



601 S. Figueroa Street, 29th Floor
Los Angeles, California 90017

NOTICE OF 2010 ANNUAL MEETING OF SHAREHOLDERS

DATE: Friday, July 30, 2010
TIME: 1:00 p.m. Pacific Time
PLACE: 601 S. Figueroa Street
29th Floor
Los Angeles, California 90017

TO THE SHAREHOLDERS OF PREFERRED BANK:

NOTICE IS HEREBY GIVEN that, pursuant to its bylaws and the call of its Board of Directors, the Annual Meeting of Shareholders of Preferred Bank will be held at Preferred Bank's corporate headquarters located at 601 S. Figueroa Street, 29th Floor, Los Angeles, California 90017. Holders of our common stock and holders of our Mandatorily Convertible Non-Cumulative Non-Voting Perpetual Preferred Stock, Series A ("Series A Preferred Stock") are receiving notice of the meeting. **The common stock is entitled to vote on all proposals, except for Proposal 3 described in more detail below. Because of its limited voting rights, the Series A Preferred Stock is authorized to vote only on Proposal 3 and will vote on that proposal as a separate class.** The Annual Meeting will be held for the following purposes, all as set forth in the attached Proxy Statement:

1. ELECTION OF DIRECTORS. To elect four persons to serve on the Board of Directors as Class I Directors for a term of two years expiring at the 2012 Annual Meeting of Shareholders; each to serve until his successor is elected and has qualified. The following four persons are the Board of Directors' nominees to serve as Class I Directors for a term of two years:

Li Yu
Gary S. Nunnelly
Frank T. Lin
Clark Hsu

2. NASDAQ-REQUIRED APPROVALS. To obtain the approval of the holders of our common stock (voting as a separate class) for (a) the issuance of more than 19.99% of our common stock upon conversion of 77,000 shares of our Series A Preferred Stock and (b) the conversion of the Series A Preferred Stock purchased by our directors and officers and their affiliated entities at less than the market value of our common stock, in each case as required by the rules of The NASDAQ Stock Market LLC and as contemplated by the Subscription Agreement we executed in connection with our recent capital raise, as set forth in more detail in the Proxy Statement.

3. SERIES A PREFERRED STOCK CONVERSION (SERIES A PREFERRED SHAREHOLDERS ONLY). To obtain the approval of the holders of our Series A Preferred Stock (voting as a separate class) for the conversion of 77,000 shares of the Series A Preferred Stock into common stock, pursuant to the California Corporations Code.

4. RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS. To ratify the appointment of KPMG LLP as our independent registered public accountants for the year ending December 31, 2010.

5. ADJOURNMENT OR POSTPONEMENT OF THE ANNUAL MEETING. To approve the adjournment or postponement of the annual meeting to a later date or dates, if necessary, to solicit additional proxies if there are insufficient proxies given prior to the time of the annual meeting to constitute a quorum for purposes of the annual meeting or to solicit additional proxies in favor of the approval of the above proposals.

6. OTHER BUSINESS. The transaction of such other business as may properly come before the annual meeting and at any and all adjournments thereof.

Only shareholders of record at the close of business on July 8, 2010 will receive notice of, and be eligible to vote at, the annual meeting.

**IMPORTANT NOTICE REGARDING THE INTERNET AVAILABILITY
OF PROXY MATERIALS FOR THE ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD ON JULY 30, 2010**

The Proxy Statement, proxy card, and the Annual Report on Form 10-K for the year ended December 31, 2009, are available on our website at <http://preferredbank.com/proxymaterials/>.

IT IS IMPORTANT THAT ALL SHAREHOLDERS VOTE. WE URGE YOU TO SIGN AND RETURN THE ENCLOSED PROXY AS PROMPTLY AS POSSIBLE, REGARDLESS OF WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING IN PERSON. IF YOU DO ATTEND THE ANNUAL MEETING, YOU MAY THEN WITHDRAW YOUR PROXY AND VOTE IN PERSON.

By Order of the Board of Directors

A handwritten signature in black ink, appearing to be 'Li Yu', written over a horizontal line.

Li Yu
Corporate Secretary

Los Angeles, California
Dated: July 12, 2010



**Preferred Bank
601 S. Figueroa Street, 29th Floor
Los Angeles, California 90017
(213) 891-1188**

PROXY STATEMENT

**FOR THE ANNUAL MEETING OF SHAREHOLDERS
To Be Held on July 30, 2010**

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Appendix A — Certificate of Determination for the Series A Preferred Stock.

Appendix B — Form of Subscription Agreement by and among Preferred Bank and the Purchasers.

Appendix C — Unaudited Consolidated Financial Statements (including Notes thereto) of Preferred Bank, as included in our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2010.

Appendix D — Management’s Discussion and Analysis of Financial Condition and Results of Operations, as included in our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2010.

Appendix E — Quantitative and Qualitative Disclosures About Market Risk, as included in our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2010.

INFORMATION ABOUT THE ANNUAL MEETING AND VOTING

Why Did You Send Me this Proxy Statement?

We sent you this Proxy Statement and the enclosed proxy card because our Board of Directors is soliciting your proxy to vote at the 2010 Annual Meeting of Shareholders (the "Annual Meeting") of Preferred Bank (referred to in this Proxy Statement as "Preferred Bank," "we," "us," and "our").

Holders of our common stock and holders of our Mandatorily Convertible Non-Cumulative Non-Voting Perpetual Preferred Stock, Series A ("Series A Preferred Stock") are receiving notice of the meeting. Holders of our common stock are entitled to vote on every proposal at the Annual Meeting, except for a proposal for the holders of our Series A Preferred Stock (voting as a separate class) to approve the conversion of the Series A Preferred Stock into common stock ("Proposal 3"). The Series A Preferred Stock has limited voting rights and is authorized to vote only on Proposal 3 at the Annual Meeting. **On June 21, 2010, we received revocable proxies from holders of a majority of the Series A Preferred Stock authorizing us to vote such shares in favor of Proposal 3. We are soliciting proxies from the holders of our remaining Series A Preferred Stock and holders of all of our outstanding common stock.**

This Proxy Statement summarizes the information you need to know to cast an informed vote at our Annual Meeting. However, you do not need to attend the Annual Meeting to vote your shares. Instead, you may simply complete, sign and return the enclosed proxy card, unless you are a holder of our Series A Preferred Stock who already submitted a proxy to us on June 21, 2010, in which case there is no action you need to take at this time.

Along with this Proxy Statement, we are also sending you our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, which includes our financial statements.

On What Am I Voting?

The matters to be considered at the Annual Meeting are set forth below. **Holders of our common stock are entitled to vote on every proposal set forth below, except Proposal 3. Our Series A Preferred Stock has limited voting rights and is authorized to vote only on Proposal 3 at the Annual Meeting.**

1. **Election of Directors.** To elect four persons to serve on our Board of Directors as Class I Directors for a term of two years expiring at our 2012 Annual Meeting of Shareholders; each to serve until his successor is elected and has qualified.

2. **NASDAQ-Required Approvals.** To obtain the approval of the holders of our common stock (voting as a separate class) for (a) the issuance of more than 19.99% of our common stock upon conversion of 77,000 shares of our Mandatorily Convertible Non-Cumulative Non-Voting Perpetual Preferred Stock, Series A ("Series A Preferred Stock") and (b) the conversion of the Series A Preferred Stock purchased by our directors and officers and their affiliated entities at less than the market value of our common stock, in each case as required by the rules of The NASDAQ Stock Market LLC (the "NASDAQ") and as contemplated by the Subscription Agreement we executed in connection with our recent capital raise, as set forth in more detail in this Proxy Statement.

3. **Series A Preferred Stock Conversion (Series A Preferred Shareholders Only).** To obtain the approval of the holders of our Series A Preferred Stock (voting as a separate class) for the conversion of 77,000 shares of the Series A Preferred Stock into common stock, pursuant to the California Corporations Code.

4. **Ratification of Appointment of Independent Registered Public Accountants.** To ratify the appointment of KPMG LLP as our independent registered public accountants for the year ending December 31, 2010.

5. **Adjournment or Postponement of the Annual Meeting.** To approve the adjournment or postponement of the Annual Meeting to a later date or dates, if necessary, to solicit additional proxies if there are insufficient proxies given prior to the time of the Annual Meeting to constitute a quorum of the common shareholders or a quorum of the Series A Preferred shareholders for purposes of the Annual Meeting or to solicit additional proxies in favor of the approval of the above proposals.

6. **Other Business.** To transact such other business as may properly come before our Annual Meeting and at any and all adjournments thereof.

Who is Entitled to Vote?

We will begin mailing this Proxy Statement, the attached notice of Annual Meeting and the accompanying proxy card on or about July 12, 2010, to all shareholders entitled to vote.

Holders of our common stock are entitled to vote on every proposal at the Annual Meeting, except for Proposal 3. Our Series A Preferred Stock has limited voting rights and is authorized to vote only on Proposal 3 at the Annual Meeting. On June 21, 2010, we received revocable proxies from holders of a majority of the Series A Preferred Stock authorizing us to vote such shares in favor of Proposal 3. Holders of Series A Preferred Stock who already executed and returned a proxy card to us on June 21, 2010 will not receive an additional proxy card but may request one from us. We are soliciting proxies from the holders of the remaining Series A Preferred Stock who executed and delivered us a proxy on June 21, 2010 and holders of all of our outstanding common stock.

Shareholders who were the record owners of our common stock and Series A Preferred Stock at the close of business on July 8, 2010, the record date, will receive notice of, and be entitled to vote at, our Annual Meeting. On the record date, there were 16,003,626 shares of our common stock outstanding and 73,846 shares of Series A Preferred Stock outstanding (an additional 3,154 shares of Series A Preferred Stock remain authorized, but unissued under our Deferred Compensation Plan for our officers and will be issued to our officers upon the occurrence of certain distribution events). A holder of shares of our common stock on the record date will be entitled to cast one vote for each share of common stock registered in that holder's name on each matter to be acted upon at our Annual Meeting, other than Proposal 3. A holder of shares of our Series A Preferred Stock on the record date will be entitled to vote on Proposal 3 only and may cast one vote for each share of Series A Preferred Stock registered in that holder's name.

Shareholder of Record: Shares Registered in Your Name

If, on July 8, 2010, your shares were registered directly in your name with our transfer agent, Computershare, then you are a shareholder of record. As a shareholder of record, you may vote in person at the Annual Meeting or vote by proxy. Whether or not you plan to attend the Annual Meeting, we urge you to sign, date and return the enclosed proxy card to ensure your vote is counted.

Beneficial Owner: Shares Registered in the Name of a Broker, Bank or Nominee

If, on July 8, 2010, your shares were held in an account at a bank, brokerage firm or other agent or nominee, then you are the beneficial owner of shares held in "street name" and these proxy materials are being forwarded to you by that organization. The organization holding your account is considered the shareholder of record for purposes of voting at the Annual Meeting. As a beneficial owner, you have the right to direct your bank, broker or other agent or nominee on how to vote the shares in your account. You are also invited to attend the Annual Meeting. However, since you are not the shareholder of record, you may not vote your shares in person at our Annual Meeting unless you request and obtain a power of attorney or other proxy authority from that organization and bring it to our Annual Meeting.

What Constitutes a Quorum?

A majority of the outstanding shares of our common stock must be present at the Annual Meeting in person or by proxy, in order to constitute a quorum of the common shareholders who will vote at this Annual Meeting. A majority of the outstanding shares of our Series A Preferred Stock must be present at the Annual Meeting in person or by proxy, in order to constitute a quorum of Series A Preferred shareholders who will vote on Proposal 3 at this Annual Meeting.

We will only conduct the business of the Annual Meeting if a quorum of the common shareholders and a quorum of the Series A Preferred shareholders has been established. Abstentions and broker non-votes, if any, will be counted as shares present for purposes of determining the presence of a quorum of the common shareholders. In addition, see below under “What is the Effect of Broker Nonvotes and Abstentions” regarding the voting requirements under California Law.

What Vote is Required to Approve Each Proposal?

Holders of our common stock and holders of our Series A Preferred Stock are entitled to vote at the meeting. **Because of its limited voting rights, the Series A Preferred Stock is authorized to vote only on Proposal 3, while the common stock is entitled to vote on all other proposals.**

- | | |
|---|---|
| Proposal 1:
Election of Directors | The four nominees for director who receive the highest number of affirmative votes of the shares of common stock (voting together as a separate class) entitled to be voted for them shall be elected as directors. If, as a holder of common stock, you do not vote for a particular nominee, or you indicate “WITHHOLD AUTHORITY” to vote for a particular nominee on your proxy card, your vote will not count either “FOR” or “AGAINST” the nominee. Our Amended and Restated Articles of Incorporation do not permit cumulative voting. |
| Proposal 2:
NASDAQ-Required Approvals | The affirmative vote of a majority of the shares of common stock (voting together as a separate class) represented, in person or by proxy, and voting at the Annual Meeting (which shares voting affirmatively also constitute at least a majority of the required quorum of the common shareholders) is required to approve the conversion of 77,000 shares of our Series A Preferred Stock to common stock and the conversion to common stock of the Series A Preferred Stock purchased by our directors and officers and their affiliated entities at less than the market value of our common stock. If you “ABSTAIN” from voting on this proposal as a holder of common stock, it will have the same effect as a vote “AGAINST” this proposal. |
| Proposal 3:
Preferred Stock Conversion (Series A Preferred Shareholders Only) | The affirmative vote of the holders of at least a majority of the shares of Series A Preferred Stock outstanding and entitled to vote (voting together as a separate class), given in person or by proxy at the Annual Meeting, is required to approve the conversion of the 77,000 shares of Series A Preferred Stock into common stock as required by the California Corporations Code. If you “ABSTAIN” from voting on this proposal as a holder of Series A Preferred Stock, it will have the same effect as a vote “AGAINST” this proposal. |
| Proposal 4:
Ratify Selection of Independent Registered Public Accountants | The affirmative vote of a majority of the shares of common stock (voting together as a separate class) represented, in person or by proxy, and voting at the Annual Meeting (which shares voting affirmatively also constitute at least a majority of the required quorum) is required to ratify the selection of our independent registered public accountants. If you “ABSTAIN” from voting, it will have the same effect as a vote against this proposal. |
| Proposal 5:
Adjournment or Postponement of the Annual Meeting | The affirmative vote of a majority of the shares of common stock (voting together as a separate class) represented, in person or by proxy, and voting at the Annual Meeting (which shares voting affirmatively also constitute at least a majority of the required quorum) is required to approve the adjournment or postponement of the Annual Meeting to a later date or dates. |

How do I Vote if I Attend the Annual Meeting?

If you are a shareholder of record, you can attend the Annual Meeting and vote in person the shares you hold directly in your name. If you choose to do that, please bring the enclosed proxy card and proof of identification. If you are a holder of Series A Preferred Stock and you submitted your proxy to us on June 21, 2010 (the date of your purchase of the Series A Preferred Stock), then there is nothing further you need to do, unless you wish to change your vote, in which case you should contact us at the address provided under the heading "WHERE YOU CAN FIND MORE INFORMATION". If you want to vote in person at our Annual Meeting and you hold shares through a bank, broker or other agent or nominee, you must obtain a power of attorney or other proxy authority from that organization and bring it to our Annual Meeting. Follow the instructions from your bank, broker or other agent or nominee included with these proxy materials, or contact your bank, broker or other agent or nominee to request a power of attorney or other proxy authority. If you vote in person at the Annual Meeting, you will revoke any prior proxy you or your bank, broker or other agent or nominee may have submitted with respect to the shares of common stock or Series A Preferred Stock you own of record or beneficially.

How do I Vote if I do not Attend the Annual Meeting?

If you are a holder of Series A Preferred Stock and you submitted your proxy to us on June 21, 2010 (the date of your purchase of the Series A Preferred Stock), then there is nothing further you need to do, unless you wish to change your vote, in which case you should contact us at the address under the heading "WHERE YOU CAN FIND MORE INFORMATION" in order to obtain a proxy card. If you are a holder of common stock, please sign, date and return the proxy card in the enclosed pre-paid envelope. By casting your vote, you are authorizing the individuals listed on the proxy to vote your shares in accordance with your instructions. Whether or not you plan to attend the Annual Meeting, we urge you to return the proxy card. Returning the proxy card will not affect your right to attend the Annual Meeting.

You may vote your shares by telephone by calling the toll-free telephone number shown on your proxy card. Telephone voting is available 24 hours a day, 7 days a week. Voice prompts allow you to vote your shares and confirm that your instructions have been properly recorded. The telephone voting procedures are designed to authenticate the shareholder's identity by using individual control numbers, which you will find on your proxy card. If you vote by telephone, you should NOT return your proxy card.

You may also choose to vote on the Internet. The website for Internet voting is shown on your proxy card. Internet voting is available 24 hours a day, 7 days a week. You will be given the opportunity to confirm that your instructions have been properly recorded. The Internet voting procedures are designed to authenticate the shareholder's identity by using individual control numbers, which you will find on your proxy card. If you vote on the Internet, you should NOT return your proxy card.

If you vote by telephone or Internet, your vote must be received by 1:00 a.m. Pacific Standard Time, on July 30, 2010, to ensure that your vote is counted.

If you are a beneficial owner of shares registered in the name of your bank, broker or other agent or nominee, you should have received a proxy card and voting instructions with these proxy materials from that organization rather than from us. Simply sign, date and mail the proxy card to ensure that your vote is counted. Follow the instructions from your bank, broker or other agent or nominee included with these proxy materials, or contact your bank, broker or other agent or nominee to request a proxy card or to vote electronically.

What if I do not Specify How My Shares are to be Voted on the Proxy Card?

If your proxy card is executed and returned, but does not specify how your shares are to be voted, then (i) your common shares represented by the proxy card will be voted in accordance with the recommendations of our Board of Directors for all the proposals, except Proposal 3 on which the common shares are not entitled to vote, and (ii) your Series A Preferred Stock will be voted in accordance with the recommendations of our Board of Directors for Proposal 3; such recommendations are as follows:

- (1) **“FOR”** the election of all four nominees for director.
- (2) **“FOR”** the conversion of the Series A Preferred Stock to common stock pursuant to the rules of the NASDAQ.
- (3) **“FOR”** the conversion of the Series A Preferred Stock to common stock pursuant to the California Corporations Code.
- (4) **“FOR”** the ratification of the selection of KPMG LLP as our independent registered public accountants for the fiscal year ending December 31, 2010.
- (5) **“FOR”** the adjournment or postponement of the Annual Meeting, if necessary.

If any other matter is properly presented at the meeting, the individuals named on your proxy card will vote your shares using their best judgment. At the time of the mailing of this Proxy Statement, we knew of no matters which needed to be acted upon at the Annual Meeting, other than those discussed in the Proxy Statement.

What is the Effect of Broker Nonvotes and Abstentions?

If you hold your shares of our common stock in “street name” (that is, through a bank, broker or other agent or nominee) and you fail to instruct your bank, broker or other agent or nominee as to how to vote your shares of common stock, your bank, broker or other agent or nominee may, in its discretion, vote your shares “FOR” the ratification of the independent registered public accountants, but may not vote on any of the other proposals. **Unlike previous years, banks, brokers, or other agents or nominees holding shares beneficially owned by their clients will no longer have the ability to cast votes with respect to the election of directors unless they have received instructions from the beneficial owner of the shares. As a result, if you do not provide specific voting instructions to your bank, broker or other agent or nominee who is the record holder, that record holder will not be able to vote on Proposal 1. It is therefore important that you provide instructions to your bank, broker or other agent or nominee if your shares are held by such person, so that your vote with respect to directors is counted.**

If you hold shares of our Series A Preferred Stock in street name and you did not grant us a proxy on June 21, 2010 to vote your shares of Series A Preferred Stock in favor of Proposal 3, then, if you fail to instruct your bank, broker or other agent or nominee how to vote your shares of Series A Preferred Stock, then your shares of Series A Preferred Stock will not be voted “FOR” Proposal 3.

California law requires the following two votes to adopt any proposal other than the election of directors: (a) the affirmative vote of a majority of the shares represented and voting at the Annual Meeting, unless the vote of a greater number is required by law or by our Amended and Restated Articles of Incorporation and (b) the affirmative vote of at least a majority of the shares required to constitute a quorum. In determining whether the first voting threshold under (a) has been obtained, abstentions and broker nonvotes are not treated as shares voting and therefore will not affect the vote on any proposal. In determining whether the second vote under (b) has been obtained, abstentions and broker nonvotes will have the effect of votes cast AGAINST the proposals, other than the election of directors. Directors are elected by a plurality of the votes cast. That is, abstentions and broker nonvotes will reduce the number of affirmative votes and therefore reduce the total percentage of votes the proposal might otherwise have received.

May I Change My Vote After I Return My Proxy?

Yes. If you fill out and return the enclosed proxy card or vote electronically, you may change your vote at any time before the vote is conducted at the Annual Meeting. This right to change your vote extends to any holder of Series A Preferred Stock who already submitted a proxy to us on June 21, 2010. You may change your vote in any one of three ways:

- You may send to our Corporate Secretary another completed proxy card with a later date or change your vote electronically if you voted by telephone or Internet.
- You may notify our Corporate Secretary in writing before the Annual Meeting that you have revoked your proxy.
- You may attend the Annual Meeting and vote in person (your attendance at the Annual Meeting, in and of itself, will not revoke your earlier proxy).

Who Conducts the Proxy Solicitation?

We are soliciting the proxies and will bear the entire cost of this solicitation, including the preparation, assembly, printing and mailing of this Proxy Statement and any additional materials furnished to our shareholders. Copies of solicitation material will be furnished to banks, brokerage houses and other agents and nominees holding shares in their names that are beneficially owned by others so that they may forward this solicitation material to these beneficial owners. In addition, if asked, we will reimburse these persons for their reasonable expenses in forwarding the solicitation material to the beneficial owners. We have requested banks, brokerage houses and other agents and nominees to forward all solicitation materials to the beneficial owners of the shares they hold of record.

IMPORTANT NOTICE REGARDING THE INTERNET AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON JULY 30, 2010

The Proxy Statement, proxy card, and the Annual Report on Form 10-K for the year ended December 31, 2009, are available on our website at <http://preferredbank.com/proxymaterials/>.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

A number of the presentations and disclosures in this Proxy Statement constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including any statements preceded by, followed by or which include the words “may,” “could,” “should,” “will,” “would,” “hope,” “might,” “believe,” “expect,” “anticipate,” “estimate,” “intend,” “plan,” “assume” or similar expressions constitute forward-looking statements. These forward-looking statements, implicitly and explicitly, include information concerning possible or assumed future results of operations, trends, financial results and business plans, including those relating to:

- future losses in our loan portfolio;
- changes in economic conditions;
- changes in the California real estate market;
- earnings growth;
- loss of senior management and other employees;
- revenue growth;
- future acquisitions;
- noninterest income levels, including fees from loans and other product sales;
- increases in competitive pressure among financial institutions;
- tangible capital generation;
- market share;
- expense levels;
- changes in the interest rate environment;
- changes in legislation or regulation affecting the banking industry;
- additional provisions for loan losses;
- adverse economic conditions in Asia;
- downturn in international trade;
- continued ability to attract and employ qualified personnel;
- results from new business initiatives in our community banking business; and
- other business operations and strategies.

SUMMARY SELECTED FINANCIAL DATA

The following tables set forth selected financial information for us as of and for each of the years in the five-year period ended December 31, 2009, which has been derived from, and is qualified by reference to, our audited consolidated financial statements and related notes, and at and for the first quarter ended March 31, 2010 and March 31, 2009, derived from our unaudited financial statements. Our results of operations for the three months ended March 31, 2010, may not be indicative of results that may be expected for the full fiscal year or any other interim period. You should read the following selected financial information in conjunction with our financial statements and the notes to those financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009 enclosed with this Proxy Statement and our Quarterly Report on Form 10-Q for the period ended March 31, 2010, which financial statements are attached as *Appendix C* to this Proxy Statement.

