,200	—	20,353	—	9,200
Other	442	—	—	442	—	—
Total	$1,280,855	$1,919,246	$524,821	$3,724,922	$201,256	$2,242,811

The following table shows the amounts of loans outstanding as of December 31, 2018, 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, 2018				Rate Structure for Loans Maturing Over One Year	
	Maturity					
	One Year or Less	One through Five Years	Over Five Years	Total	Fixed Rate	Floating Rate
	(In thousands)					
Real estate mortgage	$ 365,432	$1,173,790	$417,806	$1,957,028	$ 67,437	$1,524,160
Real estate construction	296,144	50,521	—	346,665	—	50,521
Commercial	381,887	519,707	105,893	1,007,487	38,490	587,109
Trade finance	15,865	6,150	—	22,015	—	6,150
Other	182	—	—	182	—	—
Total	$1,059,510	$1,750,168	$523,699	$3,333,377	$105,927	$2,167,940

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

To ensure strength and diversity of the credit portfolio, the authorizations and approvals required to originate various loan types are detailed as follows:

- *Executive Authorities.* Our Chief Executive Officer, Chief Operating Officer and Chief Credit Officer have combined approval authority up to $12.0 million for real estate secured loans and up to $8.0 million for unsecured transactions. Loans in excess of these two limits are submitted to our Board of Directors Loan Committee for approval. The Bank does not grant individual loan authority.

- *Board of Directors Loan Committee.* Our Board of Directors Loan Committee consists of three members of the Board of Directors and our Chief Executive Officer. It has approval authority up to our legal lending limit, which was approximately $148.7 million for real estate secured loans and $89.2 million for unsecured loans at December 31, 2019. 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.

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 two 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 our Chief Executive Officer, Chief Operating Officer, 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.

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 and lease 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 over $1.0 million 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 (grade 5), substandard (6) or doubtful (7), 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:

- Quarterly covenant tracking of commercial loans over $1 million;
- Semi-annual stress testing of real estate loans over $1.5 million;
- Semi-annual third party loan reviews;
- 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.

Purchased Loan Participations

As of December 31, 2019, we had a total of $488.0 million in purchased participation loans and $69.9 million in loan participations that we sold. Of the $488.0 million in purchased participations, $115.5 million are loans made to our own relationship customers, or former relationship customers, which we believe helps mitigate the risk of default. These loans include commercial real estate, construction and commercial loans. There was one $0.5 million charge-off of a loan participations during 2019 and none during 2018 and 2017. These loans are underwritten using the same standards as loans that the Bank originates directly.

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.

The following table shows the balance of each major category of deposits at December 31, 2019 and 2018:

	December 31, 2019		December 31, 2018	
	Amount	% of Total Deposits	Amount	% of Total Deposits
	(Dollars in thousands)			
Noninterest-bearing deposits	$ 835,790	20.98%	$ 730,096	20.06%
Interest-bearing deposits:				
Interest-bearing demand	1,328,863	33.36%	1,397,006	38.39%
Savings	23,784	0.60%	20,369	0.56%
Time certificates of $250,000 or more	976,727	24.52%	738,626	20.29%
Other time certificates	818,130	20.54%	753,588	20.70%
Total deposits	$3,983,294	100.00%	$3,639,685	100.00%

Total deposits were $3.98 billion as of December 31, 2019, of which 21.0% were demand deposits, 34.0% were in savings and interest-bearing checking, 24.5% were in CD's greater than $250,000 and 20.5% 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.

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 $250,000, which are commonly referred to as Jumbo CDs.

We provide a wide array of deposit products. We offer regular checking, savings and money market deposit accounts; fixed-rate, fixed maturity retail certificates of deposit ranging in terms from one month to three 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, maintain cost effectiveness and satisfy our liquidity requirements. We provide remote deposit capture both through online and mobile banking or 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 the 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, 8% 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.

The Bank has a robust Contingency Funding Plan which is designed to identify potential liquidity events, specifies monitoring requirements and also indicates steps to be taken in order to raise liquidity levels to ensure that the Bank has sufficient liquidity. On a quarterly basis, management prepares liquidity stress simulations according to the steps outlined in the Contingency Funding Plan in order to assess the effectiveness of our Contingency Funding Plan Due to the high levels of cash on hand and marketable securities as well as ongoing monitoring and forecasting efforts, management is confident that the Bank has sufficient liquidity to meet all of its obligations for at least the next twelve months.

At December 31, 2019, excluding government deposits, brokered deposits and deposits as direct collateral for loans, we had 163 depositors with deposits in excess of $3.0 million that totaled $1.76 billion, or 44.1% of our total deposits.

We'll continue to focus our efforts on attracting deposits from our business lending relationships in order to reduce our cost of funds, improve our net interest margin and enhance the franchise value of the Bank.

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.

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, 2019 compared to $1.3 million outstanding as of December 31, 2018. At December 31, 2019, approximately $553.6 million of the Bank's real estate loans was pledged as collateral with the Federal Home Loan Bank and the corresponding borrowing capacity was $365.7 million. In addition, we have pledged $120.3 million in securities at the Federal Reserve Bank Discount Window and may borrow against that as well.

Our Investment Activities

Our investment strategy is designed to be complementary to and interactive with our other strategies (*i.e.*, cash position; borrowed funds; maturity distribution, quality 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 although the level of percentage is smaller as of December 31, 2019. This is due to the overall low level of interest rates relative to cash and prospect of higher interest rates. Management did not want to invest in longer duration investment securities that yielded barely more than cash, only to see their value decline in a rising rate environment. Therefore, the Bank's cash levels have been much higher than they have been historically. 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 carrying value of investment securities (including both securities held-to-maturity and securities available-for-sale) amounted to $248.0 million and $190.4 million as of December 31, 2019 and 2018, respectively. Investment securities consist primarily of investment grade corporate notes, municipal bonds, collateralized mortgage obligations, U.S. government agency securities, U.S. treasury bills, and U.S. agency mortgage-backed securities.

As of both December 31, 2019 and 2018, the Bank had two investment securities with total amortized cost of $7.3 million and $8.0 million, respectively, classified as "held-to-maturity." The

remainder of our investment securities is classified as "available-for-sale" pursuant to Investments—Debt and Equity Securities Topic of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("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 are securities for which we have both the intent and the ability to hold to maturity. These securities are carried at cost adjusted for amortization of premium and accretion of discount.

On January 1, 2018, the Bank adopted ASU 2016-01, Financials Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. Among other requirements, ASU 2016-01 requires equity investments with readily determinable fair values to be measured at fair value with changes in fair value recognized in net income. ASU 2016-01 requires a cumulative-effect adjustment to the statement of financial position as of the beginning of the fiscal year in which the guidance is adopted (that is, a modified-retrospective approach). That approach requires the amounts reported in accumulated other comprehensive income for equity securities that exist as of the date of adoption previously classified as available-for-sale to be reclassified to retained earnings. As of January 1, 2018, the Bank reclassified $197,000 related to previously classified as available-for-sale securities from accumulated other comprehensive income to retained earnings.

Our securities portfolio is managed in accordance with guidelines set by our Asset/Liability and Funds Management Policy ("ALFM"). Specific day-to-day transactions affecting the securities portfolio are managed by our Chief Financial Officer, in accordance with our ALFM . These securities activities are reviewed monthly by our Investment Committee and are reported to our Board of Directors.

Our ALFM addresses strategies, types and levels of allowable investments and is reviewed and approved annually (or more often, as required) 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 places requirements on the securities dealers with whom we can conduct business.

Our Competition

The banking and financial services business in Southern California, the Greater San Francisco Bay Area and the Tri-State area is highly competitive. This increasingly competitive environment faced by banks is a result primarily of changes in laws and regulation, the emergence of non-bank financial service providers, 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 non-bank 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, larger banks which share a focus on the Chinese-American market, and subsidiary banks and branches of foreign banks, from countries such as Taiwan and China, many of which have larger lending limits, and a greater variety of products and services. Additionally, we compete with mainstream community banks and with Chinese-American 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. Most recently, financial technology firms, or "Fintech" firms have created another channel of competition for traditional banks that are not depository partners of these Fintechs. If and to the extent Fintechs are granted bank charters, additional competition will result for traditional banks.

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 mobile banking, internet, ATMs, remote deposit capture and physical branch offices.

Mergers between financial institutions have placed additional pressure on banks to consolidate their operations, reduce expenses and increase revenues to remain competitive. 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.

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.

Foreign Operations

We have no foreign operations.

Segment Information

As discussed above, 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 to be aggregated in one reportable operating segment, which accounted for 100% of our revenue, net income and assets.

REGULATION AND SUPERVISION

The following discussion of statutes and regulations affecting banks is only a summary and does not purport to be complete nor does it address all applicable statutes and regulations. This discussion is qualified in its entirety by reference to such statutes and regulations referred to in this discussion. 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, the Deposit Insurance Fund ("DIF") administered by the FDIC, borrowers and the stability of the U.S. banking system, and not for the benefit of the Bank's shareholders.

As a California state-chartered bank that is not a member of the Federal Reserve System, we are subject to supervision, periodic examination and regulation by the California Department of Business Oversight ("CDBO"), 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, the timing of the availability of deposited funds, the nature and amount of and collateral for certain loans, and numerous other areas. The Bank is subject to significant regulation and restrictions by federal and state laws and regulatory agency regulations, policies and practices. The regulatory agencies have adopted guidelines to assist in identifying and addressing potential safety and soundness concerns before an institution's capital becomes impaired. The guidelines establish operational and managerial standards generally relating to: (1) internal controls, information systems, and internal audit systems; (2) loan documentation; (3) credit underwriting; (4) interest-rate exposure; (5) asset growth and asset quality; and (6) compensation, fees, and benefits. Further, the regulatory agencies have adopted safety and soundness guidelines for asset quality and for evaluating and monitoring earnings to ensure that earnings are sufficient for the maintenance of adequate capital and reserves. If, as a result of an examination, either the CDBO 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 CDBO and the FDIC. These remedies include, but are not limited to, the power to (i) require affirmative action to correct any conditions resulting from any violation or unsafe and unsound 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; (iv) enter into informal nonpublic or formal public memoranda of understanding or written agreements and consent orders 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 officer and director changes or remove officers and directors. Ultimately the FDIC could terminate the Bank's FDIC insurance and the CBDO could revoke the Bank's charter or take possession and close and liquidate the Bank.

Pursuant to the Federal Deposit Insurance Act ("FDI Act") and the California Financial Code, California state chartered commercial banks may generally engage in any activity permissible for national banks. Therefore, 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 or in subsidiaries of bank holding companies. Further, California banks may conduct certain "financial" activities permitted under the Gramm-Leach-Bliley Act of 1999 in a "financial subsidiary" to the same extent as may a national bank, provided the bank is and remains "well-capitalized," "well-managed" and in satisfactory compliance with the Community Reinvestment Act (the "CRA"). 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. The Bank presently has no non-banking or financial subsidiaries other than PB Consulting.

From time to time, federal and state legislation is enacted and implemented by regulations which may have the effect of materially increasing the cost of doing business, limiting or expanding permissible activities, or affecting the competitive balance between banks and other financial services providers. 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 and compliance 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.

Legislative and Regulatory Developments

The Dodd-Frank Act

The implementation and impact of legislation and regulations enacted since 2008 in response to the U.S. economic downturn and financial industry instability continued in 2019 as modest recovery has returned to many institutions in the banking sector. Many institutions have repaid and repurchased U.S. Treasury investments under the Troubled Asset Relief Program and the federal banking agencies continue to implement the remaining requirements in the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank") as well as promulgating other regulations and guidelines intended to assure the financial strength and safety and soundness of banks and the stability of the U.S. banking system. Certain provisions of the Dodd-Frank are effective and have been fully implemented, including the revisions in the deposit insurance assessment base for FDIC insurance and the permanent increase in coverage to $250,000; the permissibility of paying interest on business checking accounts; the removal of barriers to interstate branching and required disclosure and shareholder advisory votes on executive compensation. Implementation in 2014 of additional Dodd-Frank regulatory provisions included aspects of (i) the final new capital rules, and (ii) a final rule to implement the so called "Volcker Rule" restrictions on certain proprietary trading and investment activities. However, on May 24, 2018, the Economic Growth, Regulatory Relief, and Consumer Protection Act was signed into law eliminating the applicability or reducing the requirements of several provisions of Dodd-Frank applicable to banks of our size. (See "The Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018 and the Community Bank Leverage Ratio" described below).

Many of the regulations to implement Dodd-Frank have not yet been published for comment or adopted in final form and/or will take effect over several years, making it difficult to anticipate the overall financial impact on the Bank, our customers or the financial industry more generally. Individually and collectively, these proposed regulations resulting from Dodd-Frank may materially and adversely affect the Bank's business, financial condition, and results of operations.

In the exercise of their supervisory and examination authority, the regulatory agencies have emphasized corporate governance, stress testing, enterprise risk management and other Board responsibilities; anti-money laundering compliance and enhanced high risk customer due diligence; vendor management; cyber security and fair lending and other consumer compliance obligations.

The Economic Growth, Regulatory Relief and Consumer Protection Act of 2018 and the Community Bank

Leverage Ratio

On May 24, 2018, the Economic Growth, Regulatory Relief and Consumer Protection Act of 2018 (the "EGRRCPA") was enacted, which repeals or modifies certain provisions of Dodd-Frank and eases regulations on all but the largest banks. The EGRRCPA's highlights include, among other things: (i) creating a new category of "qualified mortgages" presumed to satisfy ability-to-repay requirements for loans that meet certain criteria and are held in portfolio by banks with less than $10 billion in assets from the ability-to-repay requirements for certain qualified residential mortgage loans held in portfolio; (ii) not require appraisals for certain transactions valued at less than $400,000 in rural areas; (iii) exempt banks that originate fewer than 500 open-end and 500 closed-end mortgages from the Home Mortgage Disclosure Act's expanded data disclosures (with the Bank taking advantage of such exemption); (iv) clarify that, subject to various conditions, reciprocal deposits of another depository institution obtained using a deposit broker through a deposit placement network for purposes of obtaining maximum deposit insurance would not be considered brokered deposits subject to the FDIC's brokered-deposit regulations; and (v) simplify capital calculations by requiring regulators to establish for institutions under $10 billion in assets a community bank leverage ratio (tangible equity to average consolidated assets) at a percentage not less than 8% and not greater than 10% that such institutions may elect to replace the general applicable risk-based capital requirements for determining well-capitalized status.

In September 2019, the FDIC finalized a rule that introduces an optional simplified measure of capital adequacy for qualifying community banking organizations (i.e., the community bank leverage ratio ("CBLR") framework), as required by the EGRRCPA. The CBLR framework is designed to reduce the 15 requirements for calculating and reporting risk-based capital ratios for qualifying community banking organizations that opt into the framework. In order to qualify for the CBLR framework, a community banking organization must have a tier 1 leverage ratio of greater than 9 percent, less than $10 billion in total consolidated assets, and limited amounts of off balance-sheet exposures and trading assets and liabilities. A qualifying community banking organization that opts into the CBLR framework and meets all requirements under the framework will be considered to have met the well capitalized ratio requirements under the Prompt Corrective Action regulations and will not be required to report or calculate risk-based capital. The CBLR framework will be available for banks to use in their March 31, 2020, Call Report. We have determined that we will opt in to the CBLR framework. The FDIC also finalized a rule that permits non-advanced approaches banking organizations to use the simpler regulatory capital requirements for mortgage-servicing assets, certain deferred tax assets arising from temporary differences, investments in the capital of unconsolidated financial institutions, and minority interest when measuring their tier 1 capital as of January 1, 2020. Banking organizations may use this new measure of tier 1 capital under the CBLR framework.

Capital Adequacy Requirements

Banks are subject to various regulatory capital requirements administered by state and federal banking agencies. New capital rules described below were effective on January 1, 2014, and are being phased in over various periods. The basic capital rule changes, which were fully effective on January 1, 2015, have been fully phased in. Capital adequacy guidelines and prompt corrective action regulations (See "Prompt Corrective Action Regulations" below) involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weighting, and other factors. The risk-based capital guidelines for bank holding companies and banks require capital ratios that vary based on the perceived degree of risk associated with a banking organization's operations for both transactions reported on the balance sheet as assets, such as loans,

and those recorded as off-balance sheet items, such as commitments, letters of credit and recourse arrangements. 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 risks and dividing its qualifying capital by its total risk-adjusted assets and off-balance sheet items. Banks engaged in significant trading activity may also be subject to the market risk capital guidelines and be required to incorporate additional market and interest rate risk components into their risk-based capital standards.

Under the risk-based capital guidelines in place prior to the effectiveness of the new capital rules, there were three fundamental capital ratios: a total risk-based capital ratio, a Tier 1 risk-based capital ratio and a Tier 1 leverage ratio. To be deemed "well capitalized" a bank must have a total risk-based capital ratio, a Tier 1 risk-based capital ratio and a Tier 1 leverage ratio of at least ten percent, six percent and five percent, respectively.

Prompt Corrective Action Regulations

The FDI Act requires the federal bank regulatory agencies 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. Depending on a bank's capital ratios, the agencies' regulations define five categories in which an insured depository institution will be placed: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. At each successive lower capital category, an insured bank is subject to more restrictions, including restrictions on the bank's activities, operational practices or the ability to pay dividends. Based upon its capital levels, a bank that is classified as well capitalized, adequately capitalized, or undercapitalized may be treated as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for hearing, determines that an unsafe or unsound condition, or an unsafe or unsound practice, warrants such treatment.

The prompt corrective action standards were changed when the new capital rule ratios became effective. Under the new standards, in order to be considered well capitalized, the Bank is required to meet the new Common Equity Tier 1 ratio of 6.5%, an increased Tier 1 ratio of 8% (increased from 6%), a total capital ratio of 10% (unchanged) and a leverage ratio of 5% (unchanged).

The regulatory capital guidelines as well as the Bank's actual capitalization as of December 31, 2019, are as follows:

Tier 1 Leverage Ratio	
Preferred Bank	10.32%
Minimum requirement for "Well Capitalized" institution	5.00%
Common Equity Tier 1 Risk-Based Capital Ratio	
Preferred Bank	10.57%
Minimum requirement for "Well Capitalized" institution	6.50%
Tier 1 Risk-Based Capital Ratio	
Preferred Bank	10.57%
Minimum requirement for "Well Capitalized" institution	8.00%
Total Risk-Based Capital Ratio	
Preferred Bank	13.70%
Minimum requirement for "Well Capitalized" institution	10.00%

The federal banking agencies may require banks subject to enforcement actions to maintain capital ratios in excess of the minimum ratios otherwise required to be deemed well capitalized, in which case

institutions may no longer be deemed to be well capitalized and may therefore be subject to restrictions on taking brokered deposits.

Capital Rules and Minimum Capital Returns

The federal bank regulatory agencies adopted final regulations in July 2013, which revised their risk-based and leverage capital requirements for banking organizations to meet requirements of Dodd-Frank and to implement Basel III international agreements reached by the Basel Committee. Although many of the rules contained in these final regulations are applicable only to large, internationally active banks, some of them will apply on a phased in basis to all banking organizations, including the Bank.

The following are among the new requirements that were phased in beginning January 1, 2015:

- An increase in the minimum Tier 1 capital ratio from 4.00% to 6.00% of risk-weighted assets;
- A new category and a required 4.50% of risk-weighted assets ratio is established for "Common Equity Tier 1" as a subset of Tier 1 capital limited to common equity;
- A minimum non-risk-based leverage ratio is set at 4.00%, eliminating a 3.00% exception for higher rated banks;
- Changes in the permitted composition of Tier 1 capital to exclude trust preferred securities, mortgage servicing rights and certain deferred tax assets and include unrealized gains and losses on available-for-sale debt and equity securities;
- The risk-weights of certain assets for purposes of calculating the risk-based capital ratios are changed for high volatility commercial real estate acquisition, development and construction loans, certain past due non-residential mortgage loans and certain mortgage-backed and other securities exposures;
- An additional "countercyclical capital buffer" is required for larger and more complex institutions; and
- A new additional capital conservation buffer of 2.5% of risk weighted assets over each of the required capital ratios, which was phased in over four years beginning 2016 and which must be met to avoid limitations on the ability of the Bank to pay dividends, repurchase shares or pay discretionary bonuses.

Including the capital conservation buffer of 2.5%, the new final capital rules result in the following minimum ratios: (i) a Tier 1 capital ratio of 8.5%, (ii) a Common Equity Tier 1 capital ratio of 7.0%, and (iii) a total capital ratio of 10.5%. The new capital conservation buffer requirement began to be phased in beginning in January 2016 at 0.625% of risk-weighted assets and increased each year until it was fully implemented in January 2019. The required capital conservation buffer for 2019 was 2.5%. At December 31, 2019 and 2018, the Bank's capital conservation buffer was 4.51% and 4.38%, respectively.

While the new final capital rule sets higher regulatory capital standards for the Bank, bank regulators may also continue their past policies of expecting banks to maintain additional capital beyond the new minimum requirements. The implementation of the new capital rules or more stringent requirements to maintain higher levels of capital beyond the aforementioned or to maintain higher levels of liquid assets could adversely impact the Bank's net income and return on equity, restrict the ability to pay dividends or executive bonuses and require the raising of additional capital.

Management believes that, as of December 31, 2019, the Bank meets all applicable capital requirements under the new capital rules.

Final Volcker Rule

In December 2013, the federal bank regulatory agencies adopted final rules that implement a part of Dodd-Frank commonly referred to as the "Volcker Rule." Under these rules and subject to certain exceptions, banking entities, including the Bank, when the rules became effective on April 1, 2014 are restricted from engaging in activities that are considered proprietary trading and from sponsoring or investing in certain entities, including hedge or private equity funds that are considered "covered funds." However, the applicability of the Volker Rule to banks of our size was eliminated by the enactment of EGRRCPA.

Cybersecurity

The FRB and other bank regulatory agencies have adopted guidelines that address standards for developing and implementing administrative, technical and physical safeguards to protect the security, confidentiality, and integrity of customer information. These guidelines require each financial institution to create, implement, and maintain a comprehensive written information security program to control the identified risks, commensurate with the sensitivity of the information as well as the complexity and scope of the institution's activities. We have adopted a customer information security program to comply with these requirements.

Federal regulators have issued statements regarding cybersecurity. One statement indicates that financial institutions should design multiple layers of security controls to establish lines of defense and to ensure that their risk management processes also address the risk posed by compromised customer credentials, including security measures to reliably authenticate customers accessing internet-based services of the financial institution. Another statement indicates that a financial institution's management is expected to maintain sufficient business continuity planning processes to ensure the rapid recovery, resumption and maintenance of the institution's operations after a cyber-attack involving destructive malware. A financial institution is also expected to develop appropriate processes to enable recovery of data and business operations and address rebuilding network capabilities and restoring data if the institution or its critical service providers fall victim to this type of cyber-attack. If we fail to observe the regulatory guidance, we could be subject to various regulatory sanctions, including financial penalties. For a further discussion of risks related to cybersecurity, see "Item 1A. Risk Factors" included in this Form 10-K.

Dividends and Other Transfers of Funds

The Bank is subject to various statutory and regulatory restrictions on its ability to pay dividends. 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.

The ability of the Bank to declare cash dividends is subject to California law, which limits the amount available for cash dividends to the lesser of the Bank's retained earnings or net income for its last three fiscal years (less any distributions made to shareholders during that period). This restriction may only be exceeded with advance approval of the CDBO, which may approve declaration of an amount not exceeding the greatest of retained earnings of the Bank, the Bank's prior fiscal year net income, or the Bank's current fiscal year net income.

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 DIF up to prescribed limits for each depositor. Dodd-Frank revised the FDIC's DIF management authority by

setting requirements for the Designated Reserve Ratio ("DRR") (the DIF balance divided by estimated insured deposits) and redefining the assessment base, which is used to calculate banks' quarterly assessments. The amount of FDIC assessments paid by each DIF member institution is based on its relative risk of default as measured by regulatory capital ratios and other supervisory factors. The FDIC may terminate a depository institution's deposit insurance upon a finding that the institution's financial condition is unsafe or unsound or that the institution has engaged in unsafe or unsound practices that pose a risk to the DIF or that may prejudice the interest of the bank's depositors. The termination of deposit insurance for a bank would also result in the revocation of the bank's charter by the CDBO.

Our FDIC insurance expense totaled $830,000 for 2019. We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance, which can be affected by the cost of bank failures to the FDIC among other factors.

On September 30, 2018, the DIF reached 1.36%. Because the reserve ratio has exceeded 1.35%, two deposit insurance assessment changes occurred under the FDIC regulations: 1) surcharges on large banks (total consolidated assets of $10 billion or more) ended; the last surcharge on large banks was collected on December 28, 2018 and 2) small banks (total consolidated assets of less than $10 billion) were awarded assessment credits for the portion of their assessments that contributed to the growth in the reserve ratio from 1.15% to 1.35%, to be applied when the reserve ratio is at least 1.38%. The FDIC will, at least semi-annually, update its income and loss projections for the DIF and, if necessary, propose rules to further increase assessment rates. Any future increases in FDIC insurance premiums may have a material and an adverse effect on our earnings and could have a material effect on the value of, or market for, our common stock.

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, 2019, the Bank had no outstanding FHLB advances. At December 31, 2019, the Bank was in compliance with the FHLB's stock ownership and cash reserve requirements. As of December 31, 2019 and 2018, our investment in FHLB capital stock totaled $13.1 million and $11.9 million, respectively.

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 Exchange Act as adopted by the FDIC and the regulations of the Securities and Exchange Commission (the "SEC") promulgated thereunder to the extent such regulations have been adopted by the FDIC as well as listing requirements of NASDAQ.

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 as adopted by the FDIC for board audit committees and their members, and disclosure of controls and procedures and internal control over financial reporting.

