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, 2021

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 filer ☐ 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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

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, 2021) was $563,678,871.

Number of shares of common stock of the Registrant outstanding as of March 11, 2022, was 14,800,364.

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, 2021	Part III

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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 credit 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
- Disruptions to the financial markets as a result of the current or anticipated impact of military conflict, including escalating military tension between Russia and Ukraine, terrorism or other geopolitical events
- 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 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 to be ineffective
- 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 COVID-19 pandemic discussed further below), climate change or extreme weather events, any of which may affect services we use, may affect our customers, employees or third parties with which we conduct business, or 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 Financial Protection and Innovation
- 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

On March 11, 2020, the World Health Organization declared the novel coronavirus ("COVID-19") a worldwide pandemic. On March 12, 2020, the President of the United States declared the COVID-19 outbreak in the United States a national emergency. The COVID-19 pandemic caused significant economic dislocation in the United States as many state and local governments ordered non-essential businesses to close and residents to shelter in place at home. While the business and government shutdowns have been eased over the last several months, the emergence and spread of COVID-19 variants has resulted in increased levels of infections, hospitalizations, and deaths. Given its ongoing and dynamic nature, it is difficult to predict the full impact of the COVID-19 outbreak on our business. The extent of such impact will depend on future developments, which are highly uncertain and many of which are outside the Bank's control. Such developments include the availability and effectiveness of vaccines for the COVID-19 virus, COVID-19 vaccine immunization rates, the ultimate geographic spread and duration of the pandemic, the extent and duration of a resurgence of the COVID-19 virus and variant strains such as the delta and omicron variants, new information concerning the severity of the COVID-19 virus, the effectiveness and intensity of measures to contain the COVID-19 virus and the economic impact of the pandemic and reactions to it. As a result of the COVID-19 pandemic and the related adverse local and national economic consequences, our forward-looking statements are subject to the following risks, uncertainties and assumptions:

- Demand for our products and services may decline;
- If the economy is unable to remain open, and high levels of unemployment return and continue for an extended period of time, loan delinquencies, problem assets, and foreclosures may increase;
- Collateral for loans, especially commercial real estate, may decline in value;
- Our allowance for credit losses on loans may have to be increased if borrowers experience financial difficulties;
- The net worth and liquidity of loan guarantors may decline;
- A material decrease in net income or a net loss over several quarters could result in a decrease in the rate of our quarterly cash dividend;
- Our cyber security risks are increased as a result of an increase in the number of employees working remotely; and
- FDIC premiums may increase if the agency experiences additional resolution costs.

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 mainstream markets of Southern California and to a lesser extent; Northern California and 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, 2021, our total assets were $6.05 billion, loans were $4.42 billion, deposits were $5.23 billion and shareholders' equity was $586.7 million. These balances all saw increases from total assets of $5.14 billion, loans of $4.04 billion, deposits of $4.44 billion, and shareholders' equity of $525.4 million as of December 31, 2020. We had net earnings per share on a diluted basis of $6.41 for the year ended December 31, 2021 as compared to net earnings of $4.65 per share for the year ended December 31, 2020 and net earnings per share of $5.16 for the year ended December 31, 2019. Net interest income before provision for credit losses increased to $185.9 million for the year ended December 31, 2021, up from $174.2 million for the year ended December 31, 2020 and $164.6 million for the year ended December 31, 2019. We recorded a reversal of provision for credit losses on loans of $1.0 million in 2021, down from the provision for credit losses of $26.0 million recorded in 2020 and $3.5 million recorded in 2019.

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. In addition, as an accommodation to many of our clients and as a way to gain new business, we offer single family residential mortgage loans. Traditionally, we have been more focused on businesses as opposed to retail customers and have a relatively small number of customer relationships for whom we provide a high level of service and personal attention.

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, nearly 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. In addition, we have a Loan Production Office ("LPO") in the Houston suburb of Sugar Land, Texas, and we opened a satellite office in Manhattan in September of 2021. 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

Due to the ongoing COVID-19 pandemic and associated economic volatility that resulted from the shutting down and re-opening of the economy, we are closely monitoring our credit portfolio. Particular emphasis is being placed on the monitoring of loans made to hotel operators, restaurants and retail establishments in general. Maintaining a high level of credit quality while continuing our organic growth has always been the Bank's main operating strategy. Traditionally the Bank has always placed a greater emphasis on gathering deposits rather than loans, with the understanding that the deposit relationships are the primary drivers of the franchise value of the Bank.

Continued organic growth is another primary focus for us and 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 while providing an ultra-high-touch level of service. 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, 2021. In addition, we have a LPO in the Houston suburb of Sugar Land, Texas, and we opened a satellite office in Manhattan in September of 2021. 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 five categories of loans:

- Real estate mortgage loans;
- Commercial loans;
- Real estate construction loans;
- Small Business Administration (“SBA”) 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, 2021, we had a total of $572.8 million in purchased participation loans and $141.1 million in loan participations that we sold. Of the $572.8 million in purchased participations, $117.0 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 deep 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). Bank-wide, 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, 2021, 72% of our loans carried interest rates that adjust with changes in the Prime Rate, 22% carried interest rates tied to the London Interbank Offered Rank (“LIBOR”) or other indices and 6% carried a fixed rate or were tied to rates on certificates of deposit (“CDs”). Approximately 81% of our loan portfolio has an interest rate floor.

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

	At December 31, 2021 (Dollars in thousands)
Real Estate Mini-Perm	
Portfolio size	$ 2,505,758
Number of loans	646
Average loan size	$ 3,879
Average LTV[1]	56%
Average DCR[2]	1.74x
Weighted average rate	4.88%
Average years since origination	2.9 years
Residential Mortgage	
Portfolio size	$ 296,555
Number of loans	461
Average loan size	$ 643
Average LTV[1]	61%
Weighted average rate	4.15%
Average years since origination	1.7 years
Real Estate Construction	
Portfolio size	$ 333,324
Number of loans	79
Average loan size	$ 4,219
Average LTV[1]	55%
Weighted average rate	5.56%
Average years since origination	2.4 years
Commercial & Industrial Loans	
Portfolio size	$ 1,234,425
Number of loans	1,669
Average loan size	$ 740
Weighted average rate	4.26%
Average years since origination	3.0 years

	At December 31, 2021
Trade Finance	(Dollars in thousands)
Portfolio size	$ 11,309
Number of loans	36
Average loan size	$ 314
Weighted average rate	4.34%
Average years since origination	3.5 years
SBA Loans	
Portfolio size	$ 42,467
Number of loans	102
Average loan size	$ 416
Weighted average rate	1.00%
Average years since origination	1.0 years
HELOCs	
Portfolio size	$ 1,035
Number of loans	5
Average loan size	$ 207
Average LTV[1]	37%
Weighted average rate	5.07%
Average years since origination	10.9 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, 2021, we had 556 loans with outstanding principal balances between $1 million and $5 million, 110 loans with outstanding principal balances between $5 million and $10 million, and 86 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 63% of our loan portfolio as of December 31, 2021. 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 $2.80 billion at December 31, 2021 as compared to $2.44 billion as of December 31, 2020.

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

Property Type	At December 31, 2021 Amount	Percentage of Loans in Each Category in Total Loan Portfolio
	(Dollars in thousands)	
Commercial / Office	$ 383,160	8.66%
Retail[1]	497,226	11.24
Industrial	398,095	9.00
Residential 1-4	536,286	12.12
Apartment 4+	424,249	9.59
Land	8,150	0.18
Special purpose[2]	556,183	12.56
Total	$ 2,803,349	63.35%

(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, 2021						
Less than					More Than	Total Outstanding
1 Year	2 Years	3 Years	4 Years	5 Years	5 Years	Balance
(In thousands)						
$714,021	$421,043	$360,253	$274,380	$443,989	$589,663	$2,803,349

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 commercial real estate loans over $500,000 and for residential real estate loans over $400,000 are reviewed by an additional outside appraiser. Appraisals for loans under such amounts 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 semi-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.

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. There were no construction loan net charge-offs during 2021, 2020 and 2019. We had 79 construction loans totaling $333.3 million as of December 31, 2021, and 88 construction loans totaling $363.9 million as of December 31, 2020. Outstanding construction loans by property type are summarized as follows:

	At December 31, 2021	
Property Type	**Amount**	**Percentage of Loans in Each Category in Total Loan Portfolio**
	(Dollars in thousands)	
Commercial / Office	$ 25,465	0.58%
Retail[1]	8,138	0.18
Industrial	3,113	0.07
For sale attached residential	62,097	1.40
For sale detached residential	68,745	1.55
Apartment 4+	113,005	2.55
Land / Special Purpose[2]	52,761	1.19
Total	$ 333,324	7.53%

(1) Includes shopping centers, strip malls or stand-alone properties which house retailers.
(2) Examples include hospitality, hospital 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 50-85% 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 requires a deposit relationship with commercial borrowers typically consisting of their operating account(s). As of December 31, 2021, we had $1.23 billion of commercial loans outstanding, which represented 27.9% of the overall loan portfolio, compared to $1.14 billion outstanding as of December 31, 2020, which represented 28.3% 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.

SBA Loans

Our SBA loans portfolio totaled $42.5 million, or 1.0% of our total loan portfolio as of December 31, 2021, compared to $70.2 million, or 1.7% of our total loan portfolio as of December 31, 2020. SBA loans consist solely of Small Business Administration Paycheck Protection Program ("PPP") loans made pursuant to The Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), which provided approximately $350 billion to fund loans to eligible small businesses through the SBA's 7(a) loan guaranty program. In June 2020, the Paycheck Protection Program Flexibility Act was enacted, which among other things, gave borrowers additional time and flexibility to use PPP loan proceeds. These loans were 100% federally guaranteed (principal and interest) through December 31, 2020. An eligible business could apply for a PPP loan up to 2.5 times its average monthly "payroll costs" limited to a loan amount of $10.0 million. The proceeds of the loan could be used for payroll (excluding individual employee compensation over $100,000 per year), mortgage, interest, rent, insurance, utilities and other qualifying expenses. PPP loans will have: (a) an interest rate of 1.0%, (b) a two-year loan term to maturity; and (c) principal and interest payments deferred for six months from the date of disbursement. The SBA guaranteed 100% of the PPP loans made to eligible borrowers. The entire principal amount of the borrower's PPP loan, including any accrued interest, was eligible to be reduced by the loan forgiveness amount under the PPP so long as employee and compensation levels of the business are maintained and 75% of the loan proceeds are used for payroll expenses, with the remaining 25% of the loan proceeds used for other qualifying expenses. On December 27, 2020, the President signed another COVID-19 relief bill that extended and modified several provisions of the PPP and included an additional allocation of $284 billion to the SBA for first and second PPP loans.

Trade Finance Credits

Our trade finance portfolio totaled $11.3 million, or 0.3% of our total loan portfolio as of December 31, 2021, compared to $22.2 million, or 0.5%, as of December 31, 2020. 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 2021, 2020 and 2019, 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

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, 2021 and 2020, the percentage of loans secured by real estate in our total loan portfolio was approximately 71% and 69%, respectively.

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

Property Type	At December 31, 2021 Amount (Dollars in thousands)	Percentage of Loans in Each Category in Total Loan Portfolio
Commercial/Office	$ 408,625	9.23%
Retail[(1)]	505,364	11.42
Industrial	401,208	9.07
Residential 1-4	667,128	15.08
Apartment 4+	537,254	12.14
Land	8,150	0.18
Special purpose[(2)]	608,944	13.77
Total	$ 3,136,673	70.89%

(1) Includes shopping centers, strip malls or stand-alone properties which house retailers.
(2) Examples include hospitality, hospital 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, 2021, the weighted average LTV of our construction and commercial real estate portfolio based on LTVs at the time of origination was 53% and 56%, respectively. Our practice is to require DCRs 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 71% of our loan portfolio at December 31, 2021 consisted of real estate secured loans. At December 31, 2021, we had 752 loans in excess of $1.0 million, totaling $3.91 billion. These loans comprise approximately 25% of our loan portfolio based on number of loans and 88% based on the total outstanding balance. The average loan size of loans in excess of $1.0 million was $5.2 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, 2021 which, based on remaining scheduled repayments of principal, were due in one year or less, more than one year through five years, more than five years through fifteen years and more than fifteen 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, 2021					Rate Structure for Loans Maturing Over One Year	
	Maturity						
	One Year or Less	Over One Year through Five Years	Over Five Years through Fifteen Years	Over Fifteen Years	Total	Fixed Rate	Floating Rate
	(In thousands)						
Real estate mortgage	$ 714,021	$ 1,499,665	$ 290,562	$ 299,101	$ 2,803,349	$ 65,638	$ 2,023,690
Real estate construction	293,386	39,938	—	—	333,324	—	39,938
Commercial	400,487	674,571	159,367	—	1,234,425	60,285	773,653
SBA	7,968	34,499	—	—	42,467	34,499	—
Trade finance	3,147	8,162	—	—	11,309	—	8,162
Other	118	—	—	—	118	—	—
Total	$ 1,419,127	$ 2,256,835	$ 449,929	$ 299,101	$ 4,424,992	$ 160,422	$ 2,845,443

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 real estate mini-perm loans. Most of the loans that have maturities between one and five years are real estate mini-perm loans and commercial 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, Chief Credit Officer and Deputy Chief Operating Officer have combined approval authority up to $12.0 million for real estate secured loans and up to $8.0 million for unsecured credits. 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 $196.9 million for real estate secured loans and $118.1 million for unsecured loans at December 31, 2021. 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 contribute to prudent risk management within the Bank through well-defined authorization levels and secondary approvals. 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 credit 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, 2021, we had a total of $572.8 million in purchased participation loans and $141.1 million in loan participations that we sold. Of the $572.8 million in purchased participations, $117.0 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 were no charge-offs of loan participations during 2021 and 2020. There was one $0.5 million charge-off of a loan participations during 2019. These loans are underwritten using the same criteria 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, 2021 and 2020:

	December 31, 2021		December 31, 2020	
	Amount	% of Total Deposits	Amount	% of Total Deposits
	(Dollars in thousands)			
Noninterest-bearing deposits	$ 1,305,692	25.00%	$ 938,911	21.13%
Interest-bearing deposits:				
Interest-bearing demand	2,032,819	38.90%	1,700,818	38.29%
Savings	37,839	0.72%	34,702	0.78%
Time certificates of $250,000 or more	934,444	17.88%	912,546	20.54%
Other time certificates	914,717	17.50%	855,503	19.26%
Total deposits	$ 5,225,511	100.00%	$ 4,442,480	100.00%

Total deposits were $5.23 billion as of December 31, 2021, of which 25.0% were demand deposits, 39.6% were in savings and interest-bearing checking, 17.9% were in CD's greater than $250,000 and 17.5% 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 eight years. Further, 5% of these Jumbo CDs are pledged as collateral for loans from us to the depositor or the depositor's affiliated business or family member. We monitor interest rates offered by our competitors and pay a rate we believe is competitive with the range of rates offered by such competitors.

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, 2021, excluding government deposits, brokered deposits and deposits as direct collateral for loans, we had 194 depositors with deposits in excess of $3.0 million that totaled $2.61 billion, or 49.9% 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, 2021 and 2020. At December 31, 2021, approximately $798.9 million of the Bank's real estate loans was pledged as collateral with the Federal Home Loan Bank and the corresponding remaining borrowing capacity, after considering the use of collateral for letters of credit, was $188.2 million. In addition, we have pledged $139.4 million in securities at the Federal Reserve Bank Discount Window that we may borrow against.

During 2016, the Bank completed a private placement of $100.0 million in principal amount of fixed-to-floating rate subordinated notes to certain qualified investors. The proceeds from the placement of the notes were for general corporate purposes, capital management, and to support future growth. The subordinated notes had a maturity date of June 15, 2026 and had interest, payable semi-annually, at the rate of 6.0% per annum until June 15, 2021. On that date, the interest rate would have been adjusted to float at a rate equal to the three-month LIBOR rate plus 467.3 basis points (4.673%) until maturity. The notes included a right of prepayment, on or after June 15, 2021 and, in certain limited circumstances, before that date. On June 18, 2021, the Bank repaid all $100.0 million in principal amount of subordinated notes including accrued and unpaid interest. The Bank incurred a net charge of $614,000 to interest expense related to the unamortized issuance costs and premium of the subordinated notes.

On June 16, 2021, the Bank completed a public offering of $150.0 million in aggregate principal amount of 3.375% fixed-to-floating rate subordinated notes due June 15, 2031. A majority of the proceeds from the placement of the notes were used to repay the subordinated notes due 2026. The subordinated notes mature on June 15, 2031 and bear interest at a fixed rate per annum of 3.375%, payable semi-annually in arrears until June 15, 2026. On that date, the subordinated notes will bear interest at a floating rate per annum equal to a benchmark rate, which is expected to the Three-Month Term SOFR, plus 278 basis points (2.78%), payable quarterly in arrears; provided, however, in the event that the then-current benchmark rate is less than zero, then the benchmark rate will be deemed zero. The Bank may, at its option, redeem the subordinated notes in whole or in part beginning on June 15, 2026 and, in other certain limited circumstances. 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 $2.2 million.

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, 2021. This is due to the overall low level of interest rates relative to cash and the prospect of inevitably 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 which would impair the Bank's capital levels. 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 $465.9 million and $246.3 million as of December 31, 2021 and 2020, 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 December 31, 2021 the Bank had three and as of December 31, 2020 the Bank had two investment securities with total amortized cost of $14.0 million and $6.6 million, respectively, classified as "held-to-maturity." The remainder of our investment securities is classified as "available-for-sale" pursuant to Investments – Debt 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.

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 of the Northeast 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. As these Fintechs grow in number and size, additional competition may 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 as of and for the fiscal year ended December 31, 2021.

Human Capital

As of December 31, 2021, we had 279 full-time equivalent employees of which 68% were female. 68% of our employees were Asian or Asian-American, 18% were other minorities of color and 14% were Caucasian.

We offer a comprehensive benefits program to our employees and design our compensation programs to attract, retain and motivate employees, as well as to align with the Bank's performance.

We are committed to maintaining a work environment where every employee is treated with dignity and respect, free from the threat of discrimination and harassment. We require employees to annually complete training on our Code of Personal and Business Conduct certifying that they have read and understand our policies and principles. As stated in our Board approved Code of Personal and Business Conduct, we expect these same standards apply to shareholders clients, vendors and independent contractors.

We are concerned with the health and safety of our employees, clients and the communities we serve. The COVID-19 pandemic presented a unique challenge with regard to maintaining employee safety while continuing successful operations. Through teamwork and the adaptability of our management and employees, we were able to transition during the peak of the pandemic, over a short period of time, to a rotational work schedule allowing employees to effectively work from remote locations and ensure a safely-distanced working environment for employees performing customer-facing activities, at branches and operations centers. All employees are asked not to come to work when they experience signs or symptoms of a possible COVID-19 illness and have been provided paid time off to cover compensation during such absences. On an ongoing basis, we further promote the health and wellness of our employees by strongly encouraging work-life balance, offering flexible work schedules, and keeping the employee portion of health care premiums to a minimum.

Employee retention helps us operate efficiently and achieve one of our business objectives. We believe our commitment to our core values (integrity, collaboration, adaptability, respect and excellence) as well as actively prioritizing concern for our employees' well-being, supporting our employees' career goals, offering competitive wages and providing valuable fringe benefits aids in the retention of our top-performing employees. As of December 31, 2021, 25% of our current staff had been with us for ten years or more.

We share our talents in our communities we serve through volunteer activities. The pandemic has had an impact on volunteer opportunities and events that bring people together in support of those in need. We are pleased that this did not stop our employees from doing what they could, when and how they could.

Our employees are not represented by any collective bargaining group and Management believes that we have good relations with our employees.

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 Financial Protection and Innovation ("CDFPI"), CDFPI as the Bank's state regulator, and 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 CDFPI 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 CDFPI 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 CDFPI 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 Dodd-Frank Act financial reform legislation, adopted in July 2010, significantly revised and expanded the rulemaking, supervisory and enforcement authority of the federal bank regulatory agencies. 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 the final new capital rules. 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 provisions of the Dodd-Frank Act and its implementing regulations remain in place and 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 Coronavirus Aid, Relief, and Economic Security Act

The CARES Act was signed into law on March 27, 2020 to address the economic impact to individuals and businesses as a result of the COVID-19 pandemic. As part of the CARES Act, various initiatives to protect individuals, businesses and local economies have been established in an effort to lessen the impact of the COVID-19 pandemic on consumers and businesses. These initiatives included extended unemployment benefits, mortgage forbearance, the Small Business Administration Paycheck Protection Program (the "PPP") and the Main Street Lending Program (the "MSLP"). It is possible that Congress will enact supplementary COVID-19 response legislation, including amendments to the CARES Act or new bills comparable in scope to the CARES Act. The Bank has been assessing the impact of the CARES Act and other statues, regulations and supervisory guidance related to the COVID-19 pandemic.

The CARES Act requires mortgage servicers to grant, on a borrower's request, forbearance for up to 180 days (which can be extended for an additional 180 days) on a federally-backed single-family mortgage loan or forbearance up to 30 days (which can be extended for two additional 30-day periods) on a federally-backed multifamily mortgage loan when the borrowers experience financial hardship due to the COVID-19 pandemic.

Paycheck Protection Program

The CARES Act amended the SBA's loan program to create a guaranteed, unsecured loan program, the PPP, to fund operational costs of eligible businesses, organizations and self-employed persons during COVID-19. The PPP loans are forgivable, in whole or in part, if the proceeds are used for payroll and other permitted purposes in accordance with the requirements of the PPP. In addition, the FRB implemented a liquidity facility available to financial institutions participating in the PPP ("PPPLF"). In conjunction with the PPP, the PPPLF allowed the Federal Reserve Banks to lend to member banks on a non-recourse basis with PPP loans as collateral. On June 22, 2020, the FDIC issued a final rule to remove the effect of participation in the PPP and borrowings under the PPPLF from the various risk measures used to calculate an insured depository institution's assessment rate. As part of our commitment to support our customers, the Bank participated in the PPP and PPPLF.

On December 21, 2020, Congress passed a $900 billion aid package which provided additional funds for the PPP and extended the time of the PPP to March 31, 2021. This legislation also permitted second PPP loans to certain entities which are subject to forgiveness subject to meeting certain required criteria. On July 4, 2020, the Paycheck Protection Program Extension Act extended the deadline for applying for a PPP loan to August 8, 2020. The Economic Aid to Hard-Hit Small Businesses, Nonprofits and Venues Act (Economic Aid Act), which was included in the Consolidated Appropriations Act, 2021 established additional PPP funding through March 31, 2021. The program was subsequently re-opened on January 11, 2021 with updated guidance outlining program changes to enhance its effectiveness and accessibility. This round of the PPP served new borrowers, as well as allow certain existing PPP borrowers to apply for a second draw PPP Loan and make a request to modify their first draw PPP loan. As of December 31, 2021, we have outstanding PPP loans in the amount of $42.5 million, as approved by the SBA, compared to $70.2 million at December 31, 2020. This funded amount reflects repayments received as of such date.

Main Street Lending Program

The CARES Act encouraged the Federal Reserve, in coordination with the Secretary of the Treasury, to establish or implement various programs to help midsize businesses, nonprofits, and municipalities. On April 9, 2020, the Federal Reserve proposed the creation of the MSLP to implement certain of these recommendations. On June 15, 2020, the Federal Reserve Bank of Boston opened the MSLP for lender registration. The MSLP supported lending to small and medium-sized businesses that were in sound financial condition before the onset of the COVID-19 pandemic. The MSLP operated through five facilities: the Main Street New Loan Facility, the Main Street Priority Loan Facility, the Main Street Expanded Loan Facility, the Nonprofit Organization New Loan Facility, and the Nonprofit Organization Expanded Loan Facility. We participated in the Main Street New Loan Facility ("MSNLF") in late third quarter of 2020. The MSLP terminated on January 8, 2021.