	At or for the Three Months Ended March 31,		At or for the Year Ended December 31,				
	2010	2009	2009	2008	2007	2006	2005
	(Dollars in thousands, except per share data)						
Financial Condition Data:							
Total assets	\$1,381,093	\$1,433,770	\$1,306,781	\$1,483,231	\$1,542,610	\$1,348,841	\$1,136,720
Total deposits	1,230,961	1,205,285	1,160,412	1,257,323	1,253,110	1,161,344	975,467
Investments securities							
available-for-sale, at fair value							
sale	90,738	89,389	114,464	104,406	245,268	198,689	162,935
Loans and leases, gross	970,287	1,191,310	1,043,299	1,231,232	1,233,099	997,317	771,143
Cash and cash equivalents	222,011	20,641	68,071	69,586	22,803	26,878	25,123
Other real estate owned ⁽¹⁾	66,145	43,032	59,190	35,127	8,444	—	—
Shareholders' equity	90,719	132,094	85,374	137,491	152,952	145,932	123,846
Statement of Operations Data:							
Interest income	\$ 13,895	\$ 16,926	\$ 58,876	\$ 85,959	\$ 112,607	\$ 90,262	\$ 60,082
Interest expense	4,201	7,222	22,812	34,634	44,199	31,424	16,062
Net interest income	9,694	9,704	36,064	51,325	68,408	58,838	44,020
Provision for credit losses	—	6,550	71,250	30,560	4,900	1,960	2,110
Net interest (loss) income after provision for loan and lease losses	9,694	3,154	(35,186)	20,765	63,508	56,878	41,910
Noninterest income	759	1,278	6,476	4,941	3,090	3,028	3,868
Noninterest expense	7,344	6,583	51,953	35,594	21,461	20,017	17,571
(Loss) income before provision for income taxes	3,109	(2,151)	(80,663)	(9,888)	45,137	39,889	28,207
(Benefit) provision for income taxes	—	(829)	(8,128)	(4,876)	18,670	16,538	11,382
Net (loss) income	\$ 3,109	\$ (1,322)	\$ (72,535)	\$ (5,012)	\$ 26,467	\$ 23,351	\$ 16,825

	At or for the Three Months Ended March 31,		At or for the Year Ended December 31,				
	2010	2009	2009	2008	2007	2006	2005
Share Data:							
Net (loss)income per share, basic ⁽²⁾ (10)	\$ 0.20	\$ (0.14)	\$ (6.30)	\$ (0.51)	2.56	2.29	1.72
Net (loss) income per share, diluted ⁽²⁾ (10)	\$ 0.20	\$ (0.14)	\$ (6.30)	\$ (0.51)	2.50	2.21	1.65
Book value per share ⁽³⁾ (10)	\$ 5.67	\$ 14.09	\$ 5.41	\$ 14.09	15.37	14.20	12.34
Shares outstanding at period end ⁽¹⁰⁾	16,012,126	9,755,207	15,767,126	9,755,207	9,953,532	10,274,706	10,037,856
Weighted average number of shares outstanding, basic ⁽²⁾ (10)	15,885,115	9,791,507	11,518,145	9,790,858	10,330,232	10,194,515	9,782,645
Weighted average number of shares outstanding, diluted ⁽²⁾ (10)	15,885,115	9,791,507	11,518,145	9,810,391	10,580,949	10,556,282	10,195,958
Selected Other Balance Sheet Data:⁽⁴⁾							
Average assets	\$ 1,383,441	\$ 1,488,143	\$ 1,440,279	\$ 1,506,228	\$ 1,405,311	\$ 1,180,749	\$ 1,006,222
Average earning assets	1,307,624	1,397,653	1,357,385	1,444,340	1,362,433	1,142,126	969,019
Average shareholders' equity	87,173	138,784	129,959	149,635	156,217	134,384	110,250
Selected Financial Ratios:⁽⁴⁾							
Return on average assets	0.91%	(0.36)%	(5.04)%	(0.33)%	1.88%	1.98%	1.67%
Return on average shareholders' equity ⁽³⁾	14.46	(3.86)	(55.81)	(3.35)	16.94	17.38	15.26
Shareholders' equity to assets ⁽⁵⁾	6.57	9.21	6.53	9.27	9.92	10.82	10.90
Net interest margin ⁽⁶⁾	3.08	2.88	2.72	3.62	5.06	5.18	4.54
Efficiency ratio ⁽⁷⁾	70.26	59.95	(122.13)	63.26	30.02	32.35	36.69
Selected Asset Quality Ratios:							
Non-performing loans to total loans and leases ⁽⁸⁾	11.14%	7.20%	13.92%	5.42%	1.69%	0.11%	—
Non-performing assets to total assets ⁽⁹⁾	13.37	9.00	15.65	6.87	1.90	0.08	—
Allowance for loans and lease losses to total loans and leases	3.82	2.59	4.10	2.19	1.21	1.03	1.16
Allowance for loans and lease losses to non-performing loans	31.30	35.90	29.47	40.33	71.27	913.93	—
Net charge-offs (recoveries) to average loans and leases	2.28	0.86	4.76	1.52	0.02	0.08	(0.02)

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

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

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

- (4) Average balances used in this chart and elsewhere in these proxy materials are based on daily averages. Percentages as used throughout these proxy materials have been rounded to the closest whole number, tenth or hundredth as the case may be.
- (5) For a discussion of the components of the capital ratios, see “MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS – Capital Resources” in our Annual Report on Form 10-K for the year ended December 31, 2009, enclosed with this Proxy Statement.
- (6) Net interest margin is net interest income expressed as a percentage of average total interest-earning assets.
- (7) The efficiency ratio is the ratio of noninterest expense divided by the sum of net interest income before the provision for credit losses plus noninterest income.
- (8) Non-performing loans consist of loans on nonaccrual and loans past due 90 days or more and restructured debt.
- (9) Non-performing assets consist of non-performing loans, restructured debt and other real estate owned.
- (10) Adjusted to reflect 3-for-2 stock split effected in the form of a dividend, distributed on February 20, 2007.

PROPOSAL 1: ELECTION OF DIRECTORS

The four persons named below have been nominated for election to serve for a term of two years, and until their successors are elected and have qualified. Votes will be cast pursuant to the enclosed proxy card in such a way as to effect the election of the Board of Directors’ four nominees. In the event that any of the nominees should be unable or unwilling to accept nomination for election as a director, it is intended that the proxy holders will vote for the election of such substitute nominees, if any, as shall be designated by our Board of Directors. The Board of Directors has no reason to believe that any nominee will be unable or unwilling to serve if elected to office.

The following table sets forth the name and biographies of the persons nominated by our Board of Directors to serve as directors.

***Class I Director Nominees
for a Term Expiring in 2012***

<u>Name and Age</u>	<u>Year First Elected or Appointed</u>	<u>Principal Occupation, Business Experience and Qualifications</u>
Li Yu (69)	1991	Mr. Yu has been our President and Chief Executive Officer since 1993. From December 1991 to the present, he has served as Chairman of our Board of Directors. From 1987 to 1991, he was the owner of several privately held companies. 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. He also serves as director of Accuray Incorporated (NasdaqGM: ARAY), a medical radiation equipment maker. Under his leadership, we have grown from a de novo bank with \$20 million in initial capital in 1991 to one of the largest independent commercial banks in California focusing on the Chinese-American market with over \$1.3 billion in total assets. Mr. Yu brings to the Board of Directors extensive management experience, demonstrated leadership, prudent judgment, a strong connection to our Chinese-American client base, and a deep understanding of our history and the banking business. Mr. Yu serves on the loan committee and investment committee.
Gary S. Nunnelly (61)	1991	Mr. Nunnelly has been President of American Thermoform Corporation, a company engaged in the import and manufacture of equipment and supplies for the visually impaired since 1985. He spent several years at Union Bank during the early stage of his career. Mr. Nunnelly was one of our founding directors. Mr. Nunnelly received a Bachelors of Science degree in accounting from the University of Southern California. Like Mr. Yu, Mr. Nunnelly has a long history with us as one of our founders and has contributed to our long term growth. He brings to the Board of Directors leadership gained through his executive experience and brings a knowledge of the banking industry through his years at Union Bank. He also brings to the Board of Directors expertise in the area of accounting and serves on the audit committee as one of our audit committee financial experts. In addition to the audit committee, Mr. Nunnelly serves on the governance and nominating committee, the investment committee, and the loan committee, as chairman.

<u>Name and Age</u>	<u>Year First Elected or Appointed</u>	<u>Principal Occupation, Business Experience and Qualifications</u>
Frank T. Lin (50)	2004	<p>Mr. Lin has been President of Born Mark Management, a Real Estate Management & Investment Firm, since 1987, as well as President of New Century BMW, Inc. since 1991. Born Mark Management is actively involved in real estate investments in California and in the Far East. Mr. Lin received a Bachelors degree from TamKang University in Taiwan in 1982 and a Masters degree in Computer Science from Villanova University in Pennsylvania in 1988. In addition to leadership skills developed from managing a large enterprise, Mr. Lin brings to the Board of Directors a long history of active involvement in the real estate industry, both in the U. S. and abroad. His contacts in the industry have been a significant source of business development and his understanding of and connection with our real estate industry client base has been an asset to our business and to the Board of Directors. In addition, Mr. Lin’s familiarity with matters related to cross-border business activities with the Far East has been an asset to the Board given our trade-related business lending. Mr. Lin serves on the loan committee, the compensation committee, and the investment committee.</p>
Clark Hsu (39)	2005	<p>Mr. Hsu is the Chairman and CEO of Lotus Creek Investments, Inc. which provides venture and growth capital to companies in the technology sector. Prior to Lotus Creek Investments, Mr. Hsu was President of Microtek Lab, Inc., which specializes in the design, manufacture and distribution of digital imaging products for consumer and commercial applications. Mr. Hsu currently serves on the Board of Directors for Microtek International, Inc., a publicly traded company in Taiwan and the parent company of Microtek Lab, Inc. Mr. Hsu received a Bachelors degree from the University of Pennsylvania in 1992 and an MBA from the UCLA Anderson School of Business in 1997. Mr. Hsu brings to the Board of Directors strong leadership skills gained from serving as President of complex business enterprises and his extensive board experience. His experience with numerous small and growing businesses as a venture capital executive brings to the Board a unique perspective on a significant portion of our client base. His familiarity with matters related to cross-board transactions is also an asset to the Board given our trade-related business lending. Mr. Hsu serves as the chairman of the governance and nominating committee, and serves on the loan committee and investment committee.</p>

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE “FOR” THE FOUR NOMINEES IDENTIFIED ABOVE.

***Incumbent Class II Directors Serving
for a Term Expiring in 2011***

<u>Name and Age</u>	<u>Year First Elected or Appointed</u>	<u>Principal Occupation, Business Experience and Qualifications</u>
William C.Y. Cheng (62)	1995	Mr. Cheng has been President of H&C Industries, Inc. since 1974. H&C Industries is engaged in the export, import and distribution of chemical products. Mr. Cheng received an MBA from the University of Southern California and a Masters degree in engineering systems from UCLA. Mr. Cheng brings to the Board of Directors long and extensive experience managing a complex enterprise. His familiarity with import-export transactions is an asset to the Board of Directors because a portion of our business is related to trade finance. His deep knowledge of business and finance from MBA and from his experience as an entrepreneur qualifies him to serve on our audit committee. Mr. Cheng also serves as a member of loan committee, governance and nominating committee, and investment committee.
J. Richard Belliston (65)	2003	Mr. Belliston retired from MoneyLine Lending Services in 2007 where he had served as Vice Chairman and Chief Financial Officer since 2001. Previously he served as Chief Financial Officer and then Vice Chairman of Tokai Bank of California for 25 years. Mr. Belliston is a Certified Public Accountant (inactive) and a member of the American Institute of Certified Public Accountants and California Society of CPA's. He received a Bachelors of Science degree from Brigham Young University. Mr. Belliston's past positions as Chief Financial Officer, his background as a Certified Public Accountant and other activities in accounting-related business associations, and his extensive experience in the financial services industry qualify him to serve as the chairman of our audit committee and one of our audit committee financial experts. Mr. Belliston also serves on our compensation committee and investment committee.
Dr. Albert Yu (69)	1991- 1992, 2003	Dr. Yu has been active in investing and nurturing high technology companies since his retirement from Intel Corporation in 2002 after almost 30 years. Dr. Yu had been Senior Vice President, Member of the Corporate Management Committee and General Manager of the heart of Intel's business-the microprocessor group - for over sixteen years. Dr. Yu received his Bachelors degree from the California Institute of Technology and his Masters and Doctorate degrees from Stanford University, all in electrical engineering. Dr. Yu was one of our founding shareholders. Dr. Yu was a member of our Board of Directors for the first year after our founding and returned to our Board of Directors in 2003. Dr. Yu is currently a director of PDF Solutions, Inc.(NasdaqGM: PDFS), a technology company. Dr. Yu brings to the Board of Directors significant management experience and a strong understanding of our small business customers based on his long history nurturing businesses through various stages of growth. In addition, as one of our founding shareholders, Dr. Yu brings to the Board of Directors a deep understanding of our history and our business. Dr. Yu serves as the chairman of our compensation committee and on our governance and nominating committee.

Executive Officers Biographical Information

Information regarding our named executive officers⁽¹⁾ for the period ended December 31, 2009, is set forth below:

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

Robert Kosof – Mr. Kosof was recently appointed on February 22, 2010 as our Executive Vice President and Head of Commercial and Industrial Loans and Regional Branch Manager. Prior to that, he served as our Executive Vice President and Chief Credit Officer. He has been with us since 2008. Before joining us, he was Executive Vice President and Chief Credit Officer of RP Realty Partners Entrepreneurial Fund from 2006 to 2008. Prior to that, he was Senior Vice President and Chief Lending Officer for Bank Leumi USA from 1987 to 2006. His responsibilities included credit approval and credit quality for the California branches of the bank. From 1985 to 1987 he was Executive Vice President and Director for Olympic National Bank. From 1974 to 1985 he was Senior Vice President and head of Loan Administration which included Loan Adjustments for Imperial Bank.

Nick Pi – Mr. Pi has been our Executive Vice President and Group Manager since 2006 and our Senior Vice President and Corporate Banking Officer from 2003 to 2006. Before joining 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.

Thomas Lo – Mr. Lo has been our Executive Vice President and Group Manager since 2007. Before joining us, Mr. Lo was the Senior Vice President and Manager of Pacific Rim Corporate Banking of Bank of the West from 2004 until 2007. Prior to this, he held various corporate titles from Vice President to Senior Vice President at United National Bank, primarily in the branch operation, audit/compliance and lending fields from 1992 to 2004. Mr. Lo received a B.S. degree in Business Administration from the University of Southern California and an MBA degree from Pepperdine University. He also completed Pacific Coast Banking School.

⁽¹⁾ Mr. Lucilio Couto was appointed on February 22, 2010 as Executive Vice President and Acting Chief Credit Officer pending regulatory non-objection.

BOARD MATTERS

Our Board of Directors is committed to good business practices, transparency in financial reporting and the highest level of corporate governance. Our Board of Directors has appointed a governance and nominating committee consisting entirely of independent directors.

Board Qualification and Selection Process

Our governance and nominating committee reviews, evaluates and proposes prospective candidates for our Board of Directors. The governance and nominating committee recommends director nominees for selection to our Board of Directors and the Board of Directors selects the nominees for election as directors. Each member of our Board of Directors should possess the highest personal and professional ethics and integrity and be devoted to representing our best interests and the best interests of our shareholders. The goal of the governance and nominating committee is to maintain a strong and experienced Board of Directors by continually assessing the board members' business background, current responsibilities, level of independence, community involvement and expected period of time available for service. In evaluating director nominees, the governance and nominating committee considers a variety of factors, including the mix of skills, experience, contacts and other qualities. Other important factors to be considered by the governance and nominating committee in the selection of nominees for director include current knowledge and contacts in our industry and other industries relevant to our business, ability to work together as an effective group and ability to commit adequate time to serve as a director. In addition, the governance and nominating committee is constantly assessing the Board of Directors to determine strengths in different areas such as financial, economic and financial institution expertise, public board experience, marketing and community relations, regional representation, diversity, business management experience and real estate expertise.

The governance and nominating committee conducts an annual assessment of the composition of the Board of Directors, and will advise the Board of Directors on any proposed changes or enhancements to board composition and structure. The governance and nominating committee has the authority to retain a search firm to identify director candidates.

Board Independence

The Board of Directors has determined that, with the exception of Mr. Li Yu, our Chairman, President and Chief Executive Officer, all of our current directors, including all of our incumbent directors standing for re-election, are "independent" within the meaning of the director independence standards set by the NASDAQ and the Federal Deposit Insurance Corporation ("FDIC"), as currently in effect. Furthermore, the Board has determined that each of the current members of the audit committee, compensation committee, and governance and nominating committee are "independent" within the meaning of such director independence standards.

Consideration of Shareholder Nominees

The policy of the governance and nominating committee is to consider properly submitted shareholder recommendations for candidates for membership on our Board of Directors. In evaluating potential nominees, the governance and nominating committee will look at the same factors described under the heading "Board Qualification and Selection Process" above. Recommendations must be submitted in writing and should meet the requirements of Section 2.14 of our bylaws and should be submitted in writing to:

Chair, Governance and Nominating Committee
Preferred Bank
601 S. Figueroa Street, 29th Floor
Los Angeles, California 90017

The governance and nominating committee will then screen potential candidates to determine if they meet the qualification criteria. For those candidates who meet the criteria, the committee will conduct a due diligence review of the candidates' qualifications and interview the candidate if he or she is not already known to the committee.

Executive Sessions

Executive sessions of non-management directors are convened as considered necessary by the Board of Directors. The Board of Directors held one executive session in 2009 in conjunction with the regularly scheduled meeting of our Board of Directors.

Attendance at Annual Meetings

Although we do not have a formal policy regarding attendance of members of our Board of Directors at our Annual Meeting, we encourage all members to attend the Annual Meeting. All of our directors attended the 2009 Annual Meeting.

Communications with the Board

Individuals may communicate with our Board of Directors, including a committee of the Board of Directors or individual directors, by writing to the following address:

Preferred Bank
601 S. Figueroa Street, 29th Floor
Los Angeles, California 90017
Attention: Corporate Secretary

All communications sent to the Board of Directors will be communicated to the entire Board of Directors unless the chairman of the Board of Directors reasonably believes communication with the entire Board of Directors is not appropriate or necessary or unless the communication is addressed solely to a specific committee or an individual director.

Code of Professional and Business Conduct

We expect all of our directors, executive officers and employees to adhere to the highest standards of ethics and business conduct with each other, customers, shareholders and communities we serve and to comply with all applicable laws, rules and regulations that govern our business. These principles have long been embodied in our various policies relating to director, officer and employee conduct including such subjects as employment policies, conflicts of interest, professional conduct and protection of confidential information. While the governance and nominating committee may consider a waiver for an executive officer or director, we do not expect to grant such waivers. The Code of Professional and Business Conduct is posted on our internet website at www.preferredbank.com by clicking on "Investor Relations" and then on "Governance Documents." Any change to or waiver of this code of conduct (other than technical, administrative and other non-substantive changes) is required to be reported on a Form 8-K filed with the FDIC.

The Role of the Board of Directors

The Board of Directors oversees our business and monitors the performance of our management. In accordance with our corporate governance principles, the Board of Directors does not involve itself in day-to-day operations. The directors keep themselves informed through, among other things, discussions with our President and Chief Executive Officer, our Chief Credit Officer, our Chief Financial Officer and other key employees, and our principal outside advisers (legal counsel, independent registered public accountants, investment bankers and other consultants), by reading reports and other materials furnished by management and by participating in board and committee meetings.

Our bylaws provide that the number of directors shall be no less than six (6) nor more than eleven (11). Our bylaws further provide that the exact number of directors shall be fixed from time to time, within the foregoing range, by a resolution duly adopted by our Board of Directors or by our shareholders. Our Board of Directors has fixed the exact number of directors at seven.

Our bylaws also provide for classification of our Board of Directors into two classes, designated as Class I and Class II, with each class nearly equal in numbers as the then-total number of directors constituting the entire Board of Directors permits. In addition, our bylaws provide that currently, at each Annual Meeting the successors to directors whose terms expire at that meeting will be elected to serve from the time of election and qualification until the second Annual Meeting following election. The term of office of the Class I Directors will expire at the Annual Meeting to be held during 2012 and the term of office of the Class II Directors will expire at the Annual Meeting to be held during 2011.

Any additional directorships resulting from an increase in the number of directors will be distributed among the two classes so that, as nearly as possible, each class will consist of one-half of the total number of directors.

Our Board of Directors held twelve meetings during 2009 either in person or via teleconference. Each incumbent director attended at least 75% of the total number of Board of Directors meetings plus meetings of the standing committees on which that particular director served.

The Committees of the Board of Directors

Our Board of Directors may delegate portions of its responsibilities to committees of its members. These standing committees of our Board of Directors meet at regular intervals to attend to their particular areas of responsibility. Our Board of Directors has established five standing committees: an audit committee, a compensation committee, a governance and nominating committee, a loan committee and an investment committee. The following is a brief description of each committee.

Audit Committee. Our audit committee is a standing committee appointed by our Board of Directors to oversee the processes of our accounting and financial reporting and our audits and financial statements.

The members of the audit committee are Messrs. Belliston (Chair), Nunnelly and Cheng. The Board of Directors has determined that each of the members of the audit committee is (i) “independent” as defined under the standards of Rule 5605(a)(2) of the NASDAQ listing standards, (ii) meets the criteria for independence as set forth in Rule 10A-3(b)(1) of the Securities Exchange Act of 1934, as amended and as adopted by the FDIC (the “Exchange Act”), (iii) is independent under FDIC Regulation 363.5, (iv) has not participated in the preparation of our financial statements at any time during the past three years and (v) is able to read and understand fundamental financial statements. In addition, our Board of Directors has determined that Messrs. Belliston and Nunnelly each qualify as an “audit committee financial expert,” as defined under the rules of the Securities and Exchange Commission (“SEC”) implementing Section 407 of the Sarbanes-Oxley Act, as such rules have been adopted by the FDIC.

The audit committee’s authorities and responsibilities are set forth in the audit committee charter, and include, but are not limited to:

- appointing, retaining, compensating and overseeing our independent registered public accounting firm;
- pre-approving all auditing services and permitted non-audit services to be performed for us by the independent registered public accounting firm;
- reviewing the independence of our independent registered public accounting firm;

- reviewing and approving all related party transactions;
- establishing procedures for the receipt, retention and treatment of complaints received by us regarding accounting, internal accounting controls and auditing matters and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters;
- reviewing with the independent registered public accounting firm and the internal auditor the adequacy of our system of internal controls;
- meeting with the independent registered public accounting firm to discuss the scope of the annual audit and the procedures to be followed;
- reviewing with the independent registered public accounting firm at the completion of the annual audit the results of the audit of our financial statements and their report issued in connection with the audit; and
- providing us with the report of the audit committee with respect to the audited financial statements required to be included in our annual proxy materials under the federal securities laws.

The audit committee met thirteen times in 2009 either in person or via teleconference to discuss various issues. The charter of the audit committee is available through our website at www.preferredbank.com by clicking on “Investor Relations” and then on “Governance Documents.”

Audit Committee Report

The Audit Committee Report is not deemed to be “soliciting material” or to be “filed” with the FDIC or subject to the FDIC’s proxy rules or the liabilities of Section 18 of the Exchange Act and the report shall not be deemed to be incorporated by reference into any prior or subsequent filing by us under the Exchange Act, except to the extent we specifically incorporate the information contained in the report by reference therein.

The audit committee operates pursuant to a written charter revised and adopted by our Board of Directors on January 19, 2010. A copy of the audit committee charter is available through our website at www.preferredbank.com by clicking on “Investor Relations” and then on “Governance Documents.” The audit committee is responsible for overseeing the processes of our accounting and financial reporting and our audits of financial statements.

Management is responsible for the financial reporting process, including the system of internal controls, and for the preparation of financial statements in accordance with generally accepted accounting principles. The Bank’s independent registered public accounting firm is responsible for auditing those financial statements. The audit committee’s responsibility is to monitor and review these processes. The audit committee relies, without independent verification, on the information provided to it and on the representations made by management, the internal auditors and the independent registered public accountants.

In discharging its oversight responsibility, the audit committee has met and held discussions with management and KPMG LLP, the independent registered public accountants for the Bank. Management represented to the audit committee that all financial statements were prepared in accordance with generally accepted accounting principles, and the audit committee has reviewed and discussed the financial statements with management and the independent registered public accountants. The audit committee discussed with the independent registered public accountants matters required to be discussed by Statement on Auditing Standards No. 61 (*Communications with Audit Committees*), as amended (AICPA, Professional Standards, Vol. 1, AU Section 380) as adopted by PCAOB in Rule 3200T.

The audit committee also obtained from the independent registered public accountants a formal written statement describing all relationships between the Bank and the accountants that bear on the accountants' independence consistent with requirements of Public Company Accounting Oversight Board. The audit committee discussed with the independent registered public accountants any relationships that may impact the firm's objectivity and independence and satisfied itself as to the accountants' independence.

Based on these discussions and reviews, the audit committee recommended that the Board of Directors approve the inclusion of the Bank's audited financial statements in its Annual Report on Form 10-K for the fiscal year ended December 31, 2009, for filing with the FDIC.

Respectfully submitted by the members of the audit committee:

J. Richard Belliston, Chairman
Gary S. Nunnelly
William C. Y. Cheng

Dated: April 16, 2010

Compensation Committee. Our compensation committee is a standing committee appointed by our Board of Directors to oversee our compensation and employee benefit plans and practices, including our executive compensation plans and our incentive-compensation and equity-based plans.

The members of our compensation committee are Dr. Albert Yu (Chair) and Messrs. Belliston and Lin. Each member is an "independent director," as defined by the applicable rules and regulations of the NASDAQ, and meets the applicable standards of independence prescribed for purposes of federal securities, tax and other laws relating to the compensation committee's duties and responsibilities.

The compensation committee's authorities and responsibilities are set forth in the compensation committee charter, and include, but are not limited to:

- annually evaluating the performance of our Chief Executive Officer and setting our Chief Executive Officer's compensation level based on the evaluation;
- determining the appropriate level of compensation for our other executive officers;
- reviewing all incentive-compensation and equity-based plans and adopting or amending, or recommending that our Board of Directors adopt or amend, such plans as the compensation committee deems appropriate;
- annually evaluating the appropriate level of compensation for service by non-employee members of our Board of Directors and, based upon such evaluation, recommending to the Board of Directors the level of compensation that the compensation committee deems appropriate; and
- producing the annual report on executive compensation required to be included in our annual proxy materials under the federal securities laws.

Our compensation committee met one time during 2009. A copy of the charter of our compensation committee is available on our website at www.preferredbank.com by clicking on "Investor Relations" and then on "Governance Documents."

Governance and Nominating Committee. The members of our governance and nominating committee were Mr. Chih-Wei Wu (Chair) and Dr. Albert Yu until April 2009 when Mr. Wu declined to stand for re-election as a director as a result of other commitments. On April 16, 2009, Mr. Hsu was appointed as Chair and Messrs. Nunnelly, Cheng and Dr. Yu were appointed by the Board of Directors as members of the governance and nominating committee. Each member is an “independent director,” as defined by the applicable rules and regulations of the NASDAQ. Our governance and nominating committee is a standing committee appointed by our Board of Directors to assist our Board of Directors in promoting the best interests of the company and our shareholders through the implementation of sound corporate governance principles and practices. The committee seeks to accomplish this goal by, among other things:

- assisting our Board of Directors in identifying individuals qualified to become Board of Directors members;
- recommending to our Board of Directors the director nominees for the next Annual Meeting;
- reviewing the qualifications and independence of the members of our Board of Directors and its various committees;
- recommending to our Board of Directors corporate governance guidelines and monitoring and reassessing those corporate governance guidelines;
- overseeing and reviewing our process for providing information to our Board of Directors; and
- developing and monitoring the orientation process for new directors and the continuing education for existing directors.