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 and lease losses, capital notes and debentures of the bank. Unsecured obligations may not exceed 15% of the sum of the shareholders' equity, allowance for loan and lease 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 state chartered bank. At December 31, 2019, the Bank's largest single lending relationship had a combined outstanding balance of $127.9 million, secured predominantly by commercial real estate properties in the Bank's primary 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 CDBO 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 non-banking 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 and state anti-money laundering and consumer protection statutes and implementing regulations, including the USA PATRIOT Act of 2001, the Bank Secrecy Act, the Foreign Account Tax Compliance 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 California Homeowner Bill of Rights and various federal and state privacy protection laws. Noncompliance with any of these laws could subject the Bank to compliance enforcement actions as well as lawsuits and could also result in administrative penalties, including, fines and reimbursements. The Bank is also subject to federal and state laws prohibiting unfair or fraudulent business practices, untrue or misleading advertising and unfair competition.

These laws and regulations mandate certain disclosure and reporting requirements and regulate the manner in which financial institutions must deal with customers when taking deposits, making loans, servicing, collecting and foreclosure of 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.

Dodd-Frank provided for the creation of the Consumer Finance Protection Bureau ("CFPB") as an independent entity within the Federal Reserve with broad rulemaking, supervisory and enforcement authority over consumer financial products and services, including deposit products, residential mortgages, home-equity loans and credit cards. The CFPB's functions include investigating consumer complaints, conducting market research, rulemaking, supervising and examining bank consumer transactions, and enforcing rules related to consumer financial products and services. CFPB regulations and guidance apply to all financial institutions and banks with $10 billion or more in assets. Accordingly, these financial institutions and banks are subject to examination by the CFPB. Banks with less than $10 billion in assets, including the Bank, will continue to be examined for compliance by their primary federal banking agency.

In 2014, the CFPB adopted revisions to Regulation Z, which implement the Truth in Lending Act, pursuant to Dodd-Frank, and apply to all consumer mortgages (except home equity lines of credit, timeshare plans, reverse mortgages, or temporary loans). The revisions mandate specific underwriting criteria for home loans in order for creditors to make a reasonable, good faith determination of a consumer's ability to repay and establish certain protections from liability under this requirement for "qualified mortgages" meeting certain standards. In particular, it will prevent banks from making "no doc" and "low doc" home loans, as the rules require that banks determine a consumer's ability to pay based in part on verified and documented information. Because we do not originate "no doc" or "low doc" loans, we do not believe this regulation will have a significant impact on our operations. However, because a substantial portion of the mortgage loans originated by the Bank do not meet the definition of a "qualified mortgage" under final regulations adopted by the CFPB, the Bank may be subject to additional disclosure obligations and extended time periods for the assertion of defenses by the borrower against enforcement in connection with such mortgage loans.

The review of products and practices to prevent unfair, deceptive or abusive acts or practices ("UDAAP") is a continuing focus of the CFPB, and of banking regulators more broadly. The ultimate impact of this heightened scrutiny is uncertain but could result in changes to pricing, practices, products and procedures. It could also result in increased costs related to regulatory oversight, supervision and examination, additional remediation efforts and possible penalties. In addition, Dodd-Frank provides the CFPB with broad supervisory, examination and enforcement authority over various consumer financial products and services, including the ability to require reimbursements and other payments to

customers for alleged violations of UDAAP and other legal requirements and to impose significant penalties, as well as injunctive relief that prohibits lenders from engaging in allegedly unlawful practices. The CFPB also has the authority to obtain cease and desist orders providing for affirmative relief or monetary penalties. Dodd-Frank does not prevent states from adopting stricter consumer protection standards. State regulation of financial products and potential enforcement actions could also adversely affect the Bank's business, financial condition or results of operations.

Office of Foreign Assets Control Regulation

The U.S. Treasury Department's Office of Foreign Assets Control, or OFAC, administers and enforces economic and trade sanctions against targeted foreign countries and regimes, under authority of various laws, including designated foreign countries, nationals and others. OFAC publishes lists of specially designated targets and countries. We are responsible for, among other things, blocking accounts of, and transactions with, such targets and countries, prohibiting unlicensed trade and financial transactions with them and reporting blocked transactions after their occurrence. Failure to comply with these sanctions could have serious financial, legal and reputational consequences, including causing applicable bank regulatory authorities not to approve merger or acquisition transactions when regulatory approval is required or to prohibit such transactions even if approval is not required. Regulatory authorities have imposed cease and desist orders and civil money penalties against institutions found to be violating these obligations.

Employees

As of December 31, 2019, the Bank had a total of 279 full-time equivalent employees. None of the employees are represented by a union or collective bargaining group. Management believes that employee relations are satisfactory.

Information About Our Executive Officers

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	79	Chairman of the Board and Chief Executive Officer
Wellington Chen	60	President and Chief Operating Officer
Edward J. Czajka	55	Executive Vice President and Chief Financial Officer
Nick Pi	59	Executive Vice President and Chief Credit Officer

(1) As of March 1, 2020.

Li Yu has been Preferred Bank's Chief Executive Officer since 1993 and was the Bank's President from 1993 to August 2012. From December 1991 to the present, he has served as Chairman of the 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.

Wellington Chen has been the President and Chief Operating Officer since August 2012. He joined the Bank in June 2011 as Chief Operating Officer. Prior to joining the Bank, Mr. Chen served over seven years as Executive Vice President and Director of Corporate Banking for EastWest Bank in Pasadena, California where he oversaw a significant portion of the loan and deposit production activities of the bank. Prior to joining East West Bank in December 2003, Mr. Chen was Senior Executive Vice President of Far East National Bank ("Far East") heading up their Commercial Bank Group, Consumer Banking Group, and Branch Channel. He also served on the Board of Directors of Far East. Mr. Chen's career with Far East began in 1986 and included a variety of branch and credit management positions. Prior to that, Mr. Chen spent three years with Security Pacific National Bank where he completed the management training program and served as an asset based lending auditor. Mr. Chen received his Bachelors of Science degree in Business Finance from University of Southern California and is a graduate of Pacific Coast Banking School at University of Washington.

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, (Nasdaq: NOVB) 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 (Nasdaq: PCBC) in Santa Barbara, California. Mr. Czajka graduated Summa Cum Laude from Capella University with a Bachelors of Science in Business Administration and is a graduate of the Bank Administration Institute Graduate School of Banking at Vanderbilt University. Mr. Czajka serves as the Board Treasurer of Inclusion Matters by Shane's Inspiration, a non-profit based in Sherman Oaks, California.

Nick Pi has been with the Bank since 2003 and has been our Executive Vice President Chief Credit Officer since June 2015. Before joining us, 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 Bachelor of Arts degree in Business 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. None of the information on, or hyperlinked, from our website is incorporated into this Report.

We are subject to the reporting and other requirements of the Exchange Act, as adopted by the FDIC. 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.* This statement has not been reviewed, or confirmed for accuracy or relevance, by the FDIC.

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.

Risks Related to Our Business

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. The underwriting and credit monitoring policies and procedures that we have adopted to address this risk may not prevent losses that could have an adverse effect on our business, financial condition, results of operations and cash flows. 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 an economic downturn in the State of California or in the Tri-State area, a reversal of the recent gains made in the California and New York real estate markets, 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 probable incurred losses 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, 2019, we recorded a provision for loan and lease losses and net loan recoveries of $3.5 million and $315,000, respectively, compared to a provision of $10.1 million and net loan charge-offs of $9.0 million for the year ended December 31, 2018.

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 probable incurred losses, we cannot ensure that we will not increase the allowance for loan and lease losses or that regulators will not require us to increase our allowance. Either of these occurrences would not affect cash flow directly but could materially adversely affect our business, financial condition and results of operations.

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

At December 31, 2019, our construction loans were $392.5 million, or 10.6% of our total loans held, and the average loan size of our construction loans was $3.9 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.

Future regulatory requirements could adversely affect us.

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. The implementation of certain final Dodd-Frank rules is delayed or phased over several years; therefore, as yet we cannot definitively assess what may be the short or longer term specific or aggregate effect of the full implementation of Dodd-Frank on us. In addition, in an Executive Order signed on February 3, 2017, the President of the United States directed the Secretary of the Treasury, in consultation with federal financial regulators, to assess the rules promulgated under Dodd-Frank since 2010 with a view to producing a plan to revise them as necessary. Finally, the Economic Growth, Regulatory Relief, and Consumer Protection Act was signed into law which eliminated the applicability of certain provisions of Dodd-Frank to banks of our size. We cannot predict the specific impact and long-term effects the Dodd-Frank Act, the regulations promulgated thereunder, or any revisions thereto will have on our financial performance, the markets in which we operate and the financial industry more generally.

Difficult economic and market conditions have adversely affected, and in the future could adversely affect, our industry and us.

Our operations and performance depend significantly on global, national and local economic conditions. During 2008-2010, dramatic declines in the housing market, with decreasing home prices and increasing delinquencies and foreclosures, negatively impacted the credit performance of mortgage and construction loans and resulted in significant write-downs of assets by many financial institutions. Although the national and local economies have improved dramatically, geopolitical, regulatory and other unforeseen events continue to have an impact on the economy and our markets. In particular, we may face the following risks in connection with these events:

- 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.

These and other global, national and local economic events and conditions including the impact of public health epidemics on the global economy, such as the coronavirus currently impacting China, could have a material adverse impact on demand for our products and services, our results of operations and our financial condition.

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, Chairman and Chief Executive Officer, and our President and Chief Operating Officer, Wellington Chen. Mr. Yu, who founded the Bank, and Mr. Chen, are both integral to implementing our business plan. We currently do not have an employment agreement or non-competition agreement with Messrs. Yu or Chen or 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 or Mr. Chen, 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 commercial 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.

Our operations are concentrated geographically in California, particularly Southern California, and poor economic conditions in this area could adversely affect the demand for our products and our credit quality.

Our operations are located primarily in Southern California. Local economic conditions in Southern California can have a significant impact on the demand for our products and services, our loans and wealth management business, the ability of borrowers to pay interest on and repay the principal of these loans, and the value of the collateral securing these loans. Adverse changes in economic conditions in Southern California may negatively affect our business, results of operations or financial condition. Our loan portfolio, in particular, is concentrated in California in general. As of December 31, 2019, approximately 90% of the total dollar amount of our loans outstanding were secured by real estate located in California and the Tri-State Area, and approximately 59% are secured by real estate in Southern California. Declines in values in the California real estate market could have an adverse impact on our borrowers and on the value of the collateral securing many of our loans, which in turn could adversely affect our currently performing loans, leading to future delinquencies or defaults and increases in our provision for loan losses.

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

The majority of the Bank's loans are to customers and businesses in the state of California and/or secured by properties located in the greater Los Angeles metropolitan area. 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 incurred 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. Although management measures the impact of changing interest rates on the Bank's net interest income and believes that current interest rate risk is low, 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 May Be Adversely Impacted By The Transition From LIBOR As A Reference Rate

In 2017, the United Kingdom's Financial Conduct Authority announced that after 2021 it would no longer compel banks to submit the rates required to calculate the London Interbank Offered Rate ("LIBOR"). This announcement indicates that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. Consequently, at this time, it is not possible to predict whether and to what extent banks will continue to provide submissions for the calculation of LIBOR. Similarly, it is not possible to predict whether LIBOR will continue to be viewed as an acceptable market benchmark, what rate or rates may become accepted alternatives to LIBOR or what the effect of any such changes in views or alternatives may be on the markets for LIBOR-indexed financial instruments.

We have a significant number of loans, derivative contracts, borrowings and other financial instruments with attributes that are either directly or indirectly dependent on LIBOR. The transition from LIBOR could create considerable costs and additional risk. Since proposed alternative rates are calculated differently, payments under contracts referencing new rates will differ from those referencing LIBOR. The transition will change our market risk profiles, requiring changes to risk and pricing models, valuation tools, product design and hedging strategies. Furthermore, failure to adequately manage this transition process with our customers could adversely impact our reputation. Although we are currently unable to assess what the ultimate impact of the transition from LIBOR will be, failure to adequately manage the transition could have a material adverse effect on our business, financial condition and results of operations.

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 and Tri-State. The banking and financial services businesses in California and Tri-State are highly competitive and increased competition within California and Tri-State may result in a reduction in the Bank's 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. In addition, we compete with other alternative lenders, including finance companies, private equity and hedge funds, real estate investment funds, business development companies, and "marketplace" and peer-to-peer lenders. 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, verification of liquid assets and any other information deemed relevant. Although we believe that our underwriting criteria are appropriate for the types of loans we make, we cannot be assured that they will be effective in mitigating all risks. If our 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 and lease losses.

A portion of the Bank's loan portfolio is secured by real estate and thus the Bank has a higher degree of risk from a downturn in real estate markets.

A decline in real estate markets could hurt the Bank's business because many of the Bank's loans are secured by 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 governmental statutes, regulations and policies and acts of nature and national disasters, such as earthquakes and wildfires, which are

particular to California. A significant portion of the Bank's real estate collateral is located in California. If real estate values decline, the value of real estate collateral securing the Bank's loans could be significantly reduced. The Bank's ability to recover on defaulted loans by foreclosing and selling the real estate collateral would then be diminished and the Bank would be more likely to suffer losses on defaulted loans. Furthermore, CRE and multifamily loans typically involve large balances to single borrowers or groups of related borrowers. Since payments on these loans are often dependent on the successful operation or management of the properties, as well as the business and financial condition of the borrower, repayment of such loans may be subject to adverse conditions in the real estate market, adverse economic conditions or changes in applicable government regulations. Borrowers' inability to repay such loans may have an adverse effect on the Bank's business.

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, including the impact of public health epidemics, such as coronavirus currently impacting China. 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 our service area; however, we may occationally do loans in other part of United States. If Asian economic conditions should 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, 2019, approximately $20.4 million, or 0.5%, 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 planning to continue to grow the balance sheet, 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. Although we are confident that our liquidity is sufficient, we cannot assure you that our liquidity management 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 to a certain degree on large certificates of deposits (over $250,000) to fund our operations, and the potential volatility of such deposits and the reduced availability of any such funds in the future could adversely impact our growth strategy and prospects.

Our average jumbo deposit customer has been a customer of the Bank for over seven years which indicates that these are long-term customers who consistently renew their CDs with the Bank. At December 31, 2019, we held $976.7 million of Jumbo CDs, representing 24.5% 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 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 be assured 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.

We may be adversely affected by disruptions to our network and computer systems or to those of our service providers as a result of denial-of-service or other cyber attacks.

We may experience disruptions or failures in our computer systems and network infrastructure or in those of our third-party service providers as a result of denial-of-service or other cyber attacks. In recent years, federal and state regulators, including the FDIC, have made statements concerning cybersecurity risk management, preparedness and resiliency for financial institutions such as us. These statements range from issues with respect to client account protections to business continuity, and represent the regulators' expectations for financial institutions to have more robust cybersecurity risk management, preparedness and resiliency programs for themselves and their third-party service providers. A financial institution is also expected to develop processes to enable recovery of data and business operations and address rebuilding network capabilities and restoring data if the institution, or its critical third-party service providers, fall victim to this type of cyber attack. We have developed and continue to invest in, systems and processes that are designed to detect, prevent and minimize the impact of security breaches and cyber attacks. Due to the increasing sophistication of such attacks, we may not be able to prevent denial-of-service or other cyber attacks that could compromise our normal business operations or the normal business operations of our clients, or result in the unauthorized use of clients' confidential and proprietary information. The occurrence of any failure, interruption or security breach of network and computer systems resulting from denial-of-service or other cyber attacks

could damage our reputation, result in a loss of client business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability, any of which could adversely affect our business, results of operations or financial condition.

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 2019, multiple rate decreases in the Fed Funds rate by the Federal Open Market Committee placed 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.

Governmental regulation and enforcement actions against us could impair our operations or restrict our growth and could result in a decrease in the value of your shares.

We are subject to significant governmental supervision and regulation under federal and state laws, as well as supervision and examination by the FDIC, the CDBO, and the CFPB. 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 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 be assured that laws, rules or regulations will not be adopted in the future that 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, which could result in a decrease in the value of your shares.

We face a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti-money laundering statutes and regulations.

The Bank Secrecy Act, the USA PATRIOT Act of 2001, and other laws and regulations require financial institutions, among other duties, to institute and maintain an effective anti-money laundering program and file suspicious activity and currency transaction reports as appropriate. The federal Financial Crimes Enforcement Network is authorized to impose significant civil money penalties for violations of those requirements and has recently engaged in coordinated enforcement efforts with the individual federal banking regulators, as well as the U.S. Department of Justice, Drug Enforcement Administration, and Internal Revenue Service. We are also subject to scrutiny of compliance with the rules enforced by the Office of Foreign Assets Control and compliance with the Foreign Corrupt Practices Act. If our policies, procedures and systems are deemed deficient, we would be subject to

liability, including fines and regulatory actions, which may include restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of our business plan. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for us. Any of these results could materially and adversely affect our business, financial condition and results of operations.

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 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.

The occurrence of fraudulent activity, breaches or failures of our information security controls or cybersecurity-related incidents could have a material adverse effect on our business, financial condition and results of operations.

As a financial institution, we are susceptible to fraudulent activity, information security breaches and cybersecurity-related incidents that may be committed against us or our clients, which may result in financial losses or increased costs to us or our clients, disclosure or misuse of our information or our client information, misappropriation of assets, privacy breaches against our clients, litigation, or damage to our reputation. Such fraudulent activity may take many forms, including check fraud, electronic fraud, wire fraud, online banking fraud, phishing, and other dishonest acts. Information security breaches and cybersecurity-related incidents may include fraudulent or unauthorized access to systems used by us or our clients, denial or degradation of service attacks, and malware or other cyber-attacks. In recent periods, there continues to be a rise in electronic fraudulent activity, security breaches and

cyber-attacks within the financial services industry, especially in the commercial banking sector due to cyber criminals targeting commercial bank accounts. Consistent with industry trends, we have also experienced an increase in attempted electronic fraudulent activity, security breaches and cybersecurity-related incidents in recent periods. Moreover, in recent periods, several large corporations, including financial institutions and retail companies, have suffered major data breaches, in some cases exposing not only confidential and proprietary corporate information, but also sensitive financial and other personal information of their customers and employees and subjecting them to potential fraudulent activity. Some of our clients may have been affected by these breaches, which increase their risks of identity theft, credit card fraud and other fraudulent activity that could involve their accounts with us.

Information pertaining to us and our clients is maintained, and transactions are executed, on the networks and systems of ours, our clients and certain of our third party providers, such as our online banking or core systems. The secure maintenance and transmission of confidential information, as well as execution of transactions over these systems, are essential to protect us and our clients against fraud and security breaches and to maintain our clients' confidence. Breaches of information security also may occur, and in infrequent, incidental, cases have occurred, through intentional or unintentional acts by those having access to our systems or our clients' or counterparties' confidential information, including employees. In addition, increases in criminal activity levels and sophistication, advances in computer capabilities, new discoveries, vulnerabilities in third-party technologies (including browsers and operating systems) or other developments could result in a compromise or breach of the technology, processes and controls that we use to prevent fraudulent transactions and to protect data about us, our clients and underlying transactions, as well as the technology used by our clients to access our systems. Although we have developed, and continue to invest in, systems and processes that are designed to detect and prevent security breaches and cyber-attacks and periodically test our security, our inability to anticipate, or failure to adequately mitigate, breaches of security could result in: losses to us or our clients; our loss of business and/or clients; damage to our reputation; the incurrence of additional expenses; disruption to our business; our inability to grow our online services or other businesses; additional regulatory scrutiny or penalties; or our exposure to civil litigation and possible financial liability—any of which could have a material adverse effect on our business, financial condition and results of operations.

More generally, publicized information concerning security and cyber-related problems could inhibit the use or growth of electronic or web-based applications or solutions as a means of conducting commercial transactions. Such publicity may also cause damage to our reputation as a financial institution. As a result, our business, financial condition and results of operations could be adversely affected.

Failure to maintain effective internal control over financial reporting or disclosure controls and procedures could adversely affect our ability to report our financial condition and results of operations accurately and on a timely basis.

A failure to maintain effective internal control over financial reporting or disclosure controls and procedures could adversely affect our ability to report our financial results accurately and on a timely basis, which could result in a loss of investor confidence in our financial reporting or adversely affect our access to sources of liquidity. Furthermore, because of the inherent limitations of any system of internal control over financial reporting, including the possibility of human error, the circumvention or overriding of controls and fraud, even effective internal controls may not prevent or detect all misstatements.

Changes in accounting standards or inaccurate estimates or assumptions in applying accounting policies could materially impact the Bank's financial statements.

From time to time, the FASB or the SEC may change the financial accounting and reporting standards that govern the preparation of the Bank's financial statements. In addition, the FASB, SEC, banking regulators and the Bank's independent registered public accounting firm may also amend or even reverse their previous interpretations or positions on how various standards should be applied. These changes may be difficult to predict and could impact how we prepare and report the Bank's financial statements. In some cases, we could be required to apply a new or revised standard retroactively, resulting in the Bank revising and republishing prior-period financial statements. In June 2016, the FASB issued a new accounting standard ASU 2016-13, *Financial Instruments—Credit Losses* (Topic 326) that will require the earlier recognition of credit losses on loans and other financial instruments based on an expected loss model, replacing the incurred loss model that is currently in use. The new guidance is effective on January 1, 2020. This new accounting standard is expected to result in an increase in the allowance for credit losses.

Risks Related to Our Common Stock

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

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:

- 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;
- Domestic and international economic factors unrelated to our performance; or
- Other factors identified above in "Forward-Looking Statements."

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.

Federal and state laws and regulations may restrict our ability to pay dividends.

The ability of the Bank to pay dividends to its shareholders is limited by applicable federal and California law and regulations. See "Business—Regulation and Supervision."

We may be subject to risks related to acquisitions.

Among the risks associated with expansion via acquisition are incorrectly assessing the quality of an acquired bank's assets, greater than anticipated costs associated with integrating acquired banks, resistance from customers or employees of acquired banks, and inability to generate a profit using assets acquired in the transaction. Additionally, new region-specific risks are introduced when a bank is acquired outside the Bank's current area of business. If we were to issue capital stock in connection with future transactions, the transactions and related stock issuances may have a dilutive effect on earnings per share and share ownership.

We may not be able to manage our growth successfully.

We seek to grow safely and consistently. Successful and safe growth requires that we follow adequate loan underwriting standards, balance loan, investment portfolio and deposit growth without increasing interest rate risk or compressing our net interest margin, maintain satisfactory regulatory capital at all times, raise capital in advance of growth, scale our operations and systems to support our growth, employ an effective risk management framework and hire and retain qualified employees. If we do not manage our growth successfully, then our business, results of operations or financial condition may be adversely affected. There is no assurance that any new office that we open in connection with our growth will be successful or will otherwise satisfy expectations. In addition, any plans to open new offices may change or become limited.

Our decisions regarding the fair value of assets acquired could be different than initially estimated, which could materially and adversely affect our business, financial condition, results of operations, and future prospects.

In business combinations, we may acquire significant portfolios of loans that are marked to their estimated fair value, there is no assurance that the acquired loans will not suffer deterioration in value. The fluctuations in national, regional and local economic conditions, including those related to local residential, commercial real estate and construction markets, may increase the level of charge-offs in the loan portfolio that we acquire and correspondingly reduce our net income. These fluctuations are not predictable, cannot be controlled and may have a material adverse impact on our operations and financial condition, even if other favorable events occur.

Anti-takeover provisions and federal law may limit the ability of another party to acquire us, which could cause our stock price to decline.

Various provisions of our articles of incorporation and bylaws and certain other actions we have taken could delay or prevent a third-party from acquiring us, even if doing so might be beneficial to our shareholders. The Change in Bank Control Act of 1978, as amended, together with federal regulations, requires that, depending on the particular circumstances, regulatory approval and/or appropriate regulatory filings may be required from the FDIC and/or the CDBO prior to any person or entity acquiring "control" (as defined in the applicable regulations) of a state non-member bank, such as the Bank. These provisions may prevent a merger or acquisition that would be attractive to shareholders and could limit the price investors would be willing to pay in the future for our common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

N/A

ITEM 2. PROPERTIES

Our headquarters and main branch office are located at 601 S. Figueroa Street, 47th and 48th Floor, Los Angeles, California, 90017. This lease expires in August of 2030. In addition to this, we also maintain a leased office property in El Monte, California which houses a number of administrative departments.

At December 31, 2019, we maintained thirteen full-service branch offices in: Flushing, New York, and Alhambra, Arcadia, Century City, City of Industry, Diamond Bar, Irvine, Los Angeles, Pico Rivera, San Francisco (two branches), Tarzana and Torrance, California all of which we lease, except the Irvine branch which we own. We believe that no single lease has annual payments material to our operations. Leases for branch offices are generally 3 to 10 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 $2.5 million for the year ended December 31, 2019 and $3.3 million for the year ended December 31, 2018.

On January 1, 2019, the Company adopted ASU 2016-02, "Leases (Topic 842)", using the modified retrospective approach under ASC 842. Operating lease right-of-use ("ROU") assets represent the Bank's right to use the underlying asset during the lease term and operating lease liabilities represent the Bank's obligation to make lease payments arising from the lease. ROU assets and operating lease liabilities are recognized at lease commencement based on the present value of the remaining lease payments using the Bank's incremental borrowing rate at the lease commencement date. Operating lease expense, which is comprised of amortization of the ROU asset and the implicit interest accreted on the operating lease liability, is recognized on a straight-line basis over the lease term and is recorded in occupancy expense in the Consolidated Statements of Operations and Comprehensive Income.

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. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Market Information

Our common stock is listed on the NASDAQ Global Select Market under the symbol "PFBC." Our common stock closed at $51.13 on February 28, 2020 and there were 14,901,653 outstanding shares of our common stock on that date.

Holders

As of February 28, 2020, 14,901,653 shares of the Bank's common stock were held by 150 shareholders of record.

Dividends

Dividends 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 1132 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 1133 of the California Financial Code provides that notwithstanding the provisions of Section 1132, a state-chartered bank may, with the prior approval of the California Commissioner of Business Oversight, or 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 unsound 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 unsound 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.

Issuer's Purchases of Equity Securities

On July 2, 2019, the Bank received approval from the California Department of Business Oversight for the repurchase of up to $30 million in PFBC common stock in the open market. This approval expired in January of 2020, as did the approval which was previously received from the Federal Deposit Insurance Corporation. The timing, price and volume of the share repurchases was determined by Bank management based on its evaluation of market conditions and other relevant factors.