Non-TDR Loan Modifications due to COVID-19

On March 22, 2020, the federal banking agencies issued an *"Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus."* which statement was revised on April 7, 2020. This guidance encourages financial institutions to work prudently with borrowers that are or that may be unable to meet their contractual obligations because of the effects of COVID-19. The guidance goes on to explain that in consultation with the FASB staff the federal banking agencies concluded that short-term modifications (e.g. six months) made on a good faith basis to borrowers who were current as of the implementation date of a modification program are not Troubled Debt Restructurings (**"**TDRs**"**). Section 4013 of the CARES Act, as amended by the Consolidated Appropriations Act, 2021 ("CAA"), permits a financial institution to elect to temporarily suspend TDR accounting under ASC Subtopic 310-40 in certain circumstances. The Bank has elected not to apply TDR classification to any COVID-19 pandemic related loan modifications that were executed after March 1, 2020 and earlier of (A) 60 days after the national emergency termination date concerning the COVID-19 pandemic outbreak declared by the President on March 13, 2020 under the National Emergencies Act, or (B) January 1, 2022 to borrowers who were current as of December 31, 2019. Given that nonaccrual loans are more heavily risk-weighted for capital purposes, this TDR relief allows a capital benefit in the form of reduced risk-weighted assets since the aging of such loans was frozen at the time of modification. The Bank granted loan modifications to our customers in the form of maturity extensions, payment deferrals and forbearance. For a summary of the loans that we have modified in response to the COVID-19 pandemic, please refer to "Notes to Consolidated Financial Statements" — "Note 3— Loans and Allowance for Credit Losses on Loans" in this Annual Report on Form 10-K.

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 became available for banks to use in their March 31, 2020, Call Report. We elected not to 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. We did not adopt 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, 2021, are as follows:

Tier 1 Leverage Ratio	
Preferred Bank	9.54%
Minimum requirement for "Well Capitalized" institution	5.00%
Common Equity Tier 1 Risk-Based Capital Ratio	
Preferred Bank	11.26%
Minimum requirement for "Well Capitalized" institution	6.50%
Tier 1 Risk-Based Capital Ratio	
Preferred Bank	11.26%
Minimum requirement for "Well Capitalized" institution	8.00%
Total Risk-Based Capital Ratio	
Preferred Bank	15.37%
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, 2021 and 2020, the Bank's capital conservation buffer was 5.27% and 5.21%, respectively.

With the adoption of the CECL standard on January 1, 2020, we recorded a Day 1 adjustment, net of taxes to retained earnings totaling $5.6 million and we did not elect to defer the impact of the adoption of CECL under the revised regulatory CECL transition guidance.

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, 2021, the Bank meets all applicable capital requirements under the new capital rules.

In December 2017, the Basel Committee published standards that it described as the finalization of the Basel III post-crisis regulatory reforms (the standards are commonly referred to as "Basel IV"). Among other things, these standards revise the Basel Committee's standardized approach for credit risk (including by recalibrating risk weights and introducing new capital requirements for certain "unconditionally cancellable commitments," such as unused credit card lines of credit) and provides a new standardized approach for operational risk capital. Under the Basel framework, these standards will generally be effective on January 1, 2023, with an aggregate output floor phasing in through January 1, 2028. Under the current U.S. capital rules, operational risk capital requirements and a capital floor apply only to advanced approaches institutions, and not to the Bank. The impact of Basel IV on us will depend on the manner in which it is implemented by the federal bank regulators.

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. In November 2021, the federal banking agencies adopted a final rule, with compliance required by May 1, 2022, that requires banking organizations to notify their primary banking regulator within 36 hours of determining that a "computer-security incident" has materially disrupted or degraded, or is reasonably likely to materially disrupt or degrade, the banking organization's ability to carry out banking operations or deliver banking products and services to a material portion of its customer base, its businesses and operations that would result in material loss, or its operations that would impact the stability of the United States. 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 CDFPI, 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.

Mergers and Acquisitions

On July 9, 2021, President Biden signed an "Executive Order on Promoting Competition in the American Economy." Included within the order is a sweeping recommendation that the Attorney General, in consultation with the heads of the FRB, FDIC and OCC review current practices and adopt a plan within 180 days for the "revitalization" of bank merger oversight to provide more extensive scrutiny of mergers. We will continue to evaluate the impact of any changes to the regulations implementing this executive order and their impact to our financial condition, results of operations and/or business strategies, which cannot be predicted at this time.

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 CDFPI.

Our FDIC insurance expense totaled $1.9 million for 2021. 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.

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.

Brokered Deposits

The FDIC limits the ability to accept brokered deposits to those insured depository institutions that are well capitalized. Institutions that are less than well capitalized cannot accept, renew or roll over any brokered deposit unless they have applied for and been granted a waiver by the FDIC. In addition, less than well-capitalized banks are subject to restrictions on the interest rates they may pay on deposits. The characterization of deposits as "brokered" may result in the imposition of higher deposit assessments on such deposits. As mandated by the EGRRCPA, the FDIC adopted a final rule in February 2019 to include a limited exception for reciprocal deposits for FDIC-insured depository institutions that are well rated and well capitalized (or adequately capitalized and have obtained a waiver from the FDIC as mentioned above). Under the limited exception, qualified FDIC-insured depository institutions are able to except from treatment as "brokered" deposits up to $5 billion or 20 percent of the institution's total liabilities in reciprocal deposits (which is defined as deposits received by a financial institution through a deposit placement network with the same maturity (if any) and in the same aggregate amount as deposits placed by the institution in other network member banks).

In December 2019, the FDIC issued a notice of proposed rulemaking on its brokered deposits regulation in the interest of clarifying and modernizing the FDIC's existing regulatory framework. In December 2020, the FDIC adopted final changes to the rule, thereby establishing a new framework for analyzing a "deposit broker" and determining whether deposits should be treated as brokered deposits. The final rule reduced the amount of deposits that may be classified as brokered. The final rule took effect on April 1, 2021, with full compliance required by January 1, 2022.

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, 2021, the Bank had no outstanding FHLB advances. At December 31, 2021, the Bank was in compliance with the FHLB's stock ownership and cash reserve requirements. As of both December 31, 2021 and 2020, our investment in FHLB capital stock totaled $15.0 million.

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.

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 credit losses, capital notes and debentures of the bank. Unsecured obligations may not exceed 15% of the sum of the shareholders' equity, allowance for credit 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, 2021, the Bank's largest single lending relationship had a combined outstanding balance of $117.7 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 CDFPI 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, as amended by the Anti-Money Laundering Act of 2020, the Foreign Account Tax Compliance Act, the CRA, 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.

In December 2019, the FDIC and the Office of the Comptroller of the Currency ("OCC") jointly proposed rules that would significantly change existing CRA regulations. The proposed rules are intended to increase bank activity in low- and moderate-income communities where there is significant need for credit, more responsible lending, greater access to banking services, and improvements to critical infrastructure. The proposals change four key areas: (i) clarifying what activities qualify for CRA credit; (ii) updating where activities count for CRA credit; (iii) providing a more transparent and objective method for measuring CRA performance; and (iv) revising CRA-related data collection, record keeping, and reporting. However, the Federal Reserve Board did not join in that proposed rulemaking. In June 2020, the OCC issued its final CRA rule, effective October 1, 2020, while the FDIC did not finalize any revisions to its CRA rule. In September 2020, the Federal Reserve Board issued an Advance Notice of Proposed Rulemaking ("ANPR") that invited public comment on an approach to modernize the regulations that implement the CRA by strengthening, clarifying, and tailoring them to reflect the current banking landscape and better meet the core purpose of the CRA. The ANPR sought feedback on ways to evaluate how banks

meet the needs of low- and moderate-income communities and address inequities in credit access. In December 2021, the OCC issued a final rule to rescind its June 2020 final rule in favor of working with other agencies to put forward a joint rule. We will continue to evaluate the impact of any changes to the regulations implementing the CRA and their impact to our financial condition, results of operations, and/or liquidity, which cannot be predicted at this time.

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, 2021, 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.........................	81	Chairman of the Board and Chief Executive Officer
Wellington Chen.......	62	President and Chief Operating Officer
Edward J. Czajka	57	Executive Vice President and Chief Financial Officer
Nick Pi	61	Executive Vice President and Chief Credit Officer
Johnny Hsu	47	Executive Vice President and Deputy Chief Operating Officer

[(1)] *As of March 1, 2022.*

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 East West 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.

Johnny Hsu has been Executive Vice President and Deputy Chief Operating Officer since 2018, Mr. Hsu has been with the Bank since 1992 when he began his banking career in branch operations. Over the next 15 years, Mr. Hsu worked in various production and portfolio management positions both at various branches and eventually at the main office. Mr. Hsu became head of Commercial Real Estate Lending in 2007. As Deputy COO, Mr. Hsu oversees a significant portion of the loan and deposit production activities for the Bank as well as head up various special projects for the Bank. Mr. Hsu received a Bachelor of Arts degree in Economics from the University of Southern California.

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 COVID-19 Pandemic

The COVID-19 pandemic could materially adversely affect the Bank's business and financial results, and the extent of any such effects is dependent upon uncertain and unpredictable future events.

The COVID-19 pandemic has negatively impacted the global economy, disrupted global supply chains, affected equity market valuations, and created significant volatility and disruption in financial markets, although economic growth and employment levels had largely rebounded by the end of 2021. Similarly, the initial imposition of temporary closures of many businesses and the institution of social distancing and sheltering in place requirements in many states and communities, have been relaxed or rescinded as the COVID-19 pandemic has become more endemic. The pandemic could result in the continued and increased recognition of credit losses in the Bank's loan portfolio and increases in the Bank's allowance for credit losses, depending on developments related to the pandemic and the actions of federal, state and local governments in response to the pandemic. Similarly, because of changing economic and market conditions affecting issuers, the Bank may be required to recognize impairments on the securities it holds. Furthermore, the demand for the Bank's products and services may be impacted, which would adversely affect the Bank's revenue.

The Bank's business operations may also be disrupted if any of the Bank's key management personnel are incapacitated or if significant portions of the Bank's workforce are unable to work effectively, because of illness, quarantines, government actions, or other effects and restrictions in connection with the pandemic. The spread of the virus has also caused the Bank to modify certain business practices Although we have business continuity plans and

other safeguards in place, there is no assurance that such plans and safeguards will be effective. In addition, we rely upon our third-party vendors to conduct business and to process, record, and monitor transactions. If any of these vendors are unable to continue to provide us with these services, it could negatively impact our ability to serve our customers.

The extent to which the COVID-19 pandemic impacts our business, results of operations, and financial condition will depend on future developments, which are uncertain and cannot be predicted, including the scope and duration of the pandemic, the direct and indirect impact of the pandemic on our employees, clients, counterparties and service providers, as well as other market participants, actions taken by governmental authorities and other third parties in response to the pandemic, the scope and duration of future phases or outbreaks, or seasonal or other resurgences, of the disease (including variants thereof), and the effectiveness, distribution and uptake rates of vaccines, boosters and medical treatments.

We may face risks from any prolonged work from remote arrangement or increase in virtual working arrangements.

In response to the COVID-19 pandemic, we temporarily moved to a rotational work from remote schedule, restricted business travel, postponed or moved to online hosted events and enabled remote access to our systems. Currently, the vast majority of our employees have returned to the office although we have continued some virtual or remote working arrangements. We may experience negative effects of any prolonged work-from-home arrangement, such as increasing risks of systems access or connectivity issues, cybersecurity or information security breaches, difficulties integrating new employees, reduced team collaboration, or imbalances between work and home life, which may lead to reduced productivity and/or significant disruptions in our business operations.

The Bank's participation in the Paycheck Protection Program could be subject to litigation, regulatory enforcement risk and reputation risk and the risk that the Small Business Administration ("SBA") may not fund some or all PPP loan guaranties.

The CARES Act included a $349 billion loan program administered through the SBA referred to as the PPP. The Economic Aid to Hard-Hit Small Businesses, Nonprofits and Venues Act, or the Economic Aid Act, Appropriations PPP signed by the President on December 27, 2020, among other things, reauthorized and modified the PPP by appropriating more than $284 billion to the PPP.

The $349 billion in funds for the PPP were exhausted as of April 16, 2020. On April 27, 2020, the program was reopened with an additional $310 billion approved by Congress. Under the PPP, small businesses and other entities and individuals could apply for loans from existing SBA lenders and other approved regulated lenders that enroll in the program, subject to detailed qualifications and eligibility criteria.

Because of the short timeframe between the passing of the CARES Act and implementation of the PPP, some of the rules and guidance relating to PPP were issued after lenders began processing PPP applications. Also, there was and continues to be uncertainty in the laws, rules and guidance relating to the PPP. Since the opening of the PPP, several banks have been subject to litigation regarding the procedures used in processing PPP applications and forgiveness applications. In addition, some banks and borrowers have received negative media attention associated with PPP loans. Although we believe that we have administered the PPP in accordance with all applicable laws, regulations and guidance, we may be exposed to litigation risk and negative media attention related to our participation in the PPP. If any such litigation is filed and is not resolved in in our favor, it may result in significant financial liability to us or adversely affect our reputation. In addition, litigation can be costly, regardless of outcome. Any financial liability, litigation costs or reputational damage caused by PPP- related litigation or media attention could have a material adverse impact on our business, financial condition, and results of operations.

The PPP has also attracted interest from federal and state enforcement authorities, oversight agencies, regulators, and Congressional committees. State Attorneys General and other federal and state agencies may assert that they are not subject to the provisions of the CARES Act and the PPP regulations entitling the Bank to rely on borrower certifications, and take more aggressive action against the Bank for alleged violations of the provisions governing the Bank's participation in the PPP. Federal and state regulators can impose or request that we consent to substantial sanctions, restrictions and requirements if they determine there are violations of laws, rules or regulations

or weaknesses or failures with respect to general standards of safety and soundness, which could adversely affect our business, reputation, results of operation and financial condition.

The Bank also has credit risk on PPP loans if the SBA determines that there is a deficiency in the manner in which any loans were originated, funded or serviced by the Bank, including any issue with the eligibility of a borrower to receive a PPP loan or forgiveness of a PPP loan. In the event of a loss resulting from a default on a PPP loan and a determination by the SBA that there was a deficiency in the manner in which the PPP loan was originated, funded or serviced by the Bank, the SBA may deny its liability under the guaranty, reduce the amount of the guaranty or, if the SBA has already paid under the guaranty, seek recovery of any loss related to the deficiency from the Bank.

The Bank elected to register as an Eligible Lender under the Federal Reserve's Main Street Lending Program (MSLP) and accordingly became subject to a number of significant risks applicable to lenders under the MSLP

Another program enacted pursuant to the CARES Act and designed to help provide support to small and medium-sized business and their employees throughout the U.S., including California, is the Federal Reserve's Main Street Lending Program (MSLP). The Bank elected to participate as an Eligible Lender under the Main Street New Loan Facility. Because the MSLP was a new program without any established operating history, there are significant risks to the Bank's participation in the MSLP, including whether certain borrowers will ultimately be found to have been eligible for MSLP loans, whether the numerous required lender and borrower certifications will be found to have been made in good faith, and whether the borrower will remain in compliance with the terms and conditions of its MSLP loan throughout its applicable term. As of December 31, 2021, a total of $51.7 million was outstanding under this program.

Risks Related to our Loan Portfolio

If our allowance for credit 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 Northeast Tri-State Area (New York, New Jersey and Connecticut) a reversal of the 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 credit losses to provide for loan defaults and non-performance. Our allowance for credit losses may not be adequate to cover actual loan losses, and future provisions credit losses could materially and adversely affect our business, financial condition, results of operations and cash flows. Our allowance for credit losses reflects our best estimate of the probable incurred losses in the existing loan portfolio at the relevant balance sheet date and is based on management's evaluation of the collectability of the loan portfolio, which evaluation is based on historical loss experience and other significant factors. For the year ended December 31, 2021, we recorded a reversal of credit losses and net charge-offs of $1.0 million and $2.5 million, respectively, compared to a provision for credit losses of $26.0 million and net loan recoveries of $5.4 million for the year ended December 31, 2020.

The determination of an appropriate level of allowance of credit losses 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 credit losses is adequate to cover probable incurred losses, we cannot ensure that we will not increase the allowance for credit 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, 2021, our construction loans were $333.3 million, or 7.5% of our total loans held, and the average loan size of our construction loans was $4.2 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.

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 credit losses.

A significant 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.

Risks Related to the Economy and Markets in Which We Operate

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, the process we use to estimate losses inherent in our credit exposure requires difficult, subjective and complex judgements, 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. Furthermore, we may be adversely affected by disruptions to the financial markets as a result of the current or anticipated impact of military conflict, including escalating military tension between Russia and Ukraine, terrorism or other geopolitical events.

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 COVID-19 pandemic, 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, integrate 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, 2021, approximately 89% of the total dollar amount of our loans outstanding were secured by real estate located in California and the Northeast Tri-State Area (New York, New Jersey and Connecticut), and approximately 63% 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.

Climate change has the potential to disrupt our business and adversely impact the operations and creditworthiness of our clients.

Climate change presents both near and long-term risks to our business and that of our customers, and these risks are expected to increase over time. Climate change has caused severe weather patterns and events that could disrupt operations at one or more of our locations, which may disrupt our ability to provide financial products and services to our clients. Longer-term changes, such as increasing average temperatures and rising sea levels, may damage, destroy or otherwise impact the value or productivity of our properties, and real estate collateral of certain of our loans and other assets, reduce the availability of insurance, and/or lead to prolonged disruptions in our operations. Climate change could also have a negative effect on the financial status and creditworthiness of our clients which may decrease revenues and business activities from those clients and increase the credit risk associated with loans and other credit exposures to such clients.

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. Climate change and 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 March 2021, the ICE Benchmark Administration (IBA) determined to cease publication of the one-week and two-month USD LIBOR tenors immediately after December 31, 2021, and the remaining tenors (i.e., Overnight/Spot Next, 1-month, 3-month, 6-month and 12-month) immediately after June 30, 2023. The period between end-2021 and mid-2023 is primarily intended to allow legacy contracts to mature. 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.

U.S. federal banking regulators encouraged banks to cease entering into new contracts that use LIBOR as soon as practicable and in any event by December 31, 2021. The Alternative Reference Rates Committee (ARRC) also recommended that no new LIBOR-based business loan contracts be originated after June 30, 2021. The ARRC also has proposed that the Secured Overnight Financing Rate ("SOFR") is the rate that represents best practice as the alternative to LIBOR for use in derivatives and other financial contracts that are currently indexed to LIBOR. ARRC has proposed a paced market transition plan to SOFR from LIBOR and organizations are currently working on industry wide and company specific transition plans as it relates to derivatives and cash markets exposed to LIBOR. We have a significant number of loans, derivatives 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.

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 late 2019 and early 2020, 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.

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.

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 Northeast Tri-State Area (New York, New Jersey and Connecticut). 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 occasionally 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, 2021, approximately $11.3 million, or 0.3%, 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.

Risks Related to Deposits

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, 2021, we held $934.4 million of Jumbo CDs, representing 17.9% 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.

Risks Related to Information Technology

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 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.

Risks Related to Governmental Regulation

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 CDFPI, 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, as amended by the Anti-Money Laundering Act of 2020, 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 combined continued terrorist threats, may create and perpetuate economic uncertainty. Future terrorist acts and response 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.

Risks Related to Accounting and Internal Control Over Financial Reporting

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. For

example, 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 became effective on January 1, 2020. This new accounting standard resulted in a $8.0 million 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 including as a result of current or anticipated military conflict, terrorism or other geopolitical events;
- Proposed or adopted regulatory changes or developments;
- Anticipated or pending investigations, proceedings or litigation that involve or affect us;
- Domestic and international economic factors, including inflation, 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 CDFPI 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

There are no unresolved staff comments.

ITEM 2. PROPERTIES

Our headquarters and main branch office are located at 601 S. Figueroa Street, 48th and 47th Floor, Los Angeles, California, 90017, respectively. 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, 2021, we maintained eleven other full-service branch offices in in the California cities of Alhambra, Century City, City of Industry, Torrance, Arcadia, Irvine, Diamond Bar, Pico Rivera, Tarzana, and San Francisco (2 branches), and one branch in Flushing, New York all of which we lease, except the Irvine branch which we own. Additionally, the Bank opened a loan production office in the Houston suburb of Sugar Land, Texas in April 2021. The Bank also opened a satellite office in Manhattan in September of 2021. This office is only for meeting and communications, no business is transacted there. We market our services and conduct our business primarily in Los Angeles, Orange, Ventura, Riverside, San Bernardino, and San Francisco counties within California, and the Tri-State area of New York, New Jersey and Connecticut. 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 option 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. Out total lease expense was $2.6 million for the year ended December 31, 2021 and $2.4 million for the year ended December 31, 2020.

On January 1, 2019, the Bank 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 $75.14 on March 11, 2022 and there were 14,800,364 outstanding shares of our common stock on that date.

Holders

As of March 11, 2022, 14,800,364 shares of the Bank's common stock were held by 182 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

The following table summarizes purchases made by the Bank of its common stock during 2021:

	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	282,949	$ 61.69	282,949	$ 32,546,047

On August 6, 2021, the Bank received approval from the California Department of Financial Protection and Innovation for the repurchase of up to $50 million in the Bank's common stock or 5% of total outstanding shares, whichever is less, in the open market. The timing, price and volume of the share repurchases will be determined by Bank management based on its evaluation of market conditions and other relevant factors. This repurchase was approved by shareholders at the Bank's Annual Shareholders Meeting on May 18, 2021. The share repurchase program may be suspended, terminated or modified at any time by the Bank for any reason, including market conditions, the cost of repurchasing shares, the availability of alternative investment opportunities, liquidity, and other factors deemed appropriate. As of December 31, 2021, the Bank has purchased 282,949 shares of its common stock at an average price of $61.69 per share for a total of $17.5 million.

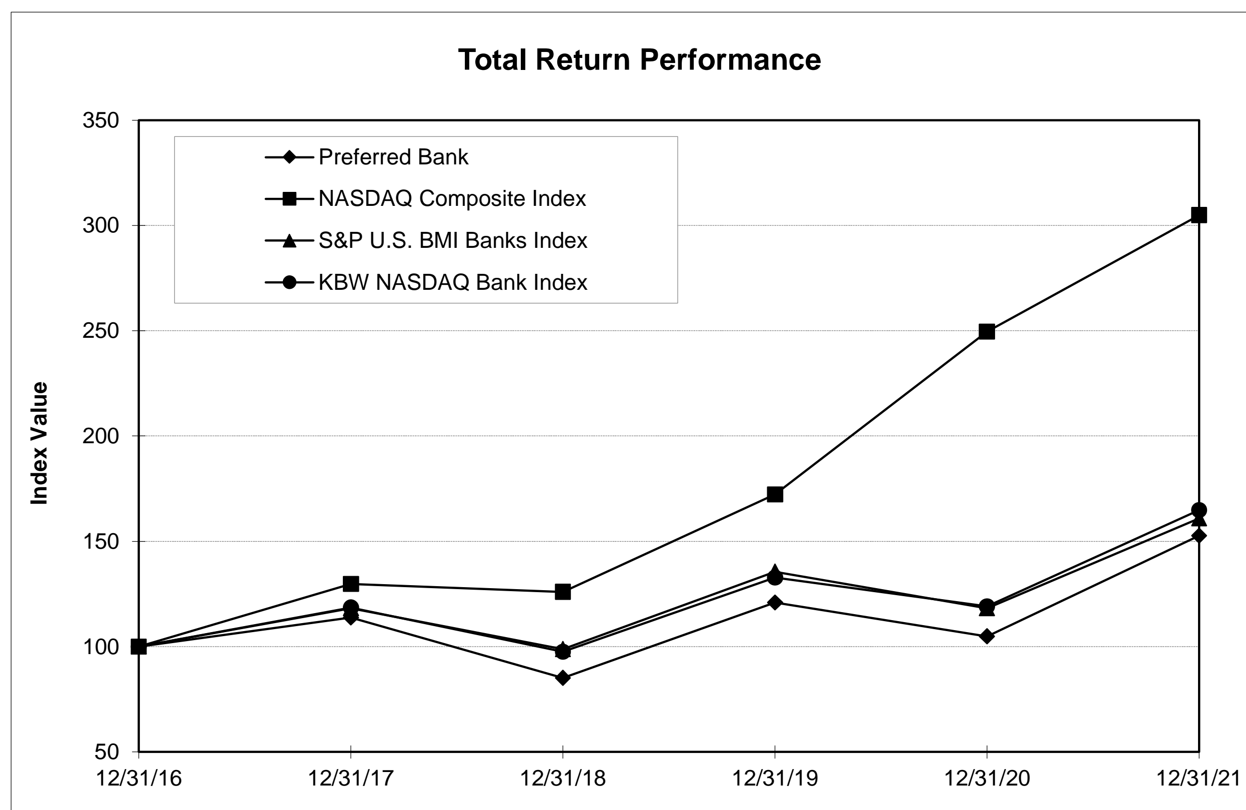
Securities Authorized for Issuance Under Equity Compensation Plans.