Our governance and nominating committee held two meetings during 2009. A copy of the charter of the governance and nominating committee is available on our website at www.preferredbank.com by clicking on “Investor Relations” and then on “Governance Documents.”

Loan Committee. Our loan committee is appointed to approve our loan policies and loan underwriting standards and all significant other real estate owned transactions. Our loan committee also has approval authority up to our legal lending limit, which was approximately \$33.1 million for secured loans and \$19.8 million for unsecured loans at December 31, 2009, and also reviews all loan commitments granted in excess of \$1 million on a quarterly basis for the preceding quarter. The members of the loan committee are Messrs. Nunnelly (Chair), Cheng, Hsu, Lin and Li Yu. Our loan committee held thirteen meetings during 2009.

Investment Committee. Our investment committee is appointed to adopt and maintain policies regarding our investment portfolio and to monitor the interest rates and credit risks of our investments. In addition, the Investment Committee is appointed to oversee, adopt and maintain policies regarding asset/liability management and interest rate risk. The members of the investment committee are Mr. Li Yu (Chair) and Messrs. Nunnelly, Belliston, Cheng, Hsu and Lin. Our investment committee held eleven meetings during 2009.

Compensation Committee Interlocks and Insider Participation

None of the voting members of the compensation committee is an executive officer. None of our executive officers serves as a member of the Board of Directors or compensation committee of any other company that has one or more executive officers serving as a member of our Board of Directors or compensation committee.

Related Party Transactions

The SEC, whose rules are applicable to us as a result of their adoption by the FDIC, requires public companies to report certain related person transactions in their public reports and also requires public companies to describe their policies and procedures relating to the review, approval or ratification of related person

transactions. Historically, our practices and procedures to monitor and disclose related person transactions have included 1) the adoption of a policy requiring prior approval of loans to directors, officers and their immediate families in accordance with the requirements of Regulation O, and 2) the adoption of a code of Professional and Business Conduct which govern potential conflicts of interest. All loans to directors and our principal shareholders and their related interests are to be negotiated by the Chief Credit Officer and approved in advance by a majority of our entire Board of Directors and any interested parties are to abstain from participating directly or indirectly in the voting. The Director affected will also excuse himself during deliberations on his request.

There are no existing or proposed material transactions between us and any of our executive officers, directors, or beneficial owners of 5% or more of our common stock, or the immediate family members or associates of any of the foregoing persons, except for the customer transactions discussed below.

Some of our directors and executive officers and their immediate families, as well as the companies with which such directors and executive officers are associated, are customers of, and have had banking transactions with us in the ordinary course of business. We anticipate having such banking transactions with such persons in the future. In the opinion of our management, all loans and commitments to lend in such transactions were made in compliance with applicable laws on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons of similar creditworthiness and did not involve more than a normal risk of collectability or present other unfavorable features. As of March 31, 2010, the aggregate principal outstanding amount of loans and other extensions of credit to all of our directors, executive officers and principal shareholders (that is, those persons who own, control, or have power to vote more than 10% of any class of voting securities), including immediate family members and associated companies, was approximately \$6.6 million, respectively, constituting 7.33% of our total equity capital at that date.

Compensation Committee Report

The Compensation Committee Report on Executive Compensation is not deemed to be “soliciting material” or to be filed with the FDIC or subject to the FDIC’s proxy rules or the liabilities of Section 18 of the Exchange Act and the report shall not be deemed to be incorporated by reference into any prior or subsequent filing by us under the Exchange Act, except to the extent that we specifically incorporate the information contained in the report by reference therein.

The Committee reviewed and discussed with management the Compensation Discussion and Analysis set forth below as required by Item 402 of Regulation S-K promulgated under the Exchange Act. The Committee recommended to the Board of Directors and the Board of Directors approved the inclusion of the Compensation Discussion and Analysis in this Proxy Statement for the Bank’s Annual Meeting to be held on July 30, 2010.

Respectfully submitted by the members of the compensation committee:

Dr. Albert Yu (Chair)
J. Richard Belliston
Frank T. Lin

Dated: April 16, 2010

COMPENSATION DISCUSSION AND ANALYSIS

Compensation Philosophy and Objectives

The principal objectives of our compensation policies and executive compensation programs are to attract and retain high caliber executives who are critical to our long-term success, to provide a total compensation package in a cost effective manner, and to encourage management ownership of our stock while maximizing return on shareholders' equity. Our compensation program is designed to reward our executive officers with an attractive and competitive compensation package that recognizes the cost of living in the greater Los Angeles area as well as the compensation practices of our competitors in the banking and financial services industry.

Role of the Compensation Committee

Our compensation committee is a standing committee appointed by our Board of Directors to oversee our compensation and employee benefit plans and practices, including our executive compensation plans and our incentive-compensation and equity-based plans. The compensation committee's authorities and responsibilities are set forth above under "BOARD MATTERS – The Committees of the Board of Directors."

Role of the Executives in Compensation Determinations

In determining the appropriate compensation levels for our named executive officers (other than our Chief Executive Officer), the compensation committee meets outside the presence of all executive officers, other than, as requested, our Chief Executive Officer. Our Chief Executive Officer provides his insight and suggestions with respect to the other named executive officers' compensation. Only the compensation committee members, who are all independent, vote upon decisions regarding executive compensation.

With respect to the compensation of our Chief Executive Officer, the compensation committee meets outside his presence and the presence of all of our executive officers. The Chief Executive Officer provides recommendations to the compensation committee regarding his own compensation. The compensation committee discusses the Chief Executive Officer's compensation with him, but conducts final deliberations and all votes regarding the recommendation of his compensation to the Board of Directors in an executive session, without the Chief Executive Officer present. The compensation committee bases any changes in the Chief Executive Officer's compensation on a variety of factors, including but not limited to our performance, regulatory restrictions and guidance, and periodic market reviews.

Role of the Compensation Consultant

From time to time, our compensation committee seeks advice from outside experts in the executive compensation field to provide input on both Board of Director compensation and executive compensation issues. In 2009, we did not use a compensation consultant for any purpose, but we may use a compensation consultant in the future.

Compensation Market Review

In lieu of a compensation consultant, the compensation committee conducts its own evaluation of the competitiveness of our executive officers’ salaries, bonuses, benefits and employment agreement arrangements by conducting a market check of a peer-group of commercial banks focused on the Chinese-American market and other regional commercial banking organizations. The compensation committee looks to information with respect to other banking institutions only as a guide to setting compensation, rather than for purposes of formal benchmarking. Our compensation committee obtains and reviews publicly available information about these companies from sources, such as filings with the SEC, reports filed with banking regulatory agencies, press releases, and similar publicly available information, to establish parameters for compensation. The banking institutions included in our review are:

<u>Company Name</u>	<u>Approximate Total Assets 2009 Fiscal Year</u>
City National Corporation	\$21.1 billion
East West Bancorp, Inc.	20.6 billion
Cathay General Bancorp	11.6 billion
PacWest Bancorp	5.3 billion
CVB Financial Corp.	6.7 billion
Chinatrust Bank (USA) (subsidiary of Chinatrust Financial Holding Company, Ltd., Taipei, Taiwan)	2.3 billion
Far East National Bank (subsidiary of SinoPac Financial Holdings Company Limited, Taipei, Taiwan)	2.0 billion

These banking institutions have similar business model concentrations in commercial loans and operate within our geographic region. Data analyzed by the compensation committee included total assets, asset growth, return on average equity, net interest margin, efficiency ratio, stock price and number of branches.

The compensation committee believes that surveying measures such as base salaries, cash compensation and total compensation paid by companies in the above peer group can serve as a useful comparative tool. On the other hand, the compensation committee recognizes that executives in different companies can play significantly different roles, even though they may hold the same titles. In addition, a number of these institutions are significantly larger than us in terms of asset size. Moreover, it is not possible to determine from the available information about peer group compensation anything relating to the respective qualitative factors that may influence compensation, such as the performance of individual executives or their perceived importance to their companies’ business.

Elements of Compensation

Our executive compensation program consists of the following elements, which are used in the appropriate combination to meet our compensation philosophy and objectives, including responding to changing financial conditions: (1) Base Salary, (2) Annual Incentives (bonus compensation), (3) Long-Term Stock Based Incentives, (4) Deferred Compensation Arrangement, and (5) Other Compensation. In determining each component of compensation, the total compensation package of each named executive officer is considered.

Base Salary. This is fixed cash compensation that reflects each executive’s position, experience, individual performance, and expertise. Each executive officer is eligible for an annual increase in base salary, which, if increased, generally takes effect during the month of March. Although the base salary component of our compensation package for each executive officer is competitive with companies of similar size to us and with comparable operating results within the banking industry, our compensation committee relies less on base salary and more on annual cash incentives and long-term stock-based incentives to reward executives.

In determining the base salaries for 2009, the compensation committee reviewed base salaries at peer banks and then considered our relative financial performance and our stock price performance versus our peer banks. Like most financial institutions, we experienced a decline in our overall financial performance in 2009, primarily due to continued deterioration in the real estate market and, consequently, in our real estate loan portfolios. The compensation committee, however, recognized the need to keep pace with our competitors with respect to base salary. Consequently, the compensation committee awarded modest increases in base salary to its named executive officers (other than Li Yu) and no increase to Mr. Yu, our President and Chief Executive Officer.

Annual Cash Incentives

Purpose. We maintain a management incentive bonus plan which is designed to provide an incentive for our executives to meet a minimum amount of earnings, generally equivalent to the market rate of return on equity, which helps us meet our overall strategic objectives. Annual cash bonuses are designed to supplement the base salary so as to bring the total compensation of our named executive officers to a level that is competitive in the industry. This helps us attract and retain highly qualified executives.

Methodology. The compensation committee determines annual cash bonuses in two stages. First, the compensation committee determines whether we have met the pre-tax income requirement necessary to establish a bonus pool for the current year under consideration. The compensation committee also looks to prior years to determine whether there are existing amounts in prior years' bonus pools which may serve as a source of bonus payments if the current year's targets were not met. Second, if a bonus pool exists, the compensation committee considers the appropriate allocation of the total amount in the bonus pool among our officers and other employees and whether any portion of the bonus pool shall be paid in future years instead of the current year.

Establishment of a Bonus Pool. The annual amount of the total bonus pool is based on a quantitative formula directly tied to our pre-tax income. Specifically, after a minimum pre-tax return on beginning equity equal to 150% of the one year constant maturity treasury is reached, then a percentage of pre-tax income is calculated less any stock option related expenses, director related expenses and employee welfare related expenses. As a result of our bonus methodology, the net bonus accrued, depending on the level of pre-tax income relative to the aforementioned expenses, could result in approximately 9% to 11% of pre-tax income, which will be accrued for the incentive bonus pool. From this bonus pool, the compensation committee may defer up to 25% of the amount for future years' distribution. Afterward, the net amount is distributed in February of the following year. We did not accrue for bonuses in 2009 as the level of pre-tax income was not reached under the bonus methodology.

Allocation of the Bonus Pool (if any). The policy for allocation of bonuses to our officers has been as follows: Mr. Yu is entitled to receive between 15% and 30% of the total bonus amount annually, and our other officers receive between 70% and 85% of the total bonus amount annually based on individual performance against individual goals and objectives. As stated above, there was no bonus pool available in 2009 for allocation among the named executive officers and other employees because the level of pre-tax income was not reached under the bonus methodology. Bonuses were paid in 2009 that were accrued in prior years using funds that were carried over from those years' bonus pools. We accrued total bonuses of \$294,000 at December 31, 2008, all of which was paid in 2009, and \$5.11 million at December 31, 2007, of which \$4.72 million was paid in 2008 and \$393,000 was paid in 2009.

Certain bonuses may be awarded at the discretion of our compensation committee irrespective of whether the level of pre-tax income was reached under the bonus methodology. This is typically done for new employees' first year compensation as an alternative to a signing bonus. No such bonuses were made in 2009.

Long-Term Stock-Based Incentives

Purpose. Long-term stock-based incentives encourage equity ownership by the named executive officers which aligns the interests of the officers with the long-term performance objectives of our shareholders and enhances our ability to attract and retain highly qualified executives on a basis compatible with industry practices.

Mix of Awards. Our 2004 Equity Incentive Plan permits the grant of nonqualified stock options, incentive stock options, stock appreciation rights, performance shares, performance units, deferred stock units and restricted stock. To date we have only granted stock options and restricted stock under the 2004 Equity Incentive Plan. We grant stock options and restricted stock awards to achieve the objectives set forth above and to provide additional compensation to our named executive officers. The restricted stock awards granted under the 2004 Equity Incentive Plan have a two-year vesting period and are to be distributed at the end of the two-year period. Stock options granted have historically vested at 20% each year with full vesting after 5 years. Typically, the stock options expire ten years after the grant date, but that period may be shortened at the discretion of the Board of Directors at the time of the grant. The grant date recorded for the granting of stock options is the date on which the Board of Directors approves the grant or the date that the grantee is notified of the grant, which could conceivably be a date after the Board of Director's approval date. The exercise price used for the granting of stock options is the closing price of our common stock on the grant date. In the event of a change of control, all awards granted under the 2004 Equity Incentive Plan vest and become exercisable immediately, unless the awards are assumed or substituted by the successor corporation.

In determining the number of stock options to be granted to individual executives, the following factors are taken into consideration: the individual's contributions, our financial performance, competitive practices, the number of stock options previously granted, the value of our common stock on the date of the grant and the cost of expensing the options under FASB ASC Topic 718, Compensation – Stock Compensation (ASC Topic 718). Formal weightings have not been assigned to these factors.

2009 Grants. As a result of the decline in our financial performance which began in 2008 and continued in 2009 and our compensation committee's emphasis on pay for performance, no awards were granted under our 2004 Equity Incentive Plan to Li Yu, our President and Chief Executive Officer, Edward Czajka, our Executive Vice President and Chief Financial Officer, and Robert Kosof, our Executive Vice President and Chief Credit Officer.

The compensation committee elected to grant 7,000 shares of restricted stock to Nick Pi, our Executive Vice President and Group Manager, and options to purchase 10,000 shares of our stock to Thomas Lo, our Executive Vice President and Group Manager, solely for the purpose of bringing their compensation in line with the compensation paid by our competitors for similarly situated executives, including competing institutions that experienced similar adverse financial results to us in 2009. Our base salaries are generally lower than competing financial institutions and the compensation committee gave minimal salary increases in 2009. Accordingly, to offset the lower salary and for retention purposes, the compensation committee elected to provide equity grants to these named executive officers. The compensation committee elected to grant stock options to Mr. Lo, in lieu of restricted stock, because stock options are less costly to us than restricted stock as a result of the compensation expense associated with restricted stock. Also, because Mr. Pi's term of service (approximately 7 years) is longer than that of Mr. Lo's (approximately 3 years), the compensation committee believed it was important for Mr. Lo to make an investment in us in exchange for his receipt of stock and also the value of Mr. Pi's equity grant was greater than Mr. Lo's.

Deferred Compensation Plan

We adopted a Deferred Compensation Plan in 1999. The plan is a nonqualified unfunded plan for a select group of management and highly compensated employees. The plan permits eligible executives to elect to defer base salary and/or bonuses up to a maximum of 30% of salary and bonus combined. Deferred amounts accrue

interest at a rate of prime plus 1%, unless the deferred amounts are invested in employer stock, in which case no interest accrues on the deferred amounts and the executives are entitled to receive the shares allocated to their deferred compensation account upon a plan distribution event. The plan provides for distribution of deferred compensation upon normal or early retirement dates, termination of employment, disability, change of control, death or hardship. We amended the plan to conform with Section 409A of the Internal Revenue Code. The deferral amounts are included in the Summary Compensation table under the salary column. The nonqualified deferred compensation earnings amount included in the Summary Compensation table of this Proxy Statement represents the earnings for each named executive officer “above market” as defined by the SEC (as such definition has been adopted by the FDIC).

Other Compensation:

Our named executive officers participate in our broad-based employee benefit plans, such as medical, dental, 401(k) Retirement Savings Plan, and supplemental disability and term life insurance programs. All of the named executive officers received an automobile allowance and Mr. Yu received payment of fees for social club memberships, which are used for business development and business retention purposes. The total amounts of these items are reflected in the “All Other Compensation” column of the Summary Compensation Table. The compensation committee believes that these items enhance the effectiveness of our named executives officers and are consistent with industry practices in comparable banking companies. The compensation committee regularly reviews the perquisites we provide.

The compensation committee believes that our compensation programs are effective in furthering our objectives of attracting, retaining and motivating the best qualified officers and ultimately will serve to increase our profitability and maximize shareholder value.

The following table sets forth the compensation awarded to, earned by or paid for services received by our named executive officers for the last three fiscal years ended December 31, 2009, 2008 and 2007.

Summary Compensation Table

Name and Principal Position	Year	Salary	Annual Incentive Bonus Compensation ⁽¹⁾	Stock Awards ⁽³⁾	Option Awards ⁽³⁾	Change in Nonqualified Deferred Earnings ⁽⁴⁾	All Other Compensation	Total
Li Yu, Chairman, President and Chief Executive Officer	2009	\$570,250	—	—	—	—	\$162,428 ⁽⁵⁾	\$ 732,678
	2008	\$570,832	—	—	\$562,853	\$ 42,058	\$325,117	\$1,500,860
	2007	\$541,667	\$1,958,339	—	—	\$105,022	\$356,544	\$2,961,572
Robert Kosof, ⁽⁶⁾ Executive Vice President, Chief Credit Officer	2009	\$225,000	—	—	—	—	\$ 12,930 ⁽⁵⁾	\$ 237,930
	2008	\$197,740	\$ 150,000 ⁽²⁾	—	\$ 3,904	—	\$ 6,983	\$ 358,627
	2007	—	—	—	—	—	—	—
Edward Czajka, Executive Vice President, Chief Financial Officer	2009	\$176,584	—	—	—	—	\$ 11,327 ⁽⁵⁾	\$ 187,911
	2008	\$166,170	\$ 90,000	—	\$ 8,100	\$ 151	\$ 11,825	\$ 276,247
	2007	\$161,667	\$ 156,010	—	\$ 72,608	\$ 53	\$ 10,355	\$ 400,693
Nick Pi, Executive Vice President and Group Manager	2009	\$160,000	—	\$37,800	—	—	\$ 13,541 ⁽⁵⁾	\$ 211,341
	2008	\$156,300	\$ 19,000	—	\$ 8,100	\$ 4,954	\$ 45,544	\$ 233,898
	2007	\$137,300	\$ 289,089	—	\$ 72,608	\$ 10,970	\$ 44,502	\$ 554,469
Thomas Lo Executive Vice President and Group Manager	2009	\$176,539	—	—	\$ 14,400	—	\$ 12,712 ⁽⁵⁾	\$ 203,651
	2008	\$173,077	\$ 10,000	—	—	—	\$ 10,008	\$ 193,085
	2007	\$ 44,423	\$ 80,000	—	\$ 55,900	—	\$ 1,800	\$ 182,123

- (1) There were no annual bonuses for 2009. Annual bonus for 2008 represents the amount the executive officers earned in 2008, which was paid in 2009 and is described in the section “Annual Cash Incentives” under the Compensation Discussion and Analysis section of this Proxy Statement.
- (2) Included in the amount disclosed is a signing bonus for \$50,000 paid to Mr. Kosof approximately three months after his hire date of 2/15/08.
- (3) Pursuant to new SEC regulations, as adopted by the FDIC, regarding the valuation of equity awards, amounts in these columns represent the applicable full grant date fair values of stock awards and stock options in accordance with FASB ASC Topic 718, excluding the effect for forfeitures. To facilitate year-to-year comparisons, the SEC regulations, as adopted by the FDIC, require companies to present recalculated disclosures for each preceding year required under the rules so that equity awards and stock options reflect the applicable full grant date fair values, excluding the effect of forfeitures. The total compensation column is recalculated accordingly.
- (4) Represents the above-market value of Deferred Compensation Plan earnings during 2009, 2008 and 2007. The total nonqualified deferred compensation earnings are reported in the 2009 Nonqualified Deferred Compensation table in the Proxy Statement. For further detail, see the discussion concerning the Deferred Compensation Plan under the Compensation Discussion and Analysis.
- (5) The components of all other compensation are detailed below:
- (a) Mr. Yu, automobile allowance \$27,948, club dues \$2,300, medical plan \$2,237, 401(k) Match of \$6,819 and deferred compensation earnings of \$123,123.
 - (b) Mr. Kosof, automobile allowance \$6,000 and 401(k) Match of \$6,930.
 - (c) Mr. Czajka, automobile allowance \$7,200, 401(k) Match of \$3,676 and deferred compensation earnings of \$452.
 - (d) Mr. Pi, automobile allowance \$7,200, 401(k) Match of \$4,016 and deferred compensation earnings of \$1,325.
 - (e) Mr. Lo, automobile allowance \$7,200 and 401(k) Match of \$5,512.
- (6) On February 22, 2010, Mr. Kosof was named the Chief of Commercial Lending and Lucilio Couto was named the Acting Chief Credit Officer, pending regulatory approval.

The following table illustrates the grants of plan-based awards during 2009.

Grants of Plan-Based Awards Table

Name	Grant Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			All other stock Awards: Number of Share or Stock or Units (#)	All Other Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Awards (\$/Sh)	Grant Date Fair Value of Stock and Option Awards (\$)
		Threshold (\$)	Target (\$)	Maximum (#)	Threshold (\$)	Target (\$)	Maximum (#)				
		Li Yu	—	—	—	—	—				
Edward Czajka	—	—	—	—	—	—	—	—	—	—	
Robert Kosof	—	—	—	—	—	—	—	—	—	—	
Nick Pi	2/26/2009	—	—	—	—	—	—	7,000	—	—	\$37,800
Thomas Lo	2/26/2009	—	—	—	—	—	—	—	10,000	\$5.40	\$14,400

The following table lists the outstanding equity awards at December 31, 2009. All of the awards have been adjusted for the stock dividends and stock splits declared by us since the grant date.

Outstanding Equity Awards at December 31, 2009

Name	Grant Date	Option Awards				Stock Awards	
		Number of Securities Underlying Options Exercisable	Number of Securities Underlying Options Unexercisable	Option Exercise Price ⁽¹⁾	Option Expiration Date	Number of Shares of Stock That Have Not Vested	Market Value of Shares of Stock That Have Not Vested ⁽²⁾
Li Yu	01/16/08	37,500	112,500	\$21.84	01/16/13		
	11/17/04	187,500	—	\$25.33	11/17/14		
	06/29/04	150,000	—	\$19.01	06/29/14		
	03/19/03	30,000	—	\$10.69	03/19/13		
Robert Kosof	07/03/08	5,000	10,000	\$ 4.50	07/03/12		
Edward Czajka	05/30/08	2,500	5,000	\$ 8.92	05/30/12		
	11/14/07	3,000	3,000	\$28.23	11/14/12		
	02/20/07	2,000	2,000	\$43.50	02/20/12		
	07/18/06	9,000	6,000	\$35.91	01/18/12		
Nick Pi	02/26/09					7,000	\$12,600
	05/30/08	2,500	5,000	\$ 8.92	05/30/12		
	11/14/07	3,500	3,500	\$28.23	11/14/12		
	02/20/07	2,500	2,500	\$43.50	02/20/12		
	02/21/06	3,600	2,400	\$33.92	08/21/11		
	11/17/04	9,000	—	\$25.33	11/17/14		
	04/26/04	1,500	—	\$19.01	04/26/14		
05/23/03	1,500	—	\$10.69	05/23/13			
Thomas Lo	02/26/09	—	10,000	\$ 5.40	02/26/13		
	11/14/07	5,000	5,000	\$28.23	11/14/12		

(1) The exercise price used for the granting of stock options is the closing price of our common stock on the grant date. For further detail, see the discussion concerning stock option grants under “Long-Term Stock-Based Incentives” in the Compensation Discussion and Analysis section.

(2) The aggregate market value of outstanding restricted stock awards is based on the closing price of our common stock on December 31, 2009, which was the last trading day of the 2009 fiscal year.

There were no option exercises or stock vested in 2009.

The following table shows contributions and earnings during 2009 and account balances as of December 31, 2009 under our Deferred Compensation Plan.

2009 Nonqualified Deferred Compensation

<u>Name</u>	<u>Contributions in 2009⁽¹⁾</u>	<u>Aggregate Earnings in 2009⁽²⁾</u>	<u>Aggregate Withdrawals/Distributions</u>	<u>Aggregate Balance December 31, 2009</u>
Li Yu	\$ 0	\$123,123	\$2,039,490	\$2,935,220
Edward Czajka	\$5,740	\$ 452	\$ 17,890	\$ 12,270
Nick Pi	\$5,700	\$ 1,325	\$ 583,507	\$ 13,402

(1) Contribution amounts are included in the Summary Compensation table under the “Salary” column. We do not match participants’ deferred contribution amounts into this plan.

(2) Represents interest earned on the deferred balance for each participant at a rate of prime plus 1%.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table summarizes information as of December 31, 2009, relating to our equity compensation plans pursuant to which grants of options, restricted stock, or other rights to acquire shares may be granted from time to time.