The following table summarizes purchases made by the Bank of its common stock during 2019:

	Total Number of Shares Purchased	Average Price Paid Per Share	Total number of shares (or units) purchased as part of publicly announced plans or programs	Maximum number (or approximate dollar value) of shares (or units) that may yet be purchased under the plans or programs
Stock repurchases	358,359	$50.84	358,359	$11,779,303
Employee transactions(1)	8,384	$54.27		

(1) Includes restricted shares withheld (under the terms of grants under employee stock incentive plans) to offset tax withholding obligations that occur upon vesting and release of restricted shares. The Bank may receive shares delivered or attested to pay the exercise price and/or to satisfy tax withholding obligations by employees who exercise stock options granted under employee stock incentive plans, which are commonly referred to as stock swap exercises.

Securities Authorized for Issuance Under Equity Compensation Plans.

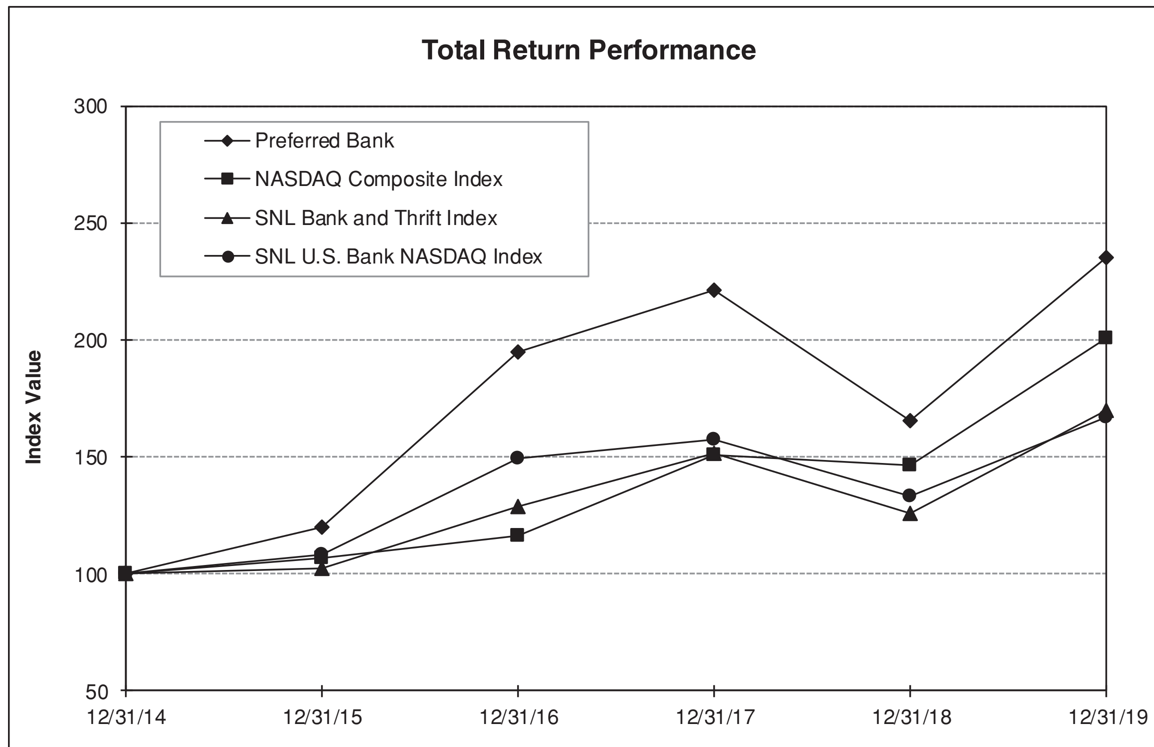
The following table provides information as of December 31, 2019, regarding equity compensation plans under which equity securities of the Bank were authorized for issuance.

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	—	$—	1,895,375
Equity incentive plans not approved by security holders	—	—	—
	—		1,895,375

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, 2014 assuming an investment of $100 in each as of December 31, 2014. The Bank is not included in 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.



Index	Period Ending					
	12/31/14	12/31/15	12/31/16	12/31/17	12/31/18	12/31/19
Preferred Bank	100.00	120.28	194.60	221.30	165.66	235.42
NASDAQ Composite	100.00	106.96	116.45	150.96	146.67	200.49
SNL Bank and Thrift	100.00	102.02	128.80	151.45	125.81	170.04
SNL NASDAQ U.S. Bank	100.00	107.95	149.68	157.58	132.82	166.75

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, 2019 and 2018 and our statement of operations data for the years ended December 31, 2019, 2018 and 2017 have been derived from our audited historical financial statements included elsewhere in this Form 10-K.

	At or for the Year Ended December 31,				
	2019	2018	2017	2016	2015
	(Dollars in thousands, except per share data)				
Financial Condition Data:					
Total assets	$4,628,481	$4,216,435	$3,769,859	$3,221,598	$2,598,846
Total deposits	3,983,294	3,639,685	3,262,690	2,763,724	2,286,559
Investment securities held-to-maturity	7,310	8,007	8,780	10,337	5,830
Investment securities available-for-sale, at fair value	240,640	182,413	188,203	199,833	169,502
Loans and leases, gross(1)	3,724,922	3,333,377	2,941,093	2,543,549	2,059,392
Cash and cash equivalents	535,645	602,759	555,322	403,830	309,175
Other real estate owned(2)	—	—	4,112	4,112	4,112
Subordinated debt issuance, net	99,211	99,087	98,963	98,839	—
Shareholders' equity	470,015	416,651	355,034	298,065	264,145
Statement of Operations Data:					
Interest income	$ 226,721	$ 195,165	$ 157,600	$ 122,913	$ 94,702
Interest expense	62,084	40,936	27,896	18,734	10,856
Net interest income	164,637	154,229	129,704	104,179	83,846
Provision for credit losses	3,450	10,130	5,500	6,400	1,800
Net interest income after provision for loan and lease losses	161,187	144,099	124,204	97,779	82,046
Noninterest income	7,466	9,401	5,824	5,459	3,892
Noninterest expense	57,247	54,802	49,548	43,538	35,710
Income before provision for income taxes	111,406	98,698	80,480	59,700	50,228
Provision for income taxes	33,035	27,705	37,086	23,331	20,485
Net income	$ 78,371	$ 70,993	$ 43,394	$ 36,369	$ 29,743
Income allocated to participating securities	(490)	(913)	(361)	(428)	(410)
Dividends allocated to participating securities	(176)	(253)	(138)	(119)	(126)
Net income available to common shareholders	$ 77,705	$ 69,827	$ 42,895	$ 35,822	$ 29,207

	At or for the Year Ended December 31,				
	2019	2018	2017	2016	2015
	(Dollars in thousands, except per share data)				
Share Data:					
Net income per share, basic(3)	$ 5.16	$ 4.64	$ 2.97	$ 2.58	$ 2.17
Net income per share, diluted(3)	$ 5.16	$ 4.64	$ 2.96	$ 2.56	$ 2.14
Book value per share(4)	$ 31.47	$ 27.07	$ 23.48	$ 20.94	$ 19.02
Cash dividends declared per common share	$ 1.20	$ 1.02	$ 0.80	$ 0.63	$ 0.51
Shares outstanding at period end	14,933,768	15,308,688	15,122,313	14,232,907	13,884,942
Weighted average number of shares outstanding, basic(3)	15,060,476	15,056,919	14,438,964	13,883,497	13,484,216
Weighted average number of shares outstanding, diluted(3)	15,606,476	15,059,845	14,492,671	13,987,257	13,677,892
Selected Other Balance Sheet Data(5):					
Average assets	$ 4,315,174	$ 3,868,579	$ 3,509,775	$ 2,872,707	$ 2,200,557
Average earning assets	4,213,271	3,790,757	3,431,985	2,815,545	2,154,355
Average shareholders' equity	449,520	389,561	314,731	284,734	251,949
Selected Financial Ratios:					
Return on average assets(5)	1.82%	1.84%	1.24%	1.27%	1.35%
Return on average shareholders' equity(5)	17.43	18.22	13.79	12.77	11.81
Shareholders' equity to assets(6)	10.15	9.88	9.42	9.25	10.16
Net interest margin(7)	3.92	4.08	3.80	3.72	3.92
Efficiency ratio(8)	33.26	33.49	36.56	39.71	40.70
Selected Asset Quality Ratios:					
Non-performing loans to total loans and leases(9)	0.06%	1.34%	0.22%	0.30%	0.10%
Non-performing assets to total assets(10)	0.05	1.06	0.28	0.37	0.23
Allowance for loans and lease losses to total loans and leases	0.94	0.93	1.02	1.04	1.10
Allowance for loans and lease losses to non-performing loans	1,631.42	69.29	461.32	346.22	1,140.29
Net (recoveries) charge-offs to average loans and leases	(0.01)	0.29	0.08	0.11	0.12

(1) Excludes loans held for sale of zero at December 31, 2019, zero at December 31, 2018, $440 as of December 31, 2017, zero as of December 31, 2016, zero as of December 31, 2015.

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

(3) 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.

(4) 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).

(5) 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.

(6) 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."

(7) Net interest margin is net interest income expressed as a percentage of average total interest-earning assets.

(8) 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.

(9) Non-performing loans consist of loans on non-accrual and loans past due 90 days or more and restructured debt.

(10) Non-performing assets consist of non-performing loans and other real estate owned.

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

Our discussion and analysis of earnings and related financial data are presented herein to assist investors in understanding the financial condition of the Bank at December 31, 2019 and 2018, and the results of operations for the years ended December 31, 2019, 2018 and 2017. This discussion should be read in conjunction with the consolidated financial statements and related footnotes of our Company presented elsewhere herein.

Overview

We experienced fairly significant growth in loans, deposits and net income in the past three years, although the rate of balance sheet growth has slowed recently. The national and local economy continues to be on solid footing. We consider the real estate market in Southern California, the Bay Area and the Tri-State Area to be strong; however, there are still some pockets of weakness in some outlying areas of Southern California. During 2019, the Bank posted a high level of net income due to a net interest margin that was expanding over the latter part of 2018, setting up the Bank for strong growth in net interest income in 2019. In addition, growth in loans and careful management of the Bank's non-interest expenses also added to the Bank's strong bottom-line performance..

We derive our income primarily from interest received from 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, nearly half of which we receive from the Chinese-American market within California, to fund our loan and investment activities.

For the year ended December 31, 2019, the Bank recorded net income of $78.4 million as compared to net income of $71.0 million for the year ended December 31, 2018. At December 31, 2019, the Bank recorded an all-time high asset balance at $4.63 billion. Loans grew by $391.5 million, or 11.7%, and deposits grew by $343.6 million, or 9.4%. See "Results of Operations."

For the year ended December 31, 2018, the Bank recorded net income of $71.0 million as compared to net income of $43.4 million for the year ended December 31, 2017. At December 31, 2018, total assets reached $4.22 billion. Loans grew by $392.3 million, or 13.3%, and deposits grew by $377.0 million, or 11.6%. See "Results of Operations."

On July 2, 2019, the Bank received approval from the California Department of Business Oversight for the repurchase of up to $30 million in PFBC common stock in the open market. This approval expired in January of 2020, as did the approval which was previously received from the Federal Deposit Insurance Corporation. The Bank purchased 358,359 shares of its common stock at an average price of $50.84 per share for a total of $18.2 million during 2019. No additional purchases were made subsequent to December 31, 2019 and prior to the approval expiration.

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 probable incurred 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 310-10 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, non-accrual 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. The fair values of investment securities are generally determined by reference to market prices obtained from an independent external pricing service. In obtaining such valuation information from third parties, we have evaluated the methodologies used to develop the resulting fair values. The procedures include, but are not limited to, initial and on-going review of third-party pricing

methodologies, review of pricing trends, and monitoring of trading volumes. We ensure whether prices received from independent brokers represent a reasonable estimate of fair value through the use of external cash flow model developed based on spreads, and when available, market indices. As a result of this analysis, if we determine there is a more appropriate fair value based upon the available market data, the price received from the third party may be adjusted accordingly. Management reviews the fair value of investment securities on a monthly basis for reasonableness. In addition, management has a separate fixed income broker/dealer review the fair values received from the pricing service on a quarterly basis as an additional control over the process of determining fair values. 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 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 deferrals, defaults and recoveries.

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, 2019. Investment securities are discussed in more detail in "Notes to Consolidated Financial Statements, Note 2—Securities Available-for-Sale and Held-to-Maturity" presented elsewhere in this Report.

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. 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."

Results of Operations

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

	Year Ended December 31,		
	2019	**2018**	**2017**
	(Dollars in thousands, except per share data)		
Net income	$78,371	$70,993	$43,394
Net income per share, basic	$ 5.16	$ 4.64	$ 2.97
Net income per share, diluted	$ 5.16	$ 4.64	$ 2.96
Return on average assets	1.82%	1.84%	1.24%
Return on average shareholders' equity	17.43%	18.22%	13.79%
Dividend payout ratio	23.26%	21.99%	26.93%
Equity to assets ratio	10.15%	9.88%	9.42%

Year Ended December 31, 2019 Compared to Year Ended December 31, 2018

	Year Ended December 31,		
	2019	2018	Increase (Decrease)
	(Dollars in thousands, except per share data)		
Statement of Operations Data:			
Interest income	$226,721	$195,165	$31,556
Interest expense	62,084	40,936	21,148
Net interest income	164,637	154,229	10,408
Provision for credit losses	3,450	10,130	(6,680)
Net interest income after provision for loan and lease losses	161,187	144,099	17,088
Noninterest income	7,466	9,401	(1,935)
Noninterest expense	57,247	54,802	2,445
Income before income taxes	111,406	98,698	12,708
Income tax expense	33,035	27,705	5,330
Net income	$ 78,371	$ 70,993	$ 7,378
Income allocated to participating securities	(490)	(913)	423
Dividends allocated to participating securities	(176)	(253)	77
Net income available to common shareholders—basic and diluted	$ 77,705	$ 69,827	$ 7,878
Net income per share, basic	$ 5.16	$ 4.64	$ 0.52
Net income per share, diluted	$ 5.16	$ 4.64	$ 0.52

Net income increased $7.4 million or 10.4% from $71.0 million or $4.64 per diluted share in 2018 to $78.4 million or $5.16 in 2019. The increase in net income was primarily the result of increased net interest income between the years. The $10.4 million, or 6.7%, increase in net interest income was a result of both growth in the loan portfolio and loan yield offset by higher deposit costs. Our overall cost of interest-bearing liabilities in 2019 increased 53 basis points from 1.49% during 2018 to 2.02% for 2019, while average yields on earning assets increased by 23 basis points to 5.39% from 5.16%. The yield on earning assets saw an increase primarily due to the 22 basis point increase in average interest rates on loans during the year, increasing from 5.73% to 5.95%. Additionally, the yield on other earning assets increased 18 basis points from 2.06% to 2.24%.

As of December 31, 2019, 67% of our loan portfolio was tied to the Prime Rate, which has the potential to re-price daily, and 24% was tied to the London Interbank Offered Rate, or LIBOR, or other indices, which re-price periodically. Approximately 75% 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 7% 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, 2018 was 7.9 months. Since the majority of our loans re-price more rapidly than the interest rates on our deposits, a rising interest rate environment should be beneficial to the amount of net interest income we will realize during that period.

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

	Year Ended December 31,		
	2018	2017	Increase (Decrease)
	(Dollars in thousands, except per share data)		
Statement of Operations Data:			
Interest income	$195,165	$157,600	$37,565
Interest expense	40,936	27,896	13,040
Net interest income	154,229	129,704	24,525
Provision for credit losses	10,130	5,500	4,630
Net interest income after provision for loan and lease losses	144,099	124,204	19,895
Noninterest income	9,401	5,824	3,577
Noninterest expense	54,802	49,548	5,254
Income before income taxes	98,698	80,480	18,218
Income tax expense	27,705	37,086	(9,381)
Net income	$ 70,993	$ 43,394	$27,599
Income allocated to participating securities	(913)	(361)	(552)
Dividends allocated to participating securities	(253)	(138)	(115)
Net income available to common shareholders—basic	$ 69,827	$ 42,895	$26,932
Net income per share, basic	$ 4.64	$ 2.97	$ 1.67
Net income per share, diluted	$ 4.64	$ 2.96	$ 1.68

Net income increased from 2017 to 2018, primarily as a result of increased net interest income between the years. The $24.5 million, or 18.9%, increase in net interest income was due primarily to growth of the loan portfolio and an expanding net interest margin. Our overall cost of funds in 2018 increased 40 basis points from 1.09% during 2017 to 1.49% for 2018, while average yields on earning assets increased by 54 basis points to 5.16% from 4.62%. The yield on earning assets saw an increase primarily due to the 44 basis point increase in average interest rates on loans during the year, increasing from 5.29% to 5.73%. Additionally, the yield on other earning assets increased 77 basis points from 1.29% to 2.06%.

Income tax expense decreased $9.4 million during 2018 to $27.7 million, compared to $37.1 million in 2017. Our effective tax rate was 28.1% in 2018 compared to 46.1% in 2017 which was impacted by additional income tax expense resulting from the change in Federal income tax rates that increased our effective tax rate by 7.5% in 2017.

As of December 31, 2018, 78% of our loan portfolio was tied to the Prime Rate, which has the potential to re-price daily, and 16% was tied to the London Interbank Offered 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 4% 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, 2018 was 6.6 months. Since the majority of our loans re-price more rapidly than the interest rates on our deposits, a rising interest rate environment should be beneficial to the amount of net interest income we will realize during that period.

Net Interest Income and Net Interest Margin

Year ended December 31, 2019 compared to 2018

Net interest income before the provision for credit losses for the year ended December 31, 2019 increased $10.4 million, or 6.7%, to $164.6 million from $154.2 million for the year ended December 31, 2018. This increase was due to an increase of $31.6 million in interest income, partially offset by a $21.1 million increase in interest expense. Total increase in interest income is primarily due to the higher average total loans of $3.48 billion in 2019, an increase from $3.11 billion average total loans in 2018, coupled with an increase in average loan yields from 5.73% to 5.95% between the periods.

The average yield on our interest-earning assets increased by 23 basis points to 5.39% in the year ended December 31, 2019 from 5.16% in the year ended December 31, 2018. Yield on earning assets saw an increase primarily due to overall higher market interest rates during the year.

The cost of average interest-bearing liabilities increased by 53 basis points to 2.02% in the year ended December 31, 2019 from 1.49% in the year ended December 31, 2018. This increase was primarily caused by the 57 basis points increase in the cost of deposits from 1.31% to 1.88%.

Year ended December 31, 2018 compared to 2017

Net interest income before the provision for credit losses for the year ended December 31, 2018 increased $24.5 million, or 18.9%, to $154.2 million from $129.7 million for the year ended December 31, 2017. This increase was due to an increase of $37.6 million in interest income, offset by a $13.0 million increase in interest expense. Total increase in interest income is primarily due to the higher average loan balance of $3.11 billion in 2018, an increase from $2.73 billion average loan balance in 2017, coupled with an increase in average loan yields from 5.29% to 5.73% between the periods.

The average yield on our interest-earning assets increased by 54 basis points to 5.16% in the year ended December 31, 2018 from 4.62% in the year ended December 31, 2017. Yield on earning assets saw an increase primarily due to overall higher market interest rates during the year.

The cost of average interest-bearing liabilities increased by 40 basis points to 1.49% in the year ended December 31, 2018 from 1.09% in the year ended December 31, 2017. This increase was

primarily caused by the 43 basis points increase in the cost of deposits from 0.88% to 1.31% and 42 basis points increase FHLB borrowings from 1.06% to 1.48% during the year.

	Year Ended December 31, 2019			Year Ended December 31, 2018			Year Ended December 31, 2017		
	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(1)(2)	$3,482,555	$207,218	5.95%	$3,114,132	$178,420	5.73%	$2,733,369	$144,678	5.29%
Investment securities(3)	232,537	8,644	3.72%	187,462	6,974	3.72%	204,004	7,250	3.55%
Federal funds sold	38,003	961	2.53%	88,515	1,868	2.11%	84,308	1,130	1.34%
Other earning assets	460,176	10,324	2.24%	400,648	8,246	2.06%	410,304	5,293	1.29%
Total interest-earning assets	$4,213,271	$227,147	5.39%	$3,790,757	$195,508	5.16%	$3,431,985	$158,351	4.62%
Deferred loan fees, net	(1,910)			(2,496)			(2,745)		
Allowance for loan and lease losses	(32,903)			(30,166)			(27,781)		
Noninterest-earning assets:									
Cash and due from banks	5,596			8,601			13,286		
Other assets	131,120			101,883			95,030		
Total assets	$4,315,174			$3,868,579			$3,509,775		
LIABILITIES AND SHAREHOLDERS' EQUITY									
Interest-bearing liabilities:									
Deposits									
Interest-bearing demand	$ 489,055	$ 6,876	1.41%	$ 428,287	$ 4,540	1.06%	$ 402,302	$ 2,951	0.73%
Money market	825,440	11,080	1.34%	883,757	9,394	1.06%	794,767	4,950	0.62%
Savings	21,342	54	0.25%	22,698	60	0.26%	28,926	72	0.25%
Time certificates of deposit	1,639,829	37,932	2.31%	1,308,443	20,753	1.59%	1,222,879	13,633	1.11%
Total interest-bearing deposits	2,975,666	55,942	1.88%	2,643,185	34,747	1.31%	2,448,874	21,606	0.88%
Short-term borrowings	1	—	1.57%	1	—	1.42%	1	—	0.00%
Subordinated debt issuance	99,142	6,123	6.18%	99,021	6,124	6.18%	98,897	6,123	6.19%
Long-term debt (FHLB and Senior debt)	522	19	3.71%	4,416	65	1.48%	15,720	167	1.06%
Total interest-bearing liabilities	3,075,331	62,084	2.02%	2,746,623	40,936	1.49%	2,563,492	27,896	1.09%
Noninterest-bearing liabilities:									
Demand deposits	726,066			680,110			590,036		
Other liabilities	64,257			52,285			41,516		
Total liabilities	3,865,654			3,479,018			3,195,044		
Shareholders' equity	449,520			389,561			314,731		
Total liabilities and shareholders' equity	$4,315,174			$3,868,579			$3,509,775		
Net interest income		$165,063			$ 54,572			$130,455	
Net interest spread			3.37%			3.67%			3.53%
Net interest margin			3.92%			4.08%			3.80%

(1) Includes average non-accrual loans and leases.

(2) Includes net loan and lease fee income of $2.1 million, $2.7 million and $3.3 million for the year ended December 31, 2019, 2018 and 2017, respectively, are included in the yield computations.

(3) Yields on securities have been adjusted to a tax-equivalent basis.

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,					
	2019 vs. 2018			2018 vs. 2017		
	Net Change	Rate	Volume	Net Change	Rate	Volume
	(In thousands)					
Interest income:						
Loans and leases	$28,798	$ 7,076	$21,722	$33,742	$12,544	$21,198
Investment securities(1)	1,670	(5)	1,675	(276)	329	(605)
Federal funds sold	(907)	317	(1,224)	738	680	58
Other earning assets	2,078	784	1,294	2,953	3,080	(127)
Total interest income	31,639	8,172	23,467	37,157	16,633	20,524
Interest expense:						
Interest-bearing demand	2,336	1,628	708	1,589	1,387	202
Money market	1,686	2,339	(653)	4,444	3,836	608
Savings	(6)	(3)	(3)	(12)	5	(17)
Time certificates of deposit	17,179	11,069	6,110	7,120	6,006	1,114
Subordinated debt	(1)	(8)	7	1	(7)	8
Long-term debt	(46)	44	(90)	(102)	48	(150)
Total interest expense	21,148	15,069	6,079	13,040	11,275	1,765
Net interest income	$10,491	$ (6,897)	$17,388	$24,117	$ 5,358	$18,759

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

Provision for Credit Losses

In response to the credit risk inherent in our lending business, we maintain allowances for loan losses through charges to earnings.

The provision for credit losses decreased $6.7 million during 2019 to $3.5 million from $10.1 million for 2018. Net loans and lease charge-offs decreased $9.3 million to net recoveries of $315,000 during 2019 from net charge-offs of $9.0 million during 2018. The provision decreased between 2019 and 2018 mostly related to 2018 amounts including an additional provision resulting from the impact of charging off a single nonperforming loan relationship as discussed below.

The provision for credit losses increased $4.6 million during 2018 to $10.1 million from $5.5 million for 2017. Net loans and lease charge-offs increased $6.9 million to net charge-offs of $9.0 million during 2018 from net charge-offs of $2.1 million during 2017. The provision increased between 2017 and 2018 mostly related to a single New York nonperforming loan relationship. Through bankruptcy proceedings, we acquired the title to the New York multi-family properties on January 16, 2019. As these properties were not fully occupied, together with a recent New York condo market headwind, the appraisal value came in much less than the previous valuation. Therefore, in December 2018, we recorded a charge-off of $5.7 million on these loans to reflect the lower valuation. These loans were transferred to OREO on January 16, 2019 and subsequently sold.

In calculating the need for allowance levels based on historical losses, the Bank uses a weighted 4-year historical loss measurement period. Also, the Bank utilizes qualitative factors used in calculating allowance levels, such as the mix of the loan portfolio, concentration levels and trends, local and national economic conditions, changes in capabilities and experience of lending management and staff and other external factors including industry conditions, competition and regulatory requirements. Non-performing loans decreased from $44.8 million as of December 31, 2018 to $2.1 million as of December 31, 2019, due primarily to the removal of the aforementioned New York multi-family properties, which comprised $36.9 million of non-performing loans at December 31, 2018. The ratio of allowance for loan and lease losses to total loans increased slightly from 0.93% of total loans at December 31, 2018 to 0.94% at December 31, 2019. Management believes that through the application of the allowance methodology's quantitative and qualitative components, the provision and overall level of allowance is adequate for probable incurred losses estimated to be incurred in the portfolio as of December 31, 2019.

Additionally, a separate reserve is maintained related to off-balance sheet items such as commitments to extend credits, or letters of credit. See the "Contractual Obligations" section below for further discussion of off-balance sheet items.

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 ("BOLI")
- Sale of other real estate owned; and
- Sale of investment securities.