The following table provides information as of December 31, 2021, 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	—	$—	1,573,520
Equity incentive plans not approved by security holders	—	—	—
	—		1,573,520

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, 2016 assuming an investment of $100 in each as of December 31, 2016. 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.



	Period Ending					
Index	**12/31/16**	**12/31/17**	**12/31/18**	**12/31/19**	**12/31/20**	**12/31/21**
Preferred Bank	100.00	113.72	85.14	121.01	104.82	152.66
NASDAQ Composite Index	100.00	129.64	125.96	172.18	249.51	304.85
S&P U.S. BMI Banks Index	100.00	118.21	98.75	135.64	118.33	160.89
KBW NASDAQ Bank Index	100.00	118.59	97.58	132.84	119.14	164.80

ITEM 6. RESERVED

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, 2021 and 2020, and the results of operations for the years ended December 31, 2021, 2020 and 2019. This discussion should be read in conjunction with the consolidated financial statements and related footnotes of our Company presented elsewhere herein.

Overview

We are one of the larger independent commercial banks headquartered in Southern California focusing on the 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, Preferred Bank has grown into an institution whereby the majority of our current business activities come from the mainstream (non-Chinese-American) markets of Southern and Northern California. Our Flushing, New York office, however, primarily still

serves the Chinese-American segment of that market. We commenced operations in December 1991 as a California state-chartered bank in Los Angeles, California. Our deposits are insured by the FDIC. We are a member of the FHLB.

We provide personalized deposit services as well as real estate finance, commercial loans and trade finance to small and mid-sized businesses and their owners, entrepreneurs, real estate developers and investors, professionals and high net worth individuals. We are generally focused on businesses as opposed to retail customers and thus we have a smaller number of customer relationships for whom we provide a high level of service and personal attention.

We derive our income primarily from interest received on our loan and investment securities portfolios and our excess 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.

For the year ended December 31, 2021, the Bank recorded net income of $95.2 million as compared to net income of $69.5 million for the year ended December 31, 2020. At December 31, 2021, the Bank recorded an all-time high asset balance at $6.05 billion. Loans grew by $389.6 million, or 9.7%, and deposits grew by $783.0 million, or 17.6%. See "Results of Operations."

COVID-19

The COVID-19 pandemic has negatively impacted the global economy, disrupted global supply chains, affected equity market valuations, and created significant volatility and disruption in financial markets, although economic growth and employment levels had largely rebounded by the end of 2021. Similarly, the initial imposition of temporary closures of many businesses and the institution of social distancing and sheltering in place requirements in many states and communities have been relaxed or rescinded as the COVID-19 pandemic has become more endemic.

We were able to react quickly to the changes brought on by the COVID-19 pandemic because of the commitment and flexibility of our workforce coupled with a well-prepared Business Continuity Plan. To ensure the safety of our branch colleagues, while still meeting the needs of our customers, we shortened branch hours and eliminated weekend hours at all branches. We also split up our branch staff (where possible) into two teams who then rotated on for two weeks and then off for two weeks – all the while maintaining their normal pay. Many of our support units were working entirely from home while administrative units were splitting time 50/50. The executive team has been working full time in the office since the beginning of the pandemic in order to monitor all operations and make adjustments as necessary. Additional benefits, such as emergency paid time off and other programs for those whose families have been directly impacted by the virus, were added. We have since resumed branch operating hours closer to those in effect pre-pandemic and beginning mid-June 2021, we brought our employees back to a majority of our offices full time. We continue to monitor all state, county and city mandates relative to masks, vaccinations and other safety protocols to ensure the safety of our employees and clients.

For our customers, we established and participated in a variety of relief programs which include loan payment deferrals, fee waivers and the suspension of foreclosure and repossessions for those whose ability to pay was affected by the pandemic. In addition to these measures, we worked with our customers to originate business loans made available through the Small Business Administration Paycheck Protection Program, a lending program established as part of the relief to American consumers and businesses in the CARES Act. The Federal Reserve established the Main Street Lending Program to support lending to small and medium-sized for profit businesses and nonprofit organizations that were in sound financial condition before the onset of the COVID-19 pandemic. The program operated through five facilities and we participated in the Main Street New Loan Facility ("MSNLF") in the third quarter of 2020. The MSLP terminated on January 8, 2021.

The CARES Act

The CARES Act was passed by Congress and signed into law on March 27, 2020 to address the economic impact to individuals and businesses as a result of the COVID-19 pandemic. As part of the CARES Act, various initiatives to protect individuals, businesses and local economies have been established in an effort to lessen the impact of the COVID-19 pandemic on consumers and businesses. These initiatives included extended unemployment benefits, mortgage forbearance, the Small Business Administration ("SBA") Paycheck Protection

Program ("PPP") and the Main Street Lending Program. The PPP loans are forgivable, in whole or in part, if the proceeds are used for payroll and other permitted purposes in accordance with the requirements of the PPP. These loans carry a fixed rate of 1.00% and a term of 2 years or 5 years, if not forgiven, in whole or in part. The loans also require deferral of principal and interest payment. The loans are 100% guaranteed by the SBA. The SBA pays the originating bank a processing fee ranging from 1% to 5%, based on the size of the loan and these fees are deferred and amortized into interest income over the contractual period of 24 months or 60 months, as applicable. Upon SBA forgiveness, unamortized fees are then recognized into interest income. Participation in the PPP impacted on the Bank's asset mix and net interest income in 2020 and 2021 and will continue to impact both asset mix and net interest income until these loans are forgiven or paid off. In addition, the FRB implemented a liquidity facility available to financial institutions participating in the PPP ("PPPLF"). In conjunction with the PPP, the PPPLF allowed the Federal Reserve Banks to lend to member banks on a non-recourse basis with PPP loans as collateral. On June 22, 2020, the FDIC issued a final rule to remove the effect of participation in the PPP and borrowings under the PPPLF from the various risk measures used to calculate an insured depository institution's assessment rate. As part of our commitment to support our customers, the Bank participated in the PPP and PPPLF.

On December 27, 2020, the President signed another COVID-19 relief bill, the Economic Aid Act that extended and modified several provisions of the PPP. The Economic Aid Act included an additional allocation of $284 billion to the PPP. The SBA subsequently reactivated the PPP on January 11, 2021. The Bank originated additional PPP loans through the PPP, which extended through June 30, 2021, which officially ended on May 31, 2021.

The CARES Act requires mortgage servicers to grant, on a borrower's request, forbearance for up to 180 days (which can be extended for an additional 180 days) on a federally-backed single-family mortgage loan or forbearance up to 30 days (which can be extended for two additional 30-day periods) on a federally-backed multifamily mortgage loan when the borrowers experience financial hardship due to the COVID-19 pandemic.

Non-TDR Loan Modifications due to COVID-19

On March 22, 2020, the federal banking agencies issued an **"**Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus**"** which statement was revised on April 7, 2020. This guidance encourages financial institutions to work prudently with borrowers that are or that may be unable to meet their contractual obligations because of the effects of COVID-19. The guidance goes on to explain that in consultation with the FASB staff the federal banking agencies concluded that short-term modifications (e.g. six months) made on a good faith basis to borrowers who were current as of the implementation date of a modification program are not Troubled Debt Restructurings (**"**TDRs**"**). Section 4013 of the CARES Act, as amended by the Consolidated Appropriations Act, 2021 (**"**CAA**"**), permits a financial institution to elect to temporarily suspend TDR accounting under ASC Subtopic 310-40 in certain circumstances. The Bank has elected not to apply TDR classification to any COVID-19 pandemic related loan modifications that were executed after March 1, 2020 and earlier of (A) 60 days after the national emergency termination date concerning the COVID-19 pandemic outbreak declared by the President on March 13, 2020 under the National Emergencies Act, or (B) January 1, 2022 to borrowers who were current as of December 31, 2019. Given that nonaccrual loans are more heavily risk-weighted for capital purposes, this TDR relief allows a capital benefit in the form of reduced risk weighted assets since the aging of such loans was frozen at the time of modification. The Bank grants loan modifications to our customers in the form of maturity extensions, payment deferrals and forbearance. For a summary of the loans that we have modified in response to the COVID-19 pandemic, please refer to "Notes to Consolidated Financial Statements" — "Note 3— Loans and Allowance for Credit Losses on Loans" in this Annual Report on Form 10-K.

Federal Reserve Bank Actions

The Federal Reserve Bank ("FRB") has taken a range of actions to support the flow of credit to households and businesses. For example, on March 15, 2020, the FRB reduced the target range for the federal funds rate to 0 to 0.25% and announced that it would increase its holdings of U.S. Treasury securities and agency mortgage-backed securities and begin purchasing agency commercial mortgage-backed securities. The FRB has also encouraged depository institutions to borrow from the discount window and has lowered the primary credit rate for such borrowing by 150 basis points while extending the term of such loans up to 90 days. Reserve requirements have been reduced to zero as of March 26, 2020. The FRB has established, or has taken steps to establish, a range of facilities and programs to support the U.S. economy and U.S. marketplace participants in response to economic

disruptions associated with COVID-19, including among others, the PPP program and the main street lending facilities to purchase loan participations, under specified conditions, from banks lending to small and medium U.S. businesses. Beginning in the third quarter of 2020, we participated in the Main Street Lending Program.

Economy

The pandemic has resulted in unprecedented uncertainties for our citizens, our economy and the banking industry. Our operating results indicated that our underlying economic fundamentals in our footprint were relatively healthy and we believe that the Bank is well positioned to continue to support our customers and communities. The COVID-19 pandemic continues to alter economic fundamentals and the economy will be challenged for the foreseeable future.

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 Credit Losses

The Bank adopted ASU 2016-13, Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments on January 1, 2020, which introduced a new CECL model. The allowance for credit losses ("ACL") on loans represents our best estimate of expected credit losses inherent in the existing loan portfolio. The allowance for credit losses on loans 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 credit losses quarterly. We believe that the allowance for credit losses is a "critical accounting estimate" because it is based upon management's assessment of various factors affecting the collectability of the loans using the relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, or term as well as for changes in environmental conditions, such as changes in unemployment rates, property values, or other relevant factors.

We segment the loan portfolio into six main categories: commercial, international trade finance, construction, real estate, residential mortgage, and cash secured. Within those categories, we further segment into collective pools with similar risk characteristics. The segmentation reflects management's view of risks inherent in the portfolio based on historical loan experiences.

Loans are individually evaluated for credit losses when they no longer exhibit similar risk characteristics with other loans in the portfolio. We individually review and analyze non-accrual loans, classified loans, and TDR loans. Collateral dependent loans are loans for which the repayment is expected to be provided substantially through the operation or sale of the collateral when the borrower, based on management's assessment, is experiencing financial difficulty as of the reporting date. Collateral dependent loans are typically analyzed 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 including, for example loan sale market price or present value of expected future cash flows discounted at the loan's effective interest rate.

We also make adjustments, if warranted, in our allowance methodology in both quantitative and qualitative modeling to estimate the allowance. Such adjustments are intended to account for conditions that management believes directly impact loss potential in the portfolio that is not currently being captured in the model. To the extent possible, management accounts for the impact of quantitative factors on a pool by pool basis, and qualitative factors on a portfolio basis. Qualitative factors consisted of nine factors including 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. We aggregate the sums of the estimates of probable loss for each category with the specific individually evaluated reserves to arrive at the total estimated allowance for credit losses.

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 do not provide any assurance that further economic difficulties or other circumstances which would adversely affect our borrowers and their ability to repay outstanding loans will not occur. These difficulties or other circumstances could result in increased losses in our loan portfolio, which could result in actual losses that exceed loss reserves previously established.

The Bank performs an analysis to estimate the credit losses for off-balance sheet commitments, including letters of credit, acceptances outstanding, and committed loan amounts, on a quarterly basis. The reserve is calculated by applying the historical loss factor for the quarter over the total outstanding letters of credit which is also applied to pass loans for allowance for credit losses on loans provision purposes. Under the CECL methodology, the look back period beginning from January 2010 diluted the more recent loss experience so a rolling 4-year loss rate is applied until the historical loss rate equalizes.

On a quarterly basis, management performs a qualitative evaluation for available-for-sale (“AFS”) debt securities in an unrealized loss position to determine if the impairment of an investment’s value is related to credit or all other factors under the guidance of ASC 326-30. In determining whether a security’s decline in fair value is credit related, management considers a number of factors including, but not limited to: (i) the extent to which the fair value of the investment is less than its amortized cost; (ii) the financial condition and near-term prospects of the issuer; (iii) downgrades in credit ratings; (iv) payment structure of the security; (v) the ability of the issuer of the security to make scheduled principal and interest payments and (vi) general market conditions which reflect prospects for the economy as a whole, including interest rates and sector credit spreads. Per the new guidance, the credit impairment is limited by the amount of the unrealized loss through the allowance for credit losses and the reversals of credit losses are recognized immediately through earnings. The Bank measures credit losses on AFS debt securities at the individual security level for purposes of measuring credit losses.

ASC 326-20 requires an estimate of lifetime credit loss allowance for the held-to-maturities (“HTM”) debt securities. The Bank holds the HTM debt securities that are issued by the government agencies which are highly rated by the agencies and have a long history of no credit losses so no ACL on these securities are recorded.

Allowance for Loan Losses

In periods prior to the adoption of ASU 2016-13 on January 1, 2020, the allowance for loan losses was maintained at a level considered adequate to provide for losses that are probable and reasonably estimable (“incurred loss model”). The adequacy of the allowance for loan losses was based on management’s evaluation of the collectability of the loan and portfolio and that evaluation was based on historical loss experience and other significant factors. Specifically, our previous allowance methodology contained 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 were 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 were not already included in impaired analysis based on economic and other qualitative factors that indicate probable losses were incurred.

Recently Issued Accounting Pronouncements

Recently Issued Accounting Pronouncements are discussed in “Notes to Consolidated Financial Statements, Note 1 — Summary of Significant Accounting Policies” included in Item 8. of this Annual Report on Form 10-K.

Results of Operations

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

	Year Ended December 31,		
	2021	2020	2019
	(Dollars in thousands, except per share data)		
Net income	$ 95,240	$ 69,468	$ 78,371
Net income per share, basic	$ 6.41	$ 4.65	$ 5.16
Net income per share, diluted	$ 6.41	$ 4.65	$ 5.16
Return on average assets	1.69%	1.41%	1.82%
Return on average shareholders' equity	17.02%	14.00%	17.43%
Dividend payout ratio	24.51%	25.78%	23.26%
Equity to assets ratio	9.70%	10.22%	10.15%

Management's Discussion and Analysis of Financial Condition and Results of Operations generally includes tables with 3-year financial performance, accompanied by narrative for 2021 and 2020 periods. Refer to the 2020 Form 10-K filed on March 15, 2021 for discussion related to 2020 activity compared to 2019 activity.

Year Ended December 31, 2021 Compared to Year Ended December 31, 2020

	Year Ended December 31,		
	2021	2020	Increase (Decrease)
	(Dollars in thousands, except per share data)		
Statement of Operations Data:			
Interest income	$ 211,035	$ 214,262	$ (3,227)
Interest expense	25,158	40,108	(14,950)
Net interest income	185,877	174,154	11,723
Provision for credit losses	(1,000)	26,000	(27,000)
Net interest income after provision for credit losses	186,877	148,154	38,723
Noninterest income	7,743	6,063	1,680
Noninterest expense	60,792	57,358	3,434
Income before income taxes	133,828	96,859	36,969
Income tax expense	38,588	27,391	11,197
Net income	$ 95,240	$ 69,468	$ 25,772
Income allocated to participating shares	(8)	(134)	126
Dividends allocated to participating shares	(3)	(60)	57
Net income available to common shareholders-basic and diluted	$ 95,229	$ 69,274	$ 25,955
Net income per share, basic	$ 6.41	$ 4.65	$ 1.75
Net income per share, diluted	$ 6.41	$ 4.65	$ 1.65

Net income increased $25.8 million or 37.1% from $69.5 million or $4.65 per diluted share in 2020 to $95.2 million or $6.41 in 2021. The increase in net income was primarily the result of higher net interest income and lower provision for credit losses between the years. The $11.7 million, or 6.7%, increase in net interest income was a result of growth in total loans between the two periods aided by lower deposit costs but partially offset by a reduction in loan yields. Our overall cost of interest-bearing liabilities in 2021 decreased 49 basis points from 1.14% during 2020 to 0.65% for 2021, while average yields on earning assets decreased by 63 basis points to 3.82% from 4.45%. The yield on earning assets saw a decrease primarily due to the 37 basis point decrease in average interest rates on loans during the year, decreasing from 5.22% to 4.85%. Additionally, the yield on investment securities decreased 90 basis points from 3.30% to 2.40%.

As of December 31, 2021, 72% of our loan portfolio was tied to the Prime Rate, which has the potential to re-price daily, and 22% was tied to the London Interbank Offered Rate, or LIBOR, or other indices, which re-price periodically. Approximately 81% 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 9% 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, 2021 was 8.9 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.

Net Interest Income and Net Interest Margin

Year ended December 31, 2021 compared to 2020

Net interest income before the provision for credit losses for the year ended December 31, 2021 increased $11.7 million, or 6.7%, to $185.9 million from $174.2 million for the year ended December 31, 2020. This increase was due to the decrease in interest expense of $15.0 million outpacing the decrease in interest income $3.2 million. The decrease in interest income is primarily due to a decrease in average loan yields between periods from 5.22% to 4.85%, offset by higher average total loans to $4.14 billion in 2021, an increase of $245.8 million from $3.89 billion average total loans in 2020.

The average yield on our interest-earning assets decreased by 63 basis points to 3.82% in the year ended December 31, 2021 from 4.45% in the year ended December 31, 2020. Yield on earning assets saw a decrease primarily due to overall lower market interest rates between periods.

The cost of interest-bearing liabilities decreased by 49 basis points to 0.65% in the year ended December 31, 2021 from 1.14% in the year ended December 31, 2020. This decrease was primarily caused by the 50 basis points decrease in the cost of interest-bearing deposits from 1.00% to 0.50%. Average interest-bearing deposits increased $328.5 million to $3.74 billion in 2021 compared to $3.41 billion in 2020.

	Year Ended December 31, 2021			Year Ended December 31, 2020			Year Ended December 31, 2019		
	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[1] [2]	$ 4,138,592	$ 200,537	4.85%	$ 3,892,811	$ 203,093	5.22%	$ 3,482,555	$ 207,218	5.95%
Investment securities [3]	346,692	8,333	2.40%	246,715	8,130	3.30%	232,537	8,644	3.72%
Federal funds sold	21,032	81	0.39%	25,301	215	0.85%	38,003	961	2.53%
Other earning assets	1,024,118	2,520	0.25%	663,618	3,223	0.49%	460,176	10,324	2.24%
Total interest-earning assets	$ 5,530,434	$ 211,471	3.82%	$ 4,828,445	$ 214,661	4.45%	$ 4,213,271	$ 227,147	5.39%
Deferred loan fees, net	(4,997)			(3,788)			(1,910)		
Allowance for credit losses	(63,250)			(51,971)			(32,903)		
Noninterest-earning assets:									
Cash and due from banks	11,746			7,545			5,596		
Other assets	155,779			146,656			131,120		
Total assets	$ 5,629,712			$ 4,926,887			$ 4,315,174		
LIABILITIES AND SHAREHOLDERS' EQUITY									
Interest-bearing liabilities:									
Deposits									
Interest-bearing demand	$ 762,927	$ 2,473	0.32%	$ 597,567	$ 2,644	0.44%	$ 489,055	$ 6,876	1.41%
Money market	1,047,895	3,491	0.33%	1,005,317	5,117	0.51%	825,440	11,080	1.34%
Savings	34,191	57	0.17%	28,603	72	0.25%	21,342	54	0.25%
Time certificates of deposit	1,897,516	12,812	0.68%	1,782,558	26,151	1.47%	1,639,829	37,932	2.31%
Total interest-bearing deposits	3,742,529	18,833	0.50%	3,414,045	33,984	1.00%	2,975,666	55,942	1.88%
Short-term borrowings	1	—	0.17%	1	—	0.15%	1	—	1.57%
Subordinated debt issuance	126,674	6,325	4.99%	99,269	6,124	6.17%	99,142	6,123	6.18%
Long-term debt (FHLB and Senior debt)	—	—	0.00%	—	—	0.00%	522	19	3.71%
Total interest-bearing liabilities	3,869,204	25,158	0.65%	3,513,315	40,108	1.14%	3,075,331	62,084	2.02%
Noninterest-bearing liabilities:									
Demand deposits	1,124,836			853,289			726,066		
Other liabilities	76,049			64,119			64,257		
Total liabilities	5,070,089			4,430,723			3,865,654		
Shareholders' equity	559,623			496,164			449,520		
Total liabilities and shareholders' equity	$5,629,712			$4,926,887			$4,315,174		
Net interest income		$ 186,313			$ 174,553			$ 165,063	
Net interest spread			3.17%			3.31%			3.37%
Net interest margin			3.37%			3.62%			3.92%

[1] Includes average non-accrual loans.
[2] Includes net loan fee income of $3.1 million, $3.0 million and $2.1 million for the year ended December 31, 2020, 2019 and 2018, 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,					
	2021 vs. 2020			2020 vs. 2019		
	Net Change	Rate	Volume	Net Change	Rate	Volume
	(In thousands)					
Interest income:						
Loans	$ (2,556)	$ (14,950)	$ 12,394	$ (4,125)	$ (27,066)	$ 22,941
Investment securities[1]	203	(2,557)	2,760	(514)	(1,020)	506
Federal funds sold	(134)	(102)	(32)	(746)	(496)	(250)
Other earning assets	(703)	(2,001)	1,298	(7,101)	(10,375)	3,274
Total interest income	(3,190)	(19,610)	16,420	(12,486)	(38,957)	26,471
Interest expense:						
Interest-bearing demand	(171)	(803)	632	(4,232)	(5,502)	1,270
Money market	(1,626)	(1,834)	208	(5,963)	(7,989)	2,026
Savings	(15)	(27)	12	18	—	18
Time certificates of deposit	(13,339)	(14,829)	1,490	(11,781)	(14,807)	3,026
Subordinated debt	201	(1,299)	1,500	1	(7)	8
Long-term debt	—	—	—	(19)	(10)	(9)
Total interest expense	(14,950)	(18,792)	3,842	(21,976)	(28,315)	6,339
Net interest income	$ 11,760	$ (818)	$ 12,578	$ 9,490	$ (10,642)	$ 20,132

[1] Amounts have been adjusted to a tax-equivalent basis.