<u>Plan category</u>	<u>Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)</u>	<u>Weighted-average exercise price of outstanding options, warrants and rights (b)</u>	<u>Number of securities remaining available for future issuance under equity compensation plans excluding securities reflected in column (a) (c)</u>
Equity compensation plans			
approved by security holders ..	1,428,200	\$22.51	498,350
Equity compensation plans not approved by security holders ..	—	—	—
Total	1,428,200	\$22.51	498,350

Potential Payments Upon Termination or Change of Control

On November 17, 2005, we entered into a retention and severance agreement with Mr. Li Yu, our Chairman, President and Chief Executive Officer. Also, on November 21, 2006, we entered into a retention and severance agreement with Mr. Nick Pi, our Executive Vice President and Group Manager. We approved these agreements for the purpose of retaining these key executives. Pursuant to the terms of each agreement, the executive is entitled to receive a severance payment in the event he is terminated in connection with a change of control, is terminated by us without “cause,” or voluntarily terminates based on a “good reason” (as such terms are defined in the agreements). Under the agreements, Mr. Yu is entitled to a lump sum equal to one and one half times his annual base salary and one and one half times his target bonus (subject to bonus targets being satisfied), in both cases based on the greater of such amount at either the time immediately prior to the termination or in the year that the change of control event occurred. Mr. Pi is entitled to a lump sum based on the same formula equal to his annual base salary and target bonus. The agreements also provide for additional benefits including the vesting of stock options and the provision of certain employee medical and insurance benefits for a period of eighteen months in the case of Mr. Yu and twelve months in the case of Mr. Pi following their respective termination. We are not a party to any other employment, change in control, non-competition or severance agreements.

We currently do not have an employment agreement or non-competition agreement with any of our named executive officers.

Potential Payments Upon Termination of Employment

As of December 31, 2009

<u>Name</u>	<u>Cash severance Arrangements/ Compensation (\$)</u>	<u>Accrued Vacation (\$)</u>	<u>Insurance Death Benefits (\$)</u>	<u>Vested Options (\$)</u>	<u>Acceleration of Vested Options (unamortized expense) (\$)</u>	<u>Total Termination Benefits (\$)</u>
Li Yu						
Voluntary Termination of Retirement	\$	\$196,810	\$	—		\$ 196,810
Involuntary Termination (other than For Cause)		196,810		—		196,810
Involuntary Termination (For Cause)		196,810		—		196,810
Termination in Connection with Change in Control	862,500	196,810		—	—	1,059,310
Death		196,810	3,546,267	—		3,743,077
Disability		196,810		—		196,810
Edward Czajka						
Voluntary Termination of Retirement		7,620		—		7,620
Involuntary Termination (other than For Cause)		7,620		—		7,620
Involuntary Termination (For Cause)		7,620		—		7,620
Termination in Connection with Change in Control	—	7,620		—	—	7,620
Death		7,620	12,270	—		19,890
Disability		7,620		—		7,620
Robert Kosof						
Voluntary Termination of Retirement		9,736		—		9,736
Involuntary Termination (other than For Cause)		9,736		—		9,736
Involuntary Termination (For Cause)		9,736		—		9,736
Termination in Connection with Change in Control	—	9,736		—	—	9,736
Death		9,736	—	—		9,736
Disability		9,736		—		9,736
Nick Pi						
Voluntary Termination of Retirement		5,590		—		5,590
Involuntary Termination (other than For Cause)		5,590		—		5,590
Involuntary Termination (For Cause)		5,590		—		5,590
Termination in Connection with Change in Control	160,000	5,590		—	—	165,590
Death		5,590	1,493,963	—		1,499,553
Disability		5,590		—		5,590
Thomas Lo						
Voluntary Termination of Retirement		—		—		—
Involuntary Termination (other than For Cause)		—		—		—
Involuntary Termination (For Cause)		—		—		—
Termination in Connection with Change in Control	—	—		—	—	—
Death		—	—	—		—
Disability		—		—		—

Compensation of Directors

All non-executive directors receive an annual fee of \$34,000 and \$1,000 for each Board of Directors meeting attended in person and \$500 if attended by phone. In addition, the Chair of the audit committee receives an annual fee of \$12,000, while the other members of the audit committee receive \$5,000. The Chair of the compensation committee receives an additional \$10,000 annual fee, while the other members of the compensation committee receive \$5,000. The Chair of the loan committee receives an additional \$8,000 annual fee, while the other members of the loan committee receive \$4,000. In addition, each member of the loan committee, compensation committee, investment committee and audit committee receives \$500 for each committee meeting they attend which is held on a day other than a day of a regular meeting of the Board of Directors. Directors are also eligible to participate in our 2004 Equity Incentive Plan. No equity awards were granted to our directors in 2009.

The following table summarizes the compensation paid to our non-employee directors during 2009. Compensation paid to Li Yu is set forth in the Summary Compensation Table.

2009 Director Compensation

<u>Name</u>	<u>Fees Earned or Paid in Cash⁽¹⁾</u>	<u>Total Compensation</u>
J. Richard Belliston ⁽²⁾	\$62,500	\$62,500
William C. Y. Cheng	\$55,500	\$55,500
Clark Hsu	\$50,000	\$50,000
Frank T. Lin	\$54,500	\$54,500
Gary S. Nunnally ⁽³⁾	\$58,500	\$58,500
Chih-Wei Wu ⁽⁴⁾	\$13,333	\$13,133
Dr. Albert Yu ⁽⁵⁾	\$52,500	\$52,500

- (1) Each director received an annual fee which was \$34,000 for 2009. Fees in excess of the annual fee represent fees for meeting attendance and compensation for committee chairmanships.
- (2) J. Richard Belliston is the chairman of our audit committee.
- (3) Gary S. Nunnally is the chairman of our loan committee.
- (4) Director Chih-Wei Wu did not stand for reelection in 2009.
- (5) Dr. Albert Yu is the chairman of our compensation committee.

We have also entered into indemnification agreements with each of our directors. The agreements indemnify each director in third-party proceedings, in which the director is made a party to or threatened to be made a party to, or otherwise involved in any proceeding, by reason of the fact that the director is or was our agent. We also indemnify each director that is made party to, or threatened to be made party to, or otherwise involved in, any proceeding which is an action by or in the right of us to procure a judgment in our favor by reason of the fact that the director is or was our agent.

Regulatory Matters

On March 16, 2010, the members of our Board of Directors consented to the issuance of a Consent Order from the FDIC and the Department of Financial Institutions (“DFI”). The following discussion summarizes the provisions of the Consent Order issued on March 22, 2010. We have omitted from this summary some provisions for which the time period in which to perform the action has passed and/or which are administrative in nature:

- (i) we must have and maintain qualified management and notify the FDIC and the DFI in writing when we propose to make any changes in our Board of Directors or senior executive officers at least 30 days prior to the date any change is to become effective;
- (ii) within 120 days of the Consent Order, we must obtain an independent study of our management and personnel structure to determine whether our leadership structure is appropriate;

(iii) our Board of Directors must increase its participation in our affairs, assuming full responsibility for the approval of sound policies and objectives and for the supervision of all of our activities;

(iv) within 60 days of the Consent Order, we must develop and adopt a plan to meet and maintain the capital requirements contained in the Consent Order and the FDIC’s Statement of Policy on Risk-Based Capital. The minimum capital ratios and the dates by which such capital ratios must be obtained are set forth in the table below:

<u>Ratio</u>	<u>Preferred Bank as of March 31, 2010</u>	<u>Requirement as of July 20, 2010</u>	<u>Requirement as of September 17, 2010</u>
Tier 1 Leverage Ratio	6.68%	8.50%	10.00%
Tangible Common Equity Ratio	6.57%	8.50%	10.00%
Total Risk-Based Capital Ratio	9.30%	10.00%	12.00%

(v) if all or part of the increase in capital required by the Consent Order is accomplished by the sale of new securities, our Board of Directors must adopt and implement a plan for such sale; any offering materials must include an accurate description of our financial condition and the circumstances giving rise to the offering; and the plan for the offering and any materials for a public offering must be submitted to the FDIC for review and non-objection and to the DFI for any permits or approvals;

(vi) we must not pay cash dividends or make any other payments to our shareholders without prior written consent of the FDIC and the DFI;

(vii) within 180 days of the Consent Order, we must have reduced our assets classified as “Substandard” that have not previously been charged off to not more than 100% of our Tier 1 capital and ALLL;

(viii) within 270 days of the Consent Order, we must reduce the assets classified as “Substandard” as of September 30, 2009, to not more than 50% of our Tier 1 capital and ALLL;

(ix) within 60 days of the Consent Order, we must develop or revise, adopt and implement a written plan for systematically reducing the amount of loans or other extensions of credit advanced, directly or indirectly, to or for the benefit of, any borrowers in the “commercial real estate” concentration, with particular emphasis on those borrowers in the construction and land development area;

(x) within 60 days of the Consent Order, we must develop or revise, adopt, and implement written lending and collection policies to provide effective guidance and control over our lending function;

(xi) within 60 days of the Consent Order, we must develop or revise, adopt and implement a written liquidity and funds management policy that adequately addresses liquidity needs and appropriately reduces its reliance on non-core funding sources; and

(xii) within 30 days of the Consent Order, we must develop or revise, adopt, and implement a written plan addressing retention of profits, reducing overhead expenses, and setting forth a comprehensive budget covering the calendar year ending December 31, 2010, and thereafter, at least 30 days prior to the commencement of each subsequent calendar year, the Board of Directors must develop, adopt, and implement a plan and comprehensive budget covering the subsequent calendar year.

To address the capital requirements contained in the Consent Order, management hired a placement agent to assist with a capital raise and we completed a \$77 million capital raise on June 21, 2010. Our management and Board of Directors believes this amount is adequate to comply with the capital requirements of the Consent Order. For more information see “Proposal 2: Approval of the Issuance of Shares of Common Stock upon Conversion of the Series A Preferred Stock – The Private Placement.”

To address the other items contained in The Consent Order, management is currently undertaking the following actions:

- We reduced assets classified as substandard, as of September 30, 2009, by 12% from September 30, 2009 to March 31, 2010;
- We have created a written plan addressing the retention of profits and have a board-approved budget for 2010, each of which are subject to the review and approval of the FDIC and DFI; and
- We are currently developing written plans to reduce construction and land loan concentrations and revise our liquidity and funds management policies.

PROPOSAL 2: APPROVAL OF THE ISSUANCE OF SHARES OF COMMON STOCK UPON CONVERSION OF THE SERIES A PREFERRED STOCK

Proposal 2 contemplates the issuance of approximately 51,333,333 shares of common stock upon conversion of the Series A Preferred Stock (including shares of Series A Preferred Stock being purchased through the Deferred Compensation Plan) based on a conversion price of \$1.50 per share (subject to certain anti-dilution adjustments) upon conversion of the 77,000 shares of Series A Preferred Stock sold pursuant to the Subscription Agreement.

The Private Placement

On March 16, 2010, our Board of Directors consented to the issuance of the Consent Order from the FDIC and the DFI as discussed in more detail in Proposal 1 under “Regulatory Matters.” Pursuant to the Consent Order, we were required to, among other things, increase our capital and maintain certain regulatory capital ratios prior to certain specified dates. To address the capital requirements in the Consent Order, we hired a placement agent to raise at least \$70 million in capital which we believed would be adequate to comply with the capital requirements of the Consent Order. On June 21, 2010, we sold 77,000 shares of our newly authorized Series A Preferred Stock at a purchase price and liquidation preference of \$1,000 per share to accredited investors, including many of our directors, officers and their affiliated entities and some of our largest institutional shareholders. We paid a fee to our placement agent of \$2,590,000, representing 2% of the aggregate purchase price of the shares sold in the offering to our officers and directors and to certain other investors identified by us and (ii) 5% of the aggregate purchase price of the shares sold to all other investors in the offering. Following the receipt of the approval of the holders of our common stock and Series A Preferred Stock, each voting as a separate class, and, if applicable, regulatory approval, each share of the Series A Preferred Stock will convert into shares of our common stock at an initial conversion price of \$1.50 per share, subject to customary anti-dilution adjustments.

The private placement was exempt from SEC registration pursuant to Section 3(a)(2) of the Securities Act of 1933, as amended.

Our Board of Directors recommends that shareholders vote “FOR” Proposal 2, so that the Series A Preferred Stock will convert automatically into shares of common stock, thereby strengthening our capital ratios as required by the Consent Order.

NASDAQ Shareholder Approval Requirements

Because our common stock is listed on the NASDAQ, we are subject to NASDAQ rules.

NASDAQ Rule 5635(d)

NASDAQ Rule 5635(d) requires approval of common shareholders prior to the issuance of securities in connection with a transaction, other than a public offering, involving the sale, issuance or potential issuance by a company of common stock, or securities convertible into or exercisable for common stock, equal to 20% or more of the common stock or 20% or more of the voting power outstanding before the issuance for less than the greater of book value or market value of the stock.

The 51,333,333 shares of common stock issuable upon conversion of the Series A Preferred Stock (including shares of Series A Preferred Stock purchased through our Deferred Compensation Plan) at the initial conversion price of \$1.50 will exceed 19.99% of the number of shares of our common stock and voting power outstanding prior to the closing of the offering. The conversion price for the Series A Preferred Stock is less than the book value per share of our common stock. The book value of our common stock was approximately \$5.67 per share as of March 31, 2010, based on our shareholders’ equity divided by the total number of common shares

outstanding as shown in our Quarterly Report on Form 10-Q for the period ended March 31, 2010, our most recent periodic report filed with the FDIC prior to the date of the sale of the Series A Preferred Stock. Because the conversion price is below our book value, shareholder approval is required in order to convert the Series A Preferred Stock to common stock pursuant to NASDAQ Rule 5635(d).

NASDAQ Rule 5635(c)

Pursuant to NASDAQ Rule 5635(c), the issuance of common stock or securities convertible into or exercisable for common stock by our directors and officers and their affiliated entities in a private placement at a price less than the market value of our common stock is considered a form of “equity compensation” and requires shareholder approval. For this purpose, “market value” is the closing bid price immediately preceding the time the company enters into a binding agreement to issue the securities. An “affiliated entity” is any entity where an officer, director, employee or consultant of the company: (i) is a partner, executive officer, or controlling shareholder, or (ii) would be the beneficial owner of or have a pecuniary interest in the securities issued by the company. All investors in the offering paid \$1,000 for each share of Series A Preferred Stock, which was the market value of the Series A Preferred Stock at the time of purchase. Our directors and officers and their affiliated entities purchased Series A Preferred Stock at the same price and on the same terms (including the conversion price) as all other investors in the offering. However, because the conversion price is less than the market value of our common stock immediately prior to the execution of the Subscription Agreement, our directors and officers their affiliated entities will be unable to convert their shares of Series A Preferred Stock to our common stock unless and until we have received shareholder approval of such conversion, pursuant to NASDAQ Rule 5635(c).

Series A Preferred Stock Terms and Provisions

The following is a summary of the preferences, limitations, voting powers and relative rights of the Series A Preferred Stock as contained in the Certificate of Determination for the Series A Preferred Stock which has been filed with the Secretary of State of the State of California. The Certificate of Determination is included as *Appendix A*, attached to this Proxy Statement, and is incorporated by reference herein. Shareholders are urged to carefully read the Certificate of Determination in its entirety. Although we believe this summary covers the material terms and provisions of the Series A Preferred Stock as contained in the Certificate of Determination, it may not contain all of the information that is important to you.

Authorized Shares, Stated Value and Liquidation Preference. We have designated 96,250 shares (such number includes dividends on the Series A Preferred Stock that are payable in kind in additional shares of Series A Preferred Stock as discussed in more detail below) as “Mandatorily Convertible Cumulative Non-Voting Perpetual Preferred Stock, Series A,” no par value per share, with a purchase price and a liquidation preference of \$1,000 per share.

Mandatory Conversion. Conversion of the Series A Preferred Stock into common stock will take place five business days after receipt of (i) common shareholder approval (voting as a separate class) for (A) the issuance of more than 19.99% of our common stock upon conversion of the Series A Preferred Stock, and (B) the conversion of the Series A Preferred Stock purchased by our officers and directors and their affiliated entities at a conversion price that is less than the market value of our common stock, and (ii) approval of the holders of Series A Preferred Stock (voting as a separate class) for the conversion of the Series A Preferred Stock into common stock. Each share of Series A Preferred Stock will automatically convert, subject to ownership limitations, into a number of shares of our common stock that is equal to the quotient obtained by dividing the liquidation preference, plus any declared and unpaid dividends, by the conversion price then in effect. Cash will be paid in lieu of fractional shares.

Conversion Price. The initial conversion price for the Series A Preferred Stock is \$1.50 per share. The conversion price is subject to adjustment for: (a) our failure to obtain common shareholder approval within three months of the closing of the offering, which adjustment shall be a 20% reduction of the conversion price then in

effect, (b) stock dividends, cash dividends, stock splits, and other customary transactions affecting the common stock, and (c) weighted average anti-dilution adjustments for issuances of common stock and common stock equivalents at less than the conversion price then in effect, other than pursuant to our equity award and other benefit programs. The anti-dilution adjustment mechanism is subject to carve-outs customary for transactions of this type.

Dividends. Non-cumulative dividends are payable, subject to the receipt of regulatory approval, in cash and in kind in additional shares of Series A Preferred Stock if, when and as declared by the Board of Directors for each outstanding share of Series A Preferred Stock as follows:

- dividends at an annual rate equal to 12% payable in cash; and
- dividends at an annual rate equal to 5% payable in kind in additional shares of Series A Preferred Stock (“PIK Dividend”).

The dividends will not be declared or paid if the Series A Preferred Stock is converted into shares of common stock during any time within three months of the closing of the offering. Dividends after the three month anniversary of issuance will be payable semi annually in arrears on June 30 and December 31. If all dividends payable on the Series A Preferred Stock have not been declared and paid for an applicable dividend period, we will not declare or pay any dividends on any stock which ranks junior to the Series A Preferred Stock, or redeem, purchase or acquire any stock which ranks *pari passu* or junior to the Series A Preferred Stock, subject to customary exceptions. If all dividends payable on the Series A Preferred Stock have not been paid in full, any dividend declared on stock which ranks *pari passu* to the Series A Preferred Stock shall be declared and paid pro rata with respect to the Series A Preferred Stock and such *pari passu* stock. No PIK Dividend will be paid if, as a result of receipt of such PIK Dividend, a holder will be deemed to control us under applicable bank regulations, provided, that any PIK Dividend payment (or portion thereof) not made as a result thereof, shall be paid in the form of cash out of funds legally available therefor. Pursuant to the Consent Order, we are currently prohibited from paying cash dividends or any other payments to our shareholders without the prior written consent of the FDIC and the DFI. In addition, we are subject to various statutory and regulatory restrictions on our ability to pay dividends.

Liquidation Preference. In the event we voluntarily or involuntarily liquidate, dissolve or wind up, the holders of the Series A Preferred Stock shall be entitled to liquidating distributions equal to \$1,000 per share plus any declared and unpaid dividends.

Redemption. With prior regulatory approval, if required, the Series A Preferred Stock will be redeemable at our option, in whole or in part, on or after the fifth year anniversary of the date on which the Series A Preferred Stock was issued to the holders, or June 21, 2015, at a redemption price per share equal to \$1,000 per share, plus declared and unpaid dividends, if any. Upon receipt of a redemption notice, the holders shall have the right to convert their shares of Series A Preferred Stock into shares of common stock based on the applicable conversion price for a period of 90 days following the date of the redemption notice, subject to any required shareholder approval. Holders of Series A Preferred Stock will have no right to require redemption of the Series A Preferred Stock.

Ranking. The Series A Preferred Stock ranks:

- senior to all our common stock and any other series of our capital stock that we may issue in the future, the terms of which do not expressly provide that it ranks on a parity with, or senior to, the Series A Preferred Stock;
- equally with any class or series of our capital stock that we may issue in the future, the terms of which expressly provide that such class or series will rank on a parity with the Series A Preferred Stock;
- junior to any class or series of our capital stock that we may issue in the future, the terms of which expressly provide that such class or series will rank senior to the Series A Preferred Stock; and
- junior to all of our existing and future debt obligations and other liabilities.

Voting Rights. Shares of Series A Preferred Stock generally have no voting rights, except (i) with respect to the conversion of Series A Preferred Stock into common stock, (ii) with respect to certain specified events that would adversely affect the rights, preferences or privileges of the Series A Preferred Stock or create a senior security, and (iii) as otherwise required by applicable law. The Series A Preferred Stock vote separately as a series on all matters where the Series A Preferred Stock is entitled to vote.

Ownership Limitations. If the number of shares of common stock to be issued to a holder of Series A Preferred Stock upon a conversion into shares of common stock would cause the holder, together with any holdings of common stock already held directly or indirectly by such holder, or by any other person whose common stock would be aggregated with such holder for purposes of any bank regulation, to own or control or be deemed to own or control upon conversion, more than 9.9% of our outstanding voting securities (4.99% for a holder that is subject to Bank Holding Company Act of 1956, as amended), then we will not issue those shares of common stock to the holder to the extent, and only to the extent, such issuance would violate such limitations described above. Any shares of Series A Preferred Stock that are not converted as a result of such limitations will be mandatorily convertible upon transfer to certain permitted transferees.

The Subscription Agreement

The following is a summary of the material terms of the Subscription Agreement and is qualified in its entirety by reference to the form of Subscription Agreement attached as *Appendix B* to this Proxy Statement and incorporated by reference herein. You should read the form of Subscription Agreement in its entirety because it, and not this Proxy Statement, is the legal document that governs the terms on which the Series A Preferred Stock was issued.

Purchase and Sale of Stock. Pursuant to the Subscription Agreement, we agreed to issue and sell 77,000 shares of the Series A Preferred Stock, in the aggregate, to the investors.

Representations and Warranties. We made customary representations and warranties to the investors relating to us, our business and our capital stock, including with respect to the shares of Series A Preferred Stock to the investors pursuant to the Subscription Agreement. The representations and warranties in the Subscription Agreement were made for purposes of the Subscription Agreement and are subject to qualifications and limitations agreed to by the respective parties in connection with negotiating the terms of the Subscription Agreement, including being qualified by confidential disclosures made for the purposes of allocating contractual risk. In addition, certain representations and warranties were made as of a specific date, may be subject to a contractual standard of materiality different from what might be viewed as material to shareholders, or may have been used for purposes of allocating risk between the respective parties rather than establishing matters as facts. The representations and warranties and other provisions of the Subscription Agreement should not be read alone, but instead should only be read together with the information provided elsewhere in this document and the periodic and current reports and statements that we file with the FDIC.

Agreement to Seek Shareholder Approval. We agreed to call and hold a shareholders' meeting, as promptly as reasonably practicable, and to unanimously recommend and seek shareholder approval of Proposals 2 and 3. In addition, we agreed to prepare and file this Proxy Statement with the FDIC, as well as, subject to the fiduciary duties of the Board of Directors, to use reasonable best efforts to solicit proxies for the shareholder approval of the Proposals. If such approval is not obtained at the Annual Meeting, we must call additional shareholder meetings and recommend approval of Proposals 2 and 3 to the shareholders every sixty days thereafter until such approvals are obtained.

Preemptive Rights. For so long as the Series A Preferred Stock is outstanding, if we offer to sell common stock and any rights, options or warrants to purchase or securities convertible into or exercisable or exchangeable for common stock (other than securities that are issued in certain circumstances such as through employee benefit plans or stock dividends) in a public or private offering solely for cash any time during a period of 24 months

commencing on the closing date of the offering, each purchaser shall be afforded the opportunity to acquire from us, for the same price and on the same terms as such securities are offered, in the aggregate up to the amount of securities required to enable it to maintain its percentage interest in us.

Transferability. The Series A Preferred Stock was issued pursuant to a stock permit issued by the DFI and was fully transferable upon issuance. The Series A Preferred Stock is exempt from registration with the SEC under Section 3(a)(2) of the Securities Act, of 1933, as amended, and exempt from qualification with the California Commissioner of Corporations under the Corporate Securities Law of 1968, as amended.

Revocable Proxy. As a condition to closing, purchasers with the obligation to purchase at least a majority of the shares of Series A Preferred Stock sold in the offering were required to execute a revocable proxy appointing Li Yu, our President and Chief Executive Officer, and Edward J. Czajka, our Executive Vice President and Chief Financial Officer, or either of them, as proxies of each such purchaser to vote all shares of Series A Preferred Stock acquired by each such purchaser in favor of the conversion of the Series A Preferred Stock into our common stock.

Purchase Limitations. No purchaser was entitled to purchase a number of shares of Series A Preferred Stock in the offering that would have resulted in such purchaser (when aggregated with shares of our capital stock owned by its affiliates for bank regulatory purposes) (i) needing prior approval of any banking regulator to acquire such shares or (ii) beneficially owning, controlling or having the power to vote more than 9.9% of our issued and outstanding shares of common stock, upon conversion of such purchaser's Series A Preferred Stock (assuming all shares of Series A Preferred Stock are converted at the conversion price).

Other Covenants. We also agreed to a number of customary covenants, including covenants with respect to the reservation and listing on NASDAQ of the common stock to be issued upon conversion of the Series A Preferred Stock.

Indemnity. We have agreed to customary indemnification provisions for the benefit of each investor relating to certain losses suffered by each investor arising from breaches of our representations, warranties and covenants in the Subscription Agreement or relating to certain losses arising from actions, suits or claims relating to the Subscription Agreement or the transactions contemplated thereby. Each investor has agreed to customary indemnification provisions for our benefit relating to certain losses suffered by us arising from any investor's breach of its representations, warranties and covenants in the Subscription Agreement.

Expenses. We and each investor will each bear and pay our own costs and expenses in connection with the transactions contemplated by the Subscription Agreement.

Potential consequences if Proposals 2 and 3 are approved

Conversion of Series A Preferred Stock into Common Stock. Upon receipt of the requisite shareholder approval for each of Proposals 2 and 3, and subject to receipt of certain regulatory approvals, if applicable, each share of Series A Preferred Stock will be automatically converted into shares of common stock on the fifth business day following the date on which such approvals are obtained. Each outstanding share of Series A Preferred Stock will automatically be converted into such number of shares of common stock determined by dividing (i) \$1,000 (the purchase price per share of the Series A Preferred Stock) by (ii) the conversion price of the Series A Preferred Stock then in effect, subject to certain adjustments. The initial conversion price of the Series A Preferred Stock is \$1.50 per share which means we will issue approximately 666.67 shares of common stock for each share of Series A Preferred Stock (fractional shares will be paid in cash).