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

	Year Ended December 31,		
	2019	2018	2017
	(In thousands)		
Fees and service charges on deposit accounts	$1,579	$1,201	$1,269
Letter of credit fee income	3,821	3,927	2,635
BOLI income	370	361	351
Net gain on sale of other real estate	—	2,038	—
Net gain on sale or call of investment securities	—	112	4
Other income	1,696	1,762	1,565
Total noninterest income	$7,466	$9,401	$5,824

Total noninterest income decreased $1.9 million or 20.6%, to $7.5 million during 2019 from $9.4 million during 2018. The decrease was primarily due to a $2.0 million decrease in net gain on sale of other real estate during 2018 to zero during 2019. Offsetting this decrease was a $378,000 increase in fees and service charges on deposit account which was primarily attributable to the Bank's significantly improved cash management offerings which was a result of the Bank's core system conversion in July of 2018.

Total noninterest income increased $3.6 million or 61.4%, to $9.4 million during 2018 from $5.8 million during 2017. The increase was primarily due to a $1.3 million or 49% increase in letter of credit fee income, and a $2.0 million net gain on sale of other real estate owned in 2018.

Our results can be influenced by the unpredictable nature of gains and losses in connection with the sale of investment securities. We do not engage in active securities trading; however, from time to time we sell securities in our available-for-sale portfolio to change the duration of the portfolio or to re-position the portfolio for various reasons. We plan to continue this practice at our discretion for the foreseeable future. From time to time, we acquire real estate in connection with non-performing loans, and sell such real estate to recoup the principal amount of the defaulted loans. These sales can result in gains or losses from 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,		
	2019	2018	2017
	(In thousands)		
Salaries and employee benefits	$38,807	$34,741	$30,041
Net occupancy expense	5,121	5,299	4,942
Business development and promotion expense	840	816	883
Professional services	4,417	5,989	4,390
Office supplies and equipment expense	1,853	1,464	1,340
Loss on sale of OREO and related expense, net	1,220	615	563
Other	4,989	5,878	7,389
Total noninterest expense	$57,247	$54,802	$49,548

Total noninterest expense increased by $2.4 million, or 4.5%, to $57.2 million during 2019 from $54.8 million during 2018. The main driver of the increase was salaries and benefits expense, which increased $4.1 million over 2018 levels due to continued growth in the Bank and resulting additional business development personnel and administrative and support staff. Professional services decreased $1.6 million in 2019 to $4.4 million, from $6.0 million in 2018 as a result of reductions in legal fees and core system conversion costs which were included in 2018 amounts. OREO related expenses increased $605,000 or 98.4% to $1.2 million primarily as a result of costs associated with the aforementioned New York multi-family properties that were acquired and liquidated during 2019. The $889,000 or 15.1% decrease in other expense is primary attributable to decreases in FDIC assessment premiums due to the small bank assessment credit was applied which totaled $830,000 in 2019 compared to $1.6 million in 2018

Total noninterest expense increased by $5.3 million, or 11%, to $54.8 million during 2018 from $49.5 million during 2017. The main driver of the increase was salaries and benefits expense, which increased $4.7 million over 2017 levels due to the hiring of business development personnel and additional administrative and support staff to support the Bank's future growth. Professional services increased $1.6 million in 2018 to $6.0 million, from $4.4 million in 2017 as a result of higher legal fees and core system conversion costs in 2018. Offsetting these increases noninterest expense was a reduction in other noninterest expense of $1.5 million or 20% to $5.9 million in 2018 from $7.4 million

in 2017. The decrease in other expense is primary attributable to the $2.1 million loan settlement reserve in 2017 offset by a $0.8 million decrease in FDIC assessment premiums in 2018.

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 we believe 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. We have assessed the likelihood that our deferred tax asset would be recovered from taxable income and determined that recovery was more likely than not based upon the totality of the evidence, both positive and negative.

For the year ended December 31, 2019, the effective rate was 29.7%, compared to 28.1% for the year ended December 31, 2018.

On December 22, 2017, the Tax Cut and Jobs Act (the "Tax Act") was signed into legislation, substantially amending the Internal Revenue Code. Under FASB ASC 740, the effects of changes in tax rates and laws are recognized in the period in which the new legislation is enacted. The Tax Act, among other things, lowered the U.S. federal corporate income tax rate from 35% to 21% effective January 1, 2018, resulting in the effective tax rate of 28.1% for the year ended December 31, 2018. For the year ended December 31, 2017, the effective rate was 46.1% and it was due to the one-time increase in tax expense of $6.0 million or effective tax rate of 7.5% from the re-measurement of deferred tax assets and liabilities. Excluding the impact of the Tax Act, the effective tax rate was 38.6%.

As of December 31, 2019 we had federal and state net operating loss ("NOL") carryforwards of $0.4 million and $19.6 million, respectively.

Pursuant to Sections 382 and 383 of the Internal Revenue Code ("IRC"), annual use of NOL and credit carryforwards may be limited in the event a cumulative change in ownership of more than 50 percent points 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 in 2010 and 2009. This ownership change resulted in estimated limitations on the utilization of tax attributes, including NOL carryforwards and tax credits. Although we fully expect to utilize all of the federal NOL carryforward prior to their expiration, the California NOL carryover has been significantly impacted by the IRC Sec. 382 limitation. We estimate that of approximately $75.9 million of the California NOL as of December 31, 2019, $55.8 million is expected to expire in 2029 and $3.2 million is expected to expire in 2030 as it will be unutilized as a result of IRS Sec 382 limitation. The remaining California NOL carryforward of the approximately $16.9 million at December 31, 2019, is subject to IRC Sec. 382 annual limitation amount of approximately $1.5 million. Additionally, the Bank has $2.2 million of Federal excess realized built in losses and $6.1 million of California excess built in losses as of December 31, 2019 which are also subject to IRC Sec. 382 annual limitation amount of approximately $1.5 million.

As a result of the UIB acquisition the Bank has an additional $0.4 million of federal NOLs and $2.7 million of New York NOLs that are subject to annual IRC Sec. 382 limitation of $0.3 million remaining as of December 31, 2019. Management fully expects to use the acquired NOL carryforwards before their expiration beginning in 2025 for New York NOLs and 2033 for federal NOLs.

Financial Condition

For the period between December 31, 2018 and December 31, 2019, our assets, loans and deposits grew at the rate of 9.8%, 11.7% and 9.4%, respectively. Our total assets at December 31, 2019 were $4.63 billion compared to $4.22 billion at December 31, 2018. Our earning assets at December 31, 2019 totaled $4.52 billion compared to $4.13 billion at December 31, 2018. Total deposits at December 31, 2019 and 2018 were $3.98 billion and $3.64 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, and the percentages the overall loan segment represented. The Bank had no foreign loans.

	December 31,									
	2019		2018		2017		2016		2015	
	(in thousands)									
Loans and leases (by portfolio and class):										
Real Estate Mortgage:										
Residential	$ 468,321	12.6%	$ 395,747	11.9%	$ 370,771	12.6%	$ 334,794	13.2%	$ 259,862	12.6%
Commercial	1,731,017	46.5	1,561,281	46.8	1,398,530	47.6	1,215,384	47.8	1,027,179	49.8
Total Real Estate Mortgage	$2,199,338		$1,957,028		$1,769,301		$1,550,178		$1,287,041	
Real Estate—Construction:										
Residential	173,951	4.7	138,815	4.2	85,199	2.9	104,960	4.1	88,755	4.3
Commercial	218,562	5.9	207,850	6.2	198,603	6.8	128,434	5.0	42,649	2.1
Total Real Estate—Construction	$ 392,513		$ 346,665		$ 283,802		$ 233,394		$ 131,404	
Commercial & Industrial	1,112,276	29.8	1,007,487	30.2	866,672	29.4	733,708	28.8	596,787	29.0
Trade Finance	20,353	0.5	22,015	0.7	21,310	0.7	21,702	0.9	38,225	1.9
Consumer & Other	442	0.0	182	0.0	8	0.0	4,567	0.2	5,935	0.3
Total gross loans and leases	$3,724,922	100.0%	$3,333,377	100.0%	$2,941,093	100.0%	$2,543,549	100.0%	$2,059,392	100.0%
Less: allowance for loan and lease losses	(34,830)		(31,065)		(29,921)		(26,478)		(22,658)	
Deferred loan and lease fees, net	(3,028)		(2,323)		(3,099)		(1,682)		(3,012)	
Total loans excluding loans held for sale	$3,687,064		$3,299,989		$2,908,073		$2,515,389		$2,033,722	
Loans held for sale	—		—		440		—		—	
Total net loans and leases	$3,687,064		$3,299,989		$2,908,513		$2,515,389		$2,033,722	

Total gross loans at December 31, 2019 were $3.72 billion, up 11.7% from $3.33 billion as of December 31, 2018. As we continue to grow our lending staff and target strong portfolio growth, loan balances in most portfolios increased from December 31, 2018 to December 31, 2019. Management's focus from a lending perspective is on commercial and industrial loans and prime-owner-occupied, income-producing commercial real estate and multi-family real estate as well as residential real estate loans. Management continually evaluates the mix of loan types in the loan portfolio in order to minimize risk and maximize returns within the portfolio.

Our real estate loan portfolio increased in 2019 by $242.3 million or 12.4% to $2.20 billion at December 31, 2019 from $1.96 billion at December 31, 2018. The increase is due to strong local economies and management's focus on income-producing commercial real estate. Residential real estate loans increased by $72.6 million, or 18.3%, and commercial real estate loans grew by $169.7 million or 10.9%.

Loans secured by retail properties increased $34.4 million or 9%. Industrial loans increased $14.4 million or 6%. Residential 1-4 family loans increased $74.1 million or 19%, while apartment loans increased $25.3 million or 13%. Special purpose loans, which includes loans such as hospitality and self-storage loans, increased $130.0 million or 34%. Offsetting these increases was a $34.0 million or 10% decrease in commercial and office loans, while land loans decreased $2.8 million or 26%. Further detail regarding the real estate portfolio by property type is provided in the table below.

The following table provides information about our real estate mortgage portfolio by property type:

Property Type	At December 31, 2019 Amount	At December 31, 2019 Percentage of Loans in Each Category in Total Loan Portfolio	At December 31, 2018 Amount	At December 31, 2018 Percentage of Loans in Each Category in Total Loan Portfolio
	(Dollars in thousands)			
Commercial/Office	$ 307,241	8.25%	$ 341,198	10.24%
Retail	444,007	11.92	408,633	12.26
Industrial	239,181	6.42	224,823	6.74
Residential 1 - 4	461,528	12.39	387,437	11.62
Apartment 4+	225,378	6.05	200,124	6.00
Land	7,838	0.21	10,646	0.32
Special purpose	514,165	13.80	384,167	11.52
Total	$2,199,338	59.04%	$1,957,028	58.70%

There were no loans held for sale at December 31, 2019 and 2018.

Total commercial and industrial loans (including undisbursed amounts) at December 31, 2019 increased $101.3 million or 6.6% to $1.64 billion from $1.54 billion at December 31, 2018 partly due to the rising rate of credit utilization, which increased to 68.0% as of December 31, 2019 from 65.6% at December 31, 2018.

Other loans, examples of which include installment/consumer debt leases receivable, are relatively insignificant.

Non-Performing Assets

Non-performing assets are comprised of loans on non-accrual status, OREO, and certain Troubled Debt Restructurings (“TDRs”). TDRs that are on non-accrual status are included in non-performing assets while TDRs that are performing according to their revised terms are not included in non-performing assets and evaluated for impairment in accordance with ASC 310-10-35. Generally, loans and leases are placed on non-accrual 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, unless they are both fully secured and in process of collection. Accrual of interest is discontinued on a loan or lease when management believes, after considering economic and business conditions and collection efforts that the borrower’s financial condition is such that collection of principal and contractually due interest is not likely. OREO consists of real property acquired through foreclosure or similar means that the Bank intends to offer for sale.

A TDR is a debt restructuring in which a bank, for economic or legal reasons specifically related to a borrower’s financial condition, grants a concession to the borrower that it would not otherwise consider. At December 31, 2019, one performing loan of $693,000 was classified as TDRs. At December 31, 2018, there were two nonaccrual loans totaling $524,000 and one performing loan of $698,000 classified as TDRs.

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 and OREO:

	Year Ended December 31,				
	2019	2018	2017	2016	2015
	(Dollars in thousands)				
Non-accrual loans and leases*	$2,135	$44,834	$ 6,486	$ 7,648	$1,987
Accruing loans and leases past due 90 days or more	—	—	—	—	—
Total non-performing loans (NPLs)	2,135	44,834	6,486	7,648	1,987
OREO	—	—	4,112	4,112	4,112
Total non-performing assets (NPAs)	$2,135	$44,834	$10,598	$11,760	$6,099
Selected ratios:					
NPLs to total gross loans and leases held for investment	0.06%	1.34%	0.22%	0.30%	0.10%
NPAs to total assets	0.05%	1.06%	0.28%	0.37%	0.23%

* Non-accrual Troubled Debt Restructurings (TDRs) that are included in non-accrual loans are as follows: 2019—$693; 2018—$524; 2017—$5,864; 2016—$5,988; 2015—$0. TDRs that are performing according to their revised terms are not reflected as non-performing loans (NPLs).

Non-accrual loans decreased by $42.7 million, from $44.8 million as of December 31, 2018 to $2.1 million as of December 31, 2019. The decrease was primarily a result of $42.5 million related to the New York residential real estate properties, which consisted of (i) the two multi-family properties of $36.5 million that were transferred to other real estate owned and liquidated and (ii) the two single-family properties in the amount of $5.6 million that were transferred to loans held for sale and sold during 2019.

The amount of interest income that would have been recorded on impaired loans that were non-accrual loans and leases had the loans been current totaled $140,000, $2.9 million, and $697,000, for 2019, 2018, and 2017, 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 3 of the Consolidated Financial Statements for further details regarding non-accrual and past due loans by loan class.

As of December 31, 2019 and 2018, there was no OREO. During the first quarter of 2019, we acquired the title to the two New York multi-family properties through bankruptcy proceedings and transferred $36.9 million to OREO. These two properties were sold during the first quarter of 2019 for a loss of $1.4 million. During 2018 one OREO with a carrying value of $4.1 million was sold, resulting in a gain of $2.0 million. There were no sales of OREO property during 2017.

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. Management

may choose to place a loan or lease on non-accrual 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.

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.

We had $20.0 million, $46.0 million and $7.6 million of impaired loans or leases at December 31, 2019, 2018, and 2017, respectively. The $26.0 million decrease in impaired loans during 2019 was primarily the result of the addition of $16.9 million related to one real estate loan relationship offset by (i) the removal of $42.5 million in loans related to a single non-performing New York residential real estate loan relationship which consisted of $36.9 million that were transferred to OREO and liquidated during the first quarter of 2019 and (ii) $5.6 million that were transferred to loans held for sale and sold during the year. The total allowance for loan and lease losses related to impaired loans and leases was $879,000, $255,000, and $2.0 million at December 31, 2019, 2018 and 2017, respectively. Interest income recognized on such loans and leases during 2019, 2018 and 2017 was $197,000, 197,000, and 164,000, respectively. The average recorded investment on impaired loans and leases including loans held for sale during 2019, 2018 and 2017 was $28.5 million, $41.7 million and $8.2 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 probable incurred loan and lease losses 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 less cost to sell 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 is charged off, and for a non-collateralized loan the impairment amount is recorded as a specific reserve.

Our loan portfolio, excluding impaired loans which are evaluated individually, is categorized into several segments for purposes of determining allowance amounts by loan segment. The loan segments we currently evaluate are: commercial & industrial, trade finance, real estate—land, mini-perm, real estate construction and other loans. Each of these segments is then further broken down based on property type. Within these loan segments, we then evaluate loans rated as pass credits, separately from adversely classified loans. The allowance amounts for pass rated loans are determined using historical loss rates and qualitative factors developed through a historical analysis. 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; national and local 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; changes in the value of underlying collateral for collateral dependent loans; the quality of loan reviews; and other external factors including competition, legal, and regulatory factors.

Although we believe that our allowance for loan and lease 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, deterioration of California real estate values as well as natural disasters, civil unrest, terrorism and pandemic diseases 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,				
	2019	2018	2017	2016	2015
	(Dollars in thousands)				
Allowance for loan and lease losses:					
Balance at beginning of period	$ 31,065	$ 29,921	$ 26,478	$ 22,658	$ 22,974
Actual charge-offs:					
Commercial	502	4,040	2,274	4,323	1,475
Trade finance	24	—	—	—	—
Real estate construction	—	—	—	—	—
Real estate mortgage	101	5,742	—	—	1,793
Other	—	—	—	—	—
Total charge-offs	627	9,782	2,274	4,323	3,268
Less recoveries:					
Commercial	526	796	55	985	131
Trade finance	1	—	—	—	—
Real estate construction	—	—	17	26	20
Real estate mortgage	415	—	145	732	1,001
Other	—	—	—	—	—
Total recoveries	942	796	217	1,743	1,152
Net loans charged-off	(315)	8,986	2,057	2,580	2,116
Provision for credit losses	3,450	10,130	5,500	6,400	1,800
Balance at end of period	$ 34,830	$ 31,065	$ 29,921	$ 26,478	$ 22,658
Total gross loans and leases at end of period	3,724,922	3,333,377	2,941,093	2,543,549	2,059,392
Average total loans and leases*	3,482,555	3,114,132	2,733,369	2,282,074	1,731,871
Non-performing loans and leases	2,135	44,834	6,486	7,648	1,987
Selected ratios:					
Net charge-offs (recoveries) to average loans and leases	(0.01)%	0.29%	0.08%	0.11%	0.12%
Provision for loan losses to average loans and leases	0.10%	0.33%	0.20%	0.28%	0.10%
Allowance for loan and lease losses to loans and leases at end of period	0.94%	0.93%	1.02%	1.04%	1.10%
Allowance for loan and lease losses to non-performing loans and leases	16.31x	0.69x	4.61x	3.46x	11.40x

* Includes average loans held for sale balance of $337 thousand for 2019, $12 million for 2018, $4 thousand for 2017, and zero for both 2016 and 2015.

The coverage ratio for the allowance for loan and lease losses to non-performing loans increased to 1,631.42% at December 31, 2019 from 69.29%. The increase in this coverage ratio was due primarily to the removal of the $42.5 million New York loans from nonaccrual status. Net charge-offs (recoveries) to average loans were (0.01)% for the year ended December 31, 2019 compared to 0.29% for the year ended December 31, 2018. Charge-offs during 2018 included $5.7 million based on two different appraised values of the New York loans, one as a condominium complex and one as apartments. The lesser of the two values was as apartments and the Bank subsequently charged-off $5.7 million to reflect this lower value. See “Critical Accounting Policies,” and “Notes to Consolidated Financial Statements, Note 3.”

In determining 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 establishment of the allowance for loan and lease losses is based upon our historical net loan and lease loss experience and the other factors discussed above.

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,									
	2019		2018		2017		2016		2015	
	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 mortgage	$16,871	59.0%	$15,970	58.7%	$15,494	60.2%	$13,578	60.9%	$13,660	62.5%
Real estate construction	2,429	10.5	2,353	10.4	1,902	9.7	1,967	9.2	1,404	6.4
Commercial	14,794	29.9	12,048	30.2	11,590	29.4	10,412	28.8	6,993	29.0
Trade finance	275	0.5	523	0.7	558	0.7	177	0.9	385	1.9
Consumer & Other	6	0.0	3	0.0	—	0.0	67	0.2	4	0.3
Unallocated	455	0.0	168	0.0	377	0.0	277	0.0	212	0.0
Total	$34,830	100%	$31,065	100%	$29,921	100%	$26,478	100%	$22,658	100%

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 incurred 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 $1.2 million and $860,000 at December 31, 2019 and 2018, respectively.

Investment Securities, Available-for-Sale and Held-to-Maturity

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 intent and ability to hold until maturity. These securities are carried at amortized cost, adjusted for the amortization or accretion of premiums or discounts.

The Bank performs regular impairment analysis on its investment securities portfolio, following FASB standards which provide 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 ("CMOs") and U.S. Government agency securities, U.S. treasury bills, and small business administration ("SBA") securities. We have generally 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 and again may realize gains (or losses) from sales of selected securities primarily in response to changes in interest rates or to re-position the portfolio. The Bank owns two mortgage-backed securities considered held-to-maturity as of December 31, 2019 with a carrying value of $7.3 million. At December 31, 2019, investment securities classified as available-for-sale with a carrying value of $41.3 million were pledged to secure public deposits.

The carrying value of our held-to-maturity investment securities was $7.3 million at December 31, 2019 and $8.0 million at December 31, 2018. The carrying value of our available-for-sale investment securities at December 31, 2019 totaled $240.6 million compared to $182.4 million at December 31, 2018. The $58.2 million increase in investment securities available-for-sale during 2019 was primarily due to purchases of $74.6 million in U.S. treasury bills, $25.6 in corporate notes, and $15.9 million in municipal securities, offset by $50.0 million in maturities of U.S. treasury bills, $7.0 million in calls of corporate notes, and $3.0 million in municipal securities during 2019.

The carrying value of our portfolio of available-for-sale investment securities at December 31, 2019, 2018, and 2017 was as follows:

	Estimated Fair Value At December 31,		
	2019	2018	2017
		(In thousands)	
Mutual funds	$ —	$ —	$ 4,727
Asset-backed securities	3,627	3,891	4,297
Corporate notes	131,600	108,298	99,622
U.S. Agency mortgage-backed securities	16,157	20,454	26,462
Collateralized mortgage obligations	2,127	2,733	3,745
Municipal securities	60,399	44,879	46,390
U.S. Agency principal-only strip securities	964	1,211	1,653
SBA Securities	780	947	1,307
U.S. Treasury Bills	24,986	—	—
Total securities available-for-sale	$240,640	$182,413	$188,203

The following table shows the maturities of available-for-sale investment securities at December 31, 2019, and the weighted average yields of such securities. The table does not consider the impact of prepayments on the maturities:

	At December 31, 2019									
	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)					
Asset-backed securities	$ —	—%	$ —	—%	$ —	—%	$ 3,627	2.61%	$ 3,627	2.61%
Corporate notes	22,295	4.34	19,450	3.12	87,204	4.47	2,651	3.27	131,600	4.22
U.S. Agency mortgage-backed securities	8	3.46	53	3.57	5,138	2.03	10,958	2.91	16,157	2.63
Collateralized mortgage obligations	—	—	23	2.70	—	—	2,104	2.31	2,127	2.32
Municipal securities	—	—	—	—	4,094	3.09	56,305	3.56	60,399	3.53
U.S. Agency principal-only strips	—	—	—	—	—	—	964	1.18	964	1.18
SBA securities	—	—	225	3.51	555	3.91	—	—	780	3.79
U.S. treasury bills	24,986	1.60	—	—	—	—	—	—	24,986	1.60
Total securities available-for-sale	$47,289	2.88%	$19,751	3.12%	$96,991	4.28%	$76,609	3.34%	$240,640	3.60%

The Bank performs a regular impairment analysis on its investment securities portfolio and management has analyzed all investment securities which have an amortized cost that exceeds fair value as of December 31, 2019.

As of December 31, 2019, the Bank owned 30 available-for-sale corporate securities, 1 of which was in an unrealized loss position for longer than 12 months. The total amortized cost of the security was $2.9 million and its fair value was $2.7 million. Management performed an analysis on the issuer of

the security which focused on the recent financial results of the companies, capital ratios, debt ratings, and long-term prospects of the issuers and deemed the corporate security to be temporarily impaired. Management has concluded that the market value decline is a result of the interest rate environment and not credit impairment, and that the fair value of this security will recover as interest rates normalize. The intent of the Bank is to hold the security until a recovery in value, and management has determined that it is not more likely than not that the Bank will be required to sell the security prior to recovery of the amortized cost basis.

The Bank owns 41 available-for-sale mortgage-backed securities, 5 of which were in an unrealized loss position for longer than 12 months as of December 31, 2019. The total amortized cost of these securities was $8.3 million and the total fair value was $8.2 million. Based on several factors including 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, management determined that the securities were not other-than-temporarily impaired as of December 31, 2019.

As of December 31, 2019, the Bank owned 2 available-for-sale asset-backed securities ("ABS"), 1 of which was in an unrealized loss position for longer than 12 months. The total amortized cost of this security was $1.6 million and its fair value was $1.5 million. Management has concluded that the market value decline is a result of the interest rate environment and not credit impairment, and that the fair value of this security will recover as interest rates normalize. The intent of the Bank is to hold the security until a recovery in value, and management has determined that it is not more likely than not that the Bank will be required to sell the security prior to recovery of the amortized cost basis.

The Bank owns 82 available-for-sale municipal securities, 2 of which were in an unrealized loss position for longer than 12 months as of December 31, 2019. The total amortized cost of these securities was $4.1 million and the total fair value was $4.1 million. Based on factors including 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, management determined that the securities were not other-than-temporarily impaired as of December 31, 2019.

As of December 31, 2019, the Bank owned 2 collateralized mortgage obligations ("CMO") where the amortized cost exceeded fair value for greater than 12 months. The total amortized cost of these securities was $1.6 million and the total fair value was $1.6 million. Management determined that the CMO were not other-than-temporarily impaired as of December 31, 2019. This determination was made based on several factors such as debt rating of the security, amount of credit protection, the Bank's intent and ability to hold the security 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 security prior to recovery of amortized cost basis.

As of December 31, 2019, the Bank owned one U.S. Agency principal-only strip where the amortized cost exceeded fair value for greater than 12 months. The total amortized cost of this security was $1.0 million and the total fair value was $1.0 million. Based on factors including the Bank's intent to hold the security 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 security prior to recovery of amortized cost basis, management determined that the securities were not other-than-temporarily impaired as of December 31, 2019.

In accordance with Section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act, the Bank performs a thorough annual review of each of the investment securities in its portfolio (other than US Government and Agency securities) to determine, among other things, the current financial status of the issuer as well as the issuer's ability to repay the debt. This analysis is performed in addition to the quarterly review that is performed on all investment securities which are in an unrealized loss position.

It is possible that we may recognize OTTI in future periods. We do not intend to sell these securities until recovery and have determined that it is not more likely than not that we will be required to sell the securities prior to recovery of their amortized cost basis. Additional information concerning investment securities is provided in Note 2 of the "Notes to Consolidated Financial Statements" in this Annual Report.