Provision for Credit Losses

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

The provision for credit losses decreased $27.0 million during 2021 to a reversal of $1.0 million from a provision of $26.0 million for 2020. Net loans charge-offs decreased $2.9 million to $2.5 million during 2021 from $5.4 million during 2020. The reversal of provision for credit losses during 2021 was primarily due to the improvement in the outlook for the Bank’s credit portfolio as a result of the re-opening of the overall economy which results in a stronger economic outlook, offset by loan growth. The provision for credit losses during 2020 included the consideration of the potential impact to the global and local economies resulting from the COVID-19 pandemic, and risk rating downgrades within the commercial portfolio. The Bank continues to monitor the economic impact of the pandemic on credit risks and losses.

As a result of the adoption of ASU 2016-13 on January 1, 2020 (see Allowance for Credit Losses below), the provision for credit losses is based on the Bank’s determination of the allowance for credit losses under a current expected credit losses methodology. We also apply qualitative factors in calculating allowance levels by loan type, which are revised quarterly and take into consideration reasonable and supportable economic forecasts, the mix of the loan portfolio, concentration levels and trends, local and national economic conditions, changes in capabilities, experience of lending management and staff, and other external factors such as industry conditions, competition and regulatory requirements.

The provision for credit losses is based on the Bank’s determination of the allowance for credit losses under a current expected credit losses methodology, including consideration of the impact to national and local economies resulting from the COVID-19 pandemic, and risk rating changes within the loan portfolio. We also apply qualitative factors in calculating allowance levels by loan type, which are revised quarterly and take into consideration reasonable and supportable economic forecasts, the mix of the loan portfolio, concentration levels and trends, local and national economic conditions, changes in capabilities, experience of lending management and staff, and other external factors such as industry conditions, competition and regulatory requirements. The Bank will continue to monitor the continuing impact of the pandemic on credit risks and losses.

In periods prior to January 1, 2020, the Bank calculated the necessary allowance for credit losses based on an incurred losses methodology that considers historical losses and weighted average charge-offs by loan pool over the prior twelve quarters. The incurred loss methodology also included the application of qualitative factors in calculating allowance levels by loan type, which are revised quarterly and take into consideration the mix of the loan portfolio, concentration levels and trends, local and national economic conditions, changes in capabilities,

experience of lending management and staff, and other external factors such as industry conditions, competition and regulatory requirements.

Non-performing loans decreased to $14.8 million at December 31, 2021, compared to $20.5 million as of December 31, 2020. The decrease was mainly from additions of $9.8 million, offset by $13.0 million in payoffs and $2.5 million in charge-offs.

At December 31, 2020, non-performing loans included one residential real estate loan of $15.0 million which was already experiencing challenges for its own reasons but the COVID-19 pandemic exacerbated these challenges and accelerated its default. During 2021, the Bank charged-off $817,000 related to this loan and received paydowns of $9.2 million. At December 31, 2021, the carrying value of this loan was $4.9 million. At December 31, 2021, non-performing loans also included two commercial & industrial loans that totaled $6.8 million and one commercial real estate loan totaling $2.1 million and two residential real estate loans totaling $1.0 million. Specific reserves on non-performing loans totaled $2.4 million and $3.5 million as of December 31, 2021 and 2020. The ratio of allowance for credit losses on loans to total loans decreased to 1.36% of total loans at December 31, 2021 compared to 1.57% at December 31, 2020. The 21 basis points decrease between periods is primarily attributable to the aforementioned improvement in the outlook for the Bank's credit portfolio as a result of the re-opening of the overall economy which results in a stronger economic outlook, partially offset by loan growth.

Management believes that through the application of the allowance methodology's quantitative and qualitative components, that the provision and overall level of allowance for credit losses on loans is adequate for current expected credit losses inherent in the portfolio as of December 31, 2021. For details on the non-performing loans, please see the table under Non-Performing Assets below.

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 credit enhancement;
- 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,		
	2021	**2020**	**2019**
		(In thousands)	
Fees and service charges on deposit accounts	$ 2,113	$ 1,627	$ 1,579
Letter of credit fee income	3,914	3,284	3,821
BOLI income	391	381	370
Net loss on sale of loans	(640)	—	—
Net gain (loss) on sale or call of investment securities	41	(761)	—
Other income	1,924	1,532	1,696
Total noninterest income	$ 7,743	$ 6,063	$ 7,466

Noninterest income was $7.7 million for 2021, compared to $6.1 million for 2020. The $1.7 million increase was attributable to i) a $486,000 increase in fees and service charges on deposit accounts from new fee income products, ii) an increase of $630,000 in letters of credit fee income, iii) an $802,000 increase in net gains on sale or call of investment securities, and iv) a $392,000 increase in other income due mostly to increases in other

loan-related fees, offset by v) losses on loan sales, including a sold shared national credit loan at a discount of $398,000, two commercial loans sold at a discount of $261,000 and one mortgage loan sold at a gain of $20,000.

Our results can be influenced by the unpredictable nature of gains and losses in connection with the sale of loans and 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,		
	2021	2020	2019
		(In thousands)	
Salaries and employee benefits	$ 42,606	$ 39,563	$ 38,807
Net occupancy expense	5,656	5,525	5,121
Business development and promotion expense	568	564	840
Professional services	4,127	4,078	4,417
Office supplies and equipment expense	1,879	1,845	1,853
Loss on sale of OREO and related expense, net	—	6	1,220
Other	5,956	5,777	4,989
Total noninterest expense	$ 60,792	$ 57,358	$ 57,247

Total noninterest expense was $60.8 million for 2021 compared to $57.4 million for 2020. The $3.4 million increase was primarily the result of i) a $3.0 million increase in salaries and benefits mainly due mainly due to higher incentive compensation accrual and hiring additional staff to support the bank's growth, ii) a $131,000 increase in net occupancy expense which was impacted from annual rent increases and our new Houston office, iii) a $49,000 increase in professional fees from higher other professional fees offset by lower legal fees, and iv) a $179,000 increase in other expense resulting from a $190,000 increase in FDIC assessments.

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 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. A valuation allowance is provided when it is more likely than not that some portion of deferred tax assets will not be realized. As of December 31, 2020 and 2019, the Bank determined that a valuation allowance for deferred tax assets was not required.

For the year ended December 31, 2021, the effective rate was 28.8%, compared to 28.3% for the year ended December 31, 2020 and 29.7% for the year ended December 31, 2019.

As of December 31, 2021, we had no federal net operating loss ("NOL") carryforward and state NOL carryforward of $18.9 million.

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 $72.9 million of the California NOL as of December 31, 2021, $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, 2021, is subject to IRC Sec. 382 annual limitation amount of approximately $1.5 million. Additionally, the Bank has no Federal excess realized built in losses and $6.1 million of California excess built in losses as of December 31, 2021 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 no federal NOLs and $2.1 million of New York NOLs that are subject to annual IRC Sec. 382 limitation of $0.3 million remaining as of December 31, 2021. 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

Total assets as of December 31, 2021 were $6.05 billion, an increase of $902.7 million or 17.5%, compared to $5.14 billion as of December 31, 2020. Earning assets as of December 31, 2021 totaled $5.95 billion compared to $5.05 billion as of December 31, 2020. Total deposits were $5.23 billion as of December 31, 2021 compared to $4.44 billion as of December 31, 2020.

Loans

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 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,					
	2021			2020		
Loans (by portfolio and class):						
Real Estate Mortgage:						
Residential	$ 543,917	12.3	%	$ 523,790	13.0	%
Commercial	2,259,432	51.1		1,911,484	47.4	
Total Real Estate Mortgage	$ 2,803,349			$ 2,435,274		
Real Estate - Construction:						
Residential	130,842	2.9		148,825	3.7	
Commercial	202,482	4.6		215,032	5.3	
Total Real Estate - Construction	$ 333,324			$ 363,857		
Commercial & Industrial	1,234,425	27.8		1,143,829	28.4	
SBA	42,467	1.0		70,234	1.7	
Trade Finance	11,309	0.3		22,161	0.5	
Consumer & Other	118	0.0		39	0.0	
Total gross loans	$ 4,424,992	100.0	%	$ 4,035,394	100.0	%
Less: allowance for credit losses	(59,969)			(63,426)		
Deferred loan fees, net	(6,316)			(4,574)		
Total loans excluding loans held for sale	$ 4,358,707			$ 3,967,394		
Loans held for sale	—			—		
Total net loans	$ 4,358,707			$ 3,967,394		

The majority of the Bank's loans are made to customers and businesses in the state of California and/or secured by properties located primarily in the greater Los Angeles metropolitan area and to a lesser extent, the San Francisco Bay, New York and Houston areas. All loans are typically made based on substantially the same credit standards regardless of where the customers and/or collateral properties are located although there may be circumstances whereby geographical location would require more stringent requirements for a loan.

Total gross loans increased by $389.6 million, or 9.7%, to $4.42 billion as of December 31, 2021 from $4.04 billion as of December 31, 2020. Real estate mortgage loans, which include real estate loans collateralized by various types of commercial and residential real estate, increased $368.1 million from $2.44 billion as of December 31, 2020 to $2.80 billion at December 31, 2021. Real estate construction loans which are loans made to borrowers and developers for the purpose of constructing residential or commercial properties, decreased $30.5 million from $363.9 million at December 31, 2020 to $333.3 million at December 31, 2021. Commercial & industrial loans increased $90.6 million from $1.14 billion at December 31, 2020 to $1.23 billion at December 31, 2021, and trade finance loans, decreased $10.9 million from $22.2 million at December 31, 2020 to $11.3 million at December 31, 2021.

SBA loans decreased $27.8 million from $70.2 million at December 31, 2020 to $42.5 million at December 31, 2021. SBA loans consisted entirely of loans originated under the SBA's Payroll Protection Program. Management's focus from a lending perspective now is on organic growth and monitoring the Bank's existing loan relationships due to the impacts caused by the COVID-19 pandemic. Although there have been a number of programs created by the U.S. Treasury and the Federal Reserve to not only help small and medium-sized businesses but also to help individuals, management recognizes the magnitude of this economic impact due to the COVID-19 pandemic and is constantly monitoring its ripple effects on our markets and borrowers.

The following table represent the breakdown of the PPP loans as of December 31, 2021 and 2020.

	December 31, 2021		December 31, 2020	
	Count	Amount	Count	Amount
PPP Loan Balance Range		*(In thousands)*		
Less than or equal to $350,000	69	$ 10,990	160	$ 14,368
Greater than $350,000 and less than or equal to $2.0 million	31	26,807	29	25,979
Greater than $2.0 million	2	4,670	6	29,887
Total	102	$ 42,467	195	$ 70,234

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

	At December 31, 2021		At December 31, 2020	
Property Type	**Amount**	**Percentage of Loans in Each Category in Total Loan Portfolio**	**Amount**	**Percentage of Loans in Each Category in Total Loan Portfolio**
		(Dollars in thousands)		
Commercial/Office	$ 383,160	8.66%	$ 319,168	7.91%
Retail	497,226	11.24	422,989	10.48
Industrial	398,095	9.00	285,218	7.07
Residential 1-4	536,286	12.12	517,029	12.81
Apartment 4+	424,249	9.59	303,841	7.53
Land	8,150	0.18	7,295	0.18
Special purpose	556,183	12.56	579,734	14.37
Total	$ 2,803,349	63.35%	$ 2,435,274	60.35%

There were no loans held for sale at December 31, 2021 and 2020.

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

Non-Performing Assets

Non-performing assets are composed of loans on non-accrual status and Other Real Estate Owned ("OREO"), and loans that are 90 days past due or more and still accruing interest. Troubled Debt Restructurings ("TDRs") that are on non-accrual status are included in non-performing assets while TDR's that are performing according to their revised terms are not included in non-performing assets. Generally, loans 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 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. When, in our judgment, the borrower's ability to make required interest and principal payments has resumed and collectability is no longer in doubt, the loan could be returned to accrual status. 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 difficulties, grants a concession to the borrower that it would not otherwise consider. At December 31, 2021, the Bank had three performing restructured loans totaling $25.2 million and a non-performing restructured loan of $4.9 million classified as TDRs. At December 31, 2020, one performing loan of $23.0 million was classified as TDR.

In order to encourage banks to work with impacted borrowers, the CARES Act and U.S. banking agencies

have provided relief from TDR accounting, which include a capital benefit in the form of reduced risk-weighted assets, as TDRs are more heavily risk-weighted for capital purposes. Beginning in late March 2020, the Bank granted various loan accommodation program in the form of payment deferrals, to provide relief to borrowers experiencing financial hardship due to COVID-19 pandemic. Section 4013 of the CARES Act, as amended by the CAA, permits a financial institution to elect to temporarily suspend TDR accounting under ASC Subtopic 310-40 in certain circumstances. To be eligible under Section 4013 of the CARES Act, a loan modification must be (1) related to the COVID-19 pandemic; (2) executed on a loan that was not more than 30 days past due as of December 31, 2019; and (3) executed between March 1, 2020, and the earlier of (a) 60 days after the date of termination of the federal National Emergency or (b) January 1, 2022. The federal banking regulators, in consultation with the FASB, issued the Interagency Statement on April 7, 2020 confirming that, for loans not subject to Section 4013 of the CARES Act, short-term modifications (i.e. six months or less) made on a good faith basis in response to the COVID-19 pandemic to borrowers who were current as of the implementation date of a loan modification, or modifications granted under government mandated modification programs, are not considered as TDRs under ASC Subtopic 310-40. Therefore, modified loans that met the required guidelines for relief are excluded from the TDRs.

The following table summarizes the loans for which the accrual of interest has been discontinued and loans more than 90 days past due and still accruing interest and OREO:

	December 31,	
	2021	**2020**
	(In thousands)	
Non-accrual loans*	$ 14,824	$ 20,529
Accruing loans past due 90 days or more	—	—
Total non-performing loans (NPLs)	14,824	20,529
OREO	—	—
Total non-performing assets (NPAs)	$ 14,824	$ 20,529
Selected ratios:		
Non-accrual loans to total gross loans held for investment	0.34%	0.51%
NPLs to total gross loans held for investment	0.34%	0.51%
NPAs to total assets	0.25%	0.40%

*Non-accrual Troubled Debt Restructurings (TDRs) that are included in non-accrual loans are as follows: 2021 – $4.9 million; 2020 – $0. TDRs that are performing according to their revised terms are not reflected as non-performing loans (NPLs).

Non-accrual loans decreased by $5.7 million, from $20.5 million as of December 31, 2020 to $14.8 million as of December 31, 2021. The decrease was primarily due to additions of $9.8 million, offset by $13.0 million in payoffs and $2.5 million in charge-offs. At December 31, 2020, non-performing loans included one residential real estate loan of $15.0 million which was already experiencing challenges for its own reasons but the COVID-19 pandemic exacerbated these challenges and accelerated its default. During 2021, the Bank charged-off $817,000 related to this loan and received paydowns of $9.2 million. At December 31, 2021, the carrying value of this loan was $4.9 million. At December 31, 2021, non-performing loans also included two commercial and industrial loans totaling $6.8 million, one commercial real estate loan totaling $2.1 million and two residential real estate loans totaling $1.0 million. See “Notes to Consolidated Financial Statements, Note 20 — Subsequent Events” included in Item 8. of this Annual Report on Form 10-K for further update on NPA’s.

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, 2021 and 2020, there was no OREO. There were no sales of OREO property during 2021 and 2020.

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 credit 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.

Allowance for Credit Losses

On January 1, 2020, the Bank adopted ASU 2016-13, *Financial Instruments — Credit Losses* (Topic 326): *Measurement of Credit Losses on Financial Instruments.* The Bank adopted ASC 326 using the modified retrospective method for all of its financial assets measured at amortized cost, including securities held-to-maturity, net loans and reserve for unfunded commitments. The Bank recorded a net decrease to retained earnings of $5.6 million, net of tax as of January 1, 2020 for the cumulative effect of adopting ASC 326. There was no impact on off balance sheet, held to maturity and available for sale debt securities.

See "Notes to Consolidated Financial Statements Note 3 — Loans and Allowance for Credit Losses on Loans" for further details regarding allowance for credit losses on loans. The allowance for credit losses on loans is maintained at a level which, in management's judgment, is adequate to absorb current expected credit losses in the loan portfolio. Management estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, or term as well as for changes in environmental conditions, such as changes in unemployment rates, property values, or other relevant factors.

Our loan portfolio is categorized into several segments for purposes of determining allowance amounts by loan segment. The loan segments we currently evaluate are: commercial & industrial, international trade finance, real estate, real estate construction and SBA. Real estate is further segmented by individual product type with a general class, residential or commercial. The commercial class is represented by–office, industrial, retail, multifamily, special purpose and land commercial product types. The residential class is represented by single family residential ("SFR") and land residential. Real estate construction is similarly further segmented by office, industrial, retail, multifamily and SFR product types. The SBA represents the PPP. Within these loan pools, we then evaluate loans rated as pass credits, separately from loans designated as "Special mention" or adversely classified loans. The allowance amounts for pass rated loans, which are not reviewed individually, are determined using historical loss rates developed through migration analyses. The adversely classified loans are further grouped into three credit risk rating categories: substandard, doubtful and loss. All loans in the doubtful category are analyzed individually and all loans in the loss category are charged off within the quarter identified as such.

The Bank performs an analysis to estimate the credit losses for off-balance sheet commitments, including letters of credit, acceptances outstanding, and committed loan amounts, on a quarterly basis. On a quarterly basis, management performs a qualitative evaluation for AFS debt securities in an unrealized loss position to determine if the impairment of an investment's value is related to credit or all other factors under the guidance of ASC 326- 30. The ASC 326-20 requires to estimate the lifetime credit loss allowance for the HTM debt securities. The Bank holds the HTM debt securities that are issued by the government agencies which are highly rated by the agencies and have a long history of no credit losses so no ACL on these securities are recorded.

Although we believe that our allowance for credit losses is adequate and believe that we have considered all risks, 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 like the COVID-19 pandemic 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, average loans, non-performing loans and changes in the allowance for credit losses on loans arising from loan losses and additions to the allowance from provisions charged to operating expense:

Allowance for Credit Losses & Loss Histories

	Year Ended December 31,		
	2021	2020	2019
	(dollars in thousands)		
Allowance for credit losses:			
Balance at beginning of period	$ 63,426	$ 34,830	$ 31,065
Adoption of ASU 2016-13	—	8,000	—
Actual charge-offs:			
Commercial	1,697	3,700	502
Trade finance	—	—	24
Real estate mortgage	817	1,907	101
Total charge-offs	2,514	5,607	627
Less recoveries:			
Commercial	57	8	526
Trade finance	—	1	1
Real estate construction	—	194	—
Real estate mortgage	—	—	415
Total recoveries	57	203	942
Net loans charged-off (recovery)	2,457	5,404	(315)
(Reversal of) provision for credit losses	(1,000)	26,000	3,450
Balance at end of period	$ 59,969	$ 63,426	$ 34,830
Total gross loans at end of period	4,424,992	4,035,394	3,724,922
Average total loans*	4,138,592	3,892,811	3,482,555
Non-performing loans	14,824	20,529	2,135
Selected ratios:			
Net charge-offs (recoveries) to average loans	0.06%	0.14%	(0.01)%
(Reversal of) provision for credit losses to average loans	(0.02)%	0.67%	0.10%
Allowance for credit losses to loans at end of period	1.36%	1.57%	0.94%
Allowance for credit losses to non-accrual loans	4.05x	3.09x	16.31x
Allowance for credit losses to non-performing loans	4.05x	3.09x	16.31x

* Includes average loans held for sale balance of $569,000 for 2021, $1.3 million for 2020, and $337,000 for 2019.
**On January 1, 2020, the Bank adopted ASU 2016-13, *Financial Instruments — Credit Losses* (Topic 326): *Measurement of Credit Losses on Financial Instruments.*

The coverage ratio for the allowance for credit losses on loans to non-performing loans increased to 404.54% at December 31, 2021 from 308.96% at December 31, 2020. The increase in this coverage ratio was due primarily to increases in the allowance for credit losses as a result of loan growth offset by reductions in non-performing loans between periods.

	2021			2020			2019		
	Net Charge-offs (Recoveries)	Average Loans	Net Charge-off (Recovery) Ratio	Net Charge-offs (Recoveries)	Average Loans	Net Charge-off (Recovery) Ratio	Net Charge-offs (Recoveries)	Average Loans	Net Charge-off (Recovery) Ratio
Commercial & Industrial	$ 1,640	$1,154,838	0.14%	$ 3,692	$1,143,545	0.32%	(24)	$1,006,197	0.00%
Trade Finance	—	14,451	0.00%	(1)	19,762	(0.01)%	23	22,727	0.10%
Real estate construction	—	347,261	0.00%	(194)	396,706	(0.05)%	(415)	387,405	(0.11)%
Real estate mortgage	817	2,537,030	0.03%	1,907	2,278,632	0.08%	101	2,060,498	0.00%
SBA	—	79,643	0.00%	—	49,106	0.00%	—	—	—
Consumer & other	—	4,800	0.00%	—	3,779	0.00%	—	5,391	0.00%
Total	**$ 2,457**	**$4,138,023**	**0.06%**	**$ 5,404**	**$3,891,530**	**0.14%**	**$ (315)**	**$3,482,218**	**(0.01)%**

Net charge-offs (recoveries) to average loans were 0.06% for the year ended December 31, 2021 compared to 0.14% for the year ended December 31, 2020. The decrease in the net charge-off ratio between period was due to both reductions in net charge-offs and higher average balances. During the year ended December 31, 2021, net charge-offs primarily consisted of charge-offs of $817,000 for one real estate loan and $1.7 million related to two commercial relationships. During the year ended December 31, 2020, net charge-offs primarily consisted of charge-offs of $1.9 million for one real estate loan and $3.5 million related to one commercial relationship.

In determining our allowance for credit losses, management has considered the credit risk in the various loan categories in our portfolio. As such, the establishment of the allowance for credit losses is based upon our historical net loan loss experience and the other factors discussed above.

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

	December 31,			
	2021		2020	
	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	$ 26,038	60.3 %	$ 21,306	60.3% %
Real estate construction	1,399	9.0	1,500	9.0
Commercial	31,853	28.3	39,721	28.3
SBA			—	1.7
Trade finance	46	0.5	81	0.5
Consumer & Other	3	0.0	1	0.0
Unallocated	630	0.0	817	0.0
Total	$ 59,969	100.0 %	$ 63,426	100.0 %

Allowance for Credit Losses Related to Undisbursed Loan Commitments

We maintain an allowance for credit losses for undisbursed loan commitments. Management estimates the amount by applying the loss factors used in our allowance for credit losses on loans using the current expected credit losses methodology to our estimate of the expected usage of undisbursed commitments for each loan type.

Provisions for credit losses for undisbursed loan commitments are recorded in other expense. The allowance for credit losses on undisbursed loan commitments totaled $1.2 million at December 31, 2021 and 2020.

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.

Management performs a credit impairment analysis of the investment securities portfolio in accordance with FASB's ASC 326 current expected credit losses (CECL). Under the standard, the credit loss evaluations of debt securities classified as available-for-sale and held-to-maturity are separated.