Dilution. We will issue, through the conversion of the Series A Preferred Stock, approximately 51,333,333 shares of our common stock based upon the initial conversion price (including shares to be issued to our officers upon the occurrence of a distribution event under our Deferred Compensation Plan). As a result, we

expect there to be a dilutive effect on both the earnings per share of our common stock and the book value per share of our common stock. In addition, our existing shareholders will incur substantial dilution to their voting interests and will own a smaller percentage of our outstanding capital stock. For additional information regarding the dilutive effect of the private placement, please see the section of this Proxy Statement captioned “CAPITALIZATION.”

Rights of Investors. If the requisite shareholder approvals are received, the rights and privileges associated with the common stock issued upon conversion of the Series A Preferred Stock will be identical to the rights and privileges associated with the common stock held by our existing common shareholders, including voting rights.

Elimination of Dividend and Liquidation Rights of Holders of Series A Preferred Stock. If the shareholder approvals are received, subject to any applicable required regulatory approval for the conversion of the Series A Preferred Stock, all shares of Series A Preferred Stock will be cancelled. As a result, approval of the conversion of Series A Preferred Stock will result in the elimination of the dividend rights and liquidation preference existing in favor of the Series A Preferred Stock. For more information regarding such dividend rights and liquidation preference, see “Series A Preferred Stock Terms and Provisions” in this Proxy Statement.

Impact on Retained Earnings. The accounting treatment of the conversion of the Series A Preferred Stock into our common stock will result in a reduction of our retained earnings to zero. As a result, pursuant to the California Financial Code, even if we are no longer operating under the restrictions set forth in the Consent Order, our ability to make distributions to our shareholders will be limited by our lack of retained earnings. This could have a negative effect on the value of our common stock.

Market Effects. The issuance of shares of our common stock upon conversion of the Series A Preferred Stock may impact trading patterns and adversely affect the market price of our common stock. If significant quantities of our common stock issued upon conversion of the Series A Preferred Stock are sold (or if it is perceived that they may be sold) into the public market, the trading price of our common stock could be materially adversely affected.

The current ownership of our common stock following the consummation of the private placement is further described below in the section of this Proxy Statement captioned “BENEFICIAL STOCK OWNERSHIP OF PRINCIPAL SHAREHOLDERS AND MANAGEMENT.”

Potential consequences if Proposals 2 and 3 are not approved

Series A Preferred Stock Remains Outstanding. Unless the requisite shareholder approvals for each of Proposals 2 and 3 are received or unless our shareholders approve similar proposals at a subsequent meeting, the Series A Preferred Stock will remain outstanding in accordance with its terms.

Substantial Dividend Payments. If requisite shareholder approval for each of Proposals 2 and 3 is not obtained, the shares of Series A Preferred Stock will remain outstanding and, for so long as such shares remain outstanding, subject to regulatory approval, we will be required to pay substantial dividends on the Series A Preferred Stock, in cash and in kind in additional shares of Series A Preferred Stock if, when and as declared by the Board of Directors for each outstanding share of Series A Preferred Stock as follows:

- dividends at an annual rate equal to 12% payable in cash; and
- PIK Dividends at an annual rate equal to 5%.

This amounts to an initial annual cash dividend of \$8,861,250 and an initial annual PIK Dividend of 3,692 shares on the Series A Preferred Stock.

Additional Shareholder Meetings. We will call additional shareholder meetings and recommend approval of Proposals 2 and 3 at each meeting to the shareholders every sixty days, if necessary, thereafter until such approvals are obtained pursuant to the provisions of the Subscription Agreement. We will bear the costs of soliciting the approval of our shareholders in connection with these meetings.

Restriction on Payment of Dividends. For as long as the Series A Preferred Stock remains outstanding, if dividends payable on all outstanding shares of the Series A Preferred Stock have not been declared and paid, or declared and funds set aside therefor, we will not be permitted to declare or pay dividends with respect to, or redeem, purchase, or acquire any of our junior securities, or redeem, purchase or acquire any parity securities, subject to limited exceptions.

Liquidation Preference. For as long as the Series A Preferred Stock remains outstanding, it will retain a senior liquidation preference over shares of our common stock in connection with any liquidation of us and, accordingly, no payments will be made to holders of our common stock upon any liquidation of us unless the full liquidation preference on the Series A Preferred Stock is paid.

CAPITALIZATION

The following table sets forth our capitalization and capital ratios as of March 31, 2010:

- on an actual basis;
- on an as-adjusted basis to give effect to the sale by us of 77,000 shares of our Series A Preferred Stock, at a public offering price of \$1,000 per share, after deducting estimated offering expenses; and
- on an as-adjusted basis to give effect to the conversion of the 77,000 shares of our Series A Preferred Stock referenced above into our common stock.

You should read this table in conjunction with the financial statements and the other financial information which we file with the FDIC.

	At March 31, 2010 ⁽¹⁾		
	Actual	As Adjusted Based Upon \$77 million of Series A Preferred Stock Sold	As Adjusted Upon Conversion of \$77 million of Series A Preferred Stock
	(Dollars in thousands)		
Shareholders' Equity:			
Preferred stock (no par value, 25,000,000 shares authorized, none issued and outstanding actual and upon conversion, and 73,846 shares issued and outstanding, ⁽²⁾ as adjusted upon sale of Series A Preferred Stock)	\$ —	\$ 37,315	\$ —
Common stock (no par value, 100,000,000 shares authorized, 16,012,126 shares issued and outstanding actual and upon sale of Series A Preferred Stock, and 65,242,792 shares issued and outstanding, ⁽²⁾ as adjusted upon conversion of Series A Preferred Stock)	89,038	89,038	162,784
Treasury stock	(19,115)	(19,115)	(19,115)
Additional paid-in capital ⁽³⁾	6,642	43,073	23,018
Retained earnings ⁽³⁾⁽⁴⁾	16,376	16,376	—
Accumulated other comprehensive income	(2,222)	(2,222)	(2,222)
Total shareholders' equity	<u>\$ 90,719</u>	<u>\$164,465</u>	<u>\$164,465</u>
Book value per share	\$ 5.67	\$ 2.52	\$ 2.52
Capital Ratios: ⁽⁵⁾⁽⁶⁾⁽⁷⁾			
Tier 1 leverage capital ratio	6.68%	11.98%	11.98%
Tier 1 risk-based capital ratio	8.02%	14.21%	14.21%
Total risk-based capital ratio	9.30%	15.48%	15.48%

(1) The computations set forth in the above table (i) do not take into account shares of our common stock which have been or may be issued upon the exercise of stock options after March 31, 2010 and (ii) include, in the "as adjusted" columns, the shares of Series A Preferred Stock purchased through our Deferred Compensation Plan. See "BENEFICIAL STOCK OWNERSHIP OF PRINCIPAL SHAREHOLDERS AND MANAGEMENT Purchases through Our Deferred Compensation Plan."

(2) The aggregate of \$3,154,000 invested by certain officers using cash they held in the Preferred Bank Deferred Compensation Plan (which was converted from a cash-based plan to a stock-based plan) resulted in the reservation, but not the issuance, of (i) 3,154 shares of Series A Preferred Stock and (ii) upon conversion of our Series A Preferred Stock, will result in the issuance of 2,102,666 shares of our common

stock. See “BENEFICIAL STOCK OWNERSHIP OF PRINCIPAL SHAREHOLDERS AND MANAGEMENT – Purchases through Our Deferred Compensation Plan.”

- (3) The Series A Preferred Stock is deemed to have a beneficial conversion feature because its conversion price was lower than the market price of the common stock on the date of issuance. The beneficial conversion feature is based on the difference between the conversion price and the market price and accounted for as a discount on the Series A Preferred Stock and a corresponding increase in additional paid-in capital. The calculation set forth above is based on the closing price of our common stock on June 21, 2010, which was \$2.24. The calculations set forth above with respect to the conversion also assumes that there has been no accretion/amortization to the beneficial conversion feature amount prior to conversion of the Series A Preferred Stock.
- (4) As a result of the beneficial conversion feature of the Series A Preferred Stock, the accounting treatment of the conversion of the Series A Preferred Stock into our common stock will result in a reduction of our retained earnings to zero.
- (5) For a discussion of these ratios, see “MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS – Regulatory Matters” and “REGULATION AND SUPERVISION – Capital Standards” in our Annual Report on Form 10-K for the year ended December 31, 2009 enclosed with this Proxy Statement.
- (6) The net proceeds from our sale of Series A Preferred Stock in the offering are presumed to be invested in 20% risk-weighted assets, such as Fed Funds sold, for purposes of as adjusted risk-weighted regulatory capital ratios.
- (7) The Tier 1 capital ratios assume that the aggregate of \$3,154,000 invested by certain officers using cash they held in the Preferred Bank Deferred Compensation Plan, which was converted from a cash-based plan to a stock-based plan, will be treated as Tier 1 capital. As of the date of this Proxy Statement, no final determination of such Tier 1 treatment has been made by the FDIC in response to our request for such a determination. If the Preferred Bank Deferred Compensation Plan participants’ investments are not treated as Tier 1 capital, the capital ratios in the as adjusted columns would be Tier 1 leverage capital ratio of 11.76%; Tier 1 risk-based capital ratio of 13.95%; and Total risk-based capital ratio of 15.23%. See “BENEFICIAL STOCK OWNERSHIP OF PRINCIPAL SHAREHOLDERS AND MANAGEMENT – Purchases through Our Deferred Compensation Plan.”

INTERESTS OF CERTAIN PERSONS IN MATTERS TO BE ACTED UPON

Our directors and executive officers and certain immediate family members purchasing through a trust participated in the private placement by purchasing \$7,551,000 of our Series A Preferred Stock at a purchase price and liquidation preference of \$1,000 per share. These individuals purchased the Series A Preferred Stock at the same price and on the same terms (including the conversion price) as all other investors in the private placement. Upon receipt of the shareholder approvals, our directors will own, in the aggregate, 6,937,458 shares of our common stock, representing approximately 10.53% of our outstanding shares of common stock based upon the number of shares outstanding as of June 21, 2010 (excluding shares of our common stock resulting from the conversion of Series A Preferred Stock purchased by certain of our officers through our Deferred Compensation Plan). For additional information regarding the purchases by our directors, executive officers, and immediate family members purchasing through their trust, see “BENEFICIAL STOCK OWNERSHIP OF PRINCIPAL SHAREHOLDERS AND MANAGEMENT.”

BENEFICIAL STOCK OWNERSHIP OF PRINCIPAL SHAREHOLDERS AND MANAGEMENT

Based solely upon information furnished to us, the following table sets forth information regarding:

(i) the number of shares of Series A Preferred Stock which our officers, directors and certain shareholders purchased;

(ii) the dollar amounts of their purchases;

(iii) the number of shares of common stock into which the Series A Preferred Stock is convertible, assuming that shareholder approval for the conversion of all of the shares of Series A Preferred Stock is obtained and such shares are converted at the initial conversion price;

(iv) the beneficial ownership of our common stock as of June 21, 2010;

(v) the number of shares of common stock owned on a post-offering and post-conversion basis based on (a) 77,000 shares of Series A Preferred Stock offered sold (including those shares that will be reserved for issuance to certain of our officers through our Deferred Compensation Plan), and (b) all Series A Preferred Stock being converted to our common stock at the initial conversion price; and

(vi) the percentage of ownership of us by each of the individuals and entities listed following the offering and conversion of the Series A Preferred Stock, by:

- each person (or group of affiliated persons) who is known by us to own beneficially more than 5% of the outstanding shares of our common stock;
- each of our directors;
- each of our executive officers who owns our common stock; and
- all directors, executive officers and immediate family members purchasing through their trust, as a group.

Except as indicated in the footnotes to this table and except as subject to community property laws where applicable, the persons named in the table have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them. You should keep the following points in mind as you read the information in the table:

- the amounts and percentage of our common stock beneficially owned by a holder are reported on the basis of the regulations of the SEC that govern the determination of beneficial ownership of securities. Under these regulations, a person or group of persons is deemed to be a “beneficial owner” of a security if that person or group has or shares “voting power,” which includes the power to vote or to direct the voting of the security, or “investment power,” which includes the power to dispose of or to direct the disposition of the security. A person or group of persons is also deemed to be a beneficial owner of any securities with respect to which that person or group has a right to acquire beneficial ownership within 60 days. Under these rules, more than one person may be deemed a beneficial owner of the same security and a person may be deemed to be a beneficial owner of securities as to which that person has no economic interest.
- the percentage of our common stock outstanding is based on 16,003,626 shares of our common stock outstanding as of June 21, 2010, and shares of our common stock outstanding upon conversion of the Series A Preferred Stock, and shares of common stock deemed outstanding pursuant to the definition of beneficial ownership in the preceding paragraph, including shares which are not actually outstanding. These shares of common stock which are beneficially owned but not outstanding, are deemed to be outstanding when computing the percentage of ownership of each person or group of persons named above, but are not deemed to be outstanding for the purpose of computing the percentage ownership of any other person or group.

Name and Address of Beneficial Owner ⁽¹⁾	Investments in the Offering			Total Owned Post-Offering /Post-Conversion			
	Number of Series A Preferred Stock Purchased with Cash	Number of Shares Series A Preferred Stock Purchased through Deferred Compensation Plan	Total Invested	Number of Common Shares Owned Upon Conversion ⁽²⁾	Shares Owned as of June 21, 2010	Total Number of Common Shares Owned Upon Conversion	Percent of Total Outstanding ⁽²⁾
5% Shareholders							
Bestwood Trust I 1160 Shadow Hill Way, Beverly Hills, CA 90210 ⁽³⁾	3,000	—	\$3,000,000	2,000,000	1,366,875	3,366,875	5.16%
T. Rowe Price Associates, Inc. 100 East Pratt Street, Baltimore, MD 21202 ⁽³⁾⁽⁴⁾	6,208	—	6,208,000	4,138,666	834,837	4,973,503	7.62
Sandler O'Neill Asset Management LLC 780 Third Avenue, 5th floor, New York, NY 10017 ⁽³⁾	6,208	—	6,208,000	4,138,666	879,600	5,018,266	7.69
Directors							
Li Yu ⁽⁵⁾	—	2,980	\$2,980,000	—	1,669,929	1,669,929	2.54%
J. Richard Belliston ⁽⁶⁾	10	—	10,000	6,666	66,972	73,638	0.11
William C.Y. Cheng ⁽⁷⁾	1,000	—	1,000,000	666,666	469,177	1,135,843	1.74
Clark Hsu ⁽⁸⁾	2,000	—	2,000,000	1,333,333	715,362	2,048,695	3.14
Frank T. Lin ⁽⁹⁾	—	—	—	—	45,984	45,984	0.07
Gary S. Nunnally ⁽¹⁰⁾	—	—	—	—	82,658	82,658	0.13
Dr. Albert Yu ⁽¹¹⁾	—	—	—	—	28,852	28,852	0.04
Executive Officers							
Robert Kosof ⁽¹²⁾	4	—	\$ 4,000	2,666	13,000	15,666	0.02%
Edward J. Czajka ⁽¹³⁾	—	12	12,000	—	45,040	45,040	0.07
Lucilio Couto ⁽¹⁴⁾	15	—	15,000	10,000	20,000	30,000	0.05
Nick Pi ⁽¹⁵⁾	17	13	30,000	11,333	58,050	69,383	0.11
Thomas Lo ⁽¹⁶⁾	—	—	—	—	8,333	8,333	0.01
All directors and executive officers (12 in number) and immediate family members purchasing through Bestwood Trust I, as a group ⁽¹⁷⁾	4,546	3,005	\$7,551,000	3,030,664	3,906,794	6,937,458	10.53%

- (1) The address for each of the persons below other than Bestwood Trust I, T. Rowe Price Associates, Inc. and Sandler O'Neill Asset Management LLC is c/o Preferred Bank, 601 S. Figueroa Street, 29th Floor, Los Angeles, California 90017.
- (2) Excludes shares of common stock resulting from the conversion of Series A Preferred Stock purchased by certain of our officers through our Deferred Compensation Plan. See “– Purchases through Our Deferred Compensation Plan” below.
- (3) Outstanding common shares based on 13-F filings for the quarter ended December 31, 2009.
- (4) These securities are owned by various individual and institutional investors which T. Rowe Price Associates, Inc. (Price Associates) serves as investment advisor with power to direct investments and/or sole power to vote the securities. For purposes of the reporting requirements of the Exchange Act, Price Associates is deemed to be a beneficial owner of such securities; however, Price Associates expressly disclaims that it is, in fact, the beneficial owner of such securities.
- (5) Includes 1,227,429 common shares for which he shares beneficial ownership with his wife and 442,500 common shares issuable upon the exercise of options exercisable within 60 days of June 21, 2010. Bestwood Trust I holds 1,366,875 common shares over which Mr. Yu has no voting or investment power for Bestwood Trust, but Mr. Yu is a potential successor trustee of these shares pursuant to their respective trust documents. None of these shares are included in the total number of common shares beneficially owned by Mr. Yu. Upon the occurrence of a distribution event with respect to Mr. Yu under our Deferred Compensation Plan, and assuming the conversion of the Series A Preferred Stock into our common stock, Mr. Yu would be deemed to beneficially own an aggregate of 3,656,595 shares of our common stock, resulting in ownership of 5.40% of our common stock outstanding as of June 21, 2010. See “– Purchases through Our Deferred Compensation Plan” below.
- (6) Includes 24,750 common shares issuable upon the exercise of options exercisable within 60 days of June 21, 2010.
- (7) Includes 23,250 common shares issuable upon the exercise of options exercisable within 60 days of June 21, 2010.

- (8) Includes (i) 11,250 common shares issuable upon the exercise of options exercisable within 60 days of June 21, 2010 and (ii) (A) 683,438 common shares held as of June 21, 2010 and (B) 1,500 shares of Series A Preferred Stock, convertible into 1,000,000 shares of our common stock, to be purchased by Bestwood Trust I representing 50% of such shares owned by such trust for which Mr. Hsu may be deemed to be the beneficial owner of as a beneficiary under such trust.
- (9) Includes 26,250 common shares issuable upon the exercise of options exercisable within 60 days of June 21, 2010.
- (10) Includes 23,250 common shares issuable upon the exercise of options exercisable within 60 days of June 21, 2010.
- (11) Includes 18,750 common shares issuable upon the exercise of options exercisable within 60 days of June 21, 2010.
- (12) Includes 10,000 common shares issuable upon the exercise of options exercisable within 60 days of June 21, 2010.
- (13) Includes 23,000 common shares issuable upon the exercise of options exercisable within 60 days of June 21, 2010 and 20,000 Restricted Stock Awards. Upon the occurrence of a distribution event with respect to Mr. Czajka under our Deferred Compensation Plan, and assuming the conversion of the Series A Preferred Stock into our common stock, Mr. Czajka would be deemed to beneficially own an aggregate of 53,040 shares of our common stock, resulting in ownership of 0.08% of our common stock outstanding as of June 21, 2010. See “– Purchases through Our Deferred Compensation Plan” below.
- (14) Includes 20,000 Restricted Stock Awards.
- (15) Includes 29,050 common shares issuable upon the exercise of options exercisable within 60 days of June 21, 2010 and 14,000 Restricted Stock Awards. Upon the occurrence of a distribution event with respect to Mr. Pi under our Deferred Compensation Plan, and assuming the conversion of the Series A Preferred Stock into our common stock, Mr. Pi would be deemed to beneficially own an aggregate of 78,049 shares of our common stock, resulting in ownership of 0.12% of our common stock outstanding as of June 21, 2010. See “– Purchases through Our Deferred Compensation Plan” below.
- (16) Includes 8,333 common shares issuable upon the exercise of options exercisable within 60 days of June 21, 2010.
- (17) Includes 50% of the shares of common stock held and Series A Preferred Stock to be purchased by Bestwood Trust I, representing the 50% beneficial ownership of immediate family members of director Clark Hsu.

NASDAQ Requirement

Pursuant to NASDAQ Rule 5635(c), the issuance of common stock or securities convertible into or exercisable for common stock by our directors and officers and their affiliated entities in a private placement at a price less than the market value of our common stock is considered a form of “equity compensation” and requires shareholder approval. For this purpose, “market value” is the closing bid price immediately preceding the time the company enters into a binding agreement to issue the securities. An “affiliated entity” is any entity where an officer, director, employee or consultant of the company: (i) is a partner, executive officer, or controlling shareholder, or (ii) would be the beneficial owner of or have a pecuniary interest in the securities issued by the company. All investors in the offering paid \$1,000 for each share of Series A Preferred Stock, which is the market value of the Series A Preferred Stock. Our directors and officers and their affiliated entities purchased Series A Preferred Stock at the same price and on the same terms (including the conversion price) as all other investors in the private placement. However, because the conversion price of \$1.50 is less than the market value of our common stock immediately prior to the execution of the Subscription Agreement, our directors and officers and their affiliated entities will be unable to convert their shares of Series A Preferred Stock to our common stock unless and until we have received shareholder approval of such conversion, pursuant to NASDAQ Rule 5635(c).

Purchases through Our Deferred Compensation Plan

Li Yu, Edward J. Czajka, Nick Pi and two of our other officers who are accredited investors acquired an aggregate of 3,154 shares of Series A Preferred Stock in the offering using cash they held in the Preferred Bank Deferred Compensation Plan, as amended (the “Plan”), which was converted from a cash-based plan to a stock-based plan. The Plan purchased such shares for \$3,154,000 for such officers who, in turn, received from the Plan rights to receive such shares of Series A Preferred Stock and the underlying shares of our common stock upon conversion of the Series A Preferred Stock. The Plan paid for these shares by canceling \$3,154,000 of deferred compensation liability owed to it by us. The shares of Series A Preferred Stock purchased by the Plan (and, upon conversion, the underlying common stock (collectively, the “Deferred Compensation Shares”)) are reserved for issuance to the participating officers upon the occurrence of a distribution event under the Plan. The right of the officers to receive the Deferred Compensation Shares under the Plan were fully vested at the closing of the offering. Until a distribution event under the Plan occurs, the participants will have a contractual right to receive the Deferred Compensation Shares. The issuance and receipt of such shares will be delayed until a distribution event occurs. The distribution events under the Plan are retirement, termination, change of control, disability and hardship (upon our determination).

The accounting of the Series A Preferred Stock purchased by the Plan resulted in a reduction in our liability for payments under the Plan and a corresponding increase in our shareholders' equity. The \$3,154,000 invested through the Plan is represented in shareholders' equity as additional-paid-in capital instead of preferred stock (and common stock, upon conversion) and, based on our analysis of the existing accounting literature and after consulting with independent auditors and legal counsel, we believe that this amount will be treated as shareholders' equity. The Deferred Compensation Shares will not be considered in basic earnings per share but will be dilutive when calculating diluted earnings per share. As of the date of this Proxy Statement, no final determination has been made by the FDIC as to whether this accounting entry will be treated as Tier 1 capital in response to our request for such a determination. If the officers' investments are treated as Tier 1 capital, the capital ratios would be Tier 1 leverage capital ratio of 11.98%, Tier 1 risk-based capital ratio of 14.21%, and Total risk-based capital ratio of 15.48%. However, if the officers' investments are not treated as Tier 1 capital, the capital ratios would be Tier 1 leverage capital ratio of 11.76%, Tier 1 risk-based capital ratio of 13.95%, and Total risk-based capital ratio of 15.23%.

Under California law, the purchase by the Plan of our Series A Preferred Stock, was deemed a purchase by us, and therefore the Deferred Compensation Shares will be treated as authorized and unissued shares. Such shares will therefore be reserved for issuance upon the occurrence of a distribution event under the Plan. Because the Deferred Compensation Shares are reserved but unissued, the participating officers will not be able to vote the Deferred Compensation Shares, receive dividends on the Deferred Compensation Shares or exercise any other right with respect to the Deferred Compensation Shares until a distribution event occurs and the applicable type of Deferred Compensation Share is then issued to the officer.

As a result of the officers' purchases made through the Plan, total shares of Series A Preferred Stock outstanding as of the closing, did not include the 3,154 shares purchased through the Plan. As such, ownership limitations, which are based upon the outstanding shares of our common stock following the conversion of the Series A Preferred Stock, were calculated based on 49,230,666 shares of common stock outstanding resulting from the conversion of 73,846 shares of Series A Preferred Stock issued at the closing at the initial conversion price of \$1.50.

THE BOARD RECOMMENDS THAT THE COMMON SHAREHOLDERS VOTE "FOR" APPROVAL OF THE CONVERSION OF THE SERIES A PREFERRED STOCK INTO COMMON STOCK AND "FOR" THE ISSUANCE OF COMMON STOCK, UPON CONVERSION OF THE SERIES A PREFERRED STOCK, TO OUR DIRECTORS AND EXECUTIVE OFFICERS AT A PRICE LESS THAN THE MARKET VALUE OF OUR COMMON STOCK

PROPOSAL 3: SERIES A PREFERRED STOCK CONVERSION (SERIES A PREFERRED SHAREHOLDERS ONLY)

Pursuant to the terms of the Series A Preferred Stock and Section 403(a)(1) of the California Corporations Code, in order for shares of Series A Preferred Stock to be converted into common stock, we must receive the approval of a majority of the shares of Series A Preferred Stock outstanding, voting as a separate class. Only holders of our Series A Preferred Stock may vote upon this Proposal 3.

On June 21, 2010, we received revocable proxies from holders of a majority of the Series A Preferred Stock authorizing us to vote such shares in favor of this Proposal 3. We received these proxies because one of the conditions to the closing of the offering of the 77,000 shares of Series A Preferred Stock was that investors with the obligation to purchase at least a majority of the shares of Series A Preferred Stock sold in the offering, each execute a revocable proxy appointing Li Yu, our President and Chief Executive Officer, and Edward J. Czajka, our Executive Vice President and Chief Financial Officer, or either of them, as proxies of each such purchaser to vote all shares of Series A Preferred Stock acquired by each such purchaser in favor of the conversion of the Series A Preferred Stock into our common stock. The offering closed on June 21, 2010 and, on that date, we received the required amount of revocable proxies. If you are a holder of Series A Preferred Stock and you submitted your proxy to us on June 21, 2010, then there is nothing further you need to do, unless you wish to change your vote, in which case you should contact us.