Deposits

Total deposits were $3.98 billion at December 31, 2019 compared to $3.64 billion at December 31, 2018. Noninterest-bearing demand deposits increased $105.7 million or 14.5%. This increase was due to a continued focus on business customers and commercial and industrial loan relationships as the Bank typically requires businesses to have their primary operating accounts at the Bank. The ratio of noninterest-bearing deposits to total deposits was 21.0% at December 31, 2019 and 20.1% at December 31, 2018. Interest-bearing deposits are comprised of interest-bearing demand deposits, money market accounts, savings accounts, time deposits of under $250,000 and time deposits of $250,000 or more. Interest-bearing demand and savings deposits decreased by $64.7 million or 4.6%, and time deposits increased $302.6 million or 20.3%. However, the average balance of interest bearing demand accounts increased 14% to $489.1 million during the year and is a direct result of management's desire to grow this segment of the deposit base as these deposits are typically related to long-term customer relationships and also carry the lowest interest costs. The increase in time deposits is primarily the result of customers taking advantage of increasing market rates during the year.

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,					
	2019		2018		2017	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
	(Dollars in thousands)					
Noninterest-bearing deposits	$ 726,066	0.00%	$ 680,110	0.00%	$ 590,036	0.00%
Interest-bearing demand	489,055	1.41	428,287	1.06	402,302	0.73
Money market	825,440	1.34	883,757	1.06	794,767	0.62
Savings	21,342	0.25	22,698	0.26	28,926	0.25
Time certificates of deposit	1,639,829	2.31	1,308,443	1.59	1,222,879	1.11
Total	$3,701,732	1.51%	$3,323,295	1.05%	$3,038,910	0.71%

Average total deposits increased by $378.4 million in 2018. The increase in average total deposits for 2019 was primarily driven by increases of $331.4 million in average time certificates of deposit, $60.8 million in average interest-bearing demand, and $46.0 million in average noninterest-bearing demand between the years, offset by a $58.3 million decrease in average money market accounts,.

Although we have increased demand deposits significantly, and to a lesser extent money market accounts, over the past three years, the largest single component of our deposits continues to be time certificates of deposit. 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 competing banks.

The following table shows the maturities of time certificates of deposit over $250,000 at December 31, 2019 and 2018:

	At December 31,	
	2019	2018
	(In thousands)	
Three months or less	$428,955	$195,767
Over three months through six months	208,201	234,132
Over six months through twelve months	250,394	285,541
Over twelve months	89,177	23,186
Total	$976,727	$738,626

Borrowings

At December 31, 2019, there were no advances from Federal Home Loan Bank of San Francisco ("FHLB") compared to $1.3 million at December 31, 2018. $1.3 million of FHLB advances matured in May 2019.

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 6%, a ratio of only common equity Tier 1 capital to risk-weighted assets of at least 4.5%, 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. At December 31, 2019 and 2018, our capital ratios were above the minimum requirements for well

capitalized institutions. On a quarterly basis, we perform a stress test on our capital to determine our level of capital in various economic circumstances looking out twenty-four months into the future.

	At December 31, 2019	At December 31, 2018
Leverage Ratio		
Preferred Bank	10.32%	10.16%
Minimum requirement for "Well Capitalized" institution	5.00%	5.00%
Common Equity Tier 1 Risk-Based Capital Ratio		
Preferred Bank	10.57%	10.43%
Minimum requirement for "Well Capitalized" institution	6.50%	6.50%
Tier 1 Risk-Based Capital Ratio		
Preferred Bank	10.57%	10.43%
Minimum requirement for "Well Capitalized" institution	8.00%	8.00%
Total Risk-Based Capital Ratio		
Preferred Bank	13.70%	13.77%
Minimum requirement for "Well Capitalized" institution	10.00%	10.00%

The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks ("Basel III rules") became effective for the Bank on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. Under the Basel III rules, the Bank must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer was phased in from 0.0% for 2015 to 2.50% by 2019. The required capital conservation buffer for 2019 is 2.50%. The Bank's capital conservation buffer was 4.51% as of December 31, 2019. Management believes that as of December 31, 2019 the Bank meets all capital adequacy requirements to which it is subject.

On September 25, 2017, the Bank was granted a Stock Permit (the "Stock Permit") from the California Department of Business Oversight ("DBO") authorizing it to sell, from time-to-time, up to $50 million in shares of the Bank's common stock, by means of an "at the market offering" program (the "ATM Program"). On October 3, 2017, the Bank entered into an Equity Distribution Agreement (the "Distribution Agreement") with B.Riley/FBR Inc., Raymond James & Associates, Inc., and Sandler O'Neill & Partners, L.P., (collectively, the "Distribution Agents") to sell shares of the Bank's common stock, no par value per share (the "ATM Shares"), having an aggregate offering price of up to $50,000,000, from time to time, through the "ATM Program".

During 2018, the Bank sold 28,723 shares of common stock through the ATM Program for net proceeds of $1.7 million. During 2017, the Bank sold 541,975 shares through the ATM Program for the net proceeds of $32.8 million. The Stock Permit expired on March 26, 2018.

On July 2, 2019, the Bank received approval from the California Department of Business Oversight for the repurchase of up to $30 million in PFBC common stock in the open market. This approval expired in January 2020, as did the approval which was previously received from the Federal Deposit Insurance Corporation. During the year ended December 31, 2019 the Bank has purchased 358,359 shares of its common stock at an average price of $50.84 per share for a total of $18.2 million.

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, 2019:

Contractual Obligations(1)	Amount of Commitment Expiring per Period				
	Total Amounts Committed	Less Than 1 year	1 - 3 Years	3 - 5 Years	After 5 Years
	(In thousands)				
Operating lease obligations	$ 25,440	$2,886	$7,094	$6,294	$ 9,166
Data processing service agreements	4,349	837	2,002	1,510	—
Subordinated debt	100,000	—	—	—	100,000
Total	$129,789	$3,723	$9,096	$7,804	$109,166

(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, in 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.

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

The following table presents these off-balance sheet arrangements at December 31, 2019:

Off-balance sheet arrangements	Amount of off-balance sheet Expiring per Period				
	Total Amounts Committed	Less Than 1 year	1 - 3 Years	3 - 5 Years	After 5 Years
	(In thousands)				
Commitments to extend credit	$ 968,908	$538,106	$354,656	$67,258	$ 8,888
Commercial letters of credit	8,894	8,894	—	—	—
Standby letter of credit	194,604	93,127	79,363	7,495	14,619
Total	$1,172,406	$640,127	$434,019	$74,753	$23,507

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 for at least the next twelve months. 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 93.5% at December 31, 2019 compared to 91.6% at December 31, 2018.

Borrowings from the FHLB are another source of funding for our loan and investment activities. At December 31, 2019, we had no outstanding FLHB borrowings, and we could borrow up to $365.7 million with collateral of specifically identified loans and securities. In addition, we have pledged securities with a fair value of $120.3 million at the Federal Reserve Discount Window which we may borrow from on an overnight basis. We have one uncommitted fed funds line with a financial institution

for $25.0 million. As an additional condition of borrowing from the FHLB, we are required to purchase FHLB stock. For the year ended December 31, 2019, the Bank was required to maintain the minimum stock requirement of $13.1 million of FHLB stock based on the volume of "membership assets" as defined by the FHLB. At December 31, 2019, the Bank held $13.1 million in FHLB stock. For the years ended December 31, 2019, 2018 and 2017, dividends from the FHLB totaled $0.9 million, $1.0 million and $0.9 million, respectively, representing an average yield of 7.00%, 8.18% and 8.52%, respectively.

We also attempt to maintain a total 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 total liquidity ratios were 27% at December 31, 2019 and 28% at December 31, 2018. We also calculate and have certain thresholds for the Bank's on-balance sheet liquidity ratio. 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 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. We also perform quarterly liquidity stress tests to model various adverse scenarios contained in the Contingency Funding Plan. Although we believe that our funding resources will be more than adequate to meet our obligations, we cannot be certain of this adequacy if 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.

Exposure to interest rate risk is monitored continuously by senior management and is reviewed 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

The Bank measures the impact of market interest rate changes on the net present value of estimated cash flows from assets, liabilities and off-balance sheet items, defined as the 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 movement in interest rates of 100, 200 and 300 basis points and an immediate and sustained downward movement in interest rates of 100, 200 and 300 basis points as of December 31, 2019. It should be noted that this simulation provides results in a most extreme example of an immediate and sustained shift in interest rates described above. In reality, interest rates do not typically move in such an extreme fashion, so this simulation is designed to see the extremes of the Bank's interest rate sensitivity.

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	$750,241	17.2%	16.6%	160.6%
Up 200 basis points	$719,934	12.4%	15.8%	154.1%
Up 100 basis points	$682,198	6.5%	14.8%	146.0%
Base	$640,385	—%	13.8%	137.1%
Down 100 basis points	$589,097	(8.0)%	12.6%	126.1%
Down 200 basis points	$525,320	(18.0)%	11.1%	112.4%
Down 300 basis points	$501,253	(21.7)%	10.6%	107.3%

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 as of December 31, 2019, 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 reprice 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. Non-term deposit products reprice more slowly, usually changing less than the change in market rates and at management's 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 may impact this analysis,

including changes by management to mitigate the impact of interest rate changes or secondary impacts such as changes to the 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 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, 2019

Interest Rate Scenario	Adjusted Net Interest Income	Percentage Change from Base	Net Interest Margin Percent	Net Interest Margin Change
		(Dollars in thousands)		
Up 300 basis points	$232,926	31.1%	5.07%	118
Up 200 basis points	$213,901	20.4%	4.66%	78
Up 100 basis points	$194,468	9.5%	4.25%	36
Base	$177,609	—%	3.88%	—
Down 100 basis points	$163,727	(7.8)%	3.58%	(30)
Down 200 basis points	$153,302	(13.7)%	3.36%	(53)
Down 300 basis points	$153,302	(13.7)%	3.36%	(53)

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 inflation rate has remained low in the last three years, which 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 our borrowers, 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 ABOUT MARKET RISK

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 Annual Report immediately following Part IV.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of December 31, 2019, 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, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2019. 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 U.S. generally accepted accounting principles.

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.

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, 2019. Management based this assessment on criteria for effective internal control over financial reporting described in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management's assessment included an evaluation of the design of the 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. Based on this evaluation, management determined that the Bank's system of internal controls over financial reporting was effective as of December 31, 2019. Crowe LLP, an independent registered public accounting firm, has issued its report on the effectiveness of internal control over financial reporting as of December 31, 2019.

Report of Independent Registered Public Accounting Firm

Shareholders and the Board of Directors of Preferred Bank
Los Angeles, California

Opinion on Internal Control over Financial Reporting

We have audited Preferred Bank's (the "Bank") internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control—Integrated Framework: (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Bank maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control—Integrated Framework: (2013) issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated statements of financial condition of the Bank as of December 31, 2019 and 2018, the related consolidated statements of operations and comprehensive income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes (collectively referred to as the "financial statements") and our report dated March 2, 2020 expressed an unqualified opinion.

Basis for Opinion

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 are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Bank in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. 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 of internal control over financial reporting 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.

Definition and Limitations of Internal Control Over Financial Reporting

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

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

/s/ Crowe LLP

Los Angeles, California
March 2, 2020

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 "*Information About Our Executive Officers*", will appear in the Bank's definitive proxy statement for the 2020 Annual Meeting of Shareholders (the "2020 Proxy Statement"), and such information either shall be (i) deemed to be incorporated herein by reference from the section entitled "ELECTION OF DIRECTORS" AND "DELINQUENT SECTION 16(a) REPORT" 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 Annual 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 2020 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 Annual Report filed with the Federal Deposit Insurance Corporation on Form 10-K/A not later than the end of such 120 day period.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER 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 2020 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 Annual 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 2020 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 Annual 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 ACCOUNTING FEES AND SERVICES

Information concerning principal accountant fees and services will appear in the 2020 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 Annual 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

	Page
Report of Independent Registered Public Accounting Firm—Crowe LLP	86
Consolidated Statements of Financial Condition at December 31, 2019 and 2018	88
Consolidated Statements of Operations and Comprehensive Income for the Years Ended December 31, 2019, 2018 and 2017	89
Consolidated Statements of Changes in Shareholders' Equity for the Years Ended December 31, 2019 and 2018	90
Consolidated Statements of Cash Flows for the Years Ended December 31, 2019, 2018 and 2017	91
Notes to Consolidated Financial Statements	92

(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
1.1	Equity Distribution Agreement dated October 3, 2017, by and among Preferred Bank, FBR Capital Markets & Co., Raymond James & Associates, Inc., and Sandler O'Neill & Partners, L.P.(8)
3.1	Amended and Restated Articles of Incorporation(4)
3.2	Certificate of Determination of the Series A Preferred Stock(2)
3.3	Certificate of Amendment of Amended and Restated Articles of Incorporation(9)
3.4	Agreement of Merger by and between Preferred Bank and United International Bank(9)
3.5	Amended and Restated Bylaws
4.1	Common Stock Certificate(3)
4.2	Form of Subordinated Note(5)
4.3	Form of Subordinated Note(5)
4.4	Form of Subordinated Note(5)
4.5	Description of Capital Stock
10.2*	Management Incentive Bonus Plan(4)
10.3*	Deferred Compensation Plan(4)
10.4*	Stock Option Gain Deferred Compensation Plan(4)
10.5*	2004 Equity Incentive Plan(4)
10.6*	2014 Equity Incentive Plan(1)
10.7*	Form of Indemnification Agreement for directors and executive officers(4)
10.8*	Revised Bonus Plan(1)
10.9*	Deferred Compensation Plan-Deferred Stock Unit Agreement and Rabbi Trust(4)
10.10*	Retention and Severance Agreement-Li Yu(1)
10.11	Board of Directors resolution dated December 16, 2014 terminating Deferred Compensation Plan(7)
10.12	Form of Subordinated Note Purchase Agreement(5)
10.13	Form of Subordinated Note Purchase Agreement(5)
10.14	Form of Subordinated Note Purchase Agreement(5)
10.15	Lease relating to the Bank's principal executive office at 601 S. Figueroa Street, 47th and 48th Floors, Los Angeles, California with 601 Figueroa Co. LLC, dated March 26, 2018(10)
21.1	Subsidiary of Preferred Bank
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

Exhibit No.	Exhibit Description
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

(1) Incorporated by reference from Registrant's Registration Statement on Form 10-K filed with the Federal Deposit Insurance Corporation on March 16, 2015.

(2) Incorporated by reference from Registrant's Current Report on Form 8-K filed with the Federal Deposit Insurance Corporation on June 23, 2010.

(3) Incorporated by reference from Registrant's Registration Statement on Form 10 Amendment No. 1 filed with the Federal Deposit Insurance Corporation on February 2, 2005.

(4) Incorporated by reference from Registrant's Registration Statement on Form 10 filed with the Federal Deposit Insurance Corporation on January 18, 2005.

(5) Incorporated by reference from Registrant's Quarterly Report on Form 10-Q filed with the Federal Deposit Insurance Corporation on November 9, 2016.

(6) Reserved

(7) Incorporated by reference from Registrant's Annual Report on Form 10-K filed with the Federal Deposit Insurance Corporation on March 24, 2016.

(8) Incorporated by reference from Registrant's Current Report on Form 8-K filed with the Federal Deposit Insurance Corporation on October 3, 2017.

(9) Filed with the Federal Deposit Insurance Corporation on August 23, 2017.

(10) Incorporated by reference from Registrant's Annual Report on Form 10-K filed with the Federal Deposit Insurance Corporation on February 28, 2019.

* Denotes management contract or compensatory plan or arrangement.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and the Board of Directors of Preferred Bank
Los Angeles, California

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of financial condition of Preferred Bank (the "Bank") as of December 31, 2019 and 2018, the related consolidated statements of operations and comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2019, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Bank's internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control—Integrated Framework: (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 2, 2020 expressed an unqualified opinion.

Basis for Opinion

These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on the Bank's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Bank in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (i) relates to accounts or disclosures that are material to the financial statements and (ii) involved especially challenging, subjective, or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Allowance for Loan and Lease Losses—Qualitative Factor Adjustments

The allowance for loan and lease losses is a valuation allowance for estimated probable incurred loan and lease losses in the loan and lease portfolio and is based on historical loss experience and

other significant factors. As described in Notes 1 and 3 to the financial statements, the methodology used to estimate the amount of the 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.

The Bank applies a systematic process to determine the required allowance for loan and leases losses. Loans individually evaluated for impairment are evaluated separately from pools of homogeneous loans for specific loss exposure, with specific reserves established as needed. Loans collectively evaluated for impairment are separated into homogeneous pools with similar characteristics, by loan type and risk factor. Estimated loss rates are determined for each pool of homogeneous loans. For the homogeneous pools, the bank applies the actual losses, based on historical charge-off data, against the average outstanding balances within those pools to come to historical loss rates. Adjustments are made to estimate reserves for each homogeneous loan pool to account for qualitative factors. The allowance for loan and lease losses as of December 31, 2019 was $34.8 million, comprised of reserves on loans individually and collectively evaluated for impairment of $879,000 and $33.9 million, respectively.

The qualitative factor adjustments are intended to account for current performance or risk factors in the loan portfolio and the impact of recent trends and conditions that management believes directly impact loss potential in the portfolio that is not currently being captured by historical loss rates or specific reserves. Management applies environmental and general economic factors 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, non-accrual and problem loan trends, and other adjustments for items not covered by other factors. The determination of these qualitative factor adjustments requires a significant amount of judgment and subjectivity by management.

We identified auditing the impact of the qualitative factor adjustments to the allowance for loan and lease losses to be a critical audit matter as it involved especially subjective auditor judgment.

We tested the design and operating effectiveness of controls over management's determination of qualitative factor adjustments. This included management's controls over the evaluation of the qualitative factors, including over management's judgments about the determination of the qualitative factors and the impact on the allowance for loan and lease losses, reasonableness of key assumptions, and the completeness and accuracy of data used as the basis for the qualitative adjustments.

We audited the qualitative factor adjustments by testing the mathematical accuracy of management's adjustments, including testing the completeness and accuracy of the data used as the basis for the qualitative factor adjustments. We also evaluated management's judgment regarding the evaluation of qualitative factors, including over management's judgments about the determination of the qualitative factors and the impact on the allowance for loan and lease losses. We compared trends within the allowance, including the qualitative factor adjustments, holistically to trends within the portfolio and other economic data for reasonableness.

/s/ CROWE LLP

We have served as the Bank's auditor since 2016.

Los Angeles, California
March 2, 2020

PREFERRED BANK

Consolidated Statements of Financial Condition

December 31, 2019 and 2018

(In thousands, except for shares)

	2019	2018
Assets		
Cash and due from banks	$ 498,645	$ 526,759
Federal funds sold	37,000	76,000
Cash and cash equivalents	535,645	602,759
Securities held-to-maturity, at amortized cost (with fair value of $7,200 and $7,572 at December 31, 2019 and 2018, respectively).	7,310	8,007
Securities available-for-sale, at fair value	240,640	182,413
Loans and leases	3,724,922	3,333,377
Less allowance for loan and lease losses	(34,830)	(31,065)
Less unamortized deferred loan fees, net	(3,028)	(2,323)
Net loans and leases	3,687,064	3,299,989
Customers' liability on acceptances	7,379	10,074
Bank furniture and fixtures, net	12,236	7,497
Bank-owned life insurance	9,571	9,317
Accrued interest receivable	14,961	14,266
Investment in affordable housing partnerships	53,142	43,848
Federal Home Loan Bank ("FHLB") stock, at cost	13,101	11,933
Net deferred tax assets	19,560	19,640
Income tax receivable	3,368	—
Operating lease right-of-use assets	17,103	—
Other assets	7,401	6,692
Total assets	$4,628,481	$4,216,435
Liabilities and Shareholders' Equity		
Deposits:		
Demand	$ 835,790	$ 730,096
Interest-bearing demand	1,328,863	1,397,006
Savings	23,784	20,369
Time certificates of $250,000 or more	976,727	738,626
Other time certificates	818,130	753,588
Total deposits	3,983,294	3,639,685
Acceptances outstanding	7,379	10,074
Advances from Federal Home Loan Bank	—	1,307
Subordinated debt issuance, net of unamortized costs and premium of $789 and $913 at December 31, 2019 and 2018, respectively	99,211	99,087
Accrued interest payable	3,324	6,839
Commitments to fund investment in affordable housing partnership	24,149	19,530
Operating lease liabilities	20,497	—
Other liabilities	20,612	23,262
Total liabilities	4,158,466	3,799,784
Commitments and Contingencies—Note 10		
Shareholders' equity:		
Preferred stock. Authorized 25,000,000 shares; no shares issued and outstanding at December 31, 2019 and 2018.	—	—
Common stock, no par value. Authorized 100,000,000 shares; issued and outstanding 14,933,768 and 15,308,688 shares at December 31, 2019 and 2018, respectively.	210,882	210,882
Treasury stock, at cost 859,311 and 457,900 shares at December 31, 2019 and 2018, respectively.	(55,054)	(34,529)
Additional paid-in capital	55,170	47,425
Retained earnings	255,050	194,855
Accumulated other comprehensive income (loss):		
Unrealized gain (loss) on securities available-for-sale, net of tax of $1,546 and $(725) at December 31, 2019 and 2018, respectively.	3,967	(1,982)
Total shareholders' equity	470,015	416,651
Total liabilities and shareholders' equity	$4,628,481	$4,216,435

See accompanying notes to the consolidated financial statements.

PREFERRED BANK

Consolidated Statements of Operations and Comprehensive Income

Years Ended December 31, 2019, 2018 and 2017

(In thousands, except share and per share data)

	2019	2018	2017
Interest income:			
Loans and leases	$ 207,218	$ 178,420	$ 144,678
Investment securities, available for sale	18,542	14,877	11,792
Federal funds sold	961	1,868	1,130
Total interest income	226,721	195,165	157,600
Interest expense:			
Interest-bearing demand	17,956	13,934	7,901
Savings	54	60	72
Time certificates of $250,000 or more	19,505	11,102	5,907
Other time certificates	18,427	9,651	7,726
FHLB borrowings	19	65	167
Subordinated debt	6,123	6,124	6,123
Total interest expense	62,084	40,936	27,896
Net interest income before provision for credit losses	164,637	154,229	129,704
Provision for credit losses	3,450	10,130	5,500
Net interest income after provision for credit losses	161,187	144,099	124,204
Noninterest income:			
Fees and service charges on deposit accounts	1,579	1,201	1,269
Letter of credit fee income	3,821	3,927	2,635
BOLI income	370	361	351
Net gain on sale of other real estate owned	—	2,038	—
Net gain on sale or call of investment securities	—	112	4
Other	1,696	1,762	1,565
Total noninterest income	7,466	9,401	5,824
Noninterest expense:			
Salaries and employee benefits	38,807	34,741	30,041
Net occupancy expense	5,121	5,299	4,942
Business development and promotion expense	840	816	883
Professional services	4,417	5,989	4,390
Office supplies and equipment expense	1,853	1,464	1,340
Loss on sale of OREO and related expenses	1,220	615	563
Other	4,989	5,878	7,389
Total noninterest expense	57,247	54,802	49,548
Income before income taxes	111,406	98,698	80,480
Income tax expense	33,035	27,705	37,086
Net income	$ 78,371	$ 70,993	$ 43,394
Income allocated to participating shares	(490)	(913)	(361)
Dividends allocated to participating shares	(176)	(253)	(138)
Net income available to common shareholders	$ 77,705	$ 69,827	$ 42,895
Other comprehensive (loss) income:			
Unrealized net (loss) gain on securities available-for-sale	8,220	(4,547)	3,180
Less reclassification adjustments included in net income	—	112	—
Other comprehensive (loss) income, before tax	8,220	(4,659)	3,180
Income tax (benefit) related to items of other comprehensive (loss) income	2,271	(1,307)	1,344
Other comprehensive (loss) income, net of tax	5,949	(3,352)	1,836
Comprehensive income	$ 84,320	$ 67,641	$ 45,230
Net income per share			
Basic	$ 5.16	$ 4.64	$ 2.97
Diluted	$ 5.16	$ 4.64	$ 2.96
Weighted-average common shares outstanding			
Basic	15,060,476	15,056,919	14,438,964
Diluted	15,060,476	15,059,845	14,492,671

See accompanying notes to the consolidated financial statements.