Management performs a quarterly qualitative evaluation for available-for-sale securities in an unrealized loss position to determine if the impairment of an investment's value (fair value being below amortized cost) is related to credit or all other factors (such as due to changes in interest rates, illiquidity in the market, changes in general market conditions, etc.). In determining whether a security's decline in fair value is credit related, management considers a number of factors including, but not limited to: (i) the extent to which the fair value of the investment is less than its amortized cost; (ii) the financial condition and near-term prospects of the issuer; (iii) downgrades in credit ratings; (iv) payment structure of the security, (v) the ability of the issuer of the security to make scheduled principal and interest payments and (vi) general market conditions which reflect prospects for the economy as a whole, including interest rates and sector credit spreads. If it is determined through the Bank's qualitative assessment of available-for-sale securities that the decline in fair value below a security's amortized cost can be attributed to credit loss, the Bank records the amount of credit loss through a charge to provision for credit losses in current period earnings. If the Bank determines the security's unrealized loss, or a portion thereof, is not related to credit, the Bank records the non-credit related loss, net of tax, through a debit to accumulated other comprehensive income. The Bank have made a policy election to exclude accrued interest from the amortized cost basis of available-for-sale securities and report accrued interest in accrued interest receivables in the consolidated balance sheets. Available-for-sale securities are placed on non-accrual status when we no longer expect to receive all contractual amounts due, which is generally at 90 days past due. Accrued interest receivable is reversed against interest income when a security is placed on non-accrual status. Accordingly, we do not recognize an allowance for credit loss against accrued interest receivable.

For held-to-maturity securities, the Bank recognizes expected lifetime credit losses on a collective basis according to shared risk characteristics. Credit losses on held-to-maturity securities are only recognized at the individual security level when the Bank determines a security no longer possesses risk characteristics similar to others in the portfolio.

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 three mortgage-backed securities considered held-to-maturity as of December 31, 2021 with a carrying value of $14.0 million. At December 31, 2021, investment securities classified as available-for-sale with a carrying value of $45.1 million were pledged to secure public deposits.

The carrying value of our held-to-maturity investment securities was $14.0 million at December 31, 2021 and $6.6 million at December 31, 2020. The carrying value of our available-for-sale investment securities at December 31, 2021 totaled $451.9 million compared to $239.7 million at December 31, 2020. The $212.2 million increase in investment securities available-for-sale during 2021 was primarily due to purchases of $263.4 million, including $40.6 million in corporate notes, $194.6 million in CMOs, $7.5 million in mortgage-backed securities, and $20.7 million in municipal securities, offset by $19.5 million in calls of corporate notes and $7.7 million in municipal securities and sales of $5.0 million in U.S. Treasury bills and $2.0 million in corporate notes during 2021.

The carrying value of our portfolio of available-for-sale investment securities at December 31, 2021 and 2020 was as follows:

	December 31, 2021	December 31, 2020
	(in thousands)	
Asset-backed securities	$ 3,362	$ 3,450
Corporate notes	147,303	129,819
U.S. Agency mortgage-backed securities	14,891	11,598
Collateralized mortgage obligations	190,687	5,061
Municipal securities	80,665	68,829
U.S. Agency principal-only strip securities	553	756
SBA Securities	169	237
U.S. Treasury Bills	14,281	19,932
Total securities available-for-sale	$ 451,911	$ 239,682

The following table shows the maturities of available-for-sale investment securities at December 31, 2021, and the weighted average yields of such securities. The table does not consider the impact of prepayments on the maturities:

At December 31, 2021

	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	$ —	— %	$ —	— %	$ —	— %	$ 3,362	0.81 %	$ 3,362	0.81%
Corporate notes			43,252	3.33	91,430	3.89	12,621	2.26	147,303	3.58
U. S. Agency mortgage-backed securities	2	2.38	928	3.33	1,641	1.16	12,320	0.74	14,891	0.94
Collateralized mortgage obligations	—	—	—	—	—	—	190,687	0.38	190,687	0.38
Municipal securities	—	—	—	—	9,860	3.43	70,805	3.26	80,665	3.28
U.S. Agency principal-only strips	—	—	—	—	—	—	553	2.03	553	2.03
SBA securities	—	—	81	2.04	88	1.92	—	—	169	1.98
U.S. treasury bills	—	—	—	—	14,281	0.93	—	—	14,281	0.93
Total securities available-for-sale	$ 2	2.38 %	$ 44,261	3.33 %	$117,300	3.42 %	$290,348	1.18 %	$451,911	1.96%

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, 2021.

As of December 31, 2021, the Bank owned 32 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 $2.8 million. Management performed an analysis on the issuer of these securities 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 these securities will recover as interest rates normalize. The intent of the Bank is to hold these securities 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 securities prior to recovery of the amortized cost basis.

The Bank owns 38 available-for-sale mortgage-backed securities, 3of which were in an unrealized loss position for longer than 12 months as of December 31, 2021. The total amortized cost of these securities was $474,000 and their fair value was $465,000. 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 these security will recover as interest rates normalize. The intent of the Bank is to hold these securities 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 securities prior to recovery of the amortized cost basis.

As of December 31, 2021, 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 $1.3 million and its fair value was $1.2 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 80 available-for-sale municipal securities, none of which were in an unrealized loss position as of December 31, 2021.

As of December 31, 2021 the Bank owns 1 available-for-sale U.S. Treasury Bill, which was in an unrealized loss position for longer than 12 months. The total amortized cost of this security was $14.9 million and its fair value was $14.3 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.

As of December 31, 2021, the Bank owned 15 collateralized mortgage obligations (“CMO”), none of which were in an unrealized loss position as of December 31, 2021.

As of December 31, 2021, the Bank owned 2 available-for-sale SBA securities, all of which was in an unrealized loss position for longer than 12 months. The total amortized cost of this security was $170,000 and its fair value was $169,000. 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.

As of December 31, 2021, the Bank owned one U.S. Agency principal-only strip and the fair value exceeded the amortized cost.

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. 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 $5.23 billion at December 31, 2021 compared to $4.44 billion at December 31, 2020. Noninterest-bearing demand deposits increased $366.8 million or 39.1%. 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 grew to 25.0% at December 31, 2021 from 21.1% at December 31, 2020. 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 increased by $335.1 million or 19.3%, and time deposits increased $81.1 million or 4.6%. At December 31, 2021, interest bearing demand accounts comprised $2.07 billion or 39.6% of total deposits, compared to $1.74 billion or 39.1% of total deposits at December 31, 2020. The increase in interest bearing demand accounts during the year was 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 the Bank's efforts to continue to increase the Bank's depositor base.

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,					
	2021		2020		2019	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
	(Dollars in thousands)					
Noninterest-bearing deposits	$ 1,124,836	0.00%	$ 853,289	0.00%	$ 726,066	0.00%
Interest-bearing demand	762,927	0.32	597,567	0.44	489,055	1.41
Money market	1,047,895	0.33	1,005,317	0.51	825,440	1.34
Savings	34,191	0.17	28,603	0.25	21,342	0.25
Time certificates of deposit	1,897,516	0.68	1,782,558	1.47	1,639,829	2.31
Total	$ 4,867,365	0.39%	$ 4,267,334	0.80%	$ 3,701,732	1.51%

Average total deposits increased by $600.0 million in 2021 and $565.6 million in 2020 The increase in average total deposits for 2021 and 2020 is the result of continued focus on business customers and commercial and industrial loan relationships maintaining their primary operating accounts at the Bank.

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, 2021 and 2020:

	At December 31,	
	2021	2020
	(In thousands)	
Three months or less	$ 490,367	$ 428,848
Over three months through six months	196,166	187,069
Over six months through twelve months	231,373	274,311
Over twelve months	16,538	22,318
Total	$ 934,444	$ 912,546

Borrowings

At December 31, 2021 and 2020, there were no advances from Federal Home Loan Bank of San Francisco ("FHLB").

Subordinated Debentures

On June 16, 2021, the Bank completed a public offering of $150.0 million in aggregate principal amount of 3.375% fixed-to-floating rate subordinated notes due June 15, 2031. A majority of the proceeds from the placement of the notes were used to repay the subordinated notes due 2026. The subordinated notes mature on June 15, 2031 and bear interest at a fixed rate per annum of 3.375%, payable semi-annually in arrears until June 15, 2026. On that date, the subordinated notes will bear interest at a floating rate per annum equal to a benchmark rate, which is expected to the Three-Month Term SOFR, plus 278 basis points, payable quarterly in arrears; provided, however, in the event that the then-current benchmark rate is less than zero, then the benchmark rate will be deemed zero. The Bank may, at its option, redeem the subordinated notes in whole or in part beginning on June 15, 2026 and, in other certain limited circumstances. 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 $2.4 million.

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 8.0%, a ratio of only common equity Tier 1 capital to risk-weighted assets of at least 6.5%, a ratio of Tier 1 capital to adjusted total assets (leverage ratio) of at least 5.0% and a ratio of total capital (which includes Tier 1 capital plus certain forms of subordinated debt, a portion of the allowance for credit losses on loans and preferred stock) to risk-weighted assets of at least 10.0%. 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. The Bank elected to permanently opt-out of excluding accumulated other comprehensive income from common equity tier 1 capital.

A new capital conservation buffer of 2.50% became effective starting January 1, 2019 and must be met to avoid limitations on the ability of the Bank to pay dividends, repurchase shares or pay discretionary bonuses. The Bank's capital conservation buffer was 5.27% and 5.21% as of December 31, 2021 and 2020, respectively.

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 was available for banks to use beginning in their March 31, 2020, Call Report. We elected to not 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. We did not adopt the CBLR framework.

In December 2018, the Federal Reserve announced that a banking organization that experiences a reduction in retained earnings due to the CECL adoption as of the beginning of the fiscal year in which CECL is adopted may elect to phase in the regulatory capital impact of adopting CECL. Transitional amounts are calculated for the following items: retained earnings, temporary difference deferred tax assets and credit loss allowances eligible for inclusion in regulatory capital. When calculating regulatory capital ratios, 25% of the transitional amounts are phased in during the first year. An additional 25% of the transitional amounts are phased in over each of the next

two years and at the beginning of the fourth year, the day-one effects of CECL are completely reflected in regulatory capital. We did not elect to phase in the regulatory capital impact of adopting CECL.

Additionally, in March 2020, the Office of the Comptroller of the Currency, Treasury, the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation announced the 2020 CECL interim final rule (IFR) designed to allow eligible firms to better focus on supporting lending to creditworthy households and businesses in light of recent strains on the U.S. economy as a result of the COVID-19 pandemic. The 2020 CECL IFR allows firms that adopt CECL before December 31, 2020 to defer 100 percent of the day one transitional amounts described above through December 31, 2021 for regulatory capital purposes. Additionally, the 2020 CECL IFR allows electing firms to defer through December 31, 2021 the approximate portion of the post day one allowance attributable to CECL relative to the incurred loss methodology. This is calculated by applying a 25% scaling factor to the CECL provision. The Bank did not adopt the transition guidance and the 2020 CECL IFR relief.

On August 6, 2021, the Bank received approval from the California Department of Financial Protection and Innovation for the repurchase of up to $50 million in the Bank's common stock or 5% of total outstanding shares, whichever is less, in the open market. The timing, price and volume of the share repurchases will be determined by Bank management based on its evaluation of market conditions and other relevant factors. This repurchase was approved by shareholders at the Bank's Annual Shareholders Meeting on May 18, 2021. The share repurchase program may be suspended, terminated or modified at any time by the Bank for any reason, including market conditions, the cost of repurchasing shares, the availability of alternative investment opportunities, liquidity, and other factors deemed appropriate.

During the year ended December 31, 2021, the Bank has purchased 282,949 shares of its common stock at an average price of $61.69 per share for a total of $17.5 million.

Our goal is to exceed the Basel III minimum regulatory capital requirements for well capitalized institutions. At December 31, 2021 and 2020, our capital ratios were above the Basel III minimum requirements for well capitalized institutions as shown in the table below:

	At December 31, 2021	At December 31, 2020
Leverage Ratio		
Preferred Bank	9.54%	10.08%
Minimum requirement for "Well Capitalized" institution	5.00%	5.00%
Common Equity Tier 1 Risk-Based Capital Ratio		
Preferred Bank	11.26%	11.21%
Minimum requirement for "Well Capitalized" institution	6.50%	6.50%
Tier 1 Risk-Based Capital Ratio		
Preferred Bank	11.26%	11.21%
Minimum requirement for "Well Capitalized" institution	8.00%	8.00%
Total Risk-Based Capital Ratio		
Preferred Bank	15.37%	14.64%
Minimum requirement for "Well Capitalized" institution	10.00%	10.00%

Contractual Obligations and Off-Balance Sheet Arrangements

The following table presents our contractual cash obligations, excluding deposits and unrecognized tax benefits, as of December 31, 2021:

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	$ 23,283	$ 4,010	$ 7,464	$ 4,910	$ 6,899
Data processing service agreements	2,511	1,001	1,510	—	—
Commitments to fund affordable housing partnerships	22,606	9,446	10,764	730	1,666
Subordinated debt	150,000	—	—	—	150,000
Total	$ 198,400	$ 14,457	$ 19,738	$ 5,640	$ 158,565

[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, 2021:

Off-balance sheet arrangements	Amount of Off-balance Sheet Arrangements 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	$1,081,963	$ 435,095	$ 532,265	$ 77,227	$ 37,376
Commercial letters of credit	8,759	8,759	—	—	—
Standby letter of credit	237,338	57,236	87,632	33,180	59,290
Total	$1,328,060	$ 501,090	$ 619,897	$ 110,407	$ 96,666

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 84.7% at December 31, 2021 compared to 90.8% at December 31, 2020. This decrease in our loan-to-deposit ratio was due to deposit growth outpacing loan portfolio growth between periods.

Borrowings from the FHLB are another source of funding for our loan and investment activities. At December 31, 2021, we had no outstanding FHLB borrowings, and we could borrow up to $188.2 million with collateral of specifically identified loans and securities. In addition, we have pledged securities with a fair value of

$139.4 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. As of December 31, 2021, the Bank was required to maintain the minimum stock requirement of $15.0 million of FHLB stock based on the volume of "membership assets" as defined by the FHLB. At December 31, 2021, the Bank held $15.0 million in FHLB stock. For the years ended December 31, 2021, 2020 and 2019, dividends from the FHLB totaled $0.9 million, $0.7 million and $0.9 million, respectively, representing an average yield of 6.00%, 5.00% and 7.00%, 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 32% at December 31, 2021 and 30% at December 31, 2020. 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. Market risk arises primarily from interest rate risk inherent in our lending and deposit taking activities. To that end, management actively monitors and manages interest rate risk exposure. The Bank does not have any market risk sensitive instruments entered into for trading purposes. We manage interest rate sensitivity by matching the re-pricing opportunities on earning assets to those on funding liabilities. Management uses various asset/liability strategies to manage the re-pricing characteristics of assets and liabilities designed to ensure that exposure to interest rate fluctuations is limited and within guidelines of acceptable levels of risk-taking.

Interest rate risk is addressed by our Investment Committee which is comprised of the Chief Executive Officer and members of our Board. 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 the 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 by the Investment Committee at least quarterly. Interest rate risk exposure is measured using interest rate sensitivity analysis to determine changes 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 the 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 quarterly 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

and 200 basis points and an immediate and sustained downward movement in interest rates of 100 and 200 basis points as of December 31, 2021. 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 200 basis points	$ 1,035,146	17.4%	17.3%	177.3%
Up 100 basis points	$ 958,408	8.7%	16.0%	164.2%
Base	$ 882,020	— %	14.6%	151.1%
Down 100 basis points	$ 801,675	(9.1)%	13.1%	137.3%
Down 200 basis points	$ 728,865	(17.4)%	11.8%	124.9%

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 management 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, 2021, 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 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, 2021

Interest Rate Scenario	Adjusted Net Interest Income	Percentage Change from Base	Net Interest Margin Percent	Net Interest Margin Change
		(Dollars in thousands)		
Up 200 basis points	$ 241,914	22.5%	4.02%	73
Up 100 basis points	$ 216,307	9.6%	3.60%	31
Base	$ 197,423	— %	3.29%	—
Down 100 basis points	$ 196,967	(0.2)%	3.28%	(1)
Down 200 basis points	$ 196,916	(0.3)%	3.28%	(1)

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 although the Bank does have branch lease obligations which are affected typically by cost of living adjustments. Until late last year, the inflation rate has remained low in the prior three years. However at year end 2021, the rate of inflation was accelerating and it is possible that this will have an effect on our lease costs as well as personnel expenses. In addition, higher inflation rates may 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. While inflation may be detrimental to many industries, banks will typically benefit from higher interest rates that are required to tamp down the rate of inflation. This is certainly the case for Preferred Bank, as demonstrated above, the Bank's balance sheet is quite asset sensitive, meaning that interest rates on assets will respond faster to higher market rates than will our liabilities.

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, 2021, 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, 2021. 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, 2021. 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, 2021. 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, 2021.

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, 2021, 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, 2021, 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, 2021 and 2020, 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, 2021, and the related notes (collectively referred to as the "financial statements") and our report dated March 14, 2022 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

Costa Mesa, California
March 14, 2022

ITEM 9B. *OTHER INFORMATION*

None

ITEM 9C. *DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS*

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 2022 Annual Meeting of Shareholders (the "2022 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) REPORTS" 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 2022 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 2022 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 2022 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 2022 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

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(a)(2) Financial Statement Schedules

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

(a)(3) Exhibits

Exhibit No.	Exhibit Description
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
3.4	Agreement of Merger by and between Preferred Bank and United International Bank
3.5	Amended and Restated Bylaws[11]
4.1	Common Stock Certificate[3]
4.2	Description of Capital Stock[11]
4.3	Form of Global Note[13]
10.1*	Management Incentive Bonus Plan[4]
10.2*	2004 Equity Incentive Plan[4]
10.3*	2014 Equity Incentive Plan[1]
10.4*	Revised Bonus Plan[1]
10.5*	Retention and Severance Agreement-Li Yu[1]
10.6	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]
10.7	Purchase Agreement dated June 10, 2021, by and among Preferred Bank, Piper Sandler & Co., as representative for the initial purchasers[13]
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
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) Reserved.

(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) Reserved

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

(11) Incorporated by reference from Registrant's Annual Report on Form 10-K filed with the Federal Deposit Insurance Corporation on March 2, 2020.

(12) Incorporated by reference from Registrant's Annual Report on Form 10-K filed with the Federal Deposit Insurance Corporation on March 15, 2021.

(13) Incorporated by reference from Registrant's Current Report on Form 8-K filed with the Federal Deposit Insurance Corporation on June 10, 2021.

(14) Incorporated by reference from Registrant's Current Report on Form 8-K filed with the Federal Deposit Insurance Corporation on June 16, 2021.

* 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, 2021 and 2020, 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, 2021, 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, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021, 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, 2021, 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 14, 2022 expressed an unqualified opinion.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Bank changed its method for accounting for credit losses effective January 1, 2020, due to the adoption of Financial Accounting Standards Board (FASB) Accounting Standards Codification No. 326, Financial Instruments - Credit Losses (ASC 326). The Bank adopted the new credit loss standard using the modified retrospective method provided in Accounting Standards Update No. 2016-13 such that prior period amounts are not adjusted and continue to be reported in accordance with previously applicable generally accepted accounting principles.

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 Credit Losses on Loans – Qualitative Factors

As of December 31, 2021, the Bank had a gross loan portfolio of $4.42 billion and a related allowance for credit losses (ACL) on loans of $60.0 million. As described in Note 1 to the consolidated financial statements, estimates of expected credit losses under the Bank's Current Expected Credit Losses (CECL) model are dependent largely on the availability of historical loan data based on a loan level risk approach using probability of default/loss given default (PD/LGD). The Bank uses a software solution to apply transition matrices to develop the PD/LGD approach.

The Bank estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, or term as well as for changes in environmental conditions, such as changes in unemployment rates, property values, or other relevant factors.

The Bank also makes adjustments in both quantitative and qualitative modeling to estimate the allowance. Such adjustments are intended to account for conditions that management believes directly impact loss potential in the portfolio that is not currently being captured in the model. To the extent possible, management accounts for the impact of quantitative factors on a pool by pool basis, and qualitative factors on a portfolio basis. Qualitative factors consist of nine factors including recent trends and economic conditions. The Bank applies environmental and general economic factors to their 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. 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 identified auditing the impact of the qualitative factors on the allowance for credit losses on loans to be a critical audit matter as it involved significant audit effort and especially subjective auditor judgment.

The primary procedures performed to address the critical audit matter included:

- Testing the operating effectiveness of controls over management's determination of qualitative factors, including relevance and reliability of data used as the basis for adjustments related to the qualitative factors and the reasonableness of management's judgments and assumptions used to develop the qualitative factors.
- Substantively testing management's process for developing the qualitative factors, which included testing the relevance and reliability of data used to develop factors and evaluating the reasonableness of management's judgments and assumptions.
- Analytically comparing trends within the qualitative factors to trends within the portfolio and other economic data for reasonableness, which included comparison to the prior period end and evaluating the reasonableness of the qualitative factors as of period end.

/s/ Crowe LLP

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

Costa Mesa, California
March 14, 2022

PREFERRED BANK
Consolidated Statements of Financial Condition
December 31, 2021 and 2020
(In thousands, except for shares)

	2021	2020
Assets		
Cash and due from banks	$ 1,030,610	$ 739,465
Federal funds sold	20,000	20,000
Cash and cash equivalents	1,050,610	759,465
Securities held-to-maturity, at amortized cost (with fair value of $13,928 and $6,711 at December 31, 2021 and 2020, respectively).	13,962	6,568
Securities available-for-sale, at fair value	451,911	239,682
Loans	4,424,992	4,035,394
Less allowance for credit losses	(59,969)	(63,426)
Less unamortized deferred loan fees, net	(6,316)	(4,574)
Net loans	4,358,707	3,967,394
Customers' liability on acceptances	10,188	3,596
Bank furniture and fixtures, net	10,533	11,825
Bank-owned life insurance	10,088	9,828
Accrued interest receivable	14,646	23,692
Investment in affordable housing partnerships	59,018	62,521
Federal Home Loan Bank ("FHLB") stock, at cost	15,000	15,000
Net deferred tax assets	26,674	24,466
Operating lease right-of-use assets	21,969	16,106
Other assets	2,997	3,498
Total assets	$ 6,046,303	$ 5,143,641
Liabilities and Shareholders' Equity		
Deposits:		
Demand	$ 1,305,692	$ 938,911
Interest-bearing demand	2,032,819	1,700,818
Savings	37,839	34,702
Time certificates of $250,000 or more	934,444	912,546
Other time certificates	914,717	855,503
Total deposits	5,225,511	4,442,480
Acceptances outstanding	10,188	3,596
Subordinated debt issuance, net of unamortized costs and premium of $2,242 and $666 at December 31, 2021 and 2020, respectively	147,758	99,334
Accrued interest payable	715	1,245
Commitments to fund investment in affordable housing partnership	22,606	30,715
Operating lease liabilities	22,861	18,682
Other liabilities	29,946	22,142
Total liabilities	5,459,585	4,618,194
Commitments and Contingencies – Note 10		
Shareholders' equity:		
Preferred stock. Authorized 25,000,000 shares; no shares issued and outstanding at December 31, 2021 and 2020.	—	—
Common stock, no par value. Authorized 100,000,000 shares; issued and outstanding 15,877,376 and 14,679,769 shares at December 31, 2021, respectively and 15,841,751 and 14,931,861 shares at December 31, 2020, respectively.	210,882	210,882
Treasury stock, at cost 1,197,607 and 909,890 shares at December 31, 2021 and 2020, respectively.	(75,207)	(57,502)
Additional paid-in capital	73,165	64,064
Retained earnings	372,952	300,969
Accumulated other comprehensive income	4,926	7,034
Total shareholders' equity	586,718	525,447
Total liabilities and shareholders' equity	$ 6,046,303	$ 5,143,641

See accompanying notes to the consolidated financial statements.