The background of the private placement, the terms of the Series A Preferred Stock and the potential consequences if the conversion to common stock is approved or is not approved by the common shareholders (voting separately as a class) and the Series A Preferred shareholders (voting separately as a class) are discussed in detail under Proposal 2.

THE BOARD OF DIRECTORS RECOMMENDS THAT THE HOLDERS OF SERIES A PREFERRED STOCK VOTE “FOR” THE CONVERSION OF THE SERIES A PREFERRED STOCK INTO COMMON STOCK

PROPOSAL 4: RATIFY SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS FOR 2010

Our audit committee has appointed KPMG LLP as our independent registered public accountants for the year ending December 31, 2010, and our shareholders are being asked to ratify the appointment. KPMG LLP has audited our financial statements since the fiscal year ended December 31, 1996. All professional services rendered by KPMG LLP during 2009 were furnished at customary rates and terms. A representative of KPMG LLP is expected to be present at our Annual Meeting, will have the opportunity to make a statement if they desire to do so, and will be available to respond to appropriate questions from shareholders. If you do not ratify the appointment, the audit committee will reconsider the appointment. However, even if you ratify the appointment, the audit committee may appoint new independent registered public accountants at any time during the year if it believes that such a change would be in our best interests and the best interests of our shareholders.

In determining the independence of KPMG LLP, the audit committee considered whether the provision of non-audit services is compatible with maintaining that independence.

Independent Auditor Fees

The following table shows the fees paid or accrued by us for the audit and other services provided by KPMG LLP for fiscal years 2009 and 2008.

	<u>December 31,</u>	
	<u>2009</u>	<u>2008</u>
Integrated Audit and Audit of Internal Control over Reporting Fees ⁽¹⁾	\$744,555	\$852,000
Audit-Related Fees ⁽²⁾	31,000	—
Tax Fees ⁽³⁾	—	—
All Other Fees	—	—
Total Fees	<u>\$775,555</u>	<u>\$852,000</u>

- (1) Integrated Audit and Audit of Internal Control over Reporting Fees consisted of fees for the audit of our consolidated financial statements, internal controls over financial reporting and review of financial statements included in our quarterly reports. These include estimated costs to complete the integrated audit for the years ended December 31, 2009 and 2008.
- (2) Audit-related fees consisted of fees billed for professional assurance and related services other than those noted in footnote (1) above and refers to \$31,000 paid for preparation of a comfort letter for the first quarter 2009 in connection with our rights offering.
- (3) Tax fees consisted of fees billed for the preparation of federal and state income tax returns, including tax planning and tax advice.

Audit Committee Pre-Approval Policy

All audit and non-audit services to be performed by KPMG LLP require pre-approval by our audit committee or its chairman, provided that the chairman is required to report any decisions to pre-approve such audit related or non-audit services and fees to the full audit committee at its next regular meeting. All services described above were pre-approved by our audit committee in accordance with its pre-approval policies and procedures.

**THE BOARD RECOMMENDS THAT THE COMMON SHAREHOLDERS VOTE “FOR”
RATIFICATION OF THE SELECTION OF KPMG LLP AS INDEPENDENT REGISTERED PUBLIC
ACCOUNTANTS FOR 2010.**

PROPOSAL 5: ADJOURNMENT OR POSTPONEMENT OF THE ANNUAL MEETING

If we fail to receive a sufficient number of votes to constitute a quorum to hold the Annual Meeting or to approve the proposals set forth in this Proxy Statement, we may propose to adjourn or postpone the Annual Meeting, whether or not a quorum is present, for a period of not more than 45 days, to (i) constitute a quorum for purposes of the Annual Meeting or (ii) solicit additional proxies in favor of the approval of the proposals, as necessary. We will not use the discretionary authority granted by the proxies voted against the proposals to adjourn the Annual Meeting to solicit additional votes to approve the proposals.

We currently do not intend to propose adjourning or postponing the Annual Meeting if there are sufficient votes represented at the Annual Meeting to approve the proposals.

THE BOARD OF DIRECTORS RECOMMENDS THAT THE COMMON SHAREHOLDERS VOTE “FOR” THE ADJOURNMENT OR POSTPONEMENT OF THE ANNUAL MEETING, IF REQUIRED TO OBTAIN A QUORUM OR SOLICIT ADDITIONAL PROXIES

OTHER BUSINESS

We know of no other business which will be presented for consideration at our Annual Meeting other than as stated in the notice of Annual Meeting. If, however, other matters are properly brought before the meeting, it is the intention of the persons named as proxies on the enclosed proxy card to vote the shares represented thereby in accordance with their best judgment and in their discretion, and authority to do so is included in the proxy.

FINANCIAL STATEMENTS

Our Audited Consolidated Financial Statements (including Notes thereto) are included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, enclosed with this Proxy Statement and are incorporated herein by reference. Our Unaudited Consolidated Financial Statements (including Notes thereto), as included in our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2010, are attached to this Proxy Statement as *Appendix C* and are incorporated herein by reference.

MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management’s Discussion and Analysis of Financial Condition and Results of Operations is included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, enclosed with this Proxy Statement and is incorporated herein by reference. Management’s Discussion and Analysis of Financial Condition and Results of Operations, as included in our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2010, is attached to this Proxy Statement as *Appendix D* and is incorporated herein by reference (includes additional information regarding our Federal Home Loan Bank advances disclosed under Item 8.01 of Form 8-K filed with the FDIC on June 23, 2010).

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Quantitative and Qualitative Disclosures About Market Risk is included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, enclosed with this Proxy Statement and is incorporated herein by reference. Quantitative and Qualitative Disclosures About Market Risk, as included in our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2010, is attached to this Proxy Statement as *Appendix E* and is incorporated herein by reference.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires our executive officers and directors, and persons who own more than 10% of our equity securities to file reports of ownership and changes in ownership with the FDIC. The FDIC requires executive officers, directors and greater than 10% shareholders to furnish to us copies of all Section 16(a) forms they file. Based solely on our review of these reports and of certifications furnished to us, we believe that, during the fiscal year ended December 31, 2009, all executive officers, directors and greater than 10% beneficial owners complied with all applicable Section 16(a) filing requirements, except for the following late filings on Form 4 “Statement of Changes in Beneficial Ownership of Securities”:

- A Form 4 with a transaction date of September 14, 2009 was filed on October 7, 2009. The beneficial owner of the subject securities is Bestwood Trust 1.
- A Form 4 with a transaction date of September 14, 2009 filed on October 7, 2009. The beneficial owner of the subject securities is Li Yu.
- A Form 4 with a transaction date of September 14, 2009 filed on September 28, 2009. The beneficial owner of the subject securities is Clark Hsu.
- A Form 4 with a transaction date of September 14, 2009 filed on September 25, 2009. The beneficial owner of the subject securities is J. Rich Belliston.
- A Form 4 with a transaction date of September 14, 2009 filed on September 25, 2009. The beneficial owner of the subject securities is Albert Yu.
- A Form 4 with a transaction date of September 14, 2009 filed on September 25, 2009. The beneficial owner of the subject securities is Gary Nunnelly.
- Form 4 with a transaction date of September 14, 2009 filed on September 24, 2009. The beneficial owner of the subject securities is Ed Czajka.
- Form 4 with a transaction date of September 14, 2009 filed on September 24, 2009. The beneficial owner of the subject securities is William C. Cheng.
- Form 4 with a transaction date of September 14, 2009 filed on September 24, 2009. The beneficial owner of the subject securities is Robert Kosof.
- Form 4 with a transaction date of February 24, 2009 filed on March 24, 2009. The beneficial owner of the subject securities is Chih-Wei Wu.

SHAREHOLDER PROPOSALS FOR 2011 ANNUAL MEETING OF SHAREHOLDERS

Proposals received from shareholders in accordance with Rule 14a-8 under the Exchange Act are given careful consideration by us. Shareholder proposals are eligible for consideration for inclusion in the Proxy Statement for the 2011 annual meeting of shareholders if we receive them on or before March 16, 2010. Shareholder proposals must be directed to the Corporate Secretary, Preferred Bank, 601 S. Figueroa Street, 29th Floor, Los Angeles, California 90017. In order for a shareholder proposal submitted outside of Rule 14a-8 to be considered “timely” within the meaning of Rule 14a-4(c) under the Exchange Act, such proposal must be received by us not later than the last date for submission of shareholder proposals under our bylaws. In order for a proposal to be “timely” under our bylaws, proposals of shareholders made outside of Rule 14a-8 under the Exchange Act must be submitted not later than May 15, 2011, and not earlier than April 15, 2011, provided, however, in the event that the 2011 annual meeting of shareholders is advanced more than 30 days prior to or delayed more than 30 days after the first anniversary of the date of mailing the notice for the 2010 annual meeting, a proposal by a shareholder to be timely must be delivered not later than the close of business on the later of (i) the 90th day prior to the 2011 annual meeting of shareholders and (ii) the tenth day following the date on which public announcement of the date of the 2011 annual meeting of shareholders is first made.

In addition, in the event a shareholder proposal is not submitted to us prior to May 15, 2011, the proxy to be solicited by the Board of Directors for the 2011 annual meeting of shareholders will confer authority on the holders of the proxy to vote the shares in accordance with their best judgment and discretion if the proposal is presented at the 2011 annual meeting of shareholders without any discussion of the proposal in the proxy statement for such meeting.

ANNUAL REPORT

We have enclosed a copy of our 2009 Annual Report on Form 10-K with this Proxy Statement. If you would like another copy of our 2009 Annual Report on Form 10-K, we will send you one without charge. The Annual Report on Form 10-K includes a list of exhibits filed with the FDIC, but does not include the exhibits. If you wish to receive copies of the exhibits, we will send them to you. Expenses for copying and mailing them to you will be your responsibility. Please write to:

Financial Relations Board
660 South Figueroa Street, Suite 1400
Los Angeles, California 90017
Attention: Lasse Glassen , Senior Vice President

A copy of our Annual Report on Form 10-K is also available without charge from our company website at www.preferredbank.com.

WHERE YOU CAN FIND MORE INFORMATION

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 Public Reference Section, Room F-6043, 550 17th Street, N.W., Washington, DC 20429. Requests for copies may be made by telephone at (202) 898-8193 or by fax at (202) 898-3909. Certain financial information filed by us with the FDIC is also available electronically at the FDIC's website at <http://www.fdic.gov>. Our FDIC filings are available to the public on the Investor Relations page of our website at www.preferredbank.com. Other than the annual, quarterly, and current reports, proxy statements and other information we file with the FDIC, the information on our website is not part of this Proxy Statement.

You should review the information and exhibits included in our filings with the FDIC for further information about us, including but not limited to our business, our current officers and directors, our officers' and directors' compensation and beneficial ownership of our shares, our regulation and supervision, and dividend policy. Statements in this Proxy Statement concerning any document we filed with the FDIC are not intended to be comprehensive and are qualified by reference to such documents. Any requests for copies of these filings, at no cost, should be submitted or directed to:

Preferred Bank
601 S. Figueroa Street, 29th Floor
Los Angeles, California 90017
(213) 891-1188

Attention: Edward J. Czajka,
Chief Financial Officer

YOUR VOTE AT THIS YEAR'S MEETING IS IMPORTANT, NO MATTER HOW MANY OR HOW FEW SHARES YOU OWN. PLEASE SIGN AND DATE THE ENCLOSED PROXY CARD AND RETURN IT IN THE ENCLOSED POSTAGE-PAID ENVELOPE PROMPTLY.

By Order of the Board of Directors



Li Yu
Corporate Secretary

Appendix A
Certificate of Determination for the Series A Preferred Stock

**CERTIFICATE OF DETERMINATION OF
MANDATORILY CONVERTIBLE NON-CUMULATIVE NON-VOTING PERPETUAL
PREFERRED STOCK, SERIES A OF
PREFERRED BANK**

Pursuant to Section 401 of the Corporations Code of the State of California:

We, Li Yu, President and Chief Executive Officer, and Edward Czajka, Chief Financial Officer, of Preferred Bank, a California state-chartered bank (hereinafter called the “**Corporation**”), do hereby certify as follows:

1. On June 8, 2010, the Board of Directors of the Corporation, acting through a duly authorized committee (the “**Committee**”), adopted a resolution designating 96,250 shares of serial preferred stock of the Corporation (hereinafter referred to as the “**Preferred Stock**”) as Mandatorily Convertible Non-Cumulative Non-Voting Perpetual Preferred Stock, Series A.

2. No shares of Mandatorily Convertible Non-Cumulative Non-Voting Perpetual Preferred Stock, Series A have been issued.

3. Pursuant to the authority conferred upon the Board of Directors by the Amended and Restated Articles of Incorporation of the Corporation, and pursuant to the authority conferred upon the Committee by the duly adopted resolutions of the Board of Directors, the Committee duly adopted the following resolutions on June 8, 2010, with respect to the series of Preferred Stock designated as Mandatorily Convertible Non-Cumulative Non-Voting Perpetual Preferred Stock, Series A:

RESOLVED, that pursuant to the provisions of the Amended and Restated Articles of Incorporation of the Corporation and applicable law, a series of Preferred Stock of the Corporation be and hereby is created, and that the designation and number of shares of such series, and the voting and other powers, preferences and relative, participating, optional or other rights, and the qualifications, limitations and restrictions thereof, of the shares of such series are as follows:

Section 1. Designation. There is hereby created out of the authorized and unissued shares of preferred stock of the Corporation a series of preferred stock designated as the “Mandatorily Convertible Non-Cumulative Non-Voting Perpetual Preferred Stock, Series A” (the “**Series A Preferred Stock**”). The number of shares constituting such series shall be 96,250. The Series A Preferred Stock shall have no par value per share.

Section 2. Ranking. The Series A Preferred Stock will, with respect to dividend rights and rights on liquidation, winding up and dissolution, rank (i) on a parity with each class or series of equity securities of the Corporation the terms of which do not expressly provide that such class or series will rank senior or junior to the Series A Preferred Stock as to dividend rights and rights on liquidation, winding-up and dissolution of the Corporation (collectively referred to as “**Parity Securities**”), and (ii) senior to the Corporation’s common stock, no par value per share (the “**Common Stock**”), and each other class or series of capital stock of the Corporation outstanding or established after the Effective Date by the Corporation the terms of which do not expressly provide that it ranks on a parity with or senior to the Series A Preferred Stock as to dividend rights and rights on liquidation, winding-up and dissolution of the Corporation (collectively referred to as “**Junior Securities**”). The Corporation has the power to authorize and/or issue additional shares or classes or series of Junior Securities or Parity Securities without the approval of the Holders.

Section 3. Definitions. The following initially capitalized terms shall have the following meanings, whether used in the singular or the plural:

- (a) “**Additional Stock**” has the meaning set forth in Section 10(a)(viii)(F).

(b) “**Affiliate**” of any specified Person means any other Person directly or indirectly controlling or controlled by or under common control with such specified Person. For the purposes of this definition, “control” when used with respect to any specified Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms “controlling” and “controlled” have meanings correlative to the foregoing.

(c) “**Applicable Conversion Price**” means the Conversion Price in effect at any given time.

(d) “**BHC Act**” means the Bank Holding Company Act of 1956, as amended.

(e) “**BHC Affiliated Person**” means, with respect to any Person, its Affiliates, which for purposes of this definition include all “affiliates” as defined in the BHC Act or Regulation Y of the Board of Governors of the Federal Reserve.

(f) “**Business Day**” means any day that is not Saturday or Sunday and that, in New York City, is not a day on which banking institutions generally are authorized or obligated by law or executive order to be closed.

(g) “**Certificate of Determination**” means this Certificate of Determination of Preferred Bank, dated June 10, 2010.

(h) “**CIBC Act**” means the Change in Bank Control Act of 1978, as amended.

(i) “**Closing Price**” of the Common Stock (or other relevant capital stock or equity interest) on any date of determination means the closing sale price or, if no closing sale price is reported, the last reported sale price of the shares of the Common Stock (or other relevant capital stock or equity interest) on The NASDAQ Global Select Market on such date. If the Common Stock (or other relevant capital stock or equity interest) is not traded on The NASDAQ Global Select Market on any date of determination, the Closing Price of the Common Stock (or other relevant capital stock or equity interest) on such date of determination means the closing sale price as reported in the composite transactions for the principal U.S. national or regional securities exchange on which the Common Stock (or other relevant capital stock or equity interest) is so listed or quoted, or, if no closing sale price is reported, the last reported sale price on the principal U.S. national or regional securities exchange on which the Common Stock (or other relevant capital stock or equity interest) is so listed or quoted, or if the Common Stock (or other relevant capital stock or equity interest) is not so listed or quoted on a U.S. national or regional securities exchange, the last quoted bid price for the Common Stock (or other relevant capital stock or equity interest) in the over-the-counter market as reported by Pink OTC Markets Inc. or similar organization, or, if that bid price is not available, the market price of the Common Stock (or other relevant capital stock or equity interest) on that date as determined by a nationally recognized independent investment banking firm retained by the Corporation for this purpose. The fair market value determination of the nationally recognized independent investment banking firm must be approved by a majority of the Board of Directors of the Corporation and by the Holders.

For purposes of this Certificate of Determination, all references herein to the “**Closing Price**” and “**last reported sale price**” of the Common Stock (or other relevant capital stock or equity interest) on The NASDAQ Global Select Market shall be such closing sale price and last reported sale price as reflected on the website of The NASDAQ Global Select Market (<http://www.nasdaq.com>).

(j) “**Common Stock**” has the meaning set forth in Section 2.

(k) “**Common Stock Approval**” means the affirmative vote of a majority of the shares of Common Stock represented, in person or by proxy, and voting at a duly held meeting of the Corporation’s shareholders at which a quorum of such class of shares is present (which shares voting affirmatively also constitute at least a majority of the required quorum) approving the conversion of the Series A Preferred Stock into Common Stock pursuant to Rule 5635(c) and Rule 5635(d) of the NASDAQ Stock Market Rules.

(l) “**Common Stock Equivalents**” means securities representing rights convertible into or exchangeable for, or entitling the holder thereof to purchase or receive directly or indirectly, shares of Common Stock.

(m) “**Control Regulations**” has the meaning set forth in Section 15(a).

(n) “**Conversion Date**” means, as applicable, the Mandatory Conversion Date, the Section 15 Conversion Date, or the date of conversion pursuant to Section 7(b)(ii).

(o) “**Conversion Limit**” has the meaning set forth in Section 15(a).

(p) “**Conversion Price**” means for each share of Series A Preferred Stock, \$1.50, *provided* that if the Common Stock Approval is not obtained by the three month anniversary of the Effective Date, the Conversion Price shall be reduced by 20% (subject to further adjustment or limitation from time to time in a manner consistent with the provisions of Section 10).

(q) “**Corporation**” means Preferred Bank, a California corporation.

(r) “**Current Market Price**” means, on any date, the average of the daily Closing Price per share of the Common Stock on each of the five consecutive Trading Days preceding the earlier of the day before the date in question and the day before the Ex-Date with respect to the issuance or distribution giving rise to an adjustment to the Conversion Price pursuant to Section 10.

(s) “**Deferred Compensation Plan**” means, the Preferred Bank Deferred Compensation Plan dated October 1999, as amended.

(t) “**Distributed Property**” has the meaning set forth in Section 10(a)(iv).

(u) “**Distribution**” has the meaning set forth in Section 4(g).

(v) “**Dividend Rate**” means, with respect to any Section 4 Dividend Period, 12%, per annum.

(w) “**Effective Date**” means the date on which shares of the Series A Preferred Stock are first issued.

(x) “**Exchange Property**” has the meaning set forth in Section 11(a).

(y) “**Ex-Date**” when used with respect to any issuance or distribution, means the first date on which the Common Stock trades without the right to receive the issuance or distribution giving rise to an adjustment to the Conversion Price pursuant to Section 10.

(z) “**Filing Date**” has the meaning set forth in Section 10(a)(viii)(A).

(aa) “**First Dilutive Issuance**” has the meaning set forth in Section 10(a)(viii)(A).

(bb) “**Holder**” means the Person in whose name the shares of the Series A Preferred Stock are registered, which may be treated by the Corporation as the absolute owner of the shares of Series A Preferred Stock for the purpose of making payment and settling the related conversions and for all other purposes.

(cc) “**Junior Securities**” has the meaning set forth in Section 2.

(dd) “**Liquidation Preference**” means, as to the Series A Preferred Stock, \$1,000 per share (as adjusted for any split, subdivision, combination, consolidation, recapitalization or similar event with respect to the Series A Preferred Stock).

(ee) “**Mandatory Conversion Date**” means, with respect to the shares of Series A Preferred Stock of any Holder, the fifth Business Day after which the Corporation has received the Required Approvals (or if a Reorganization Event has theretofore been consummated, the date of consummation of such Reorganization Event) and, if applicable, such Holder has received Regulatory Approval; *provided, however*, that if a Mandatory Conversion Date would otherwise occur on or after an Ex-Date for an issuance or distribution that results in an adjustment of the Conversion Price pursuant to Section 10 and on or before the Record Date for such issuance or distribution, such Mandatory Conversion Date shall instead occur on the first calendar day after the Record Date for such issuance or distribution.

(ff) “**Notice of Mandatory Conversion**” has the meaning set forth in Section 9(a).

(gg) “**Parity Securities**” has the meaning set forth in Section 2.

(hh) “**Permitted Transferee**” has the meaning set forth in Section 15(b).

(ii) “**Person**” means a legal person, including any individual, corporation, estate, partnership, joint venture, association, joint-stock company, limited liability company or trust.

(jj) “**PIK Dividend**” has the meaning set forth in Section 4(b).

(kk) “**Preferred Stock Approval**” means the affirmative vote of the holders of at least a majority of the shares of Series A Preferred Stock at the time outstanding and entitled to vote thereon, voting together as a single class, given in person or by proxy at a duly held meeting at which a quorum of such class of shares is present approving the conversion of the Series A Preferred Stock into Common Stock in accordance with this Certificate of Determination and the Corporations Code of the State of California.

(ll) “**Record Date**” has the meaning set forth in Section 4(d).

(mm) “**Regulatory Approval**” means with respect to a Holder, the necessary approvals to permit such Holder’s conversion (in whole or in part) of his, her or its Series A Preferred Stock into Common Stock pursuant to the terms of the Certificate of Determination, to the extent such conversion results in such Holder and his, her, or its BHC Affiliated Persons owning or controlling or being deemed for purposes of the Control Regulations to own or control Voting Securities of the Corporation in excess of the Conversion Limit.

(nn) “**Reorganization Event**” has the meaning set forth in Section 11(a).

(oo) “**Required Approvals**” means the Common Stock Approval and Preferred Stock Approval.

(pp) “**Section 4 Dividend Payment Date**” has the meaning set forth in Section 4(b).

(qq) “**Section 4 Dividend Period**” has the meaning set forth in Section 4(c).

(rr) “**Section 15 Conversion Date**” has the meaning set forth in Section 15(b).

(ss) “**Series A Preferred Stock**” has the meaning set forth in Section 1.

(tt) “**Subsequent Dilutive Issuance**” has the meaning set forth in Section 10(a)(viii)(A).

(uu) “**Trading Day**” means a day on which the shares of Common Stock:

(i) are not suspended from trading on any national or regional securities exchange or association or over-the-counter market at the close of business; and

(ii) have traded at least once on the national or regional securities exchange or association or over-the-counter market that is the primary market for the trading of the Common Stock.

(vv) “**Voting Securities**” has the meaning set forth in the BHC Act and any rules or regulations promulgated thereunder.

Section 4. Dividends. (a) From and after the Effective Date, the Holders shall be entitled to receive, only if, when and as declared by the Board of Directors or a duly authorized committee of the Board of Directors, out of funds legally available therefor, non-cumulative dividends of the type and in the amounts determined as set forth in this Section 4, and no more; *provided, however*, if the Mandatory Conversion Date occurs before the three month anniversary of the Effective Date, then no dividends will be declared or payable.

(b) Subject to Section 4(a), commencing on December 31, 2010, dividends shall be payable semi-annually in arrears on June 30 and December 31 of each year (each, a “**Section 4 Dividend Payment Date**”) or, if any such day is not a Business Day, the next Business Day, if, when and as declared by the Board of Directors or a duly authorized committee of the Board of Directors. Dividends payable pursuant to this Section 4, if, when and as declared by the Board of Directors or a duly authorized committee of the Board of Directors, will be, for each outstanding share of Series A Preferred Stock, payable in cash and in kind in additional shares of Series A Preferred Stock as follows:

(i) dividends at an annual rate equal to the Dividend Rate multiplied by the sum of (A) the Liquidation Preference plus (B) all declared and unpaid dividends for any prior Section 4 Dividend Period that are payable on such share of Series A Preferred Stock, payable in cash; and

(ii) dividends at an annual rate equal to 5.0% multiplied by the sum of (A) the Liquidation Preference plus (B) all declared and unpaid dividends for any prior Section 4 Dividend Period that are payable on such share of Series A Preferred Stock, payable in kind in additional shares of Series A Preferred Stock (each such dividend, a “**PIK Dividend**”). With respect to the payment of any PIK Dividend, the number of shares of Series A Preferred Stock to be issued in payment of such PIK Dividend with respect to each outstanding share of Series A Preferred Stock shall be determined by dividing (i) the amount of the PIK Dividend by (ii) the Liquidation Preference per share of Series A Preferred Stock. To the extent that any PIK Dividend would result in the issuance of a fractional share of Series A Preferred Stock to any Holder, then the amount of such fraction multiplied by the Liquidation Preference shall be paid in cash (unless there are no legally available funds with which to make such cash payment, in which event such cash payment shall be made as soon as possible thereafter). No PIK Dividend shall be paid to a Holder if as a result of the receipt of such PIK Dividend such Holder would be deemed to control the Corporation for purposes of the BHC Act, the CIBC Act or the California Financial Code; provided, however, that any PIK Dividend payment (or portion thereof) not made in the form of Series A Preferred Stock pursuant to this provision shall be paid by the Corporation to the Holder in the form of cash out of funds legally available therefor. Notwithstanding anything to the contrary contained herein, any Holder may elect not to receive any PIK Dividend it is entitled to receive under the terms hereof.