PREFERRED BANK

Consolidated Statements of Changes in Shareholders' Equity

Years Ended December 31, 2019, 2018 and 2017

(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 January 1, 2017	$—	14,232,907	$169,861	$(19,115)	$39,929	$108,261	$ (871)	$298,065
Cash dividend declared ($0.80 per share)	—	—	—	—	—	(11,763)	—	(11,763)
Final distribution of deferred compensation plan	—	437,254	3,154	—	(3,154)	—	—	—
Issuance of common stock	—	541,975	33,489	—	—	—	—	33,489
Common stock issuance cost	—	—	—	—	(939)	—	—	(939)
Restricted stock award grant	—	92,000	—	—	3,585	—	—	3,585
Restricted stock award forfeitures	—	(1,875)	—	—	—	—	—	—
Share-based compensation	—	—	—	—	41	—	—	41
Stock options exercised	—	90,350	1,444	—	—	—	—	1,444
Stock surrendered due to employee tax liability	—	(270,298)	—	(14,118)	—	—	—	(14,118)
Net income	—	—	—	—	—	43,394	—	43,394
Impact of change in enacted tax rate	—	—	—	—	—	(208)	208	—
Other comprehensive income, net of tax	—	—	—	—	—	—	1,836	1,836
Balance as of December 31, 2017	$—	15,122,313	$207,948	$(33,233)	$39,462	$139,684	$ 1,173	$355,034
Impact of adoption of ASU 2016-01	—	—	—	—	—	(197)	197	—
Cash dividend declared ($1.02 per share)	—	—	—	—	—	(15,625)	—	(15,625)
Issuance of common stock	—	28,723	1,777	—	—	—	—	1,777
Common stock issuance cost	—	—	—	—	(68)	—	—	(68)
Restricted stock grant	—	111,330	—	—	8,030	—	—	8,030
Restricted stock award forfeitures	—	(875)	—	—	—	—	—	—
Stock options exercised	—	73,300	1,157	—	—	—	—	1,157
Stock surrendered due to employee tax liability	—	(26,103)	—	(1,296)	—	—	—	(1,296)
Net income	—	—	—	—	—	70,993	—	70,993
Other comprehensive loss, net of tax	—	—	—	—	—	—	(3,352)	(3,352)
Balance as of December 31, 2018	$—	15,308,688	$210,882	$(34,529)	$47,425	$194,855	$(1,982)	$416,651
Cash dividend declared ($1.20 per share)	—	—	—	—	—	(18,176)	—	(18,176)
Repurchase of common stock	—	(358,359)	—	(18,222)	(15)	—	—	(18,237)
Restricted stock grant	—	34,875	—	—	7,760	—	—	47,760
Restricted stock award forfeitures	—	(150)	—	—	—	—	—	—
Stock surrendered due to employee tax liability	—	(51,286)	—	(2,303)	—	—	—	(2,303)
Net income	—	—	—	—	—	78,371	—	78,371
Other comprehensive income, net of tax	—	—	—	—	—	—	5,949	5,949
Balance as of December 31, 2019	$—	14,933,768	$210,882	$(55,054)	$55,170	$255,050	$ 3,967	$470,015

PREFERRED BANK

Consolidated Statements of Cash Flows

Years Ended December 31, 2019, 2018 and 2017

(In thousands)

	2019	2018	2017
Cash flows from operating activities:			
Net income	$ 78,371	$ 70,993	$ 43,394
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for credit losses	3,450	10,130	5,500
Amortization of deferred loan fees, net	(2,062)	(2,702)	(3,265)
Gain on sale and call of securities available-for-sale	—	(112)	(4)
Net loss (gain) on sale of other real estate owned	1,333	(2,038)	—
Loss on equity securities	—	59	—
Amortization of investment securities discounts and premiums, net	367	707	731
Amortization of investment in affordable housing partnerships	5,706	5,859	3,962
Accretion of discount on borrowings	(63)	(116)	(171)
Amortization of subordinated debt issuance costs	179	180	180
Loss on disposition of bank premises and equipment	7	—	—
Loans originated for sale	(2,353)	(2,789)	(440)
Gain on sale of loans	(23)	(15)	—
Sale of loans	2,371	3,244	—
Depreciation and amortization	1,342	953	990
Share-based compensation expense	7,760	8,031	3,626
Income from bank owned life insurance	(254)	(251)	(241)
Deferred tax (benefit) expense	(2,193)	(934)	7,784
Change in income taxes receivable (payable)	(3,368)	2,713	(2,713)
Change in accrued interest receivable and other assets	1,989	(4,025)	(3,352)
Change in accrued interest payable and other liabilities	(6,052)	9,125	(2,801)
Net cash provided by operating activities	86,757	99,012	53,180
Cash flows from investing activities:			
Proceeds from maturities and redemptions of securities held-to-maturity	630	697	1,428
Proceeds from maturities and redemptions of securities available-for-sale	65,776	10,982	22,474
Purchase of securities available-for-sale	(116,083)	(15,000)	(8,262)
Proceeds from sale of equity securities	—	4,649	—
Purchase of investments in affordable housing partnerships	(10,381)	(13,993)	(7,109)
Purchase of FHLB stock	(1,168)	(856)	(1,746)
Proceeds from sale of other real estate owned	10,248	6,150	—
Proceeds from recoveries of written off loans	943	796	218
Net increase in loans	(406,485)	(400,139)	(395,137)
Proceeds from the sale of loans	5,504	—	—
Proceeds from sale of premises and equipment	1	—	—
Purchase of bank premises and equipment	(6,088)	(2,766)	(1,360)
Net cash used in investing activities	(457,104)	(409,480)	(389,494)
Cash flows from financing activities:			
Increase in deposits	343,609	376,995	498,966
Decrease in FHLB borrowings	(1,299)	(5,035)	(20,000)
Proceeds from issuance of stock, net	—	1,709	32,550
Purchase of treasury stock	(20,540)	(1,296)	(14,118)
Cash dividends paid	(18,288)	(15,625)	(11,036)
Proceeds from the exercise of stock options	—	1,157	1,444
Net cash provided by financing activities	303,482	357,905	487,806
Net increase in cash and cash equivalents	(67,114)	47,437	151,492
Cash and cash equivalents at beginning of year	602,759	555,322	403,830
Cash and cash equivalents at end of year	535,645	602,759	555,322
Supplemental disclosure of cash flow information			
Cash paid during the period for:			
Interest	$ 65,599	$ 37,930	$ 27,262
Income taxes	$ 34,540	$ 18,398	$ 29,596
Noncash activities:			
Common stock dividend declared, but not paid	$ 4,481	$ 4,593	$ 3,331
Loans to facilitate the sale of other real estate owned	$ 29,000	—	—
Operating lease liabilities arising from right-of-use asset	$ 20,497	—	—
Transfer of loans held for investment to loans held for sale	$ 5,499	—	—
New commitments to fund affordable housing partnership investments	$ 13,105	$ 9,405	$ $7,508

See accompanying notes to consolidated financial statements.

PREFERRED BANK

Notes to Consolidated Financial Statements

(1) 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 consolidated financial statements include the accounts of Preferred Bank and its subsidiary, PB Investment and Consulting, Inc. (collectively the "Bank" or the "Company"). The 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.

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

(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 on hand and cash due from banks, and federal funds sold, all of which have original or purchased maturities of less than 90 days.

(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, 2019 and 2018, there were $7.3 million and $8.0 million, respectively, classified in the held-to-maturity portfolio.

At each reporting date, the Bank performs an impairment analysis on its investment securities portfolio, following FASB standards in 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 debt securities, the Bank will recognize the credit component

(1) Summary of Significant Accounting Policies (Continued)

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.

(e) Loans and Loan Origination Fees and Costs

Loans held for sale are recorded at the lower of cost or fair value as determined on an aggregate basis. Fees received from the borrower and the direct costs of loan originations are deferred and recorded as an adjustment to the sales price, when such loans are sold.

Loans that the Bank has both the intent and ability to hold for the foreseeable future, or until maturity, are held at carrying value, less related allowance for loan loss and 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. 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 non-accrual 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 non-accrual 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 non-accrual status, all interest previously accrued, but not collected, is reversed against current period interest income. Interest received on non-accrual 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 opinion 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

(1) Summary of Significant Accounting Policies (Continued)

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 non-accrual 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 and lease 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 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 or substandard that are not already included in impaired analysis based on economic and other qualitative factors that indicate probable losses were incurred.

The bank applies a systematic process to determine the required allowance for loan and leases losses:

1. Loans are separated into homogeneous pools by loan type and risk factor. The Bank segments the loan portfolio into 14 pools with similar characteristics and primarily based on loan product type.
2. Estimated loss rates are determined for each pool of homogeneous loans. The pool rates are established by examining historical charge-off data for the pools of homogeneous loans. For the homogeneous pools, the bank applies the actual losses against the average outstanding balances within those pools to come to historical loss rates. The pool rates are multiple by the loan balance of each pool to estimate the probable incurred loss (in dollars) for each group of loans. The pass loan pools include commercial, international, real estate by loan type, construction, and residential mortgage loans.

(1) Summary of Significant Accounting Policies (Continued)

3. Problem credits are evaluated for specific loss exposure and establish specific reserves as needed. The bank reviews non-accrual loans, classified loans, and TDR loans individually to determine if they are impaired, and establish specific reserves as needed for impairment. For collateral dependent loans, impairment is typically measured by comparing the loan amount to the fair value of collateral less cost to sell, with a prompt charge-off taken for the 'shortfall' amount once the value is confirmed. Other methods can be used in estimated impairment including loan sale market price or present value of expected future cash flows discounted at the loan's effective interest rate.

4. Adjustments, if warranted, are made to estimate reserves for each loan pool to account for qualitative factors. Such adjustments are intended to account for current performance or risk factors in the loan portfolio and the impact of recent trends and conditions that management believes directly impact loss potential in the portfolio that is not currently being captured in the ALLL model. The adjustments incorporate recent trends and economic conditions to the 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, non-accrual and problem loan trends, and other adjustments for items not covered by other factors.

5. The sums of the estimates of probable incurred loss for each category with the specific reserves are aggregated to arrive at the total estimated ALLL. The bank also establishes a reserve for unfunded commitments, calculated by applying the International pool historical pass reserve percentage to the total Outstanding L/C, Standby L/C, and Acceptance balance.

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. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at a present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral.

Our loan portfolio, excluding impaired loans which are evaluated individually, is categorized into several segments for purposes of determining allowance amounts by loan segment. The loan segments we currently evaluate are: commercial & industrial, trade finance, real estate—land, mini-perm, real estate construction and other loans. Each of these segments is then further broken down based on property type. Within these loan segments, we then evaluate loans rated as pass credits, separately from adversely classified loans. The allowance amounts for pass rated loans are determined using historical loss rates developed through a historical analysis over a period of 12-months. 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; non-accrual and problem loan trends; and other adjustments for items not covered by other factors. We base our allowance for loan and lease losses on an estimation of probable losses incurred in our loan portfolio.

(1) Summary of Significant Accounting Policies (Continued)

(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 gain (loss) on sale of OREO and related 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) Investments in Affordable Housing Partnerships

The Bank invests in qualified affordable housing projects (low income housing) and previously accounted for them under the equity method of accounting. The Bank recognized its share of partnership losses in other operating expenses with the tax benefits recognized in the income tax provision using the proportional amortization method.

(j) 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.

(k) 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. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in earnings in the period that includes the enactment date. Additionally, the effect of a change in tax rates on amounts included in accumulated other comprehensive income are reclassified to retained earnings at the enactment date. 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.

(l) 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

(1) Summary of Significant Accounting Policies (Continued)

common stock were exercised or converted into common stock or resulted in the issuance of common stock that shares in the earnings of the Bank.

(m) Share-Based Compensation

Employees and directors participate in the Bank's 2004 Equity Incentive Plan and 2014 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. The Bank's policy is to recognize costs net of estimated forfeitures. See Note 13 for further discussion.

(n) Bank-Owned Life Insurance (BOLI)

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

(o) 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.

(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 to be 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.

FASB ASU 2016-02, Leases (Topic 842). In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-02, "Leases (Topic 842)". Subsequently in July 2018, the FASB issued ASU 2018-10, "Codification Improvements to Topic 842, Leases" and ASU 2018-11, "Leases Topic 842, Targeted Improvements", to provide additional clarification, implementation, and transition guidance on certain aspects of ASU 2016-02. ASU 2016-02 establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. ASU 2016-02 and ASU 2018-10 are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. Under ASU 2018-11,

(1) Summary of Significant Accounting Policies (Continued)

an additional transition option was provided that would allow entities to not apply the new guidance in the comparative periods they present in their financial statements in the year of adoption. Under this optional transition method, entities will be allowed to continue using and presenting leases under ASC 840 for prior years comparative periods and then prospectively adopt ASC 842 on January 1, 2019, recognizing a cumulative-effect adjustment to the opening balance of retained earnings. On January 1, 2019, the Bank adopted ASU 2016-02 utilizing the transition option allowed under ASU 2018-11 and recognized an ROU asset of $17.7 million and a corresponding lease liability of $21.9 million. The adoption did not result in the recognition of a cumulative adjustment effect to retained earnings.

FASB ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments introduces new guidance for the accounting for credit losses on instruments within its scope. The new guidance introduces an approach based on expected losses to estimate credit losses on certain types of financial instruments. It also modifies the impairment model for available-for-sale (AFS) debt securities and provides for a simplified accounting model for purchased financial assets with credit deterioration since their origination. Current expected credit losses (“CECL”) model, will apply to: (1) financial assets subject to credit losses and measured at amortized cost; and (2) certain off-balance sheet credit exposures. This includes loans, held-to-maturity debt securities, loan commitments, financial guarantees, and net investments in leases, as well as reinsurance and trade receivables. Upon initial recognition of the exposure, the CECL model requires an entity to estimate the credit losses expected over the life of an exposure (or pool of exposures). The estimate of expected credit losses (ECL) should consider historical information, current information, and reasonable and supportable forecasts, including estimates of prepayments. Financial instruments with similar risk characteristics should be grouped together when estimating ECL.

FASB ASU 2019-04, Codification Improvements to Topic 326, Financial Instruments-Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments, which clarifies certain aspects of accounting for credit losses, hedging activities, and financial instruments. The amendments related to credit losses (addressed by ASU 2016-13) clarify the scope of the credit losses standard and address issues related to accrued interest receivable balances, recoveries, variable interest rates, prepayments and contractual extensions and renewals, among other things.

FASB ASU 2019-05, Financial Instruments-Credit Losses (Topic 326), which amends ASU 2016-13 to allow companies to irrevocably elect, upon adoption of ASU 2016-13, the fair value option on financial instruments that were previously recorded at amortized cost and are within the scope of ASC 326-20 if the instruments are eligible for the fair value option under ASC 825-10.

The Bank has engaged an outside consultancy to assist in implementation and building a model that is compliant with ASU 2016-13. The Bank has completed the model development, validation and implementation. Currently, the internal controls related to CECL have been identified and implemented with the testing of operational effectiveness in process. The Bank adopted this ASU during the first quarter of 2020 without electing the fair value option on eligible financial instruments. The Bank expects its allowance for loan and lease losses may increase by approximately 15% to 30% from the allowance for loan and lease losses under the current incurred loss model. This estimate of the anticipated impact of CECL on the Bank’s allowance for loan and lease losses will depend on the size and composition of the loan portfolio, the portfolio’s credit quality, economic conditions, as well as any refinements to the Bank’s methodology and other key assumptions as these are still ongoing. The reserve for off-balance sheet lending commitments is not expected to materially change. Furthermore,

(1) Summary of Significant Accounting Policies (Continued)

under this ASU, an allowance for expected credit losses for certain debt securities needs to be determined; however, based upon the nature and characteristics of our securities portfolios (including issuer specific matters), we do not expect to record any allowance.

At adoption, the Bank will have a cumulative-effect adjustment to retained earnings resulting from the aforementioned increase in the expected credit losses under CECL compared to its allowance for loan and lease losses as determined under the current incurred loss model.

FASB Accounting Standards Update (“ASU”) 2017-08, Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities. Introduced to amend the amortization period for certain purchased callable debt securities held at a premium. The FASB is shortening the amortization period for the premium to the earliest call date. Under current GAAP, entities generally amortize the premium as an adjustment of yield over the contractual life of the instrument. The Bank adopted ASU 2017-08 beginning January 1, 2019 and there was no material impact of the adoption on our consolidated financial statements.

(2) Securities Available-for-Sale and Held-to-Maturity

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 economic, 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 carrying value of our held-to-maturity investment securities was $7.3 million at December 31, 2019 and $8.0 million at December 31, 2018. The tables below show the amortized cost, gross unrealized gains and losses and estimated fair value of securities held-to-maturity as of December 31, 2019 and December 31, 2018:

	December 31, 2019			
	Amortized cost	Gross unrecognized gains	Gross unrecognized losses	Estimated fair value
	(In thousands)			
Mortgage-backed securities	$7,310	$—	$(110)	$7,200

	December 31, 2018			
	Amortized cost	Gross unrecognized gains	Gross unrecognized losses	Estimated fair value
	(In thousands)			
Mortgage-backed securities	$8,007	$—	$(435)	$7,572

(2) Securities Available-for-Sale and Held-to-Maturity (Continued)

The following tables summarize unrecognized losses on our held-to-maturity investment securities, aggregated by the length of time the securities have been in a continuous unrecognized loss position, at December 31, 2019 and 2018:

	December 31, 2019					
	Less than 12 months		12 months or greater		Total	
	Estimated fair value	Unrecognized losses	Estimated fair value	Unrecognized losses	Estimated fair value	Unrecognized losses
	(In thousands)					
Held-to-maturity mortgage-backed	—	—	$7,200	$(110)	$7,200	$(110)
Total held-to-maturity	—	—	$7,200	$(110)	$7,200	$(110)

	December 31, 2018					
	Less than 12 months		12 months or greater		Total	
	Estimated fair value	Unrecognized losses	Estimated fair value	Unrecognized losses	Estimated fair value	Unrecognized losses
	(In thousands)					
Held-to-maturity mortgage-backed	—	—	$7,572	$(435)	$7,572	$(435)
Total held-to-maturity	—	—	$7,572	$(435)	$7,572	$(435)

The tables below show the amortized cost, gross unrealized gains and losses, and estimated fair value of securities available for sale as of December 31, 2019 and 2018.

	December 31, 2019			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
	(In thousands)			
Asset-backed securities	$ 3,649	$ 36	$ (58)	$ 3,627
Corporate notes	127,832	3,990	(222)	131,600
U.S. Agency mortgage-backed securities	16,057	156	(56)	16,157
Collateralized mortgage obligations	2,129	13	(15)	2,127
Municipal securities	58,719	1,702	(22)	60,399
U.S. Agency principal-only strip securities	976	—	(12)	964
SBA securities	781	—	(1)	780
U.S. Treasury Bill	24,984	2	—	24,986
Total securities available-for-sale	$235,127	$5,899	$(386)	$240,640

(2) Securities Available-for-Sale and Held-to-Maturity (Continued)

	December 31, 2018			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
	(In thousands)			
Asset-backed securities	$ 3,885	$ 6	$ —	$ 3,891
Corporate notes	109,477	655	(1,834)	108,298
U.S. Agency mortgage-backed securities	20,669	115	(330)	20,454
Collateralized mortgage obligations	2,741	7	(15)	2,733
Municipal securities	46,122	122	(1,365)	44,879
U.S. Agency principal-only strip securities	1,281	—	(70)	1,211
SBA securities	945	2	—	947
Total securities available-for-sale	$185,120	$907	$(3,614)	$182,413

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, 2019 and 2018 are as follows:

	December 31, 2019					
	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)					
Asset-backed securities	$ —	$—	$ 1,504	$ (58)	$ 1,504	$ (58)
Corporate notes	8,065	(3)	2,652	(219)	10,717	(222)
U.S. Agency mortgage-backed securities	53	—	8,195	(56)	8,248	(56)
Collateralized mortgage obligations	—	—	1,581	(15)	1,581	(15)
Municipal securities	447	(2)	4,078	(20)	4,525	(22)
U.S. Agency principal-only strip securities	—	—	964	(12)	964	(12)
SBA securities	780	(1)	—	—	780	(1)
Total securities available-for-sale	$9,345	$(6)	$18,974	$(380)	$28,319	$(386)

	December 31, 2018					
	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)					
Asset-backed securities	$ 1,731	$ —	$ —	$ —	$ 1,731	$ —
Corporate notes	43,198	(1,134)	17,291	(700)	60,489	(1,834)
U.S. Agency mortgage-backed securities	4,210	(13)	8,782	(317)	12,992	(330)
Collateralized mortgage obligations	404	(2)	1,937	(13)	2,341	(15)
Municipal securities	5,506	(103)	23,878	(1,262)	29,384	(1,365)
U.S. Agency principal-only strip securities	—	—	1,211	(70)	1,211	(70)
SBA securities	—	—	25	—	25	—
Total securities available-for-sale	$55,049	$(1,252)	$53,124	$(2,362)	$108,173	$(3,614)

(2) Securities Available-for-Sale and Held-to-Maturity (Continued)

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

The Bank performs a regular impairment analysis on its investment securities portfolio and management has analyzed all investment securities which have an amortized cost that exceeds fair value as of December 31, 2019.

As of December 31, 2019, the Bank owned 30 available-for-sale corporate securities, 1 of which was in an unrealized loss position for longer than 12 months. The total amortized cost of the security was $2.9 million and their fair value was $2.7 million. Management performed an analysis on the issuer of the security which focused on the recent financial results of the companies, capital ratios, debt ratings, and long-term prospects of the issuers and deemed the corporate securities to be temporarily impaired. Management has concluded that the market value decline is a result of the interest rate environment and not credit impairment, and that the fair value of this security will recover as interest rates normalize. The intent of the Bank is to hold the security until a recovery in value, and management has determined that it is not more likely than not that the Bank will be required to sell the security prior to recovery of the amortized cost basis.

The Bank owns 41 available-for-sale mortgage-backed securities, 5 of which were in an unrealized loss position for longer than 12 months as of December 31, 2019. The total amortized cost of these securities was $8.3 million and the total fair value was $8.2 million. Based on several factors including 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, management determined that the securities were not other-than-temporarily impaired as of December 31, 2019.

As of December 31, 2019, the Bank owned 2 available-for-sale asset-backed securities ("ABS"), 1 of which was in an unrealized loss position for longer than 12 months. The total amortized cost of this security was $1.6 million and their fair value was $1.5 million. Management has concluded that the market value decline is a result of the interest rate environment and not credit impairment, and that the fair value of this security will recover as interest rates normalize. The intent of the Bank is to hold the security until a recovery in value, and management has determined that it is not more likely than not that the Bank will be required to sell the security prior to recovery of the amortized cost basis.

The Bank owns 82 available-for-sale municipal securities, 2 of which were in an unrealized loss position for longer than 12 months as of December 31, 2019. The total amortized cost of these securities was $4.1 million and the total fair value was $4.1 million. Based on factors including 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, management determined that the securities were not other-than-temporarily impaired as of December 31, 2019.

As of December 31, 2019, the Bank owned 2 collateralized mortgage obligations ("CMO") where the amortized cost exceeded fair value for greater than 12 months. The total amortized cost of these securities was $1.6 million and the total fair value was $1.6 million. Management determined that the CMO were not other-than-temporarily impaired as of December 31, 2019. This determination was made based on several factors such as debt rating of the security, amount of credit protection, the

(2) Securities Available-for-Sale and Held-to-Maturity (Continued)

Bank's intent and ability to hold the security 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 security prior to recovery of amortized cost basis.

As of December 31, 2019, the Bank owned one U.S. Agency principal-only strip where the amortized cost exceeded fair value for greater than 12 months. The total amortized cost of this security was $1.0 million and the total fair value was $1.0 million. Based on factors including 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, management determined that the securities were not other-than-temporarily impaired as of December 31, 2019.

In accordance with Section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act, the Bank performs a thorough annual review of each of the investment securities in its portfolio (other than US Government and Agency securities) to determine, among other things, the current financial status of the issuer as well as the issuer's ability to repay the debt. This analysis is performed in addition to the quarterly review that is performed on all investment securities which are in an unrealized loss position.

We do not intend to sell these securities until recovery and have determined that it is not more likely than not that we will be required to sell the securities prior to recovery of their amortized cost basis.

Cash proceeds from calls of securities available-for-sale totaled $60.0 million, $2.9 million and $11.7 million for the years ended December 31, 2019, 2018 and 2017, respectively. There were no realized gains for the year ended December 31, 2019. Net realized gains for sales and calls of securities totaled a gain of $112,000 and $4,000 for the years ended December 31, 2018 and 2017, respectively. There were no realized losses for the years ended December 31, 2019, 2018, and 2017. Investment securities having a fair value of approximately $245.5 million and $190.4 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, 2019 and 2018, respectively. At December 31, 2019 and 2018, approximately $41.3 million and $45.7 million, respectively, of the Bank's investment securities were pledged as collateral for certain public deposits.

The amortized cost and estimated fair value of securities available-for-sale at December 31, 2019 and 2018, by contractual maturity, are shown below. Investment securities are classified in accordance

(2) Securities Available-for-Sale and Held-to-Maturity (Continued)

with their estimated average life. Expected maturities differ from contractual maturities mainly due to prepayment rates; changes in prepayment rates will affect a security's average life.

	December 31,			
	2019		2018	
	Amortized cost	Estimated fair value	Amortized cost	Estimated fair value
	(In thousands)			
Due in one year or less	$ 47,029	$ 47,289	$ 7,082	$ 7,150
Due after one year through five years	19,296	19,751	36,612	36,854
Due after five years through ten years	93,597	96,991	74,369	72,845
Due after ten years	75,205	76,609	67,057	65,564
Total	$235,127	$240,640	$185,120	$182,413

The Bank had no debt securities that have been other-than-temporarily-impaired as of or during the years ended December 31, 2019, 2018, or 2017.

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

The Bank's loan portfolio includes originated loans as well as purchased loans.

The loans and leases portfolio as of December 31, 2019 and 2018 is summarized as follows:

	2019	2018
	(In thousands)	
Real estate mortgage	$2,199,338	$1,957,028
Real estate construction	392,513	346,665
Commercial	1,112,276	1,007,487
Trade finance	20,353	22,015
Consumer & other	442	182
Gross loans	3,724,922	3,333,377
Less:		
Allowance for loan and lease losses	(34,830)	(31,065)
Deferred loan fees, net	(3,028)	(2,323)
Total loans, net	$3,687,064	$3,299,989

The Bank had $2.1 million of non-accrual loans and leases at December 31, 2019 compared to $44.8 million at December 31, 2018. These loans and leases had interest due, but not recognized, of approximately $140,000 and $2.9 million in 2019 and 2018, respectively. The Bank had no loans past due 90 or more days and still accruing interest as of December 31, 2019 or December 31, 2018.