PREFERRED BANK
Consolidated Statements of Operations and Comprehensive Income
Years Ended December 31, 2021, 2020 and 2019
(In thousands, except share and per share data)

	2021	2020	2019
Interest income:			
Loans	$ 200,537	$ 203,093	$ 207,218
Investment securities, available for sale	10,417	10,954	18,542
Federal funds sold	81	215	961
Total interest income	211,035	214,262	226,721
Interest expense:			
Interest-bearing demand	5,964	7,761	17,956
Savings	57	72	54
Time certificates of $250,000 or more	6,299	13,767	19,505
Other time certificates	6,513	12,384	18,427
FHLB borrowings	—	—	19
Subordinated debt	6,325	6,124	6,123
Total interest expense	25,158	40,108	62,084
Net interest income before provision for credit losses	185,877	174,154	164,637
(Reversal of) provision for credit losses	(1,000)	26,000	3,450
Net interest income after (reversal of) provision for credit losses	186,877	148,154	161,187
Noninterest income:			
Fees and service charges on deposit accounts	2,113	1,627	1,579
Letter of credit fee income	3,914	3,284	3,821
BOLI income	391	381	370
Net (loss) gain on sale of loans	(640)	15	23
Net gain (loss) on sale or call of investment securities	41	(761)	—
Other	1,924	1,517	1,673
Total noninterest income	7,743	6,063	7,466
Noninterest expense:			
Salaries and employee benefits	42,606	39,563	38,807
Net occupancy expense	5,656	5,525	5,121
Business development and promotion expense	568	564	840
Professional services	4,127	4,078	4,417
Office supplies and equipment expense	1,879	1,845	1,853
Loss on sale of OREO and related expenses	—	6	1,220
Other	5,956	5,777	4,989
Total noninterest expense	60,792	57,358	57,247
Income before income taxes	133,828	96,859	111,406
Income tax expense	38,588	27,391	33,035
Net income	$ 95,240	$ 69,468	$ 78,371
Income allocated to participating shares	(8)	(134)	(490)
Dividends allocated to participating shares	(3)	(60)	(176)
Net income available to common shareholders	$ 95,229	$ 69,274	$ 77,705
Other comprehensive income:			
Unrealized net (loss) gain on securities available-for-sale	(2,889)	3,503	8,220
Less: reclassification adjustments included in net income	41	(761)	—
Other comprehensive (loss) income, before tax	(2,930)	4,264	8,220
Income tax (benefit) related to items of other comprehensive income (loss)	(822)	1,197	2,271
Other comprehensive (loss) income, net of tax	(2,108)	3,067	5,949
Comprehensive income	$ 93,132	$ 72,535	$ 84,320
Net income per share			
Basic	$ 6.41	$ 4.65	$ 5.16
Diluted	$ 6.41	$ 4.65	$ 5.16
Weighted-average common shares outstanding			
Basic	14,866,000	14,885,230	15,060,476
Diluted	14,866,000	14,885,230	15,060,476

See accompanying notes to the consolidated financial statements.

PREFERRED BANK
Consolidated Statements of Changes in Shareholders' Equity
Years Ended December 31, 2021, 2020 and 2019
(In thousands, except share and dividends declared per share data)

	Preferred Stock	Common Stock Shares	Common Stock Amount	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance as of January 1, 2019	$ —	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)
Stock-based compensation	—	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 loss, 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
Impact of adoption of ASU 2016-13	—	—	—	—	—	(5,634)	—	(5,634)
Cash dividend declared ($1.20 per share)	—	—	—	—	—	(17,915)	—	(17,915)
Common stock issued	—	1,638	—	—	—	—	—	—
Stock-based compensation	—	38,650	—	—	8,894	—	—	8,894
Restricted stock award forfeitures	—	(50)	—	—	—	—	—	—
Stock surrendered due to employee tax liability	—	(41,945)	—	(2,448)	—	—	—	(2,448)
Net income	—	—	—	—	—	69,468	—	69,468
Other comprehensive income, net of tax	—	—	—	—	—	—	3,067	3,067
Balance as of December 31, 2020	$ —	14,931,861	$210,882	$ (57,502)	$ 64,064	$ 300,969	$ 7,034	$ 525,447
Cash dividend declared ($1.57 per share)	—	—	—	—	—	(23,257)	—	(23,257)
Restricted stock award grant	—	35,625	—	—	—	—	—	—
Repurchase of common stock	—	(282,949)	—	(17,454)	(14)	—	—	(17,468)
Stock-based compensation	—	—	—	—	9,115	—	—	9,115
Restricted stock award forfeitures	—	(246)	—	—	—	—	—	—
Stock surrendered due to employee tax liability	—	(4,522)	—	(251)	—	—	—	(251)
Net income	—	—	—	—	—	95,240	—	95,240
Other comprehensive loss, net of tax	—	—	—	—	—	—	(2,108)	(2,108)
Balance as of December 31, 2021	$ —	14,679,769	$210,882	$ (75,207)	$ 73,165	$ 372,952	$ 4,926	$ 586,718

See accompanying notes to the consolidated financial statements.

PREFERRED BANK
Consolidated Statements of Cash Flows
Years Ended December 31, 2021, 2020 and 2019
(In thousands)

	2021	2020	2019
Cash flows from operating activities:			
Net income	$ 95,240	$ 69,468	$ 78,371
Adjustments to reconcile net income to net cash provided by operating activities:			
(Reversal of) provision for credit losses	(1,000)	26,000	3,450
Amortization of deferred loan fees, net	(3,147)	(2,957)	(2,062)
(Gain) loss on sale and call of securities available-for-sale	(41)	761	—
Net loss on sale of other real estate owned	—	—	1,333
Amortization of investment securities discounts and premiums, net	956	781	367
Amortization of investment in affordable housing partnerships	3,503	5,607	5,706
Accretion of discount on borrowings	(308)	(56)	(63)
Amortization of subordinated debt issuance costs	1,101	179	179
Loss on disposition of bank premises and equipment	—	—	7
Loans originated for sale	(510)	(800)	(2,353)
Loss (gain) on sale of loans	640	(15)	(23)
Proceeds from the sale of loans originated for sale	530	815	2,371
Depreciation and amortization	1,895	1,909	1,342
Stock-based compensation expense	9,115	8,894	7,760
Income from bank owned life insurance, net	(260)	(257)	(254)
Deferred tax benefit	(1,386)	(3,736)	(2,193)
Change in accrued interest receivable and other assets	7,864	(2,280)	(1,379)
Change in accrued interest payable and other liabilities	5,442	(548)	(6,052)
Net cash provided by operating activities	119,634	103,765	86,507
Cash flows from investing activities:			
Proceeds from maturities and redemptions and principal pay-downs of securities held-to-maturity	2,804	678	630
Proceeds from maturities and redemptions and principal pay-downs of securities available-for-sale	40,451	91,639	65,776
Purchase of securities held-to-maturity	(10,340)	—	—
Purchase of securities available-for-sale	(263,442)	(176,935)	(116,083)
Proceeds from sale of securities available-for-sale	7,058	89,040	—
Purchase of investments in affordable housing partnerships	(8,109)	(8,420)	(10,381)
Purchase of FHLB stock	—	(1,899)	(1,168)
Proceeds from sale of other real estate owned	—	—	10,248
Proceeds from recoveries of written off loans	57	203	943
Net increase in loans	(412,544)	(318,577)	(406,485)
Proceeds from the sale of loans	24,661	7,001	5,504
Proceeds from sale of premises and equipment	—	—	1
Purchase of bank premises and equipment	(603)	(1,498)	(6,088)
Net cash used in investing activities	(620,007)	(318,768)	(457,104)

Continued on next page

PREFERRED BANK

Consolidated Statements of Cash Flows (continued)
Years Ended December 31, 2021, 2020 and 2019
(In thousands)

	2021	2020	2019
Cash flows from financing activities:			
Increase in deposits	783,031	459,186	343,609
Decrease in FHLB borrowings	—	—	(1,299)
Repayment of subordinated debt	(100,000)	—	—
Proceeds from issuance of subordinated debt	147,631	—	—
Purchase of treasury stock	(17,719)	(2,448)	(20,540)
Cash dividends paid	(21,425)	(17,915)	(18,288)
Net cash provided by financing activities	791,518	438,823	303,482
Net increase (decrease) in cash and cash equivalents	291,145	223,820	(67,114)
Cash and cash equivalents at beginning of year	759,465	535,645	602,759
Cash and cash equivalents at end of year	$ 1,050,610	$ 759,465	$ 535,645
Supplemental disclosure of cash flow information			
Cash paid during the period for:			
Interest	$ 25,688	$ 42,187	$ 65,599
Income taxes	$ 29,292	$ 20,909	$ 34,540
Noncash activities:			
Common stock dividend declared, but not paid	$ 6,312	$ 4,480	$ 4,481
Loans to facilitate the sale of other real estate owned	$ —	$ —	$ 29,000
Operating lease liabilities arising from right-of-use asset	$ 4,694	$ —	$ 20,497
Transfer of loans held for investment to loans held for sale	$ 25,321	$ 7,001	$ 5,499
Increase in allowance for credit losses on loans from adoption of ASU 2016-13	$ —	$ 8,000	$ —
New commitments fund affordable housing investments	$ 4,705	$ —	$ —

See accompanying notes to consolidated financial statements.

Note 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.

COVID-19 and Recent Events

The COVID-19 pandemic has negatively impacted the global economy, disrupted global supply chains, affected equity market valuations, and created significant volatility and disruption in financial markets, although economic growth and employment levels had largely rebounded by the end of 2021. Similarly, the initial imposition of temporary closures of many businesses and the institution of social distancing and sheltering in place requirements in many states and communities have been relaxed or rescinded as the COVID-19 pandemic has become more endemic.

The Bank continues to monitor and adhere to all federal, state, county and city mandates as it relates to the ongoing COVID-19 pandemic. We have resumed branch operating hours closer to those in effect pre-pandemic and beginning mid-June 2021, we have brought back our employees back to a majority of our offices full time. The Bank has taken various actions to support our customers and the communities we collectively serve, including modifying outstanding loans and waiving certain deposit service charges. Loans that were modified via principal and/or interest deferrals were done so in accordance with Section 4013 of the CARES Act and the Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus and have not been categorized as troubled debt restructurings. We took part in the Paycheck Protection Program ("PPP") created by the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), which officially ended on May 31, 2021. The Federal Reserve established the Main Street Lending Program to support lending to small and medium-sized for profit businesses and nonprofit organizations that were in sound financial condition before the onset of the COVID-19 pandemic. The program operates through the five facilities and we participated in the Main Street New Loan Facility ("MSNLF") in the third quarter of 2020. The MSLP terminated on January 8, 2021.

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.

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.

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.

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.

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. 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, 2021 and 2020, there were $14.0 million and $6.6 million, respectively, classified in the held-to-maturity portfolio. The Bank does not own any securities classified as equity or trading securities.

At each reporting date, the Bank evaluates 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 impaired. If it is determined that the securities are in an unrealized loss position, the Bank will assess whether the impairment is credit-related or non-credit-related and record the credit component through ACL 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.

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 credit losses for loans 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.

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.

Allowance for Credit Losses on Loans

We evaluate our allowance for credit losses quarterly. The ACL is based upon management’s assessment of various factors affecting the collectability of the loans using the relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, or term as well as for changes in environmental conditions, such as changes in unemployment rates, property values, or other relevant factors.

The Bank adopted the new accounting standard under the Current Expected Credit Losses (CECL) on January 1, 2020. The methodology adopted was dependent largely on the availability of historical loan data based on loan level risk approach using Probability of Default / Loss Given Default (PD/LGD). We selected a software solution to help apply a transition matrices to develop the PD / LGD approach. This method assesses historical loss data to estimate expected credit losses over the historical, current, and forecast periods that represents the life of loans under CECL. The considerations to establish a look back period are influenced by data availability, historical economic cycles, changes to lending practices, improvement in credit risk management and oversight control over the years. Based on our assessment, we have decided use a look back period of ten years beginning from January, 2011. For the forecasted periods, Management has considered the generally accepted forecast periods in the industry and settled on a more near-term outlook of twelve months to be reasonable and supportable at the present time. Management has also considered a reversion period and selected an industry acceptance equal to six months of Management’s reasonable and supportable assumption period. Accrued interest is not considered in computed expected credit losses.

The loan portfolio is segmented into pools with similar characteristics, primarily based on loan product type (collateral driven). The Bank examined the loan portfolio and the current loan segmentations reasonably reflect the homogenous risk characteristics related to each loan pool. The loan portfolio is segmented into six main categories: commercial, international trade finance, construction, real estate, residential mortgage and cash secured. Within these categories, we further segment into 14 collective pools with similar risk characteristics. Management has examined the current 14 loan pools and concluded the segmentations reasonably reflect homogenous risk characteristics related to each loan pool. The Bank remains focused on commercial loan products which have comprised the majority of the loan portfolio. The loan products have not changed over the years before or after the last economic cycle. The existing 14 loan pools are considered appropriate for use to estimate allowance for credit losses (“ACL”). The bank has originated a pool loans under the PPP program to provide temporary economic relief to small businesses that are 0% risk weighted as they are fully guaranteed by the SBA.

Loans are individually evaluated for credit losses when they no longer exhibit similar risk characteristics with other loans in the portfolio. We individually review and analyze non-accrual loans, classified loans, and TDR loans. Collateral dependent loans are loans for which the repayment is expected to be provided substantially through the operation or sale of the collateral when the borrower, based on management's assessment, is experiencing financial difficulty as of the reporting date. Collateral dependent loans are typically analyzed 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; i.e. loan sale market price or present value of expected future cash flows discounted at the loan’s effective interest rate.

The Bank also makes adjustments, if warranted, in both quantitative and qualitative modeling to estimate the allowance. Such adjustments are intended to account for conditions that management believes directly impact loss potential in the portfolio that is not currently being captured in the model. To the extent possible, management

accounts for the impact of quantitative factors on a pool by pool basis, and qualitative factors on a portfolio basis. Qualitative factors consisted of nine factors including 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. The Bank aggregates the sums of the estimates of probable loss for each category with the specific individually evaluated reserves to arrive at the total estimated allowance for credit losses

Prior to the adoption of ASU 2016-13 on January 1, 2020, the allowance for loan losses was maintained at a level considered adequate to provide for losses that are probable and reasonably estimable ("incurred loss model"). The adequacy of the allowance for loan losses was based on management's evaluation of the collectability of the loan and portfolio and that evaluation was based on historical loss experience and other significant factors. Specifically, our previous allowance methodology contained 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 were 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 were not already included in impaired analysis based on economic and other qualitative factors that indicate probable losses were incurred.

Reserve for Undisbursed Loan Commitments

The Bank maintains an allowance for credit losses for undisbursed loan commitments. Management estimates the amount by applying the loss factors used in our allowance for credit losses on loans using the current expected credit losses methodology to its estimate of the expected usage of undisbursed commitments for each loan type. Provisions for credit losses for undisbursed loan commitments are recorded in other expense. The allowance for credit losses on undisbursed loan commitments totaled $1.2 million at December 31, 2021 and 2020, respectively

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 credit 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.

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.

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.

Comprehensive Income

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

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.

Earnings per Share

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

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.

Leases

The Bank accounts for its leases in accordance with ASC 842 and records a lease liability for future lease obligations as well an asset representing the right to use the underlying leased asset. Contractual payments are discounted using the rate implicit in the lease or using the Bank's estimated incremental borrowing rate, which is the rate of interest it would pay on a secured borrowing over a similar term. Lease liabilities are reduced by the Bank's periodic lease payments net of interest accretion. Right-of-use assets for operating leases are amortized over the term of the associated lease by amounts that represent the difference between periodic straight-line lease expense and periodic interest accretion in the related liability to make future lease payments.

Bank-Owned Life Insurance (BOLI)

In order to economically fund its obligation under the prior 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. Bank-owned life insurance policies are carried at their cash surrender value. Income from BOLI is recognized when earned. At December 31, 2021 and 2020, the cash surrender value of the policies totaled $10.1 million and $9.8 million, respectively. During 2021, 2020 and 2019, the income on the insurance policies was $391,000, $381,000 and $370,000, respectively.

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.

Recently Issued Accounting Standards

Adoption of New Accounting Standards

On January 1, 2020, the Bank adopted *ASU 2016-13 Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (“CECL”) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor in accordance with Topic 842 on leases. In addition, ASC 326 made changes to the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities management does not intend to sell or believes that it is more likely than not they will be required to sell.

The Bank adopted ASC 326 using the modified retrospective method for all of its financial assets measured at amortized cost, including securities held-to-maturity, net loans and leases, and reserve for unfunded commitments. Results for reporting periods beginning after January 1, 2020 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The Bank recorded a net decrease to retained earnings of $5.6 million, net of tax as of January 1, 2020 for the cumulative effect of adopting ASC 326. There was no impact on off balance sheet, held-to-maturity (“HTM”) debt securities and available-for-sale (“AFS”) debt securities.

Under the plan adopted by regulation in February 2019, it allowed any banking organization to phase in over a three-year period the day-one adverse effect of CECL on their regulatory capital ratios, with the three-year transition beginning that banking organization’s otherwise applicable implementation year. Due to the effect of the COVID-19 pandemic, the Agencies have opted to delay the capital effects of the CECL for banking organizations subject to the 2020 implementation year. Under the interim final rule, with respect to banking organizations previously required to adopt the CECL in 2020, the Agencies are providing the option to disregard for a two-year period (i.e., 2020 and 2021) the estimated impact of CECL on the banking organization’s regulatory capital, followed by a three-year transition period to phase into full compliance with respect to any capital benefit provided during the initial two-year delay. Thus, for 2020 and 2021, banking organizations originally subject to 2020 implementation may continue to calculate capital as if the prior “incurred loss” methodology were still in effect. So that banking organizations are not required to maintain two methodologies over this time period (incurred loss and CECL), the interim final rule allows banking organizations to estimate the impact on capital using a “25% scaling factor,” as applied to CECL calculated amounts. Capital amounts adjusted during 2020 and 2021 would then be restored over a three-year period, from 2022 through 2024. The Bank did not opt in to phase in. The following table summarized the impact of the adoption of ASU 2016-13 on the allowance for credit losses (“ACL”) on January 1, 2020:

	January 1, 2020		
	As Reported Under ASC 326	Pre- ASC 326 Adoption	Impact of ASC 326 Adoption
Assets:			
ACL – debt securities held-to-maturity:			
Mortgage-backed securities – residential	$ —	$ —	$ —
ACL– debt securities held-to-maturity	$ —	$ —	$ —
ACL on loans:			
Real estate mortgage	$ 15,106	$ 16,871	$ (1,765)
Real estate construction	1,421	2,429	(1,008)
Commercial & industrial	26,317	14,795	11,522
Trade finance	73	274	(201)
Consumer & other	4	6	(2)
Unallocated	(91)	455	(546)
ACL on loans	$ 42,830	$ 34,830	$ 8,000

	January 1, 2020		
	As Reported Under ASC 326	Pre- ASC 326 Adoption	Impact of ASC 326 Adoption
Liabilities:			
ACL – undisbursed loan commitments	$ 1,190	$ 1,190	$ —
Total ACL	$ 44,020	$ 36,020	$ 8,000

* No expected credit losses on held-to-maturities debt securities as they are issued by U.S. government agencies.
** No ACL on available-for-sale debt securities.

ASU No. 2020-08, *Codification Improvements to Subtopic 310-20, Receivables — Nonrefundable Fees and Other Costs*, states that an entity should reevaluate whether a callable debt security is within the scope of Paragraph 310-20-35-33 for each reporting period. The standard is not expected to have a significant effect on current practice or create a large administrative cost for most entities. The amendments in the standard are intended to make FASB's Accounting Standards Codification easier to understand and apply. For public business entities, the amendments take effect for fiscal years, and interim periods within those fiscal years, beginning after Dec. 15, 2020. Early application is not permitted. All entities are required to apply the amendments on a prospective basis as of the beginning of the period of adoption for existing or newly purchased callable debt securities. The standard does not change the effective dates of ASU No. 2017-08, Receivables — Nonrefundable Fees and Other Costs (Subtopic 310-20): *Premium Amortization on Purchased Callable Debt Securities*. The adoption of this ASU did not have a material impact on the Bank's financial statements.

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.

ASU 2020-04, *Reference Rate Reform (Topic 848), Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. In January 2021, the FASB clarified the scope of that guidance with the issuance of ASU 2021-01, "Reference Rate Reform: Scope." This ASU provides optional guidance for a limited period of time to ease the burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. This guidance applies to companies meeting certain criteria that have contracts, hedging relationships and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. This standard is effective for us immediately and may be applied prospectively to contract modifications made and hedging relationships entered into or evaluated on or before December 31, 2022. The adoption of this ASU did not have an impact on the Bank's financial statements. The Bank considers SOFR to be its likely preferred

reference as an alternative to LIBOR. New originations are being made using SOFR, as well as the Bank's typical use of Prime Rate also. The Bank may also consider the use of other alternative reference rates based on marketplace demands and the needs of its customers.

Note 2 – Securities Held-to-Maturity and Available-for-Sale

Financial instruments that potentially subject the Bank to concentrations of credit risk consist primarily of loans and investments. The Bank monitors its exposure to such risks and the concentrations may be impacted by changes in 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 $14.0 million at December 31, 2021 and $6.6 million at December 31, 2020. 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, 2021 and December 31, 2020:

	December 31, 2021			
	Amortized cost	Gross unrecognized gains	Gross unrecognized losses	Estimated fair value
	(In thousands)			
Mortgage-backed securities	$ 13,962	$ 37	$ (71)	$ 13,928

	December 31, 2020			
	Amortized cost	Gross unrecognized gains	Gross unrecognized losses	Estimated fair value
	(In thousands)			
Mortgage-backed securities	$ 6,568	$ 143	$ —	$ 6,711

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, 2021:

	December 31, 2021					
	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)					
Mortgage-backed securities	$ 9,280	$ (71)	$ —	$ —	$ 9,280	$ (71)
Total held-to-maturity	$ 9,280	$ (71)	$ —	$ —	$ 9,280	$ (71)

At December 31, 2020, our held-to maturity investment securities have not been in a continuous unrecognized loss position.

The amortized cost and estimated fair value of securities held-to-maturity at December 31, 2021 and 2020, by contractual maturity, are shown below. Investment securities are classified in accordance 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,			
	2021		2020	
	Amortized cost	Estimated fair value	Amortized cost	Estimated fair value
	(In thousands)			
Due after five years through ten years	$ 1,187	$ 1,207	$ 1,693	$ 1,754
Due after ten years	12,775	12,721	4,875	4,957
Total	$ 13,962	$ 13,928	$ 6,568	$ 6,711

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, 2021 and 2020.