(c) Dividends payable pursuant to Section 4 will be computed on the basis of a 360-day year of twelve 30-day months and, for any Section 4 Dividend Period greater or less than a full Section 4 Dividend Period, will be computed on the basis of the actual number of days elapsed in the period divided by 360. The period from the Effective Date to but excluding December 31, 2010 and each period from and including a Section 4 Dividend Payment Date to but excluding the following Section 4 Dividend Payment Date is herein referred to as a “**Section 4 Dividend Period.**” The Corporation shall at all times reserve and keep available out of its authorized and unissued Series A Preferred Stock the full number of shares of Series A Preferred Stock required for the purposes of paying all PIK Dividends that may become payable.

(d) Each dividend will be payable to Holders of record as they appear in the records of the Corporation on the applicable record date (each, a “**Record Date**”), which with respect to dividends payable pursuant to this Section 4, shall be on the fifteenth day of the month immediately prior to the month in which the relevant Section 4 Dividend Payment Date occurs.

(e) Dividends on the Series A Preferred Stock are not cumulative. To the extent that the Board of Directors does not declare and pay dividends on the Series A Preferred Stock for a Section 4 Dividend Period prior to the related Section 4 Dividend Payment Date, in full or otherwise, such unpaid dividend shall not accrue and shall cease to be payable. The Corporation shall have no obligation to pay dividends for such Section 4 Dividend Period after the Section 4 Dividend Payment Date for such Section 4 Dividend Period or to pay interest with respect to such dividends, whether or not the Corporation declares dividends on the Series A Preferred Stock for any subsequent Section 4 Dividend Period.

(f) So long as any shares of Series A Preferred Stock remain outstanding, if all dividends on all outstanding shares of the Series A Preferred Stock for any Section 4 Dividend Period have not been declared and paid, or declared and funds set aside therefor, the Corporation shall not (x) declare or pay dividends with respect to, or make any distributions on, or, directly or indirectly, redeem, purchase or acquire any of its Junior Securities or (y) directly or indirectly, redeem, purchase or acquire any of its Parity Securities, other than, in each case, (i) redemptions, purchases or other acquisitions of Junior Securities or Parity Securities in connection with any employment contract, benefit plan or other similar arrangement with or for the benefit of any one or more employees, officers, directors or consultants or in connection with a dividend reinvestment plan, (ii) any declaration of a dividend in connection with any shareholders’ rights plan, or the issuance of rights, stock or other property under any shareholders’ rights plan, or the redemption or repurchase of rights pursuant thereto, (iii) conversions or exchanges of Junior Securities or Parity Securities for Junior Securities or Parity Securities, respectively, and (iv) any purchase of fractional interests in shares of the Corporation’s capital stock pursuant to the conversion or exchange provisions of such capital stock or the securities being converted or exchanged. If dividends payable pursuant to Section 4 for any Section 4 Dividend Payment Date are not paid in full, or declared and funds set aside therefor on the shares of the Series A Preferred Stock and there are issued and outstanding shares of Parity Securities with the same Section 4 Dividend Payment Date (or, in the case of Parity Securities having dividend payment dates different from the Section 4 Dividend Payment Dates, on a dividend payment date falling within a Section 4 Dividend Period applicable to such Section 4 Dividend Payment Date), then all dividends declared on shares of the Series A Preferred Stock and such Parity Securities on such date or dates, as the case may be, shall be declared pro rata so that the respective amounts of such dividends shall bear the same ratio to each other as full semi-annual dividends per share payable on the shares of the Series A Preferred Stock pursuant to Section 4 and all such Parity Securities otherwise payable on such Section 4 Dividend Payment Date (or, in the case of Parity Securities having dividend payment dates different from the Section 4 Dividend Payment Dates, on a dividend payment date falling within a Section 4 Dividend Period applicable to such Section 4 Dividend Payment Date) (subject to such dividends on such Parity Securities having been declared by the Board of Directors out of legally available funds and including, in the case of any such Parity Securities that bear cumulative dividends, all declared but unpaid dividends) bear to each other.

(g) In addition, so long as any shares of Series A Preferred Stock are outstanding, the Corporation shall not declare, pay or set apart for payment any dividend or make any Distribution on any Common Stock, unless at the time of such dividend or Distribution the Corporation simultaneously pays a dividend or makes a Distribution, which dividend or Distribution shall be payable in the same cash, securities or other assets or property as is paid to holders of Common Stock, on each outstanding share of Series A Preferred Stock in an amount equal to the product of (i) the dividend payable or Distribution to be made on each share of Common Stock and (ii) the number of shares of Common Stock issuable upon conversion of a share of Series A Preferred Stock (assuming receipt of the Required Approvals), calculated on the record date for determination of holders entitled to receive such dividend or Distribution. For purposes hereof, “Distribution” shall mean the transfer of cash, securities or other assets or property, including, without limitation, evidences of indebtedness, shares of capital stock or securities (including, without limitation, any dividend or distribution of (i) shares of

capital stock of any class or series, or similar equity interests, of or relating to a subsidiary or other business unit in a “spin-off” transaction or (ii) rights or warrants to purchase shares of Common Stock (other than rights issued pursuant to a shareholders’ rights plan, a dividend reinvestment plan or other similar plans), without consideration, whether by way of dividend or otherwise.

(h) If a Conversion Date with respect to any share of Series A Preferred Stock occurs on or prior to the Record Date for any declared dividend applicable to any Section 4 Dividend Period, the Holder of such share of Series A Preferred Stock will not have the right to receive any dividends payable pursuant to Section 4(b) on the Series A Preferred Stock with respect to such Section 4 Dividend Period, provided that this provision shall not affect any rights to receive any declared but unpaid dividends on the Series A Preferred Stock attributable to any Section 4 Dividend Period completed prior to such Conversion Date. If a Conversion Date with respect to any share of Series A Preferred Stock is (i) after the Record Date for any declared dividend applicable to any Section 4 Dividend Period and (ii) prior to the relevant Section 4 Dividend Payment Date, the Holder of such share of Series A Preferred Stock shall receive that dividend on the relevant Section 4 Dividend Payment Date if such Holder was the Holder of record on the Record Date for that dividend.

Section 5. Liquidation. (a) In the event the Corporation voluntarily or involuntarily liquidates, dissolves or winds up, the Holders at the time shall be entitled to receive liquidating distributions in an amount equal to the Liquidation Preference per share of Series A Preferred Stock plus an amount equal to any declared but unpaid dividends thereon to and including the date of such liquidation. After payment of the full amount of such liquidation distribution, the Holders shall not be entitled to any further participation in any distribution of assets by the Corporation.

(b) In the event the assets of the Corporation available for distribution to shareholders upon any liquidation, dissolution or winding-up of the affairs of the Corporation, whether voluntary or involuntary, shall be insufficient to pay in full the amounts payable with respect to all outstanding shares of the Series A Preferred Stock and the corresponding amounts payable on any Parity Securities, Holders and the holders of such Parity Securities shall share ratably in any distribution of assets of the Corporation in proportion to the full respective liquidating distributions to which they would otherwise be respectively entitled.

(c) The Corporation’s consolidation or merger with or into any other entity, the consolidation or merger of any other entity with or into the Corporation, or the sale of all or substantially all of the Corporation’s property or business will not constitute its liquidation, dissolution or winding up.

Section 6. Maturity. The Series A Preferred Stock shall be perpetual unless converted in accordance with this Certificate of Determination.

Section 7. Redemptions.

(a) Redemption by the Holder. Holders of Series A Preferred Stock will have no right to require redemption of any shares of Series A Preferred Stock.

(b) Redemption by the Corporation.

(i) The Series A Preferred Stock may not be redeemed by the Corporation prior to the fifth year anniversary of the Effective Date. Following this date, the Corporation, at its option and subject to the prior approval of the California Department of Financial Institutions and Federal Deposit Insurance Corporation (unless at such time it is determined that such approval is not required), may redeem in whole at any time the shares of Series A Preferred Stock at the time outstanding, upon notice given as provided in Section 7(c) below, at a redemption price per share payable in cash equal to the sum of the

Liquidation Preference plus all declared and unpaid dividends up to, but excluding, the date fixed for redemption. The redemption price for any shares of Series A Preferred Stock shall be payable on the redemption date to the Holder of such shares against surrender of the certificate(s) evidencing such shares to the Corporation or its agent. Any declared but unpaid dividends payable on a redemption date that occurs subsequent to a Record Date for a Section 4 Dividend Period shall not be paid to the Holder entitled to receive the redemption price on the redemption date, but rather shall be paid to the holder of record of the redeemed shares on such Record Date.

(ii) For a period of 90 days following the date of the notice of redemption given pursuant to Section 7(c) below, the Holder shall have the option to convert the Holder's shares of Series A Preferred Stock into Common Stock. The number of shares of Common Stock into which a share of Series A Preferred Stock shall be convertible shall be determined by dividing (i) the Liquidation Preference plus all declared and unpaid dividends thereon by (ii) the Applicable Conversion Price. Before any Holder shall be entitled to convert such shares of Series A Preferred Stock pursuant to this subsection for shares of Common Stock, such Holder shall give written notice to the Corporation at such office that such Holder elects to convert the same and shall state therein the name or names in which such Holder wishes the shares of Common Stock to be issued. The Corporation shall, as soon as practicable thereafter (but in no event later than three (3) Business Days following receipt of such conversion notice), cause to be made a book-entry record through The Depository Trust Company or any other similar facility of the number of shares of Common Stock to which such Holder shall be entitled. Such conversion shall be deemed to have been made immediately prior to the close of business on the date written notice of such Holder's election is received by the Corporation, and the person or persons entitled to receive the shares of Common Stock issuable upon such conversion shall be treated for all purposes as the record holder or holders of such shares of Common Stock on such date.

(c) Notice of Redemption. Notice of every redemption of shares of Series A Preferred Stock shall be given by first class mail, postage prepaid, addressed to the Holders of the shares to be redeemed at their respective last addresses appearing on the books of the Corporation. Such mailing shall be at least 90 days before the date fixed for redemption; *provided, however*, that failure to give such notice by mail, or any defect in such notice or in the mailing thereof, to any Holder of shares of Series A Preferred Stock designated for redemption shall not affect the validity of the proceedings for the redemption of any other shares of Series A Preferred Stock to be so redeemed except as to the Holder to whom the Corporation has failed to give such notice or except as to the Holder to whom notice was defective. Notwithstanding the foregoing, if the Series A Preferred Stock or any depositary shares representing interests in the Series A Preferred Stock are issued in book-entry form through The Depository Trust Company or any other similar facility, notice of redemption may be given to the Holders of Series A Preferred Stock at such time and in any manner permitted by such facility. Each such notice given to a Holder shall state: (1) the redemption date; (2) the number of shares of Series A Preferred Stock to be redeemed and, if less than all the shares held by such Holder are to be redeemed, the number of such shares to be redeemed from such Holder; (3) the redemption price (or manner of determination of the redemption price); and (4) the place or places where certificates for such shares (if certificated) are to be surrendered for payment of the redemption price.

(d) Effectiveness of Redemption. If notice of redemption has been duly given as provided in Section 7(c) and if, on or before the redemption date specified in the notice, all funds necessary for the redemption have been set aside by the Corporation, separate and apart from its other funds, in trust for the *pro rata* benefit of the Holders of the shares called for redemption, so as to be and continue to be available therefor, then, notwithstanding that any certificate for any share so called for redemption has not been surrendered for cancellation, on and after the redemption date, unless the Corporation defaults in the payment of the redemption price, in which case such rights shall continue until the redemption price is paid and subject to the right of the Holder to have Series A Preferred Stock converted into Common Stock in accordance with Section 7(b)(ii)

above, all shares so called for redemption shall no longer be deemed outstanding and all rights with respect to such shares shall forthwith on such redemption date cease and terminate, except only the right of the Holders thereof to receive the amount payable on such redemption, without interest. Any funds unclaimed at the end of two years from the redemption date shall, to the extent permitted by law, be released to the Corporation, after which time the Holders of the shares so called for redemption shall look only to the Corporation for payment of the redemption price of such shares. Shares of outstanding Series A Preferred Stock that are redeemed, purchased or otherwise acquired by the Corporation, or converted into another series of Series A Preferred Stock, shall be cancelled and shall revert to authorized but unissued shares of Series A Preferred Stock undesignated as to series.

(e) No Sinking Fund. The Series A Preferred Stock will not be subject to any sinking fund or other similar provisions.

Section 8. Mandatory Conversion. Effective as of the close of business on the Mandatory Conversion Date with respect to the shares of Series A Preferred Stock of a Holder, all such Holder's shares of Series A Preferred Stock shall, subject to the provisions of Section 15, automatically convert into shares of Common Stock as set forth below. The number of shares of Common Stock into which a share of Series A Preferred Stock shall be convertible shall be determined by dividing (i) the Liquidation Preference, plus all declared and unpaid dividends with respect to (1) any Section 4 Dividend Period completed prior to the Record Date (for the Section 4 Dividend Period in which the Mandatory Conversion Date occurs), *plus*, if applicable, (2) the Section 4 Dividend Period in which the Mandatory Conversion Date occurs if the Mandatory Conversion Date occurs after the Record Date for such Section 4 Dividend Period (provided, however, that if the Mandatory Conversion Date occurs before the three month anniversary of the Effective Date, then no dividends shall be included in the numerator), by (ii) the Applicable Conversion Price (subject to the conversion procedures of Section 9 hereof). Upon such conversion, Holders shall receive cash in lieu of fractional shares in accordance with Section 13 hereof. The mandatory conversion feature of this Section 8 shall also apply to those shares of Series A Preferred Stock reserved for issuance under the Deferred Compensation Plan.

Section 9. Conversion Procedures.

(a) Upon receipt by the Corporation of the Required Approvals, the Corporation shall provide, within three (3) Business Days thereafter, notice of mandatory conversion to each Holder (such notice a "**Notice of Mandatory Conversion**"). If the Series A Preferred Stock or any depositary shares representing interests in the Series A Preferred Stock are issued in book-entry form through The Depository Trust Company or any other similar facility, the Notice of Mandatory Conversion may be given to the applicable Holders of Series A Preferred Stock in any manner permitted by such facility. In addition to any information required by applicable law or regulation, the Notice of Mandatory Conversion with respect to such Holder shall state, as appropriate:

(i) the Mandatory Conversion Date;

(ii) the Conversion Price;

(iii) the number of shares of Common Stock to be issued upon conversion of each share of Series A Preferred Stock held of record by such Holder and subject to such mandatory conversion; and

(iv) the place or places where certificates of Series A Preferred Stock (if certificated) are to be surrendered for issuance of shares of Common Stock.

(b) Effective immediately prior to the close of business on the Mandatory Conversion Date, dividends shall no longer be declared on any such shares of Series A Preferred Stock and such shares of Series A Preferred Stock shall cease to be outstanding, in each case, subject to the right of the Holder to receive (i) shares of Common Stock issuable upon such mandatory conversion, (ii) any declared and unpaid dividends on such shares of Series A Preferred Stock to the extent provided in Section 4 and (iii) any other payments to which such Holder is otherwise entitled pursuant to Section 8, Section 11 or Section 13 hereof, as applicable.

(c) Prior to the close of business on the Mandatory Conversion Date, shares of Common Stock issuable upon conversion thereof, or other securities issuable upon conversion of, such share of Series A Preferred Stock shall not be deemed outstanding for any purpose, and the Holder thereof shall have no rights with respect to the Common Stock or other securities issuable upon conversion (including voting rights, rights to respond to tender offers for the Common Stock or other securities issuable upon conversion and rights to receive any dividends or other distributions on the Common Stock or other securities issuable upon conversion) by virtue of holding such share of Series A Preferred Stock, except to the extent provided in Section 4(g).

(d) Shares of Series A Preferred Stock duly converted in accordance with this Certificate of Determination, or otherwise reacquired by the Corporation, will resume the status of authorized and unissued preferred stock, undesignated as to series and available for future issuance. The Corporation may from time-to-time take such appropriate action as may be necessary to reduce the authorized number of shares of Series A Preferred Stock; *provided, however*, that the Corporation shall not take any such action if such action would reduce the authorized number of shares of Series A Preferred Stock below the number of shares of Series A Preferred Stock then outstanding.

(e) The Person or Persons entitled to receive the Common Stock and/or cash, securities or other property issuable upon conversion of Series A Preferred Stock shall be treated for all purposes as the record holder(s) of such shares of Common Stock and/or securities as of the close of business on the relevant Conversion Date with respect thereto. In the event that a Holder shall not by written notice designate the name in which shares of Common Stock and/or cash, securities or other property (including payments of cash in lieu of fractional shares) to be issued or paid upon conversion of shares of Series A Preferred Stock should be registered or paid or the manner in which such shares should be delivered, the Corporation shall be entitled to register and deliver such shares, and make such payment, in the name of the Holder and in the manner shown on the records of the Corporation.

(f) On a Conversion Date, certificates representing shares of Common Stock shall be issued and delivered to the Holder thereof or such Holder's designee (or, at the Corporation's option such shares shall be registered in book-entry form) upon presentation and surrender of the certificate evidencing the Series A Preferred Stock (if certificated) to the Corporation and, if required, the furnishing of appropriate endorsements and transfer documents and the payment of all transfer and similar taxes.

Section 10. Anti-Dilution Adjustments.

(a) The Conversion Price shall be subject to the following adjustments:

(i) **Stock Dividends and Distributions.** If the Corporation pays dividends or other distributions on the Common Stock in shares of Common Stock, then the Conversion Price in effect immediately prior to the Ex-Date for such dividend or distribution will be multiplied by the following fraction:

$$\frac{OS_0}{OS^1}$$

Where,

OS_0 = the number of shares of Common Stock outstanding immediately prior to Ex-Date for such dividend or distribution.

OS^1 = the sum of the number of shares of Common Stock outstanding immediately prior to the Ex-Date for such dividend or distribution plus the total number of shares of Common Stock constituting such dividend or distribution.

For the purposes of this clause (i), the number of shares of Common Stock at the time outstanding shall not include shares acquired by the Corporation. If any dividend or distribution described in this clause (i) is declared but not so paid or made, the Conversion Price shall be readjusted, effective as of the date the Board of Directors publicly announces its decision not to make such dividend or distribution, to such Conversion Price that would be in effect if such dividend or distribution had not been declared (but giving effect to any intervening adjustments that may have been made with respect to the Series A Preferred Stock).

(ii) Subdivisions, Splits and Combinations of the Common Stock. If the Corporation subdivides, splits or combines the shares of Common Stock, then the Conversion Price in effect immediately prior to the effective date of such share subdivision, split or combination will be multiplied by the following fraction:

$$\frac{OS_0}{OS^1}$$

Where,

OS_0 = the number of shares of Common Stock outstanding immediately prior to the effective date of such share subdivision, split or combination.

OS^1 = the number of shares of Common Stock outstanding immediately after the opening of business on the effective date of such share subdivision, split or combination.

For the purposes of this clause (ii), the number of shares of Common Stock at the time outstanding shall not include shares acquired by the Corporation. If any subdivision, split or combination described in this clause (ii) is announced but the outstanding shares of Common Stock are not subdivided, split or combined, the Conversion Price shall be readjusted, effective as of the date the Board of Directors publicly announces its decision not to subdivide, split or combine the outstanding shares of Common Stock, to such Conversion Price that would be in effect if such subdivision, split or combination had not been announced (but giving effect to any intervening adjustments that may have been made with respect to the Series A Preferred Stock).

(iii) Issuance of Stock Purchase Rights. If the Corporation issues to all or substantially all holders of the shares of Common Stock rights or warrants (other than rights or warrants issued pursuant to a shareholders' rights plan, a dividend reinvestment plan or share purchase plan or other similar plans) entitling them to subscribe for or purchase the shares of Common Stock at less than the Current Market Price on the date fixed for the determination of stockholders entitled to receive such rights or warrants, then the Conversion Price in effect immediately prior to the Ex-Date for such distribution will be multiplied by the following fraction:

$$\frac{OS_0 + Y}{OS_0 + X}$$

Where,

OS_0 = the number of shares of Common Stock outstanding immediately prior to the Ex-Date for such distribution.

X = the total number of shares of Common Stock issuable pursuant to such rights or warrants.

Y = the number of shares of Common Stock equal to the aggregate price payable to exercise such rights or warrants divided by the Current Market Price on the date fixed for the determination of stockholders entitled to receive such rights or warrants.

For the purposes of this clause (iii), the number of shares of Common Stock at the time outstanding shall not include shares acquired by the Corporation. The Corporation shall not issue any such rights or warrants in respect of shares of the Common Stock acquired by the Corporation. In the event that such rights or warrants described in this clause (iii) are not so issued, the Conversion Price shall be readjusted, effective as of the date the Board of Directors publicly announces its decision not to issue such rights or warrants, to the Conversion Price that would then be in effect if such issuance had not been declared (but giving effect to any intervening adjustments that may have been made with respect to the Series A Preferred Stock). To the extent that such rights or warrants are not exercised prior to their expiration or shares of Common Stock are otherwise not delivered pursuant to such rights or warrants upon the exercise of such rights or warrants, the Conversion Price shall be readjusted to such Conversion Price that would then be in effect had the adjustment made upon the issuance of such rights or warrants been made on the basis of the delivery of only the number of shares of Common Stock actually delivered (but giving effect to any intervening adjustments that may have been made with respect to the Series A Preferred Stock). In determining the aggregate offering price payable for such shares of Common Stock, there shall be taken into account any consideration received for such rights or warrants and the value of such consideration (if other than cash, to be determined in a reasonable manner by the Board of Directors).

(iv) Debt or Asset Distributions. If the Corporation distributes to all or substantially all holders of shares of Common Stock evidences of indebtedness, shares of capital stock, securities, cash or other assets (excluding any dividend or distribution referred to in Section 10(a)(i), any rights or warrants referred to in Section 10(a)(iii), any dividend or distribution paid exclusively in cash, any consideration payable in connection with a tender or exchange offer made by the Corporation or any of its subsidiaries, and any dividend of shares of capital stock of any class or series, or similar equity interests, of or relating to a subsidiary or other business unit in the case of certain spin-off transactions as described below) (such evidences of indebtedness, shares of capital stock, securities, cash or other assets, the “**Distributed Property**”), then the Conversion Price in effect immediately prior to the Ex-Date for such distribution will be multiplied by the following fraction:

$$\frac{SP_0 - FMV}{SP_0}$$

Where,

SP_0 = the Current Market Price per share of Common Stock on such date.

FMV = the fair market value of the portion of the distribution applicable to one share of Common Stock on such date as determined in good faith by the Board of Directors.

provided that, if the fair market value of the portion of the distribution applicable to one share of Common Stock on such date as determined in good faith by the Board of Directors is equal to or greater than the Current Market Price per share of Common Stock on such date, in lieu of the foregoing adjustment, adequate provision shall be made so that each Holder shall receive on the date on which the Distributed Property is distributed to holders of Common Stock, for each share of Series A Preferred Stock, the amount of Distributed Property such Holder would have received had such Holder’s Series A Preferred Stock been converted into such number of shares of Common Stock that such Holder’s shares of Series A Preferred Stock would then be convertible on the Ex-Date for such distribution.

In a “spin-off,” where the Corporation makes a distribution to all or substantially all holders of shares of Common Stock consisting of capital stock of any class or series, or similar equity interests of, or relating to, a subsidiary or other business unit, the Conversion Price will not be adjusted, but in lieu of such adjustment each Holder shall receive the same distribution as a holder of Common Stock would as though such Holder’s shares of Series A Preferred Stock had been converted into such number of shares of Common Stock that such Holder’s shares of Series A Preferred Stock would then be convertible.

In the event that such distribution described in this Section 10(a)(iv) is not so paid or made, the Conversion Price shall be readjusted, effective as of the date the Board of Directors publicly announces its decision not to pay or make such dividend or distribution, to the Conversion Price that would then be in effect if such dividend or distribution had not been declared (but giving effect to any intervening adjustments that may have been made with respect to the Preferred Stock). If an adjustment to the Conversion Price is required under this Section 10(a)(iv), delivery of any additional shares of Common Stock that may be deliverable upon conversion as a result of an adjustment required under this Section 10(a)(iv) shall be delayed to the extent necessary in order to complete the calculations provided for in this Section 10(a)(iv).

(v) Cash Distributions. If the Corporation makes a distribution consisting exclusively of cash to all holders of the Common Stock, excluding (a) any cash dividend or distribution on the Common Stock to the extent a corresponding cash dividend or distribution pursuant to Section 4 is paid on the Series A Preferred Stock, (b) any dividend or distribution in connection with the Corporation's liquidation, dissolution or winding up, and (c) any consideration payable in connection with a tender or exchange offer made by the Corporation or any of its subsidiaries, then in each event, the Conversion Price in effect immediately prior to the Ex-Date for such distribution will be multiplied by the following fraction:

$$\frac{SP_0 - DIV}{SP_0}$$

Where,

SP₀ = the Closing Price per share of Common Stock on the Trading Day immediately preceding the Ex-Date.

DIV = the amount per share of Common Stock of the cash distribution, as determined pursuant to the introduction to this clause (v).

In the event that any distribution described in this clause (v) is not so made, the Conversion Price shall be readjusted, effective as of the date the Board of Directors publicly announces its decision not to pay such distribution, to the Conversion Price which would then be in effect if such distribution had not been declared (but giving effect to any intervening adjustments that may have been made with respect to the Series A Preferred Stock).