(3) Loans and Leases and Allowance for Loan and Lease Losses (Continued)

The following tables depict the Bank's recorded investment in past due loans held for investment by class as of December 31, 2019 and 2018:

December 31, 2019 Loan Class:	30 - 89 Days Accruing	90+ Days Still Accruing	Non-accrual Non-current	Total Past Due	Non-accrual Current
			(in thousands)		
Real estate mortgage					
R/E—Residential	$ —	$—	$ —	$ —	$ 366
R/E—Commercial	25,749	—	446	26,195	—
Total R/E mortgage	25,749	—	446	26,195	366
Real estate construction					
Construction—Residential	—	—	—	—	—
Construction—Commercial	—	—	—	—	—
Total R/E—Construction	—	—	—	—	—
Commercial and Industrial	943	—	—	943	1,323
Trade Finance	—	—	—	—	—
Consumer	—	—	—	—	—
Other	—	—	—	—	—
Total as of December 31, 2019	$26,692	$—	$446	$27,138	$1,689

December 31, 2018 Loan Class:	30 - 89 Days Accruing	90+ Days Still Accruing	Non-accrual Non-current	Total Past Due	Non-accrual Current
			(in thousands)		
Real estate mortgage					
R/E—Residential	$ —	$—	$42,949	$42,949	$—
R/E—Commercial	—	—	1,361	1,361	—
Total R/E mortgage	—	—	44,310	44,310	—
Real estate construction					
Construction—Residential	—	—	—	—	—
Construction—Commercial	—	—	—	—	—
Total R/E—Construction	—	—	—	—	—
Commercial and Industrial	4,421	—	11	4,432	—
Trade Finance	—	—	513	513	—
Consumer	—	—	—	—	—
Other	—	—	—	—	—
Total as of December 31, 2018	$4,421	$—	$44,834	$49,255	$—

(3) Loans and Leases and Allowance for Loan and Lease Losses (Continued)

The following table depicts the Bank's total recorded investment in non-accrual loans held for investment by class as of December 31, 2019 and 2018:

Loan Class	December 31, 2019	December 31, 2018
	(In thousands)	
Real estate mortgage:		
R/E—Residential	$ 366	$42,949
R/E—Commercial	446	1,361
Total R/E mortgage	812	44,310
Real estate construction:		
Construction—Residential	—	—
Construction—Commercial	—	—
Total R/E construction	—	—
Commercial and Industrial	1,323	11
Trade Finance	—	513
Consumer	—	—
Other	—	—
Loans held for sale	—	—
Total non-accrual loans	$2,135	$44,834

A troubled debt restructuring ("TDR") is a formal modification of the terms of a loan when the lender, for economic or legal reasons related to the borrower's financial condition, grants a concession to the borrower. The concessions may be granted in various forms, including change in the stated interest rate, reduction in the loan balance or accrued interest, or extension of the maturity date with a stated interest rate lower than the current market rate.

TDRs may be designated as performing or non-performing. A TDR may be designated as performing if the loan has demonstrated sustained performance under the modified terms. The period of sustained performance may include the periods prior to modification if prior performance met or exceeded the modified terms. For non-performing restructured loans, the loan will remain on non-accrual status until the borrower demonstrates a sustained period of performance, generally six consecutive months of payments. The Bank had one performing restructured loans as of December 31, 2019 and December 31, 2018 with a balance of $693,000 and $698,000, respectively. There were no non-performing restructured loans at December 31, 2019. Non-performing restructured loans were $524,000 at December 31, 2018. The $524,000 in TDRs as of December 31, 2018 consisted of one trade finance loan relationship renewal with a balance of $513,000 and one commercial real estate relationship of $11,000. There were no balance reductions or rate concessions associated with the renewals designated as TDRs during the years ended December 31, 2019 and 2018.

(3) Loans and Leases and Allowance for Loan and Lease Losses (Continued)

The following table presents TDR that have been modified during the twelve months ended December 31, 2019 and 2018:

	December 31, 2019			December 31, 2018		
	# of Contracts	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment	# of Contracts	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Troubled debt restructurings:						
Commercial and Industrial	1	698	693	1	719	709
Trade finance	—	—	—	1	1,238	513
Total	1	698	693	2	1,957	1,222

Modification of the term of a loan is individually evaluated based on the loan type and the circumstances of the borrower's financial difficulty in order to maximize the bank's recovery. Real estate TDRs were primarily loans where we have modified the scheduled payments to interest only terms for a given period of time, normally one year. We expect to collect the balance of the loan as property cash flows and/or the guarantor's global cash flow improves to allow for the resumption of principal and interest payments.

Subsequent to restructuring, a TDR that becomes delinquent, generally beyond 90 days for commercial and industrial and real estate mini-perm commercial loans, becomes non-accrual. There were no loans modified as TDRs that subsequently defaulted during the years ended December 31, 2019 or 2018.

All TDRs are included in the impaired loan valuation allowance process. All portfolio segments of TDRs are reviewed for necessary specific reserves in the same manner as impaired loans of the same portfolio segment which have not been identified as TDRs. The modification of the terms of each TDR is considered in the current impairment analysis of the respective TDR. For all portfolio segments of delinquent TDRs and when the restructured loan is less than the recorded investment in the loan, the deficiency is charged-off against the allowance for loan and lease losses. If the loan is a performing TDR the deficiency is included in the specific allowance, as appropriate. As of December 31, 2019, there was one TDR that was performing and had no associated allowance for loan and lease losses. At December 31, 2019, the Bank had no of commitments to lend additional funds to debtors whose loans were restricted to TDR.

Impaired loans and leases are those for which 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 non-accrual loans and leases. Management may choose to place a loan or lease on non-accrual 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. Impaired loans totaled $20.0 million and $46.0 million at December 31, 2019 and 2018, respectively. The total allowance for loan and lease losses related to these loans was $879,000 and $255,000 at December 31, 2019 and 2018, respectively. Interest income recognized on impaired loans during 2019, 2018 and 2017 was $1.3 million, $197,000 and $164,000, respectively.

(3) Loans and Leases and Allowance for Loan and Lease Losses (Continued)

Impaired loans, disaggregated by loan class, as of December 31, 2019 and 2018 are set forth in the following tables. Interest income recognized approximates cash basis interest income.

	Unpaid Principal Balance	Recorded Investment with allowance	Recorded Investment without allowance	Total Recorded investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
				(In thousands)			
2019							
Real estate mortgage:							
Residential	$17,688	$ —	$17,688	$17,688	$ —	$25,272	$1,037
Commercial	—	—	—	—	—	272	—
Total R/E mortgage	17,688	—	17,688	17,688	—	25,544	1,037
Real estate construction:							
Residential	—	—	—	—	—	—	—
Commercial	—	—	—	—	—	—	—
Total R/E construction	—	—	—	—	—	—	—
Commercial	2,341	1,648	693	2,341	879	2,795	279
Trade Finance	—	—	—	—	—	154	—
Consumer	—	—	—	—	—	—	—
Other loans	—	—	—	—	—	—	—
Total impaired loans	$20,029	$1,648	$18,381	$20,029	$879	$28,493	$1,316

	Unpaid Principal Balance	Recorded Investment with allowance	Recorded Investment without allowance	Total Recorded investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
				(In thousands)			
2018							
Real estate mortgage:							
Residential	$42,949	$ —	$42,949	$42,949	$ —	$37,336	$ 16
Commercial	1,815	—	1,815	1,815	—	726	132
Total R/E mortgage	44,764	—	44,764	44,764	—	38,062	148
Real estate—construction:							
Residential	—	—	—	—	—	—	—
Commercial	—	—	—	—	—	—	—
Total R/E construction	—	—	—	—	—	—	—
Commercial	709	11	698	709	5	3,040	49
Trade Finance	513	513	—	513	250	632	—
Consumer	—	—	—	—	—	—	—
Other loans	—	—	—	—	—	—	—
Total impaired loans	$45,986	$524	$45,462	$45,986	$255	$41,734	$197

During 2019, the Bank sold $7.9 million in residential real estate loans, of which $5.5 million was transferred from the loan portfolio, resulting in a net gain of $23,000. During 2018, the Bank sold

(3) Loans and Leases and Allowance for Loan and Lease Losses (Continued)

$3.2 million of residential real estate loans held for sale resulting in a net gain of $15,000 and there were no loans were transferred to or out of loans held for sale. No loans remained held for sale as of December 31, 2019.

The following table details activity in the allowance for credit losses by portfolio segment for the year ended December 31, 2019. Allocation of a portion of the allowance to one particular portfolio segment does not indicate that it is no longer available to absorb losses in other portfolio segments.

	Real estate mortgage		Real estate construction						
2019	Residential	Commercial	Residential	Commercial	Commercial & Industrial	Trade Finance	Consumer & Other	Unallocated	Total
					(In thousands)				
Balance at beginning of period	$3,624	$12,346	$ 944	$1,409	$12,048	$ 523	$ 3	$168	$31,065
Provision for credit losses	(178)	765	135	(59)	2,723	(226)	3	287	3,450
Loans and leases charged off	(101)	—	—	—	(502)	(24)	—	—	(627)
Recoveries	415	—	—	—	526	1	—	—	942
Net (charge offs) recoveries	314	—	—	—	24	(23)	—	—	315
Balance at end of period	$3,760	$13,111	$1,079	$1,350	$14,795	$ 274	$ 6	$455	$34,830

The Bank's recorded investment in loans as of December 31, 2019 related to each balance in the allowance for loan and lease losses by portfolio segment and disaggregated on the basis of the Bank's impairment methodology was as follows:

	Real estate mortgage		Real estate construction						
December 31, 2019	Residential	Commercial	Residential	Commercial	Commercial & Industrial	Trade Finance	Consumer & Other	Unallocated	Total
					(In thousands)				
Allowance for loan and lease losses:									
Loans individually evaluated for impairment	$ —	$ —	$ —	$ —	$ 879	$ —	$ —	$ —	$ 879
Loans collectively evaluated for impairment	3,760	13,111	1,079	1,350	13,916	274	6	455	33,951
Total	$ 3,760	$ 13,111	$ 1,079	$ 1,350	$ 14,795	$ 274	$ 6	$455	$ 34,830
Loans outstanding:									
Loans individually evaluated for impairment	$ 17,688	$ —	$ —	$ —	$ 2,341	$ —	$ —	$ —	$ 20,029
Loans collectively evaluated for impairment	450,633	1,731,017	173,951	218,562	1,109,935	20,353	442	—	3,704,893
Total	$468,321	$1,731,017	$173,951	$218,562	$1,112,276	$20,353	$442	$ —	$3,724,922

The following table details activity in the allowance for credit losses by portfolio segment for the year ended December 31, 2018. Allocation of a portion of the allowance to one particular portfolio segment does not indicate that it is no longer available to absorb losses in other portfolio segments.

	Real estate mortgage		Real estate construction						
2018	Residential	Commercial	Residential	Commercial	Commercial & Industrial	Trade Finance	Consumer & Other	Unallocated	Total
					(In thousands)				
Balance at beginning of period	$ 2,636	$12,858	$571	$1,331	$11,590	$558	$ —	$ 377	$29,921
Provision for credit losses	6,730	(512)	373	78	3,702	(35)	3	(209)	10,130
Loans and leases charged off	(5,742)	—	—	—	(4,040)	—	—	—	(9,782)
Recoveries	—	—	—	—	796	—	—	—	796
Net (charge offs) recoveries	(5,742)	—	—	—	(3,244)	—	—	—	(8,986)
Balance at end of period	$ 3,624	$12,346	$944	$1,409	$12,048	$523	$ 3	$ 168	$31,065

(3) Loans and Leases and Allowance for Loan and Lease Losses (Continued)

The Bank's recorded investment in loans as of December 31, 2018 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 mortgage		Real estate construction						
December 31, 2018	Residential	Commercial	Residential	Commercial	Commercial & Industrial	Trade Finance	Consumer & Other	Unallocated	Total
					(In thousands)				
Allowance for loan and lease losses:									
Loans individually evaluated for impairment	$ —	$ —	$ —	$ —	$ 5	$ 250	$ —	$ —	$ 255
Loans collectively evaluated for impairment	3,624	12,346	944	1,409	12,043	273	3	168	30,810
Total	$ 3,624	$ 12,346	$ 944	$ 1,409	$ 12,048	$ 523	$ 3	$168	$ 31,065
Loans outstanding:									
Loans individually evaluated for impairment	$ 42,949	$ 1,815	$ —	$ —	$ 709	$ 513	$ —	$ —	$ 45,986
Loans collectively evaluated for impairment	352,798	1,559,466	138,815	207,850	1,006,778	21,502	182	—	3,287,391
Total	$395,747	$1,561,281	$138,815	$207,850	$1,007,487	$22,015	$182	$ —	$3,333,377

The following table details activity in the allowance for credit losses by portfolio segment for the year ended December 31, 2017. Allocation of a portion of the allowance to one particular portfolio segment does not indicate that it is no longer available to absorb losses in other portfolio segments.

	Real estate mortgage		Real estate construction						
2017	Residential	Commercial	Residential	Commercial	Commercial & Industrial	Trade Finance	Consumer & Other	Unallocated	Total
					(In thousands)				
Balance at beginning of period	$2,228	$11,350	$1,158	$ 809	$10,412	$177	$ 67	$277	$26,478
Provision for credit losses	408	1,363	(587)	505	3,397	381	(67)	100	5,500
Loans and leases charged off	—	—	—	—	(2,274)	—	—	—	(2,274)
Recoveries	—	145	—	17	55	—	—	—	217
Net (charge offs) recoveries	—	145	—	17	(2,219)	—	—	—	(2,057)
Balance at end of period	$2,636	$12,858	$ 571	$1,331	$11,590	$558	$ —	$377	$29,921

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 and lease 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 "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. In reviewing loans and evaluating the adequacy of the allowance, there are several risk characteristics considered. Those most relevant to the major portfolio segments include vacancy and lease rates on commercial real estate, state of the general housing market, home prices, commercial real estate values and the impact of economic conditions and employment levels on the various businesses in our market area.

(3) Loans and Leases and Allowance for Loan and Lease Losses (Continued)

The following tables present the recorded investment in risk grades and classified loans by class of loan as of December 31, 2019 and 2018. Classified loans include loans in risk grades 6 and 7, which correlate to substandard and doubtful for risk classification purposes.

2019	Real Estate		Construction		Commercial &	Trade	Consumer &	Total
Grade:	Residential	Commercial	Residential	Commercial	Industrial	Finance	Other	Loans
(In thousands)								
Pass	$448,330	$1,727,531	$173,951	$218,562	$1,092,369	$20,353	$442	$3,681,538
Special Mention	—	3,039	—	—	13,132	—	—	16,171
Substandard	19,991	447	—	—	6,775	—	—	27,213
Doubtful	—	—	—	—	—	—	—	—
Total	$468,321	$1,731,017	$173,951	$218,562	$1,112,276	$20,353	$442	$3,724,922

2018	Real Estate		Construction		Commercial &	Trade	Consumer &	
Grade:	Residential	Commercial	Residential	Commercial	Industrial	Finance	Other	Total Loans
(In thousands)								
Pass	$350,339	$1,556,272	$138,815	$207,850	$ 995,846	$21,502	$182	$3,270,806
Special Mention	2,459	3,194	—	—	10,695	—	—	16,348
Substandard	42,949	1,815	—	—	946	—	—	45,710
Doubtful	—	—	—	—	—	513	—	513
Total	$395,747	$1,561,281	$138,815	$207,850	$1,007,487	$22,015	$182	$3,333,377

(4) Bank, Premises, Furniture and Fixtures

As of December 31, 2019 and 2018, furniture and fixtures consists of the following:

	2019	2018
	(In thousands)	
Land and building	$ 2,782	$ 2,782
Leasehold improvements	13,025	10,881
Furniture and fixtures	8,077	7,352
	23,884	21,015
Less accumulated depreciation and amortization	(11,648)	(13,518)
	$ 12,236	$ 7,497

Depreciation and amortization expense was $1.3 million, $953,000 and $990,000 for the years ended December 31, 2019, 2018 and 2017, respectively. Fixed asset sales resulted in losses of $7,000 for the year ended December 31, 2019. There were no fixed asset sales resulting in losses during the years ended December 31, 2018 or 2017.

(5) Deposits

Time deposit accounts at December 31, 2019 mature as follows:

Year	Maturities of time deposits
	(In thousands)
2020	$1,565,236
2021	176,578
2022	22,627
2023	252
2024	30,164
Thereafter	—
	$1,794,857

The aggregate amount of overdrafts that have been reclassified as loan balances was $442,000 and $176,000 at December 31, 2019 and 2018, respectively.

Deposits that exceed the FDIC Insurance limit of $250,000 at December 31, 2019 and 2018 were $2.95 billion and $2.67 billion, respectively.

(6) Income Taxes

The income taxes expense (benefit) for the years ended December 31, 2019, 2018 and 2017 was as follows:

	2019	2018	2017
		(In thousands)	
Current income tax expense:			
Federal	$21,748	$17,246	$20,818
State	13,478	11,393	8,279
	35,226	28,639	29,097
Deferred income tax (benefit) expense:			
Federal	(1,373)	(578)	1,334
State	(818)	(356)	618
Change in enacted tax rate	—	—	6,037
	(2,191)	(934)	7,989
Income tax expense:	$33,035	$27,705	$37,086

At December 31, 2019 and 2018, the current net income tax receivable was $3.4 million and net income tax payable was $1.7 million, respectively.

(6) Income Taxes (Continued)

The components of the deferred tax assets and deferred tax liabilities as of December 31, 2019 and 2018 are as follows:

	2019	2018
	(in thousands)	
Deferred tax assets:		
Allowance for loan and lease losses	$10,821	$ 9,608
State taxes	2,281	1,913
Bank furniture and fixtures, net	—	530
Capital loss carryforward	106	—
Restricted stocks	3,297	1,271
Lease liability	6,157	—
Net operating loss carryforward	1,897	2,156
Other	510	945
Excess realized build in loss	935	1,263
Accrued bonuses	2,174	2,859
Fair value adjustment on acquired loans	69	101
Unrealized losses on securities available-for-sale	—	725
Alternative minimum tax credits	820	820
Gross deferred tax assets	29,067	22,191
Deferred tax liabilities:		
Unrealized gains on securities available-for-sale	(1,546)	—
Operating lease right-of-use assets	(5,138)	—
Deferred loan costs	(1,757)	(1,588)
Bank furniture and fixtures, net	(328)	—
FHLB stock	(286)	(286)
Core deposit intangible from acquisition	(141)	(169)
Other	(311)	(508)
Gross deferred liabilities	(9,507)	(2,551)
Valuation allowance	—	—
Net deferred tax assets	$19,560	$19,640

On December 22, 2017, President Trump signed the Tax Cuts and Jobs Act into legislation, substantially amending the Internal Revenue Code. Under FASB ASC 740, the effects of changes in tax rates and laws are recognized in the period in which the new legislation is enacted. As a result of this new legislation, the Bank incurred a one-time increase in tax expense of $6.0 million from the re-measurement of deferred tax assets and liabilities resulting from the legislation's decrease in the corporate Federal income tax rate from 35% to 21%.

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

(6) Income Taxes (Continued)

historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Bank will realize all benefits related to these deductible differences at December 31, 2019.

Pursuant to Sections 382 and 383 of the Internal Revenue Code, annual use of NOL and credit carryforwards may be limited in the event a cumulative change in ownership of more than 50 percent points 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 in 2010 and 2009. This ownership change resulted in estimated limitations on the utilization of tax attributes, including NOL carryforwards and tax credits. Although we fully expect to utilize all of the federal NOL carryforward prior to their expiration, the California NOL carryover has been significantly impacted by the IRC Sec. 382 limitation. We estimate that of approximately $75.9 million of the California NOL as of December 31, 2019, $55.8 million is expected to expire in 2029 and $3.2 million is expected to expire in 2030 as it will be unutilized as a result of IRS Sec 382 limitation. The remaining California NOL carryforward of the approximately $16.9 million at December 31, 2019, is subject to IRC Sec. 382 annual limitation amount of approximately $1.5 million. Additionally, the bank has $2.2 million of Federal excess realized built in losses and $6.1 million of California excess built in losses as of December 31, 2019 which are also subject to IRC Sec. 382 annual limitation amount of approximately $1.5 million.

As a result of the UIB acquisition the Bank has an additional $0.4 million of federal NOLs and $2.7 million of New York NOLs that are subject to annual Sec. 382 limitation of $0.3 million remaining as of December 31, 2019. Management fully expects to use the acquired NOL carryforwards before their expiration beginning in 2025 for New York NOLs and 2033 for federal NOLs.

As of December 31, 2019, we had federal and state NOL carryforwards of $425,000 and $19.6 million, respectively.

A reconciliation of the income tax expense (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, 2019, 2018 and 2017:

	2019		2018		2017	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
			(In thousands)			
Statutory U.S. federal income tax	$23,395	21.0%	$20,727	21.0%	$28,168	35.0%
State taxes, net of federal benefit	10,001	9.0	8,719	8.9	5,783	7.2
Share-based compensation	(287)	(0.3)	(656)	(0.7)	(2,515)	(3.1)
Change in federal tax rate	—	(0.0)	(130)	(0.1)	6,037	7.5
Life insurance policies	(53)	(0.0)	(53)	(0.1)	(84)	(0.1)
Low income housing credits	(1,546)	(1.4)	(1,771)	(1.8)	(525)	(0.7)
Other	1,525	1.4	869	0.9	222	0.3
	$33,035	29.7%	$27,705	28.1%	$37,086	46.1%

The Bank is subject to U.S. Federal income tax as well as various state and local income taxes. The Bank is generally no longer subject to examination by taxing authorities for years prior to 2015.

There were no unrecognized tax benefits for the years ended December 31, 2019 and 2018.

(7) Other Real Estate Owned

At December 31, 2019 and 2018, there was no OREO. There was no activity in the valuation allowance for other real estate for the years ended December 31, 2019, 2018 and 2017. At December 31, 2019, 2018 and 2017, there was no valuation allowance for other real estate.

During the year ended December 31, 2019, the Bank acquired the title to two properties totaling $36.9 million, which were subsequently sold for a loss of $1.3 million. During the year ended December 31, 2018, the Bank sold one OREO property and recognized a gain of $2.0 million. There were no sales of OREO for the year ended December 31, 2017.

(8) Long-Term Debt

On June 13, 2016, the Bank completed a private placement of $62.5 million in principal amount of fixed-to-floating rate subordinated notes to certain qualified investors. On July 8, 2016, and September 30, 2016, the Bank issued additional debt under the same terms of $10.0 million and $27.5 million, respectively, bringing the total debt issuance to $100.0 million. The proceeds from the placement of the notes are to be used for general corporate purposes, capital management, and to support future growth. The subordinated notes have a maturity date of June 15, 2026 and bear interest, payable semi-annually, at the rate of 6.0% per annum until June 15, 2021. On that date, the interest rate will be adjusted to float at a rate equal to the three-month LIBOR rate plus 467.3 basis points (4.673%) until maturity. The notes include a right of prepayment, on or after June 15, 2021 and, in certain limited circumstances, before that date. The indebtedness evidenced by the subordinated notes, including principal and interest, is unsecured and subordinate and junior in right to payment to general and secured creditors and depositors of Preferred Bank. The subordinated notes have been structured to qualify as Tier 2 capital for regulatory purposes. Debt issuance costs incurred in conjunction with the offering were $1.7 million, and a premium of $545,000 was recorded associated with the $27.5 million additional issuance on September 30, 2016.

Debt issuance costs are reported as a direct deduction from the face of the note. The premium and related debt issuance costs are being amortized into interest expense over a 10-year period. A summary of outstanding long-term debt at December 31, 2019 is as follows:

Long-Term Debt Summary

(in thousands)	As of December 31, 2019	As of December 31, 2018	Interest rate	Maturity date	Earliest call date
Subordinated notes payable ($100,000 face amount, net of cost and premium)	$99,211	$99,087	6.00%	June 15, 2026	June 15, 2021

Advances from the Federal Home Loan Bank were zero at December 31, 2019, and $1.3 million at December 31, 2018. FHLB advances are payable at their respective maturity dates and are collateralized by commercial or residential real estate loans, Fixed Rate Credit advances or by certain marketable investment securities. At December 31, 2019, approximately $553.6 million of the Bank's real estate loans was pledged as collateral with Federal Home Loan Bank and the remaining borrowing

(8) Long-Term Debt (Continued)

capacity was $365.7 million. As of December 31, 2019 and 2018, advances from the FHLB, net of discount, are summarized as follows:

Federal Home Loan Bank Advances

(in thousands)	As of December 31, 2019	As of December 31, 2018
Outstanding advance	$ —	$ 1,307
Weighted average fixed interest rate	—%	5.09%
Maturity date	—	5/18/19

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 $120.3 million. The Bank had no borrowing outstanding through the discount window outstanding as of December 31, 2019 or 2018.

(9) Affordable Housing Partnerships

The Bank has invested in limited partnerships that are formed to develop and operate high-quality affordable housing for lower income tenants within the United States. These partnerships must meet the regulatory requirements for affordable housing for a minimum 15-year compliance period to fully utilize the tax credits. The Bank is not the primary beneficiary and therefore does not consolidate these partnerships. If the partnerships cease to qualify during the compliance period, the credits may be denied for any period in which the projects are not in compliance, and credits previously taken may be partially subject to recapture with interest.

The Bank amortizes investment in affordable housing partnerships in proportion with tax credits and benefits realized. As of December 31, 2019, the Bank had six investments, with a net carrying value of $53.1 million. Commitments to fund investment in affordable housing partnerships as of December 31, 2019 totaled $24.1 million. As of December 31, 2018, the Bank had five investments, with a net carrying value of $43.8 million. Commitments to fund investment in affordable housing partnerships as of December 31, 2018 totaled $19.5 million. As of December 31, 2019, there was no impairment in investment in affordable housing partnerships.

(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 is 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, commercial letters of credit, commitments to fund investments in affordable housing partnerships, operating lease commitments, and financial guarantees written is limited to the contractual amount of those instruments.

(10) Commitments and Contingencies (Continued)

At December 31, 2019 and 2018, the Bank had commitments to fund loans of $968.9 million and $966.5 million, respectively. Financial instruments with off-balance-sheet risk at December 31, 2019 and 2018 are as follows:

	At December 31,			
	2019		2018	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
	(In thousands)			
Commitments to extend credit	$ 53,476	$915,432	$ 76,609	$889,863
Commercial letters of credit	8,894	—	5,170	—
Standby letters of credit	194,604	—	190,150	—
Total	$256,974	$915,432	$271,929	$889,863

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 our corporate office/main branch, 11 branch offices and one administrative office. Our leases have remaining terms of 1 to 11 years, with a weighted average remaining lease term of 8.1 years as of December 31, 2019. The majority of our leases provide for increases in future minimum annual rental payments as defined in the lease agreements. We have one variable lease where the increase in lease liability is tied to the Consumer Price Index capped at 3% and no options to extend were incorporated into our lease liability calculations.

On January 1, 2019, the Bank adopted ASU 2016-02 and recognized a right-of-use ("ROU") asset of $17.7 million and a corresponding lease liability of $21.9 million related to our operating leases using a weighted average discount rate of 5%.