	December 31, 2021			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
	(In thousands)			
Asset-backed securities	$ 3,362	$ 19	$ (19)	$ 3,362
Corporate notes	142,279	5,386	(362)	147,303
U.S. Agency mortgage-backed securities	14,991	122	(222)	14,891
Collateralized mortgage obligations	190,491	430	(234)	190,687
Municipal securities	78,288	2,509	(132)	80,665
U.S. Agency principal-only strip securities	553	—	—	553
SBA securities	170	—	(1)	169
U.S. Treasury Bill	14,931	—	(650)	14,281
Total securities available-for-sale	$ 445,065	$ 8,466	$ (1,620)	$ 451,911

	December 31, 2020			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
	(In thousands)			
Asset-backed securities	$ 3,534	$ —	$ (84)	$ 3,450
Corporate notes	123,358	7,180	(719)	129,819
U.S. Agency mortgage-backed securities	11,359	241	(2)	11,598
Collateralized mortgage obligations	5,064	27	(30)	5,061
Municipal securities	65,725	3,104	—	68,829
U.S. Agency principal-only strip securities	729	27	—	756
SBA securities	238	—	(1)	237
U.S. Treasury Bill	19,898	34	—	19,932
Total securities available-for-sale	$ 229,905	$ 10,613	$ (836)	$ 239,682

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, 2021 and 2020 are as follows:

	December 31, 2021					
	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	$ —	$ —	$ 1,244	$ (19)	$ 1,244	$ (19)
Corporate notes	29,882	(254)	2,781	(108)	32,663	(362)
U.S. Agency mortgage-backed securities	8,318	(213)	465	(9)	8,783	(222)
Collateralized mortgage obligations	140,219	(234)	—	—	140,219	(234)
Municipal securities	9,794	(132)	—	—	9,794	(132)
SBA securities	—	—	169	(1)	169	(1)
U.S. Treasury Bill	—	—	14,281	(650)	14,281	(650)
Total securities available-for-sale	$ 188,213	$ (833)	$ 18,940	$ (787)	$ 207,153	$ (1,620)

	December 31, 2020					
	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	$ 2,077	$ (16)	$ 1,374	$ (68)	$ 3,451	$ (84)
Corporate notes	14,016	(184)	6,432	(535)	20,448	(719)
U.S. Agency mortgage-backed securities	1,543	(2)	—	—	1,543	(2)
Collateralized mortgage obligations	—	—	1,187	(30)	1,187	(30)
SBA securities	112	—	125	(1)	237	(1)
Total securities available-for-sale	$ 17,748	$ (202)	$ 9,118	$ (634)	$ 26,866	$ (836)

Accrued interest on investment securities totaled $2.2 million and $2.1 million at December 31, 2021 and 2020 and is included in accrued interest receivable in the consolidated balance sheets.

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, 2021.

As of December 31, 2021, the Bank owned 32 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 $2.8 million. Management performed an analysis on the issuer of these securities 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 these securities will recover as interest rates normalize. The intent of the Bank is to hold these securities 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 securities prior to recovery of the amortized cost basis.

The Bank owns 38 available-for-sale mortgage-backed securities, 3 of which were in an unrealized loss position for longer than 12 months as of December 31, 2021. The total amortized cost of these securities was $474,000 and their fair value was $465,000. 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 these securities 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 securities prior to recovery of the amortized cost basis.

As of December 31, 2021, 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 $1.3 million and its fair value was $1.2 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 80 available-for-sale municipal securities, none of which were in an unrealized loss position as of December 31, 2021.

As of December 31, 2021 the Bank owns 1 available-for-sale U.S. Treasury Bill, which was in an unrealized loss position for longer than 12 months. The total amortized cost of this security was $14.9 million and its fair value was $14.3 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.

As of December 31, 2021, the Bank owned 15 collateralized mortgage obligations (“CMO”), none of which were in an unrealized loss position as of December 31, 2021.

As of December 31, 2021, the Bank owned 2 available-for-sale SBA securities, both of which were in unrealized loss positions for longer than 12 months. The total amortized cost of these securities was $170,000 and their fair value was $169,000. 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 these securities will recover as interest rates normalize. The intent of the Bank is to hold these securities 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 securities prior to recovery of the amortized cost basis.

As of December 31, 2021, the Bank owned one U.S. Agency principal-only strip and the amortized cost was equal to the fair value.

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 sales and calls of securities available-for-sale totaled $27.2 million, $79.2 million and $60.0 million for the years ended December 31, 2021, 2020 and 2019, respectively. Realized gains for the years ended December 31, 2021, 2020 and 2019 totaled $41,000, zero and zero, respectively. Realized losses for sales and calls of securities totaled zero, $761,000, and zero for the years ended December 31, 2021, 2020 and 2019, respectively. Investment securities having a fair value of approximately $220.0 million and $184.1 million were pledged to secure governmental deposits, treasury tax and loan deposits, borrowing lines from the Federal Reserve Bank and FHLB as of December 31, 2021 and 2020, respectively. At December 31, 2021 and 2020, approximately $45.1 million and $35.2 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, 2021 and 2020, by contractual maturity, are shown below. Investment securities are classified in accordance 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,			
	2021		2020	
	Amortized cost	Estimated fair value	Amortized cost	Estimated fair value
	(In thousands)			
Due in one year or less	$ 2	$ 2	$ 4,000	$ 4,000
Due after one year through five years	42,277	44,261	41,146	43,870
Due after five years through ten years	114,419	117,300	105,191	109,468
Due after ten years	288,367	290,348	79,568	82,344
Total	$ 445,065	$ 451,911	$ 229,905	$ 239,682

The Bank had no debt securities that have been credit impaired as of or during the years ended December 31, 2021, 2020, or 2019.

Note 3 – Loans and Allowance for Credit Losses on Loans

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

The loans portfolio as of December 31, 2021 and 2020 is summarized as follows:

	2021	2020
	(In thousands)	
Real estate mortgage	$ 2,803,349	$ 2,435,274
Real estate construction	333,324	363,857
Commercial	1,234,425	1,143,829
SBA	42,467	70,234
Trade finance	11,309	22,161
Consumer & other	118	39
Gross loans	4,424,992	4,035,394
Less:		
Allowance for credit losses	(59,969)	(63,426)
Deferred loan fees, net	(6,316)	(4,574)
Total loans, net	$ 4,358,707	$ 3,967,394

Real estate loans are secured by retail, industrial, office, special purpose, and residential single and multi-family properties and comprise 71% of our loan portfolio as of December 31, 2021. The Bank seeks 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.

Accrued interest on loans totaled $12.5 million and $21.5 million at December 31, 2021 and 2020 and is included in accrued interest receivable in the consolidated balance sheets.

The Bank had $14.8 million of non-accrual loans at December 31, 2021 compared to $20.5 million at December 31, 2020. These loans had interest due, but not recognized, of approximately $2.1 million and $1.4 million in 2021 and 2020, respectively. The Bank had no loans past due 90 or more days and still accruing interest as of December 31, 2021 and 2020.

The following tables depict the Bank's recorded investment in past due loans held for investment by class as of December 31, 2021 and 2020:

	Accruing Loans							
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total	Non-accrual Loans	Total Loans
December 31, 2021	*(in thousands)*							
Loan Class:								
Real estate mortgage								
Residential	$ —	$ —	$ —	$ —	$ 538,006	$ 538,006	$ 5,911	$ 543,917
Commercial	—	—	—	—	2,257,313	2,257,313	2,119	2,259,432
Total real estate mortgage	—	—	—	—	2,795,319	2,795,319	8,030	2,803,349
Real estate construction								
Residential	—	—	—	—	130,842	130,842	—	130,842
Commercial	—	—	—	—	202,482	202,482	—	202,482
Total real estate construction	—	—	—	—	333,324	333,324	—	333,324
Commercial and industrial	3	—	—	3	1,227,628	1,227,631	6,794	1,234,425
SBA	—	—	—	—	42,467	42,467	—	42,467
Trade finance	—	—	—	—	11,309	11,309	—	11,309
Consumer & other	—	—	—	—	118	118	—	118
Total as of December 31, 2021	$ 3	$ —	$ —	$ 3	$4,410,165	$4,410,168	$ 14,824	$4,424,992

	Accruing Loans							
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total	Non-accrual Loans	Total Loans
December 31, 2020	*(in thousands)*							
Loan Class:								
Real estate mortgage								
Residential	$ —	$ —	$ —	$ —	$ 506,222	$ 506,222	$ 17,568	$ 523,790
Commercial	—	—	—	—	1,911,484	1,911,484	—	1,911,484
Total real estate mortgage	—	—	—	—	2,417,706	2,417,706	—	2,435,274
Real estate construction								
Residential	—	—	—	—	148,825	148,825	—	148,825
Commercial	—	—	—	—	215,032	215,032	—	215,032
Total real estate construction	—	—	—	—	363,857	363,857	—	363,857
Commercial and industrial	4,140	—	—	4,140	1,136,728	1,140,868	2,961	1,143,829
SBA	—	—	—	—	70,234	70,234	—	70,234
Trade finance	—	—	—	—	22,161	22,161	—	22,161
Consumer & other	—	—	—	—	39	39	—	39
Total as of December 31, 2020	$ 4,140	$ —	$ —	$ 4,140	$4,010,725	$4,014,865	$ 20,529	$4,035,394

The following tables depict the Bank's non-accrual loans with and without an allowance for credit losses and related interest income recognized by class as of December 31, 2021 and 2020:

	Nonaccrual Loans				
	without ACL	with ACL	Total	Loans 90+ Days Past Due and Accruing Interest	Interest Income Recognized
December 31, 2021					
Real estate mortgage:					
Residential	$ 5,911	$ —	$ 5,911	$ —	$ 12
Commercial	2,119	—	2,119	—	95
Total R/E mortgage	8,030	—	8,030	—	107
Commercial & industrial	2,000	4,794	6,794	—	143
Total	$ 10,030	$ 4,794	$ 14,824	$ —	$ 250

	Nonaccrual Loans				
	without ACL	with ACL	Total	Loans 90+ Days Past Due and Accruing Interest	Interest Income Recognized
December 31, 2020					
Real estate mortgage:					
Residential	$ 2,592	$ 14,976	$ 17,568	$ —	$ 206
Commercial	—	—	—	—	—
Total R/E mortgage	2,592	14,976	17,568	—	206
Commercial & industrial	129	2,832	2,961	—	100
Total	$ 2,721	$ 17,808	$ 20,529	$ —	$ 306

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.

The Bank has implemented various loan modification programs to provide its borrowers relief from the economic impacts of the COVID-19 pandemic. As provided under Section 4013 of the CARES Act, as amended by the Consolidated Appropriations Act, 2021 ("CAA"), the Bank has elected not to apply TDR classification to any COVID-19 pandemic related loan modifications that were executed after March 1, 2020 and earlier of (A) 60 days after the national emergency termination date concerning the COVID-19 pandemic outbreak declared by the President on March 13, 2020 under the National Emergencies Act, or (B) January 1, 2022 to borrowers who were current as of December 31, 2019. For loans that were modified in response to the COVID-19 pandemic that do not meet the CARES Act criteria (e.g., current payment status as of December 31, 2019), the Bank has applied the guidance included in the "*Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customer Affected by the Coronavirus (Revised)*" (the "Interagency Statement") issued by the federal banking regulators on April 7, 2020. The Interagency Statement states that short-term loan modifications (i.e. six months or less) are not TDRs if they were made on a good faith basis in response to the COVID-19 pandemic to

borrowers who were current as of the implementation date of a loan modification program. The aging on the delinquency of the loans modified under the CARES Act, as amended by the CAA, and the Interagency Statement is frozen at the time of the modification. Interest income continues to be recognized over the accommodation period.

The majority of the COVID-19 pandemic-related loan modifications primarily consisted of payment deferrals three to six months or less in duration, in the form of principal payment deferrals or principal and interest payment deferrals. Other forbearance programs consisted of interest rate concessions. The deferred payments are either repaid at contractual maturity, or over the remaining contractual term of the loan.

We modified approximately 308 loans totaling $588.0 million net of the paid-off amount under the COVID-19 pandemic-related guidance by the CARES Act and the Interagency Statement and all of these loans have resumed to full payment status as of December 31, 2021. At December 31, 2020, the Bank had 16 loans totaling $28.0 million in COVID-19 pandemic-related modifications that remained under their modified terms and were not classified as TDRs.

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 three performing restructured loans totaling $25.2 million and one non-performing restructured loan of $4.9 million as of December 31, 2021. As of December 31, 2020, there was only one restructured loan with a balance of $23.0 million that was performing. There were no balance reductions or rate concessions associated with the renewals designated as TDRs during the years ended December 31, 2021, 2020 and 2019.

The following table presents TDR that have been modified during the twelve months ended December 31, 2021 and 2020:

	December 31, 2021			December 31, 2020		
	# 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:						
Real estate mortgage:						
Residential	1	14,946	4,909	—	—	—
Commercial	—	—	—	1	23,000	23,000
Commercial and industrial	2	2,311	2,181	—	—	—
Total	3	17,257	7,090	1	23,000	23,000

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, 2021, 2020 or 2019.

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 credit losses. If the loan is a performing TDR the deficiency is included in the specific allowance, as appropriate. As of December 31, 2021, there was three TDRs that were performing and had an aggregate associated allowance

for credit losses of $99,000. At December 31, 2021, the Bank had no of commitments to lend additional funds to debtors whose loans were restricted to TDR.

During 2021, $25.3 million were transferred from held for investment to held for sale which did not result in a gain or loss. During 2020, $7.0 million were transferred from held for investment to held for sale which did not result in a gain or loss. 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. No loans remained held for sale as of December 31, 2021.

The following table details activity in the allowance for credit losses by portfolio segment for the year ended December 31, 2021. 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		Commercial		Trade	Consumer		
2021	**Residential**	**Commercial**	**Residential**	**Commercial**	**& Industrial**	**SBA**	**Finance**	**& Other**	**Unallocated**	**Total**
Balance at beginning of period	$ 5,892	$ 15,414	$ 568	$ 932	$ 39,721	$ —	$ 81	$ 1	$ 817	$ 63,426
(Reversal of) provision for credit losses	(2,408)	7,957	(20)	(81)	(6,228)	—	(35)	2	(187)	(1,000)
Loans charged off	(817)	—	—	—	(1,697)	—	—	—	—	(2,514)
Recoveries	—	—	—	—	57	—	—	—	—	57
Net (charge offs) recoveries	(817)	—	—	—	(1,640)	—	—	—	—	(2,457)
Balance at end of period	$ 2,667	$ 23,371	$ 548	$ 851	$ 31,853	$ —	$ 46	$ 3	$ 630	$ 59,969

The following table details activity in the allowance for credit losses by portfolio segment for the year ended December 31, 2020. 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		Commercial		Trade	Consumer		
2020	**Residential**	**Commercial**	**Residential**	**Commercial**	**& Industrial**	**SBA**	**Finance**	**& Other**	**Unallocated**	**Total**
					(In thousands)					
Balance at beginning of period	$ 3,760	$ 13,111	$ 1,079	$ 1,350	$ 14,795	**$ —**	$ 274	$ 6	$ 455	$ 34,830
Adoption of 2016-13	(1,350)	(415)	(486)	(522)	11,522	—	(201)	(2)	(546)	8,000
Provision for (reversal of) credit losses	5,389	2,718	(25)	(90)	17,096	—	7	(3)	908	26,000
Loans charged off	(1,907)	—	—	—	(3,700)	—	—	—	—	(5,607)
Recoveries	—	—	—	194	8	—	1	—	—	203
Net (charge offs) recoveries	(1,907)	—	—	194	(3,692)	—	1	—	—	(5,404)
Balance at end of period	$ 5,892	$ 15,414	$ 568	$ 932	$ 39,721	$ —	$ 81	$ 1	$ 817	$ 63,426

The following table represents the amortized cost basis of collateral-dependent loans by class of loans as of December 31, 2021.

	Real Estate	**Business Assets**	**Total**
Real Estate-Mortgage:			
Residential	$ 5,911	$ —	$ 5,911
Commercial	25,119	—	25,119
Commercial and industrial	—	5,731	5,731
TOTAL	$ 31,030	$ 5,731	$ 36,761

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 credit losses on loans. The first four grades in the system are considered pass, whereas the fifth grade is a transition grade known as "special mention." The other three grades (6-8) range from a "substandard" to "doubtful" to a "loss" category. Loans graded as "loss" are charged-off in the period so rated. We use grades 6 and 7 of our loan grading system to identify potential problem assets for individual analysis. The grade on each individual loan rated in the first four grades is reviewed on a regular basis by the loan officer responsible for monitoring the credit whereas the grade for loans rated special mention, substandard, or doubtful are reviewed at least quarterly for appropriateness. Credit Administration reviews a sample of loans assigned a grade in the first four grades and all loans assigned a grade of 5 or above each quarter for appropriateness. Additionally, loan grades are subject to further review by our Chief Credit Officer, Audit Committee (via contracted external loan reviews), Director's Loan Committee, and our Board of Directors (our "Board"). In reviewing loans and evaluating the adequacy of the allowance, there are several risk characteristics considered. Those most relevant to the major portfolio segments includes vacancy and lease rates on commercial real estate, state of the general housing market, home prices, commercial real estate values and the impact of economic conditions and employment levels on the various businesses in our market area.

The following table presents risk grades and classified loans by recorded investment in class of loan by origination year as of December 31, 2021 and 2020. Classified loans include loans in risk grades 6 and 7, which correlate to substandard and doubtful for risk classification purposes.

	Term Loans by Origination Year								
	2021	**2020**	**2019**	**2018**	**2017**	**Prior**	**Total**	**Revolving Loans**	**Total**
December 31, 2021:									
Real estate mortgage									
Pass	$ 613,516	$ 416,597	$ 312,079	$ 162,244	$ 276,613	$ 391,222	$ 2,172,271	$ 570,196	$ 2,742,467
Special mention	-	-	4,955	-	-	23,228	28,183	487	28,670
Substandard	-	-	-	25,816	4,909	305	31,030	1,182	32,212
Doubtful	-	-	-	-	-	-	-	-	-
Real estate construction									
Pass	-	-	-	-	-	-	-	333,324	333,324
Special mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Commercial & industrial									
Pass	44,429	64,940	77,834	17,594	15,697	28,388	248,882	$ 930,527	1,179,409
Special mention	-	-	-	-	-	2,181	2,181	39,441	41,622
Substandard	-	-	-	-	-	3,550	3,550	9,844	13,394
Doubtful	-	-	-	-	-	-	-	-	-
SBA									
Pass	34,464	8,003	-	-	-	-	42,467	-	42,467
Special mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Trade finance									
Pass	-	-	-	-	-	-	-	11,309	11,309
Special mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Consumer & other									
Pass	-	-	-	-	-	-	-	118	118
Special mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Total	**$ 692,409**	**$ 489,540**	**$ 394,868**	**$ 205,654**	**$ 297,219**	**$ 448,874**	**$ 2,528,564**	**$ 1,896,428**	**$ 4,424,992**

	Term Loans by Origination Year								
	2020	2019	2018	2017	2016	Prior	Total	Revolving Loans	Total
December 31, 2020:									
Real estate mortgage									
Pass	$ 522,572	$ 383,863	$ 266,206	$ 320,636	$ 171,192	$ 299,991	$ 1,964,460	$ 427,293	$ 2,391,753
Special mention	-	-	-	-	-	2,953	2,953	-	2,953
Substandard	-	-	23,000	14,976	332	2,260	40,568	-	40,568
Doubtful	-	-	-	-	-	-	-	-	-
Real estate construction									
Pass	-	-	-	-	-	-	-	363,857	363,857
Special mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Commercial & industrial									
Pass	74,515	105,479	17,270	25,259	5,928	38,985	267,436	787,132	1,054,568
Special mention	-	-	-	-	-	-	-	75,140	75,140
Substandard	-	-	-	-	-	-	4,316	9,805	14,121
Doubtful	-	-	-	-	-	-	-	-	-
SBA									
Pass	70,234	-	-	-	-	-	70,234	-	70,234
Special mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Trade finance									
Pass	-	-	-	-	-	-	-	22,161	22,161
Special mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Consumer & other									
Pass	-	-	-	-	-	39	39	-	39
Special mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Total	**$ 667,321**	**$ 489,342**	**$ 306,476**	**$ 360,871**	**$ 177,452**	**$ 344,228**	**$ 2,350,006**	**$ 1,685,388**	**$ 4,035,394**

Note 4 – Bank, Premises, Furniture and Fixtures

As of December 31, 2021 and 2020, furniture and fixtures consists of the following:

	2021	2020
	(In thousands)	
Land and building	$ 2,782	$ 2,782
Leasehold improvements	14,011	13,820
Furniture and fixtures	9,113	8,701
	25,906	25,303
Less accumulated depreciation and amortization	(15,373)	(13,478)
	$ 10,533	$ 11,825

Depreciation and amortization expense was $1.9 million, $1.9 million and $1.3 million for the years ended December 31, 2021, 2020 and 2019, respectively. Fixed asset sales resulted in losses of zero, zero and $7,000 for the years ended December 31, 2021, 2020 and 2019.

Note 5 – Deposits

Time deposit accounts at December 31, 2021 mature as follows:

Year	Maturities of time deposits
	(In thousands)
2022	$ 1,548,943
2023	168,744
2024	106,074
2025	25,400
2026	—
Thereafter	—
	$ 1,849,161

The aggregate amount of overdrafts that have been reclassified as loan balances was $118,000 and $39,000 at December 31, 2021 and 2020, respectively.

Deposits that exceed the FDIC Insurance limit of $250,000 at December 31, 2021 and 2020 were $4.11 billion and $3.39 billion, respectively.

At December 31, 2021, investment securities classified as available-for-sale with a carrying value of $45.1 million were pledged to secure public deposits.

Note 6 – Income Taxes

The income taxes expense (benefit) for the years ended December 31, 2021, 2020 and 2019 was as follows:

	2021	2020	2019
		(In thousands)	
Current income tax expense:			
Federal	$ 25,018	$ 18,108	$ 21,748
State	14,956	12,990	13,478
	39,974	31,098	35,226
Deferred income tax benefit:			
Federal	(984)	(1,649)	(1,373)
State	(402)	(2,058)	(818)
	(1,386)	(3,707)	(2,191)
Income tax expense:	$ 38,588	$ 27,391	$ 33,035

At December 31, 2021 and 2020, the current net income tax payable and receivable was $3.1 million and $2.3 million, respectively.

The components of the deferred tax assets and deferred tax liabilities as of December 31, 2021 and 2020 are as follows:

	2021	2020
	(in thousands)	
Deferred tax assets:		
Allowance for credit losses	$ 18,269	$ 19,345
State taxes	2,669	2,283
Capital loss carryforward	78	105
Restricted stock	4,333	2,948
Lease liability	6,829	5,593
Net operating loss carryforward	1,725	1,767
Other	1,772	1,098
Excess realized build in loss	468	606
Accrued bonuses	2,770	2,130
Fair value adjustment on acquired loans	24	36
Gross deferred tax assets	$ 38,937	$35,911
Deferred tax liabilities:		
Unrealized gains on securities available-for-sale	(1,920)	(2,742)
Operating lease right-of-use assets	(6,563)	(4,821)
Deferred loan costs	(1,941)	(1,672)
Bank furniture and fixtures, net	(1,170)	(1,450)
FHLB stock	(285)	(285)
Core deposit intangible from acquisition	(88)	(114)
Other	(296)	(361)
Gross deferred liabilities	(12,263)	(11,445)
Net deferred tax assets	$ 26,674	$ 24,466

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Bank will realize all benefits related to these deductible differences at December 31, 2021.

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, 2021, $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, 2021, is subject to IRC Sec. 382 annual limitation amount of approximately $1.5 million. Additionally, the bank has no Federal excess realized built in losses and $6.1 million of California excess built in losses as of December 31, 2021 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 no federal NOLs and $2.1 million of New York NOLs that are subject to annual Sec. 382 limitation of $0.3 million remaining as of December 31, 2021. 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, 2021, we had no federal NOL carryforward and $18.9 million of state NOL carryforward.

A reconciliation of the income tax expense 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, 2021, 2020 and 2019:

	2021		2020		2019	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
			(In thousands)			
Statutory U.S. federal income tax	$ 28,104	21.0%	$ 20,340	21.0%	$ 23,395	21.0%
State taxes, net of federal benefit	11,498	8.6	8,636	8.9	10,001	9.0
Share-based compensation	41	-	76	0.1	(287)	(0.3)
Life insurance policies	(54)	-	(54)	(0.1)	(53)	(0.0)
Low income housing credits	(1,512)	(1.1)	(4,082)	(4.2)	(1,546)	(1.4)
Other	511	0.4	2,475	2.6	1,525	1.4
	$ 38,588	28.9%	$ 27,391	28.3%	$ 33,035	29.7%

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 2017.

There were no unrecognized tax benefits for the years ended December 31, 2021 and 2020.

Note 7 – Other Real Estate Owned

At December 31, 2021 and 2020, there was no OREO. There was no activity in the valuation allowance for other real estate for the years ended December 31, 2021, 2020 and 2019. At December 31, 2021 and 2020, there was no valuation allowance for other real estate.

There were no sales of OREO for the years ended December 31, 2021 and 2020. 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.

Note 8 – Long-Term Debt

During 2016, the Bank completed a private placement of $100.0 million in principal amount of fixed-to-floating rate subordinated notes to certain qualified investors. The proceeds from the placement of the notes were for general corporate purposes, capital management, and to support future growth. The subordinated notes had a maturity date of June 15, 2026 and had interest, payable semi-annually, at the rate of 6.0% per annum until June 15, 2021. On that date, the interest rate would have been adjusted to float at a rate equal to the three-month LIBOR rate plus 467.3 basis points (4.673%) until maturity. The notes included a right of prepayment, on or after June 15, 2021 and, in certain limited circumstances, before that date. On June 18, 2021, the Bank repaid all $100.0 million in principal amount of subordinated notes including accrued and unpaid interest. The Bank incurred a net charge of $614,000 to interest expense related to the unamortized issuance costs and premium of the subordinated notes.

On June 16, 2021, the Bank completed a public offering of $150.0 million in aggregate principal amount of 3.375% fixed-to-floating rate subordinated notes due June 15, 2031. A majority of the proceeds from the placement of the notes were used to repay the subordinated notes due 2026. The subordinated notes mature on June 15, 2031 and bear interest at a fixed rate per annum of 3.375%, payable semi-annually in arrears until June 15, 2026. On that date, the subordinated notes will bear interest at a floating rate per annum equal to a benchmark rate, which is expected to the Three-Month Term SOFR, plus 278 basis points (2.78%), payable quarterly in arrears; provided, however, in the event that the then-current benchmark rate is less than zero, then the benchmark rate will be deemed zero. The Bank may, at its option, redeem the subordinated notes in whole or in part beginning on June 15, 2026 and, in other certain limited circumstances. 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 $2.4 million.

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, 2021 is as follows:

Long-Term Debt Summary

(in thousands)	As of December 31, 2021	As of December 31, 2020	Interest rate	Maturity date	Earliest call date
Subordinated notes payable ($100,000 face amount, net of cost and premium)	$ —	$ 99,334	6.00%	June 15, 2026	June 15, 2021
Subordinated notes payable ($150,000 face amount, net of cost and premium)	$ 147,758	$ —	3.375%	June 15, 2031	June 15, 2026

Advances from the Federal Home Loan Bank were zero at December 31, 2021 and 2020. 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, 2021, approximately $798.9 million of the Bank's real estate loans was pledged as collateral with Federal Home Loan Bank and the remaining borrowing capacity was $188.2 million. As of December 31, 2021 and 2020, there were no advances from the FHLB.

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 $124.2 million. The Bank had no borrowing outstanding through the discount window outstanding as of December 31, 2021 or 2020.

Note 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.

As of December 31, 2021, the Bank had eight investments, with a net carrying value of $59.0 million. Commitments to fund investment in affordable housing partnerships as of December 31, 2021 totaled $22.6 million. As of December 31, 2020, the Bank had seven investments, with a net carrying value of $62.5 million. Commitments to fund investment in affordable housing partnerships as of December 31, 2020 totaled $30.7 million. As of December 31, 2021 and December 31, 2020, there was no impairment in investment in affordable housing partnerships.

The Bank amortizes investment in affordable housing partnerships in proportion with tax credits and benefits realized. Total proportional amortization of our investments in affordable housing partnerships was $8.4 million, $5.6 million and $5.7 million for the years ended December 31, 2021, 2020 and 2109. The related tax benefits were $7.4 million, $10.0 million and $5.8 million for the years ended December 31, 2021, 2020 and 2019.

Note 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.

At December 31, 2021 and 2020, the Bank had commitments to fund loans of $1.08 billion and $874.5 million, respectively. Financial instruments with off-balance-sheet risk at December 31, 2021 and 2020 are as follows:

	At December 31,			
	2021		2020	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
	(In thousands)			
Commitments to extend credit	$ 16,717	$ 1,065,246	$ 20,153	$ 854,366
Commercial letters of credit	8,759	—	7,585	—
Standby letters of credit	237,338	—	181,805	—
Total	$ 262,814	$ 1,065,246	$ 209,543	$ 854,366

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, 12 branch offices and 2 administrative offices. Our leases have remaining terms of 1 to 10 years, with a weighted average remaining lease term of 7.0 years and 7.4 years as of December 31, 2021 and 2020, respectively. 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. At December 31, 2021 and 2020, weighted average discount rate used to determine the operating lease liability was 5.0%. Cash paid for amounts included in the measurement of operating lease liabilities was $4.0 million and $2.9 million for the years ended December 31, 2021 and 2020, respectively.

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%.

As of December 31, 2021, the future total minimum lease payments for the Bank's premises are as follows:

Year:	Total lease payment
	(In thousands)
2022	$ 4,010
2023	3,752
2024	3,712
2025	2,771
2026	2,139
Thereafter	6,899
Total future lease payments	23,283
Discount to present value	(422)
Total lease liability	$ 22,861

Rental expense on operating leases was $2.6 million, $2.4 million and $2.5 million for the years ended December 31, 2021, 2020 and 2019, respectively.

Note 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, 2021 and 2020, the aggregate loans (including commitments) to related parties were approximately $6.4 million (of which $1.1 million was outstanding) and $4.9 million (of which $1.1 million was outstanding), respectively. All related party loans were current at December 31, 2021 and 2020.

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

	2021
	(In thousands)
Balance at beginning of year	$ 1,125
New loans	—
Net drawdowns (repayments)	(43)
Balance at end of year	$ 1,082

Deposits: The amount of deposits from related parties was $11.7 million and $13.2 million at December 31, 2021 and 2020, respectively.

Note 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 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. The Bank elected to permanently opt-out of excluding accumulated other comprehensive income from common equity tier 1 capital. 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 was phased in from 0.0% for 2015 to 2.50% by 2019. The required capital conservation buffer for 2021 and 2020 was 2.50%. The Bank's capital conservation buffer was 5.27% and 5.15% as of December 31, 2021 and 2020, respectively. Management believes that as of December 31, 2021 the Bank meets all capital adequacy requirements to which it is subject.

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 was available for banks to use beginning in their March 31, 2020, Call Report. We elected to not 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.

In December 2018, the Federal Reserve announced that a banking organization that experiences a reduction in retained earnings due to the CECL adoption as of the beginning of the fiscal year in which CECL is adopted may elect to phase in the regulatory capital impact of adopting CECL. Transitional amounts are calculated for the following items: retained earnings, temporary difference deferred tax assets and credit loss allowances eligible for inclusion in regulatory capital. When calculating regulatory capital ratios, 25% of the transitional amounts are phased in during the first year. An additional 25% of the transitional amounts are phased in over each of the next two years and at the beginning of the fourth year, the day-one effects of CECL are completely reflected in regulatory capital.

Additionally, in March 2020, the Office of the Comptroller of the Currency, Treasury, the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation announced the 2020 CECL interim final rule (IFR) designed to allow eligible firms to better focus on supporting lending to creditworthy households and businesses in light of recent strains on the U.S. economy as a result of the coronavirus (COVID-19). The 2020 CECL IFR allows firms that adopt CECL before December 31, 2020 to defer 100 percent of the day one transitional amounts described above through December 31, 2021 for regulatory capital purposes. Additionally, the 2020 CECL IFR allows electing firms to defer through December 31, 2021 the approximate portion of the post day-one allowance attributable to CECL relative to the incurred loss methodology. This is calculated by applying a 25% scaling factor to the CECL provision. The Bank did not adopt the transition guidance and the 2020 CECL IFR relief.

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, 2021 and 2020, 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, 2021, that the Bank meets all capital adequacy requirements to which it is subject.

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, 2021:						
Total risk-based capital	$ 790,400	15.37%	$ 411,392	≥ 8.00%	$ 514,240	≥ 10.00%
Tier 1 risk-based capital	579,241	11.26%	308,544	6.00%	411,392	8.00%
Common equity tier 1 risk-based capital ratio	579,241	11.26%	231,408	4.50%	334,256	6.50%
Leverage ratio	579,241	9.54%	242,958	4.00%	303,697	5.00%
As of December 31, 2020:						
Total risk-based capital	$ 671,610	14.64%	$366,887	≥ 8.00%	$ 458,609	≥ 10.00%
Tier 1 risk-based capital	513,887	11.21%	275,165	6.00%	366,887	8.00%
Common equity tier 1 risk-based capital ratio	513,887	11.21%	206,374	4.50%	298,096	6.50%
Leverage ratio	513,887	10.08%	203,889	4.00%	254,862	5.00%

Note 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, 2021, 2020 and 2019, the Bank recognized share-based compensation expense of $9.1 million, $5.5 million and $7.4 million, respectively, resulting in the recognition of $(59,000), $(135,000) and $323,000 in related tax (expense) 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. 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 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 of December 31, 2021, there were no stock options outstanding or activities for the years ended December 31, 2021, 2020 and 2019 under the 2004 Plan. As of December 31, 2021, there was no unrecognized compensation cost that relates to unvested options granted under the 2004 Plan.

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 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 four 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, 2020, 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, 2021, 2020 and 2019.

Restricted Stock Awards and Restricted Stock Units

The Bank's 2014 Plan provides 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, officers and directors 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. Unlike RSAs, RSUs do not entitle the recipients to receive cash dividends.

Performance-based RSUs are granted to our CEO at the target amount of awards, payable at the end of the three-year performance period. Based on achievement of pre-determined financial goals, the number of shares that vest can be adjusted to a maximum of 175% of the target.

The compensation costs of both time-based and performance-based awards are estimated based on awards ultimately expected to vest and recognized on a straight-line basis from the grant date until the vesting date of each grant. The total unrecognized compensation expense for outstanding RSAs and RSUs were $3 thousand and $4.8 million as of December 31, 2021, and will be recognized over an average of 0.1 years and 1.7 years, respectively.

The total fair value of restricted stock awards vested during the years ended December 31, 2021, 2020 and 2019 was $1.2 million, $5.6 million and $6.9 million, respectively. The total fair value of restricted stock units vested during the years ended December 31, 2021, 2020 and 2019 was $139,000, $126,000 and $16,000.

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

	Shares	Weighted-Average Grant Date Fair Value
Outstanding, December 31, 2018	216,709	$ 50.79
Granted	34,550	45.02
Forfeited	(150)	57.52
Vested	(138,653)	44.46
Outstanding, December 31, 2019	112,466	$ 56.82
Granted	37,550	51.59
Forfeited	(250)	58.78
Vested	(147,966)	55.33
Outstanding, December 31, 2020	1,800	$ 55.58
Granted	33,450	55.21
Forfeited	—	—
Vested	(33,450)	55.21
Outstanding, December 31, 2021	1,800	$ 55.58

The following is a summary of the activities for the time-based RSUs and the performance-based RSUs that will be settled under the 2014 Plan for the years ended December 31. The number of outstanding performance-based RSUs stated below assumes the associated performance targets will be met at the target level.

	Performance-based		**Time-based**	
	Shares	Weighted-Average Grant Date Fair Value	Shares	Weighted-Average Grant Date Fair Value
Outstanding, December 31, 2018	—	$ —	—	$ —
Granted	30,250	48.72	98,200	49.26
Forfeited	—	—	(975)	43.35
Vested	—	—	(325)	43.35
Outstanding, December 31, 2019	30,250	48.72	96,900	49.33
Granted	33,001	$ 59.70	96,800	$ 61.00
Forfeited	—	—	(3,962)	54.70
Vested	—	—	(2,738)	51.88
Outstanding, December 31, 2020	63,251	54.45	187,000	55.22
Granted	32,812	51.86	96,928	51.34
Forfeited	—	—	(4,474)	52.03
Vested	—	—	(2,175)	52.67
Outstanding, December 31, 2021	96,063	$ 53.56	277,279	$ 53.94

Note 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, 2021, 2020 and 2019 totaled $495,000, $518,000 and $491,000, respectively.

Note 15 – Incentive Compensation 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 incentive compensation payable to our employees each year, the amount 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 amounts 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, 2021, 2020 and 2019, financial objectives required under the plan were met. Total expense of the plan recorded by the Bank was $12.0 million, $9.8 million and $8.1 million for 2021, 2020 and 2019, respectively. As of December 31, 2021 and 2020, the total incentive compensation accrual included in other liabilities amounted to $9.0 million and $7.1 million, respectively.

Note 16 – Litigation

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

Note 17 – Earnings per Share

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

	2021	2020	2019
	(In thousands, except per share data)		
Basic earnings per share:			
Net income	$ 95,240	$ 69,468	$ 78,371
Less: income and dividends allocated to participating securities	(11)	(194)	(666)
Net income allocated to common shareholders-basic	$ 95,229	$ 69,274	$ 77,705
Basic weighted average common shares outstanding	14,866,000	14,885,230	15,060,476
Basic earnings per share	$ 6.41	$ 4.65	$ 5.16
Diluted earnings per share:			
Net income	$ 95,240	$ 69,468	$ 78,371
Less: income and dividends allocated to participating securities	(11)	(194)	(666)
Add: reallocation of income to dilutive securities	—	—	—
Net income allocated to common shareholders-diluted	$ 95,229	$ 69,274	$ 77,705
Basic weighted average common shares outstanding	14,866,000	14,885,230	15,060,476
Effect of dilutive securities – restricted shares	—	—	—
Diluted weighted average shares outstanding	14,866,000	14,885,230	15,060,476
Diluted earnings per share	$ 6.41	$ 4.65	$ 5.16

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.

For the years ended December 31, 2021, 2020 and 2019, there were no shares related to such awards which were excluded from the computation of diluted EPS due to their anti-dilutive effect.

Note 18 – 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.

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. 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.

The carrying amount and estimated fair value of assets and liabilities as of December 31, 2021 and 2020 is detailed on the table below.

	December 31, 2021				
	Carrying amount	Estimated fair value	Level 1	Level 2	Level 3
	(In thousands)				
Assets:					
Cash and cash equivalents	$ 1,050,610	$ 1,050,610	$ 1,050,610	$ —	$ —
Securities held-to-maturity	13,962	13,928	—	13,928	—
Securities available-for-sale	451,911	451,911	—	441,530	10,381
Loans, net of ACL and net deferred loan fees	4,358,707	4,364,298	—	—	4,364,298
Accrued interest receivable	14,646	14,646	—	2,124	12,522
Federal Home Loan Bank stock	15,000	N/A	N/A	N/A	N/A
Liabilities:					
Demand deposits and savings:					
Noninterest-bearing	$ 1,305,692	$ 1,305,692	$ —	$ 1,305,692	$ —
Interest-bearing	2,070,658	2,070,658	—	2,070,658	—
Time deposits	1,849,161	1,847,598	—	1,847,598	—
Subordinated debt issuance	147,758	167,616	—	167,616	—
Accrued interest payable	715	715	—	715	—

	December 31, 2020				
	Carrying amount	Estimated fair value	Level 1	Level 2	Level 3
	(In thousands)				
Assets:					
Cash and cash equivalents	$ 759,465	$ 759,465	$ 759,465	$ —	$ —
Securities held-to-maturity	6,568	6,711	—	6,711	—
Securities available-for-sale	239,682	239,682	—	229,544	10,138
Loans, net of ACL and net deferred loan fees	3,967,394	4,028,898	—	—	4,028,898
Accrued interest receivable	23,692	23,692	—	2,097	21,595
Federal Home Loan Bank stock	15,000	N/A	N/A	N/A	N/A
Liabilities:					
Demand deposits and savings:					
Noninterest-bearing					
Interest-bearing	$ 938,911	$ 938,911	$ —	$ 938,911	$ —
Time deposits	1,735,520	1,735,520	—	1,735,520	—
FHLB borrowings	1,768,049	1,776,279	—	1,776,279	—
Subordinated debt issuance	99,334	98,384	—	98,384	—
Accrued interest payable	1,245	1,245	—	1,245	—

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 except one corporate note with fair value measurement using significant unobservable inputs, a level 3.
- *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.

The following table presents the Bank's hierarchy for its assets and liabilities measured at fair value on a recurring basis at December 31, 2021:

(In thousands)	Fair Value Measurements Using			
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, 2021**
Securities, available-for-sale:				
Asset-backed securities	$ —	$ 3,362	$ —	$ 3,362
Corporate notes	—	136,922	10,381	147,303
U.S. Agency principal-only strips	—	553	—	553
U.S. Agency mortgage-backed securities	—	14,891	—	14,891
Collateralized mortgage obligations	—	190,687	—	190,687
SBA securities	—	169	—	169
Municipal securities	—	80,665	—	80,665
U.S. Treasury Bills	—	14,281	—	14,281
Total	$ —	$ 441,530	$ 10,381	$ 451,911

The following table presents the Bank's hierarchy for its assets and liabilities measured at fair value on a recurring basis at December 31, 2020:

(In thousands)	Fair Value Measurements Using			
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, 2020**
Securities, available-for-sale:				
Asset-backed securities	$ —	$ 3,450	$ —	$ 3,450
Corporate notes	—	119,681	10,138	129,819
U.S. Agency principal-only strips	—	756	—	756
U.S. Agency mortgage-backed securities	—	11,598	—	11,598
Collateralized mortgage obligations	—	5,061	—	5,061
SBA securities	—	237	—	237
Municipal securities	—	68,829	—	68,829
U.S. Treasury Bills	—	19,932	—	19,932
Total	$ —	$ 229,544	$ 10,138	$ 239,682

There were no transfers in or out of Level 1 and Level 2 fair value measurements during the years ended December 31, 2021, 2020 and 2019.

There was a $10.0 million of corporate note and none with fair value measurements using significant unobservable inputs (Level 3) during the years ended December 31, 2021 and 2020, respectively.

Collateral-dependent loans – On a non-recurring basis, the Bank measures the fair value of 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. 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.

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, 2021 and 2020, and the total losses resulting from these fair value adjustments for the year ended December 31, 2021 and 2020:

(In thousands)	**Fair Value Measurements Using**				
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, 2021**	**Year Ended December 31, 2021 Total Losses**
Collateral-dependent loans:					
Commercial and industrial	—	—	2,397	2,397	3,014
Total	$ —	$ —	$ 2,397	$ 2,397	$ 3,014

(In thousands)	**Fair Value Measurements Using**				
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, 2020**	**Year Ended December 31, 2020 Total Losses**
Collateral-dependent loans:					
Residential real estate	$ —	$ —	$ 12,576	$ 12,576	$ 4,300
Commercial and industrial	—	—	4,053	4,053	6,190
Total	$ —	$ —	$ 16,629	$ 16,629	$ 10,490

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, 2021 and 2020.

	At December 31, 2021 *(Dollars In thousands)*			
	Fair Value	**Valuation Technique**	**Unobservable Inputs**	**Range**
Assets:				
Commercial and industrial	2,397	Market comparable	Liquidation discount	50.0%

	At December 31, 2020			
	(Dollars In thousands)			
	Fair Value	**Valuation Technique**	**Unobservable Inputs**	**Range**
Assets:				
Collateral-dependent loans:				
Residential real estate	$ 12,576	Market comparable	Adjustments to comparables	2.0% - 10.0%
Commercial and industrial	4,053	Market comparable	Liquidation discount	15.0% - 40.0%

Note 19 – Common Stock Repurchases and Issuances

On August 6, 2021, the Bank received approval from the California Department of Financial Protection and Innovation for the repurchase of up to $50 million in the Bank's common stock or 5% of total outstanding shares, whichever is less, in the open market. The timing, price and volume of the share repurchases will be determined by Bank management based on its evaluation of market conditions and other relevant factors. This repurchase was approved by shareholders at the Bank's Annual Shareholders Meeting on May 18, 2021. The share repurchase program may be suspended, terminated or modified at any time by the Bank for any reason, including market conditions, the cost of repurchasing shares, the availability of alternative investment opportunities, liquidity, and other factors deemed appropriate. During the year ended December 31, 2021, the Bank has purchased 282,949 shares of its common stock at an average price of $61.69 per share for a total of $17.5 million.

On July 2, 2019, the Bank received approval from the California Department of Business Oversight, now known as the CDFPI, 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.

Note 20 – Subsequent Events

In January 2022, the Bank received payoffs of the performing $23.0 million multifamily TDR loan, a $2.1 million non-accrual commercial real estate loan, and a $2.0 million non-accrual commercial & industrial loan.

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 14, 2022

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.

/s/ Li Yu Li Yu	Chairman and Chief Executive Officer (Principal executive officer)	March 14, 2022
/s/ Edward J. Czajka Edward J. Czajka	Executive Vice President and Chief Financial Officer (Principal financial and accounting officer)	March 14, 2022
/s/ J. Richard Belliston J. Richard Belliston	Director	March 14, 2022
/s/ William C. Y. Cheng William C.Y. Cheng	Director	March 14, 2022
/s/ Clark Hsu Clark Hsu	Director	March 14, 2022
/s/ Gary S. Nunnelly Gary S. Nunnelly	Director	March 14, 2022
/s/ Chih-Wei Wu Chih-Wei Wu	Director	March 14, 2022
/s/ Wayne Wu Wayne Wu	Director	March 14, 2022
/s/ Shirley Wang Shirley Wang	Director	March 14, 2022
/s/ Kathleen Shane Kathleen Shane	Director	March 15, 2022

Exhibit 21.1

SUBSIDIARIES OF THE REGISTRANT

PB Investment and Consulting, Inc. (PBICI), a California corporation

Exhibit 31.1

CERTIFICATION PURSUANT TO RULE
13a-14(a) AND 15d-14(a),
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Li Yu, certify that:

1. I have reviewed this Annual Report on Form 10-K of Preferred Bank;

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

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

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

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

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 14, 2022

/s/ Li Yu

Li Yu
Chairman and Chief Executive Officer

Exhibit 31.2

CERTIFICATION PURSUANT TO RULE
13a-14(a) AND 15d-14(a),
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Edward J. Czajka, certify that:

1. I have reviewed this Annual Report on Form 10-K of Preferred Bank;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s Board of Directors (or persons performing the equivalent functions):
    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: March 14, 2022

/s/ Edward J. Czajka
Edward J. Czajka
Executive Vice President and Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Preferred Bank (the "Bank") on Form 10-K for the period ending December 31, 2021 as filed with the Federal Deposit Insurance Corporation on the date hereof (the "Report"), I, Li Yu, Chairman and Chief Executive Officer of the Bank, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Bank.

Date: March 14, 2022

/s/ Li Yu
Li Yu
Chairman and Chief Executive Officer

A signed original of this written statement required by Section 906, or other document authenticating acknowledging, or otherwise adopting the signature that appears in typed form within this version of this written statement required by Section 906, has been provided to the Bank and will be retained by the Bank and furnished to the Federal Deposit Insurance Corporation or its staff upon request.

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Preferred Bank (the "Bank") on Form 10-K for the period ending December 31, 2021 as filed with the Federal Deposit Insurance Corporation on the date hereof (the "Report"), I, Edward J. Czajka, Executive Vice President and Chief Financial Officer of the Bank, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Bank.

Date: March 14, 2022

/s/ Edward J. Czajka
Edward J. Czajka
Executive Vice President & Chief Financial Officer

A signed original of this written statement required by Section 906, or other document authenticating acknowledging, or otherwise adopting the signature that appears in typed form within this version of this written statement required by Section 906, has been provided to the Bank and will be retained by the Bank and furnished to the Federal Deposit Insurance Corporation or its staff upon request.