(10) Commitments and Contingencies (Continued)

As of December 31, 2019, the future total minimum lease payments for the Bank's premises are as follows:

Year:	Total lease payment (In thousands)
2020	$ 2,886
2021	3,656
2022	3,438
2023	3,175
2024	3,119
Thereafter	9,166
Total future lease payments	25,440
Discount to present value	(4,943)
Total lease liability	$20,497

Rental expense was $2.5 million, $3.3 million and $3.0 million for the years ended December 31, 2019, 2018 and 2017, 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.

At December 31, 2019 and 2018, the aggregate loans (including commitments) to related parties were approximately $6.0 million (of which $1.2 million was outstanding) and $4.2 million (of which $1.2 million was outstanding), respectively. All related party loans were current at December 31, 2019 and 2018.

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

	2019 (In thousands)
Balance at beginning of year	$1,229
New loans	—
Net drawdowns (repayments)	(42)
Balance at end of year	$1,187

Deposits: The amount of deposits from related parties was $10.0 million and $16.0 million at December 31, 2019 and 2018, respectively.

(12) Restrictions on Cash Dividends, Regulatory Capital Requirements

The Bank has authorized 25,000,000 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

(12) Restrictions on Cash Dividends, Regulatory Capital Requirements (Continued)

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 1132 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.

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (''Basel III rules'') became effective for the Bank on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. Under the Basel III rules, the Bank must hold a capital conversation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer is being phased in from 0.0% for 2015 to 2.50% by 2019. The required capital conservation buffer for 2019 was 2.50%. The Bank's capital conservation buffer was 4.51% and 4.38% as of December 31, 2019 and 2018, respectively. Management believes that as of December 31, 2019 the Bank meets all capital adequacy requirements to which it is subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited as is asset growth and expansion, and capital restoration plans are required. At December 31, 2019 and 2018, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

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, 2019, that the Bank meets all capital adequacy requirements to which it is subject.

(12) Restrictions on Cash Dividends, Regulatory Capital Requirements (Continued)

The Bank's actual capital and various regulatory required capital thresholds without conservation capital buffer 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, 2019:						
Total risk-based capital	$597,816	13.70%	$349,129	≥8.00%	$436,412	≥10.00%
Tier 1 risk-based capital	461,433	10.57%	261,847	6.00%	3449,129	8.00%
Common equity tier 1 risk-based capital ratio	461,433	10.57%	196,385	4.50%	283,668	6.50%
Leverage ratio	461,433	10.32%	178,890	4.00%	223,613	5.00%
As of December 31, 2018:						
Total risk-based capital	$545,650	13.77%	$316,943	≥8.00%	$396,179	≥10.00%
Tier 1 risk-based capital	413,305	10.43%	237,707	6.00%	316,943	8.00%
Common equity tier 1 risk-based capital ratio	413,305	10.43%	178,280	4.50%	257,516	6.50%
Leverage ratio	413,305	10.16%	162,683	4.00%	203,354	5.00%

(13) Share-Based Compensation

The Bank remunerates employees and directors through its stock compensation plans—the 2004 Equity Incentive Plan and 2014 Equity Incentive Plan which are discussed below.

Effective January 1, 2007, the Bank adopted FASB 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 vesting term of generally three to five years, for only those options expected to vest. The fair value of stock options and 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, 2019, 2018 and 2017, the Bank recognized share-based compensation expense of $7.4 million, $3.2 million and $1.9 million, respectively, resulting in the recognition of $323,000, $651,000 and $2.5 million in related tax benefits, respectively.

2004 Equity Incentive Plan

The 2004 Equity Incentive Plan (the "2004 Plan") provided for granting of non-statutory stock options, incentive stock options, restricted stock awards ("RSAs"), and restricted stock units ("RSUs") to employees, officers, and 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.

(13) Share-Based Compensation (Continued)

Certain option and share awards provide for accelerated vesting if there is a change in control (as defined in the 2004 Plan). There were 1,455,330 shares authorized under this plan.

The total intrinsic value of share options exercised during the years ended December 31, 2019, 2018 and 2017 was zero, $3.4 million, and $3.6 million, respectively. As of December 31, 2019, there was no unrecognized compensation cost that relates to unvested options granted under the 2004 Plan.

The 2004 Plan expired on April 14, 2014, and as a result no future grants have been made under the 2004 Plan after that date. As such, there were zero options granted during 2019, 2018, or 2017 under the 2004 Plan.

The following information under the 2004 Plan is presented for the years ended December 31:

	2019	2018	2017
	(In thousands)		
Grant date fair value of options granted	$ —	$ —	$ —
Fair value of options vested	—	554	916
Total intrinsic value of options exercised	—	3,408	3,566
Cash received from options exercised	—	1,157	1,444

The following is a summary of the transactions under the 2004 Plan for the years ended December 31.

	2004 Plan		
	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Options outstanding as of January 1, 2017	163,650	$15.89	
Granted	—	—	
Exercised	(90,350)	15.98	
Forfeited or expired	—	—	
Options outstanding as of December 31, 2017	73,300	$15.79	
Granted	—	—	
Exercised	(73,300)	15.79	
Forfeited or expired	—	—	
Options outstanding as of December 31, 2018	—	$ —	—years

As of December 31, 2019, there were no stock options outstanding or activities for the year then ended under the 2004 Plan. As of December 31, 2017, the aggregate intrinsic value of options outstanding under the 2004 Plan was $3.3 million.

2014 Equity Incentive Plan

During the second quarter of 2014, the Bank's Board of Directors adopted and the Bank's shareholders approved a new stock incentive plan, the 2014 Equity Incentive Plan, (the "2014 Plan"). Similar to the 2004 Plan, the Plan provides for granting of nonstatutory stock options, incentive stock

(13) Share-Based Compensation (Continued)

options, restricted stock awards ("RSAs"), and restricted stock units ("RSU") to employees, officers, and directors of the Bank. Stock options granted under the 2014 Plan have an exercise price equal to the fair value of the underlying common stock on the date of grant. Stock options and share awards granted under the 2014 Plan are generally expected to vest in installments between 20-25% each year, become fully vested after three to five years, and expire four to six years from the date of grant. All option and share awards provide for accelerated vesting if there is a change in control (as defined in the 2014 Plan). There are 2,500,000 shares reserved for issuance under the 2014 Plan. As of December 31, 2019, there have been no stock options granted under the 2014 Plan.

There were no non-vested stock options outstanding or related activity during the years ended December 31, 2019, 2018 and 2017.

Restricted Stock Awards and Restricted Stock Units

The Bank's 2004 Plan and 2014 Plan both provide for granting of restricted stock awards and restricted stock units to employees, officers, and Directors of the Bank.

The RSAs and RSUs granted to our employees, directors, and executives under the 2014 Plan have an immediate-to four year vesting period and the vested number of shares are distributed at the end of the vesting period. The RSUs granted in 2019 to our CEO are 50% performance-based, payable at the end of the three-year performance period (from January 1, 2019 through December 31, 2021) based on the achievement of pre-determined financial goals. The other half of the RSUs granted to our CEO are time-based vesting restricted stock units, which vest in 25% increments at the end of each year, with the first 25% vesting on the date of the grant. The total unrecognized compensation expense for outstanding RSAs and RSUs were $1.3 million and $3.1 million as of December 31, 2019, and will be recognized over an average of 0.9 years and 2.0 years, respectively.

The total fair value of restricted stock awards vested during the years ended December 31, 2019, 2018 and 2017 was $6.9 million, $3.3 million and $451,000, respectively. The total fair value of restricted stock units vested during the years ended December 31, 2019 was $16,000. No restricted stock units vested during the year ended December 31, 2018 or 2017.

(13) Share-Based Compensation (Continued)

The following is a summary of the transactions for non-vested RSAs under the 2014 Plan for the years ended December 31:

	Number of Shares	Weighted Average Grant Date Fair Value
Non-Vested RSAs outstanding as of January 1, 2017	97,369	$31.73
Granted	92,000	$54.36
Forfeited or expired	(1,875)	$43.87
Vested	(14,225)	$31.71
Non-Vested RSAs outstanding as of December 31, 2017	173,269	$43.62
Granted	111,330	$59.09
Forfeited or expired	(17,736)	$43.27
Vested	(50,144)	$47.08
Non-Vested RSAs outstanding as of December 31, 2018	216,719	$50.79
Granted	34,550	$45.02
Forfeited or expired	(150)	$57.52
Vested	(138,653)	$44.46
Non-Vested RSAs outstanding as of December 31, 2019	112,466	$56.82

The following is a summary of the transactions for non-vested RSUs under the 2014 Plan for the years ended December 31:

	Number of Shares	Weighted Average Grant Date Fair Value
Non-Vested RSUs outstanding as of January 1, 2017	—	$ —
Granted	—	$ —
Forfeited or expired	—	$ —
Vested	—	$ —
Non-Vested RSUs outstanding as of December 31, 2017	—	$ —
Granted	—	$ —
Forfeited or expired	—	$ —
Vested	—	$ —
Non-Vested RSUs outstanding as of December 31, 2018	—	$ —
Granted	128,450	$49.13
Forfeited or expired	(975)	$43.35
Vested	(325)	$43.35
Non-Vested RSUs outstanding as of December 31, 2019	127,150	$49.19

(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, 2019, 2018 and 2017 totaled $491,000, $453,000 and $392,000, respectively.

(15) Bonus Plan

The Bonus Plan is administered by the Compensation Committee of the Board of Directors (the "Compensation Committee"). The Compensation 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. For the years ended December 31, 2019, 2018 and 2017, financial objectives required under the plan were met. Total expense of the plan recorded by the Bank was $8.1 million, $7.8 million and $9.0 million for 2019, 2018 and 2017, respectively. As of December 31, 2019 and 2018, the total bonus accrual included in other liabilities amounted to $8.0 million and $10.0 million, respectively.

(16) Deferred Compensation Arrangements

The Bank adopted a Deferred Compensation Plan in 1999. The plan was a nonqualified unfunded plan for a select group of management and highly compensated employees. The plan permitted eligible executives to elect to defer base salary and/or bonuses up to a maximum of 30% of salary and bonus combined. Deferred amounts accrued interest at a rate of prime plus 1%, unless the deferred amounts were invested in employer stock, in which case no interest accrued on the deferred amounts and the executives became entitled to receive the shares allocated to their deferred compensation account upon a plan distribution event. The plan provided for distribution of deferred compensation upon normal or early retirement dates, termination of employment, disability, change of control, death or hardship. The Deferred Compensation Plan was terminated as of January 1, 2015. On January 1, 2017, payments under the plan of cash and converted shares were made to the plan participants including issuance of 437,254 shares of the Bank's common stock to plan participants. Participants collectively surrendered 205,822 shares to pay employee tax liabilities, resulting in 231,432 net shares issued.

At December 31, 2019 and 2018, there were no liabilities recorded for the deferred compensation plan.

In order to economically fund its obligation under the deferred compensation arrangements, the Bank purchased BOLI under which the executive officers and directors are the insured, while the Bank is the owner and beneficiary thereof. At December 31, 2019 and 2018, the cash surrender value of the policies totaled $9.6 million and $9.3 million, respectively. During 2019, 2018 and 2017, the income on the insurance policies was $370,000, $361,000 and $351,000, 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,

(17) Litigation (Continued)

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) Earnings per Share

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

	2019	2018	2017
	(In thousands, except per share data)		
Basic earnings per share:			
Net income	$ 78,371	$ 70,993	$ 43,394
Less: income and dividends allocated to participating securities	(666)	(1,166)	(499)
Net income allocated to common shareholders—basic	$ 77,705	$ 69,827	$ 42,895
Basic weighted average common shares outstanding	15,060,476	15,056,919	14,438,964
Basic earnings per share	$ 5.16	$ 4.64	$ 2.97
Diluted earnings per share:			
Net income	$ 78,371	$ 70,993	$ 43,394
Less: income and dividends allocated to participating securities	(666)	(1,166)	(499)
Add: reallocation of income to dilutive securities	—	—	1
Net income allocated to common shareholders—diluted	$ 77,705	$ 69,827	$ 42,896
Basic weighted average common shares outstanding	15,060,476	15,056,919	14,438,964
Effect of dilutive securities—stock options	—	2,926	53,707
Diluted weighted average shares outstanding	15,060,476	15,059,845	14,492,671
Diluted earnings per share	$ 5.16	$ 4.64	$ 2.96

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 shares in the earnings of the Bank.

At December 31, 2018 and 2017, there were no shares related to such awards which were excluded from the computation of diluted EPS due to their anti-dilutive effect.

(19) Quarterly Financial Data (Unaudited)

The following tables summarize the quarterly unaudited financial data for 2019 and 2018:

Quarterly Financial Data (Unaudited)

Year Ended December 31, 2019	Three months ended March 31	June 30	September 30	December 31
	(In thousands, except per share data)			
Interest income	$55,457	$57,822	$57,959	$55,483
Interest expense	14,547	15,981	16,482	15,074
Interest income before provision for credit losses	40,910	41,841	41,477	40,409
Provision for credit losses	500	1,600	900	450
Noninterest income	1,861	1,985	1,737	1,883
Noninterest expense	15,694	13,885	13,898	13,770
Income tax expense	7,834	8,362	8,383	8,456
Net income	$18,743	$19,979	$20,033	$19,616
Earnings per share				
Basic	$ 1.23	$ 1.31	$ 1.32	$ 1.31
Diluted	$ 1.23	$ 1.31	$ 1.32	$ 1.31

Year Ended December 31, 2018	Three months ended March 31	June 30	September 30	December 31
	(In thousands, except per share data)			
Interest income	$43,652	$46,748	$50,392	$54,373
Interest expense	7,508	9,342	11,155	12,931
Interest income before provision for credit losses	36,144	37,406	39,237	41,442
Provision for credit losses	1,500	1,200	1,880	5,550
Noninterest income	1,564	1,756	1,676	4,405
Noninterest expense	13,730	13,805	13,584	13,683
Income tax expense	5,867	6,752	7,126	7,960
Net income	$16,611	$17,405	$18,323	$18,654
Earnings per share				
Basic	$ 1.09	$ 1.14	$ 1.20	$ 1.22
Diluted	$ 1.09	$ 1.14	$ 1.20	$ 1.22

(20) 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 price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is an exit price (price to sell an asset), to willing parties, other than in a forced or liquidation sale.

(20) Fair Value of Financial Instruments (Continued)

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 held-to-maturity and Securities available-for-sale

For securities held-to maturity and securities available-for-sale, fair values were based on quoted market prices obtained from market quotes, a Level 1 measurement. 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 Level 2 measurement, or a discounted cash flow analysis was used based on a market discount rate and adjusted for prepayments and defaults, a Level 3 measurement.

(c) Federal Home Loan Bank Stock

It is not practical to determine the fair value of FHLB stock due to the restrictions placed on its transferability.

(d) 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 ASC 825, Fair Value Measurements and Disclosures. 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 does take into consideration an exit price concept as contemplated in ASC 825. The fair value is determined using a discounted cash flow analysis approach, using prepayment and charge-off adjusted cash flow projections at a loan level. The projected cash flows were discounted to fair value using discount rates that were estimated using a build-up method reflecting a hypothetical market participant's funding and serving costs, and a charge for variability/liquidity. 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.

(20) Fair Value of Financial Instruments (Continued)

Each loan category was further segmented into fixed and adjustable rate interest terms and by performing and non-performing categories.

(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 interest bearing deposits and fixed maturity certificates of deposit was estimated based on discounted cash flow analysis. The discount rate used for fair valuation is based on interest rates currently offered on deposits with similar remaining maturities. This is a Level 2 measurement.

(g) FHLB Borrowings

The fair value of FHLB borrowings was based on discounted cash flow analysis. The discount rate used for fair valuation is based on rates currently offered for borrowings with similar remaining maturities, a Level 2 measurement.

(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.

(i) Subordinated Debt Issuance

The fair value of subordinated debt is estimated by discounting the cash flows through the maturity date based on observable market rates which the Bank would pay for new issuances, a Level 2 measurement.

(20) Fair Value of Financial Instruments (Continued)

The carrying amount and estimated fair value of assets and liabilities as of December 31, 2019 and 2018 is detailed on the table below.

	December 31, 2019				
	Carrying amount	Estimated fair value	Level 1	Level 2	Level 3
			(In thousands)		
Assets:					
Cash and cash equivalents	$ 535,645	$ 535,645	$535,645	$ —	$ —
Securities held-to-maturity	7,310	7,200	—	7,200	—
Securities available-for-sale	240,640	240,640	—	240,640	—
Loans, net of allowance and net deferred loan fees	3,687,064	3,725,597	—	—	3,725,597
Accrued interest receivable	14,961	14,961	—	2,794	12,167
Federal Home Loan Bank stock	13,101	N/A	N/A	N/A	N/A
Liabilities:					
Demand deposits and savings:					
Noninterest-bearing	$ 835,790	$ 835,790	$ —	$ 835,790	$ —
Interest-bearing	1,352,647	1,352,647	—	1,352,647	—
Time deposits	1,794,857	1,797,343	—	1,797,343	—
Subordinated debt issuance	99,211	98,599	—	98,599	—
Accrued interest payable	3,324	3,324	—	3,324	—

	December 31, 2018				
	Carrying amount	Estimated fair value	Level 1	Level 2	Level 3
			(In thousands)		
Assets:					
Cash and cash equivalents	$ 602,759	$ 602,759	$602,759	$ —	$ —
Securities held-to-maturity	8,007	7,572	—	7,572	—
Securities available-for-sale	182,413	182,413	—	182,413	—
Loans, net of allowance and net deferred loan fees	3,299,989	3,315,977	—	—	3,315,977
Accrued interest receivable	14,266	14,266	—	2,461	11,805
Federal Home Loan Bank stock	11,933	N/A	N/A	N/A	N/A
Liabilities:					
Demand deposits and savings:					
Noninterest-bearing	$ 730,096	$ 730,096	$ —	$ 730,096	$ —
Interest-bearing	1,417,375	1,417,375	—	1,417,375	—
Time deposits	1,492,214	1,488,448	—	1,488,448	—
FHLB borrowings	1,307	1,307	—	1,307	—
Subordinated debt issuance	99,087	97,015	—	97,015	—
Accrued interest payable	6,839	6,839	—	6,839	—

(20) Fair Value of Financial Instruments (Continued)

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:

- Asset-backed securities—The Bank measures fair value of asset-backed securities by using quoted market prices for similar securities or dealer quotes, a level 2 measurement.
- 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.
- U.S. Agency 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.
- U.S. Agency 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.
- SBA securities—The Bank measures fair value of small business administration (SBA) securities by using quoted market prices for similar securities or dealer quotes, a level 2 measurement.

(20) Fair Value of Financial Instruments (Continued)

- Mutual funds (government bond funds)—The Bank measures fair value based on the quoted market price at the reporting date, a level 1 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, 2019:

	Fair Value Measurements Using			
(In thousands) Assets	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, 2019
Securities, available-for-sale:				
Asset-backed securities	$—	$ 3,627	$—	$ 3,627
Corporate notes	—	131,600	—	131,600
U.S. Agency principal-only strips	—	964	—	964
U.S. Agency mortgage-backed securities	—	16,157	—	16,157
Collateralized mortgage obligations	—	2,127	—	2,127
SBA securities	—	780	—	780
Municipal securities	—	60,399	—	60,399
U.S. Treasury Bill	—	24,986	—	24,986
Total	$—	$240,640	$—	$240,640

The following table presents the Bank's hierarchy for its assets and liabilities measured at fair value on a recurring basis at December 31, 2018:

	Fair Value Measurements Using			
(In thousands) Assets	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, 2018
Securities, available-for-sale:				
Asset-backed securities	$—	$ 3,891	$—	$ 3,891
Corporate notes	—	108,298	—	108,298
U.S. Agency principal-only strips	—	1,211	—	1,211
U.S. Agency mortgage-backed securities	—	20,454	—	20,454
Collateralized mortgage obligations	—	2,733	—	2,733
SBA securities	—	947	—	947
Municipal securities	—	44,879	—	44,879
Total	$—	$182,413	$—	$182,413

There were no transfers in or out of Level 1 and Level 2 fair value measurements during the years ended December 31, 2019 and 2018.

There were no securities with fair value measurements using significant unobservable inputs (Level 3) during the years ended December 31, 2019 and December 31, 2018.

(20) Fair Value of Financial Instruments (Continued)

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. 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. As 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.

There were no assets measured at estimated fair value on a nonrecurring basis or related losses as of and for the year ended December 31, 2019.

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, 2018, and the total losses resulting from these fair value adjustments for the year ended December 31, 2018:

	Fair Value Measurements Using				
(In thousands) Assets	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, 2018	Year Ended December 31, 2018 Total Losses
Impaired loans:					
Residential real estate	$—	$—	$36,946	$36,946	$5,742
Commercial and industrial	—	—	—	—	1,863
Trade finance	—	—	263	263	409
Total	$—	$—	$37,209	$37,209	$8,015

The following table represents quantitative information regarding the significant unobservable inputs used in significant Level 3 assets measured at fair value on a non-recurring basis at December 31, 2018.

	At December 31, 2018			
	Fair Value	Valuation Technique	Unobservable Inputs	Range
	(Dollars In thousands)			
Assets:				
Impaired loans:				
Residential real estate	$36,946	Market comparable	Adjustments to comparable	−3% - 9%
		Income approach	Capitalization rate	3.5% - 4.0%
Trade finance	263	Market comparable	Liquidation discount	13%

(21) Common Stock Repurchases and Issuances

On July 2, 2019, the Bank received approval from the California Department of Business Oversight for the repurchase of up to $30 million in PFBC common stock in the open market. This approval expired in January 2020, as did the approval which was previously received from the Federal Deposit Insurance Corporation. During the year ended December 31, 2019 the Bank has purchased 358,359 shares of its common stock at an average price of $50.84 per share for a total of $18.2 million.

On September 25, 2017, the Bank was granted a Stock Permit (the "Stock Permit") from the California Department of Business Oversight ("DBO") authorizing it to sell, from time-to-time, up to $50 million in shares of the Bank's common stock, by means of an "at the market offering" program (the "ATM Program"). The Stock Permit expired on March 26, 2018. During 2018, the Bank sold 28,723 shares of common stock through the ATM Program for net proceeds of $1.7 million. During 2017, the Bank sold 541,975 shares through the ATM Program for the net proceeds of $32.8 million.

ITEM 16. FORM 10-K SUMMARY

None.

SIGNATURES

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

Dated: March 2, 2020

PREFERRED BANK
(Registrant)

By /s/ LI YU
Li Yu
Chairman and Chief Executive Officer

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

Signature	Title	Date
/s/ LI YU Li Yu	Chairman and Chief Executive Officer (Principal executive officer)	March 2, 2020
/s/ EDWARD J. CZAJKA Edward J. Czajka	Executive Vice President and Chief Financial Officer (Principal financial and accounting officer)	March 2, 2020
/s/ J. RICHARD BELLISTON J. Richard Belliston	Director	March 2, 2020
/s/ WILLIAM C. Y. CHENG William C.Y. Cheng	Director	March 2, 2020
/s/ CLARK HSU Clark Hsu	Director	March 2, 2020
/s/ GARY S. NUNNELLY Gary S. Nunnelly	Director	March 2, 2020
/s/ CHIH-WEI WU Chih-Wei Wu	Director	March 2, 2020

/s/ WAYNE WU Wayne Wu	Director	March 2, 2020
/s/ SHIRLEY WANG Shirley Wang	Director	March 2, 2020
/s/ KATHLEEN SHANE Kathleen Shane	Director	March 2, 2020

Board of Directors

Clark Hsu
Vice Chairman
Chairman & CEO
Lotus Creek Investments

J. Richard Belliston
Vice Chairman, Retired
Tokai Bank of California
CPA (Inactive)

William C. Y. Cheng
President
H & C Industries

Gary S. Nunnelly
Chairman
American Thermoform Corporation

Li Yu
Chairman & CEO

Chih-Wei Wu
Former CEO,
Taiwan Operations
Credit Suisse Bank

Wayne Wu
Founder, CEO and President
Pacific Health Investments, Inc.

Shirley Wang
Founder and CEO
Plastpro

Kathleen Shane
Executive VP/Divisional CFO
Sony Pictures Worldwide
Marketing & Distribution

Executive Officers

Li Yu
Chairman
Chief Executive Officer

Wellington Chen
President
Chief Operating Officer

Edward J. Czajka
Executive Vice President
Chief Financial Officer

Nick Pi
Executive Vice President
Chief Credit Officer

Johnny Hsu
Executive Vice President
Deputy Chief Operating Officer

Executive Vice Presidents

Erika Chi

Sandy Ho

Ted Hsu

Alice Huang

Robert J. Kosof

Pamela Lau

Kathy Yen

Senior Vice Presidents

Anna Bagdasarian

Craig Bavaro

James Belanic

Calvin Chan

Stella Chen

Ann Cheung

Christina Ching

M. K. Chow

Julie Duepner

Julio Gallud

Madelyn Hayashi

Muna Issa

Debbie Kong

Sam Leung

Dominic Li

Martin Liska

William Oberholzer

Jenny Own

Nancy Pepper

John Stipanov

Sylvia Tseng-Shih

Lee Huei Wang

Corporate Headquarters

601 South Figueroa Street
48th Floor
Los Angeles, California 90017
213.891.1188

Investor Relations Contact

Tony Rossi
Senior Vice President
Financial Profiles, Incorporated
310.478.2700

Independent Accountants for 2019

Crowe, LLP
Sherman Oaks, California

Corporate Counsel

Manatt, Phelps & Phillips, LLP
Los Angeles, California

Transfer Agent

Computershare
Louisville, Kentucky 40202
781-575-3120

Preferred Bank is a publicly traded company with its common stock traded on the NASDAQ Global Select Market under the ticker symbol PFBC. Although a public company, Preferred Bank is not a Securities & Exchange Commission ("SEC") Registrant. The Bank is however, subject to all SEC rules and regulations. Preferred Bank files all of its SEC-required documents with the Federal Deposit Insurance Corporation ("FDIC") and the Bank's filings may also be found at their website or at preferredbank.com. To view our filings there, click on the Investor Relations tab and then click on the *Company Filings* tab.

601 South Figueroa Street, 48th Floor
Los Angeles, California 90017
www.preferredbank.com