Notwithstanding the foregoing, if the amount per share of Common Stock of the cash distribution, as determined pursuant to the introduction to this clause (v), is equal to or greater than the Closing Price per share of Common Stock on the Trading Day immediately preceding the Ex-Date, in lieu of the foregoing adjustment, adequate provision shall be made so that each Holder shall have the right to receive on the date on which the relevant cash dividend or distribution is distributed to holders of Common Stock, for each share of Series A Preferred Stock, the amount of cash such Holder would have received had such Holder's Series A Preferred Stock been converted into such number of shares of Common Stock that such Holder's shares of Series A Preferred Stock would then be convertible on the Ex-Date for such distribution.

(vi) Self Tender Offers and Exchange Offers. If the Corporation or any of its subsidiaries successfully completes a tender or exchange offer for the Common Stock where the cash and the value of any other consideration included in the payment per share of the Common Stock exceeds the Closing Price per share of the Common Stock on the Trading Day immediately succeeding the expiration of the tender or exchange offer, then the Conversion Price in effect at the close of business on such immediately succeeding Trading Day will be multiplied by the following fraction:

$$\frac{OS_0 \times SP_0}{AC + (SP_0 \times OS^1)}$$

Where,

SP_0 = the Closing Price per share of Common Stock on the Trading Day immediately succeeding the expiration of the tender or exchange offer.

OS_0 = the number of shares of Common Stock outstanding immediately prior to the expiration of the tender or exchange offer, including any shares validly tendered and not withdrawn.

OS^1 = the number of shares of Common Stock outstanding immediately after the expiration of the tender or exchange offer, giving effect to consummation of the acquisition of all shares validly tendered or exchanged (and not withdrawn) in connection with such tender or exchange.

AC = the aggregate cash and fair market value of the other consideration payable in the tender or exchange offer, as determined in good faith by the Board of Directors.

In the event that the Corporation, or one of its subsidiaries, is obligated to purchase shares of Common Stock pursuant to any such tender offer or exchange offer, but the Corporation, or such subsidiary, is permanently prevented by applicable law from effecting any such purchases, or all such purchases are rescinded, then the Conversion Price shall be readjusted to be such Conversion Price that would then be in effect if such tender offer or exchange offer had not been made (but giving effect to any intervening adjustments that may have been made with respect to the Series A Preferred Stock). Except as set forth in the preceding sentence, if the application of this clause (vi) to any tender offer or exchange offer would result in an increase in the Conversion Price, no adjustment shall be made for such tender offer or exchange offer under this clause (vi).

(vii) Rights Plans. To the extent that the Corporation has a rights plan in effect with respect to the Common Stock on the Conversion Date, upon conversion of any shares of the Series A Preferred Stock, Holders will receive, in addition to the shares of Common Stock, the rights under the rights plan, unless, prior to such Conversion Date, the rights have separated from the shares of Common Stock, in which case the Conversion Price will be adjusted at the time of separation as if the Corporation had made a distribution to all holders of the Common Stock as described in clause (iv) above, subject to readjustment in the event of the expiration, termination or redemption of such rights.

(viii) Other Issuances of Additional Stock.

(A) For so long as any shares of Series A Preferred Stock remain outstanding, if the Corporation shall issue (or be deemed to have issued), after the date of filing of this Certificate of Determination (the "**Filing Date**"), any Additional Stock (as defined below in subsection 10(a)(viii)(F)) without consideration or for a consideration per share less than the Conversion Price for the Series A Preferred Stock in effect immediately prior to the issuance of such Additional Stock, the Conversion Price for such series in effect immediately prior to each such issuance of Additional Stock shall forthwith (except as otherwise provided in this subsection (viii)) be adjusted to a price equal to (calculated to the nearest cent) the product obtained by multiplying the Conversion Price in effect immediately prior to such issuance of Additional Stock by the following fraction:

$$\frac{OS_0 + X}{OS_0 + AS}$$

Where:

OS_0 = the total number of shares of Common Stock outstanding (including any shares of Common Stock previously deemed to have been issued pursuant to subsection (viii)(E)(1) or (2) of this Section 10 (to the extent not actually issued)) immediately prior to such issuance of Additional Stock.

X = the number of shares of Common Stock that the aggregate consideration received by this Corporation for such issuance of Additional Stock would purchase at the Conversion Price for Series A Preferred Stock in effect immediately prior to such issuance of Additional Stock.

AS = the number of shares of Additional Stock issued.

In the event that the Corporation issues or sells, or is deemed to have issued or sold, Additional Stock (the “**First Dilutive Issuance**”), then in the event that the Corporation issues or sells, or is deemed to have issued or sold, Additional Stock other than the First Dilutive Issuance as a part of the same transaction or series of related transactions as the First Dilutive Issuance (a “**Subsequent Dilutive Issuance**”), then and in each such case upon a Subsequent Dilutive Issuance, the Conversion Price shall be reduced to the Conversion Price that would have been in effect had the First Dilutive Issuance and each Subsequent Dilutive Issuance all occurred on the closing date of the First Dilutive Issuance.

(B) Except to the limited extent provided for in subsections (viii)(E)(3) or (4), no adjustment of the Conversion Price for Series A Preferred Stock pursuant to this subsection (viii) shall have the effect of increasing any such Conversion Price above the Conversion Price in effect immediately prior to such adjustment.

(C) In the case of the issuance of Additional Stock for cash, the consideration shall be deemed to be the amount of cash paid therefor before deducting any discounts, commissions or other expenses allowed, paid or incurred by the Corporation for any underwriting or otherwise in connection with the issuance and sale thereof.

(D) In the case of the issuance of Additional Stock for a consideration in whole or in part other than cash, the consideration other than cash shall be deemed to be the fair value thereof as determined in good faith by the Corporation’s Board of Directors irrespective of any accounting treatment.

(E) In the case of the issuance (whether before, on or after the Filing Date) of (i) options to purchase or rights to subscribe for Common Stock, (ii) securities by their terms convertible into or exchangeable for Common Stock or (iii) options to purchase or rights to subscribe for securities by their terms convertible into or exchangeable for Common Stock, the following provisions shall apply for all purposes of this subsection (viii):

(1) The aggregate maximum number of shares of Common Stock deliverable upon exercise (assuming the satisfaction of any conditions to exercisability, including without limitation, the passage of time, but without taking into account potential anti-dilution adjustments) of such options to purchase or rights to subscribe for Common Stock shall be deemed to have been issued at the time such options or rights were issued and for a consideration equal to the consideration (determined in the manner provided in subsections (viii)(C) and (D) if any, received by the Corporation upon the issuance of such options or rights plus the minimum exercise price provided in such options or rights (without taking into account potential anti-dilution adjustments) for the Common Stock covered thereby.

(2) The aggregate maximum number of shares of Common Stock deliverable upon conversion of or in exchange (assuming the satisfaction of any conditions to convertibility or exchangeability, including without limitation, the passage of time, but without taking into account potential anti-dilution adjustments) for any such convertible or exchangeable securities or upon the exercise of options to purchase or rights to subscribe for such convertible or exchangeable securities and subsequent conversion or exchange thereof shall be deemed to have been issued at the time such securities were issued or such options or rights were issued and for a consideration equal to the consideration, if any, received by the Corporation for any such securities and related options or rights (excluding any cash received on account of accrued interest or accrued dividends), plus the minimum additional consideration, if any, to be received by the Corporation (without taking into account potential anti-dilution adjustments) upon the conversion or exchange of such securities or the exercise of any related options or rights (the consideration in each case to be determined in the manner provided in subsections (viii)(C) and (D)).

(3) In the event of any change in the number of shares of Common Stock deliverable or in the consideration payable to this Corporation upon exercise of such options or rights or upon conversion of or exchange for such convertible or exchangeable securities, including, but not limited to, a change resulting from the anti-dilution provisions thereof, the Conversion Price for Series A Preferred Stock, to the extent in any way affected by or computed using such options, rights or securities, shall be recomputed to reflect such change, but no further adjustment shall be made for the actual issuance of Common Stock or any payment of such consideration upon the exercise of any such options or rights or the conversion or exchange of such securities.

(4) Upon the expiration of any such options or rights, the termination of any such rights to convert or exchange or the expiration of any options or rights related to such convertible or exchangeable securities, the Conversion Price for the Series A Preferred Stock, to the extent in any way affected by or computed using such options, rights or securities or options or rights related to such securities, shall be recomputed to reflect the issuance of only the number of shares of Common Stock (and convertible or exchangeable securities that remain in effect) actually issued upon the exercise of such options or rights, upon the conversion or exchange of such securities or upon the exercise of the options or rights related to such securities (but giving effect to any intervening adjustments that may have been made with respect to the Series A Preferred Stock).

(5) The number of shares of Common Stock deemed issued and the consideration deemed paid therefor pursuant to subsections (viii)(E)(1) or (2) shall be appropriately adjusted to reflect any change, termination or expiration of the type described in either subsection (viii)(E)(3) or (4).

(F) **“Additional Stock”** shall mean any shares of Common Stock issued (or deemed to have been issued pursuant to subsection (viii)(E) of this Section 10) by this Corporation after the Filing Date for so long as any shares of Series A Preferred Stock remain outstanding, other than:

(1) shares of Common Stock or Common Stock Equivalents issued pursuant to an event or transaction described in Sections 10(a)(i) or (ii);

(2) shares of Common Stock issued pursuant to an event or transaction described in Section 10(c)(iii) (exceptions to adjustment of Conversion Price);

(3) shares of Common Stock issued or issuable upon conversion of shares of Series A Preferred Stock; and

(4) shares of Common Stock issued (or deemed to have been issued pursuant to subsection (viii)(E) of this Section 10) in connection with a Reorganization Event.

(b) The Corporation may make such decreases in the Conversion Price, in addition to any other decreases required by this Section 10, if the Board of Directors deems it advisable to avoid or diminish any income tax to holders of the Common Stock resulting from any dividend or distribution of shares of Common Stock (or issuance of rights or warrants to acquire shares of Common Stock) or from any event treated as such for income tax purposes or for any other reason.

(c) (i) All adjustments to the Conversion Price shall be calculated to the nearest 1/10 of a cent. No adjustment in the Conversion Price shall be required if such adjustment would be less than \$0.01; *provided*, that any adjustments which by reason of this subparagraph are not required to be made shall be carried forward and taken into account in any subsequent adjustment; *provided further* that on the applicable Conversion Date adjustments to the Conversion Price will be made with respect to any such adjustment carried forward and which has not been taken into account before such date.

(ii) No adjustment to the Conversion Price shall be made if Holders may participate in the transaction that would otherwise give rise to an adjustment, as a result of holding the Series A Preferred Stock (including without limitation pursuant to Section 4 hereof), without having to convert the Series A Preferred Stock, as if they held the full number of shares of Common Stock into which a share of the Series A Preferred Stock may then be converted.

(iii) The Conversion Price shall not be adjusted:

(A) upon the issuance of any shares of Common Stock pursuant to any present or future plan providing for the reinvestment of dividends or interest payable on the Corporation's securities and the investment of additional optional amounts in shares of Common Stock under any such plan;

(B) upon the issuance of any shares of Common Stock or rights or warrants to purchase those shares pursuant to any present or future employee, director or consultant benefit plan or program of or assumed by the Corporation or any of its subsidiaries;

(C) upon the issuance of any shares of Common Stock pursuant to any option, warrant, right or exercisable, exchangeable or convertible security outstanding as of the date shares of the Series A Preferred Stock were first issued and not substantially amended thereafter; or

(D) for declared and unpaid dividends on the Series A Preferred Stock.

(d) Whenever the Conversion Price is to be adjusted in accordance with Section 10(a) or Section 10(b), the Corporation shall: (i) compute the Conversion Price in accordance with Section 10(a) or Section 10(b), taking into account the \$0.01 threshold set forth in Section 10(c) hereof; (ii) as soon as practicable following the occurrence of an event that requires an adjustment to the Conversion Price pursuant to Section 10(a) or Section 10(b), taking into account the \$0.01 threshold set forth in Section 10(c) hereof (or if the Corporation is not aware of such occurrence, as soon as practicable after becoming so aware), provide, or cause to be provided, a written notice to the Holders of the occurrence of such event; and (iii) as soon as practicable following the determination of the revised Conversion Price in accordance with Section 10(a) or Section 10(b) hereof, provide, or cause to be provided, a written notice to the Holders setting forth in reasonable detail the method by which the adjustment to the Conversion Price was determined and setting forth the revised Conversion Price.

Section 11. Reorganization Events. (a) In the event that, for so long as any shares of Series A Preferred Stock remain outstanding, there occurs:

(i) any consolidation, merger or other similar business combination of the Corporation with or into another Person, in each case pursuant to which the Common Stock will be converted into cash, securities or other property of the Corporation or another Person;

(ii) any sale, transfer, lease or conveyance to another Person of all or substantially all of the property and assets of the Corporation, in each case pursuant to which the Common Stock will be converted into cash, securities or other property of the Corporation or another Person;

(iii) any reclassification of the Common Stock into securities including securities other than the Common Stock; or

(iv) any statutory exchange of the outstanding shares of Common Stock for securities of another Person (other than in connection with a merger or acquisition);

(any such event specified in this Section 11(a), a "**Reorganization Event**"); then each share of such Holder's Series A Preferred Stock outstanding immediately prior to such Reorganization Event shall remain outstanding but shall automatically convert, effective as of the close of business on the Mandatory Conversion Date with respect to the

shares of Series A Preferred Stock of such Holder, into the type and amount of securities, cash and other property receivable in such Reorganization Event by the holder (excluding the counterparty to the Reorganization Event or an Affiliate of such counterparty) of the number of shares of Common Stock obtained by dividing (x) the Liquidation Preference, plus all declared and unpaid dividends up to, but excluding such date, by (y) the Applicable Conversion Price as of such date (such securities, cash and other property, the “**Exchange Property**”).

(b) In the event that holders of the shares of Common Stock have the opportunity to elect the form of consideration to be received in such transaction, the Holders shall likewise be allowed to make such an election.

(c) The above provisions of this Section 11 shall similarly apply to successive Reorganization Events and the provisions of Section 10 shall apply to any shares of capital stock of the Corporation (or any successor) received by the holders of the Common Stock in any such Reorganization Event.

(d) The Corporation (or any successor) shall, within seven days of the consummation of any Reorganization Event, provide written notice to the Holders of such consummation of such event and of the kind and amount of the cash, securities or other property that constitutes the Exchange Property. Failure to deliver such notice shall not affect the operation of this Section 11.

(e) The Corporation shall not enter into any agreement for a transaction constituting a Reorganization Event unless such agreement provides for or does not interfere with or prevent (as applicable) conversion of the Series A Preferred Stock into the Exchange Property in a manner that is consistent with and gives effect to this Section 11.

Section 12. Voting Rights.

(a) Holders shall not have any voting rights except as set forth in this Section 12 or as otherwise from time to time required by law.

(b) Voting Rights.

(i) So long as any shares of Series A Preferred Stock are outstanding, in addition to any other vote of shareholders required by law or by the Amended and Restated Articles of Incorporation of the Corporation, the affirmative vote of the holders of at least a majority of the shares of Series A Preferred Stock (subject to the last paragraph of this Section 12(b)(i)), at the time outstanding and entitled to vote thereon, voting together as a single class, given in person or by proxy, by vote at any meeting called for the purpose, shall be necessary for effecting or validating:

(A) *Authorization of Senior Stock.* Any amendment or alteration (including by means of a merger, consolidation or otherwise) of the Corporation’s Amended and Restated Articles of Incorporation of the Corporation (including this Certificate of Determination) to authorize, or create, or increase the authorized amount of, any shares of, or any securities convertible into shares of any class or series of the Corporation’s capital stock ranking senior to the Series A Preferred Stock in the payment of dividends or in the distribution of assets on any liquidation, dissolution or winding up of the Corporation;

(B) *Amendment of Series A Preferred Stock.* Any amendment, alteration or repeal (including by means of a merger, consolidation or otherwise) of any provision of the Corporation’s Amended and Restated Articles of Incorporation of the Corporation (including this Certificate of Determination) or the Corporation’s Amended and Restated Bylaws that would alter or change the rights, preferences or privileges of the Series A Preferred Stock so as to affect them adversely;

(C) *Merger or Consolidation.* The consummation of a binding share exchange or reclassification involving the Series A Preferred Stock or a merger or consolidation of the Corporation with another entity, except that the Holders will have no right to vote under this provision or under California law if in each case (x) the Series A Preferred Stock remains outstanding or, in the case of any such merger or consolidation with respect to which the Corporation is not the surviving or resulting entity, is converted into or exchanged for preference securities of the surviving or resulting entity or its ultimate parent, that is an entity organized and existing under the laws of the United States of America, any state thereof or the District of Columbia, and (y) such Series A Preferred Stock remaining outstanding or such preference securities, as the case may be, have such rights, preferences, privileges and voting powers, taken as a whole, as are not materially less favorable to the Holders thereof than the rights, preferences, privileges and voting powers of the Series A Preferred Stock, taken as a whole; or

(D) *Conversion.* The conversion of shares of Series A Preferred Stock into shares of Common Stock pursuant to Section 8 hereof; *provided, however*, that the conversion of shares of any Holder's Series A Preferred Stock into shares of Common Stock shall only be made effective upon receipt of Common Stock Approval and, if applicable to such Holder, Regulatory Approval;

provided, however, that for all purposes of this Section 12(b), (1) any increase in the amount of the Corporation's authorized but unissued shares of preferred stock, (2) any increase in the amount of the Corporation's authorized or issued Series A Preferred Stock, and (3) to the extent allowed by California law, the creation and issuance, or an increase in the authorized or issued amount, of other series of preferred stock of the Corporation ranking equally with or junior to the Series A Preferred Stock either or both with respect to the payment of dividends (whether such dividends are cumulative or non-cumulative) and/or the distribution of assets upon the liquidation, dissolution or winding up of the Corporation, will not, in and of itself, be deemed to materially and adversely affect the rights, preferences, privileges or voting powers of the Series A Preferred Stock.

(ii) Notwithstanding the foregoing, Holders shall not have any voting rights if, at or prior to the effective time of the act with respect to which such vote would otherwise be required, all outstanding shares of Series A Preferred Stock shall have been converted into shares of Common Stock.

Section 13. Fractional Shares.

(a) No fractional shares of Common Stock will be issued as a result of any conversion of shares of Series A Preferred Stock.

(b) In lieu of any fractional share of Common Stock otherwise issuable in respect of any mandatory conversion pursuant to Section 8 hereof, the Corporation shall pay an amount in cash (computed to the nearest cent) equal to the same fraction of the Closing Price of the Common Stock determined as of the second Trading Day immediately preceding the applicable Conversion Date.

(c) If more than one share of the Series A Preferred Stock is surrendered for conversion at one time by or for the same Holder, the number of full shares of Common Stock issuable upon conversion thereof shall be computed on the basis of the aggregate number of shares of the Series A Preferred Stock so surrendered.

Section 14. Reservation of Common Stock.

(a) The Corporation shall at all times reserve and keep available out of its authorized and unissued Common Stock solely for issuance upon the conversion of shares of Series A Preferred Stock as provided in this Certificate of Determination free from any preemptive or other similar rights, such number of shares of Common Stock as shall from time to time be issuable upon the conversion of all the shares of Series A

Preferred Stock (assuming receipt of Required Approvals), then outstanding, based on the Applicable Conversion Price. For purposes of this Section 14(a), the number of shares of Common Stock that shall be deliverable upon the conversion of all outstanding shares of Series A Preferred Stock shall be computed as if at the time of computation all such outstanding shares were held by a single Holder.

(b) All shares of Common Stock delivered upon conversion of the Series A Preferred Stock shall be duly authorized, validly issued, fully paid and non-assessable, free and clear of all liens, claims, security interests and other encumbrances.

(c) Prior to the delivery of any securities that the Corporation shall be obligated to deliver upon conversion of the Series A Preferred Stock, the Corporation shall use its reasonable best efforts to comply with all federal and state laws and regulations thereunder requiring the registration of such securities with, or any approval of or consent to the delivery thereof by, any governmental authority.

(d) The Corporation hereby covenants and agrees that, if at any time the Common Stock shall be listed on The NASDAQ Global Select Market or any other national securities exchange or automated quotation system, the Corporation will, if permitted by the rules of such exchange or automated quotation system, list and keep listed, so long as the Common Stock shall be so listed on such exchange or automated quotation system, all the Common Stock issuable upon conversion of the Series A Preferred Stock.

Section 15. Limitations on Beneficial Ownership.

(a) Notwithstanding anything to the contrary contained herein, if, as of the applicable Conversion Date for a share of Series A Preferred Stock, the Holder thereof (together with its BHC Affiliated Persons) owns or controls, or is deemed for purposes of the BHC Act, or the CIBC Act (together with the BHC Act, the “**Control Regulations**”), to own or control, or would own or control or be deemed to own or control upon conversion, more than 9.9% of the total outstanding number of any class of Voting Securities of the Corporation (4.99% for a Holder that is subject to the BHC Act) (the “**Conversion Limit**”), such shares of Series A Preferred Stock owned by such Holder shall not be converted on such Conversion Date to the extent such conversion would result in such Holder and its BHC Affiliated Persons owning or controlling or being deemed for purposes of the Control Regulations to own or control Voting Securities of the Corporation in excess of the Conversion Limit (for the avoidance of doubt, thereby permitting conversion of shares up to but not exceeding the Conversion Limit). In calculating the Conversion Limit for any Holder on any Conversion Date, the total number of outstanding Voting Securities shall include all Voting Securities to be issued in connection with conversion of Series A Preferred Stock on such date, and the amount of Voting Securities owned by such Holder and its BHC Affiliated Persons shall be determined without giving effect to any reduction in the percentage of any class of such Voting Securities owned or controlled by such Holder and its BHC Affiliated Persons resulting from any transfer of such Voting Securities to an unaffiliated third party after the date on which such Holder first acquires shares of Series A Preferred Stock.

(b) Any shares of Series A Preferred Stock that are not converted on a Conversion Date due to the Conversion Limit shall be mandatorily converted immediately following a transfer of such shares of Series A Preferred Stock to a Permitted Transferee (as defined below) that is not a BHC Affiliated Person of the transferor (the date of such conversion, a “Section 15 Conversion Date”). Shares of Series A Preferred Stock may be transferred, and the Corporation shall recognize such transfer, solely where such transfer is made (i) to a transferee that is a BHC Affiliated Person of the transferor, (ii) to the Corporation, (iii) to a transferee in a widespread public distribution, (iv) to a transferee that holds or controls more than 50% of any class of voting securities of the Corporation (not including such shares of Series A Preferred Stock or shares of voting securities of the Corporation that the transferor or any BHC Affiliated Person of the transferor is proposing to transfer to such transferee), or (v) to a transferee in one or more transactions in which no transferee (or group of transferees whose ownership of the Corporation’s securities must be aggregated for purposes of the Control Regulations) receives ownership or control of such securities for applicable bank regulatory purposes representing 2% or more of any class of the Corporation’s voting securities (each, a “**Permitted Transferee**”).

(c) By accepting ownership of the Series A Preferred Stock, and as a condition to the Corporation's obligation to issue Common Stock upon conversion to such Holder, each Holder agrees (i) to provide the Corporation all such customary and necessary information and documents as the Corporation may reasonably require in order for the Corporation to determine the status of compliance with the Control Regulations; provided, that such Holder shall not be obligated to provide any information, the disclosure of which either (x) is prohibited by applicable law or contract (and such Holder shall not be obligated to seek the consent of any person to such disclosure) or (y) in the reasonable judgment of such Holder's investment adviser, would be adverse to the interests of such Holder or such investment adviser or their respective partners or clients, and (ii) that the Holder shall be solely responsible at the Holder's sole expense for obtaining any approvals under the Control Regulations, but shall keep the Corporation fully informed as to the status of the Holder's efforts to obtain approvals and the resolution of any applications for approval. To the extent such approvals are not obtained or the Conversion Limit applies, the shares of Series A Preferred Stock that are not convertible shall remain outstanding and accrue dividends in accordance with the provisions of Section 4 until converted in accordance with the terms hereof. Notwithstanding any other provision of this Certificate of Determination (as it may hereafter be amended) or of the Series A Preferred Stock, during any period of delay beyond the Mandatory Conversion Date due to the Conversion Limit or because of the need for a regulatory approval as described in this Section 15, the Corporation shall not be obligated to pay any damages for delay in issuance and delivery of the Common Stock.

Section 16. Replacement Certificates.

(a) To the extent any share of Series A Preferred Stock is certificated, the Corporation shall replace any mutilated certificate at the Holder's expense upon surrender of that certificate to the Corporation. The Corporation shall replace certificates that become destroyed, stolen or lost at the Holder's expense upon delivery to the Corporation of satisfactory evidence that the certificate has been destroyed, stolen or lost, together with any indemnity that may be required by the Corporation.

(b) The Corporation shall not be required to issue any certificates representing the Series A Preferred Stock on or after the Mandatory Conversion Date. In place of the delivery of a replacement certificate following the Mandatory Conversion Date, the Corporation, upon delivery of the evidence and indemnity described in clause (a) above, shall deliver the shares of Common Stock pursuant to the terms of the Series A Preferred Stock formerly evidenced by the certificate.

Section 17. Miscellaneous.

(a) All notices referred to herein shall be in writing, and, unless otherwise specified herein, all notices hereunder shall be deemed to have been given upon the earlier of receipt thereof or three Business Days after the mailing thereof if sent by registered or certified mail (unless first-class mail shall be specifically permitted for such notice under the terms of this Certificate of Determination) with postage prepaid, addressed: (i) if to the Corporation, to its office at 601 S. Figueroa Street, 29th Floor, Los Angeles, California 90017, Attention: President, or (ii) if to any Holder, to such Holder at the address of such Holder as listed in the stock record books of the Corporation, or (iii) to such other address as the Corporation or any such Holder, as the case may be, shall have designated by notice similarly given.

(b) The Corporation shall pay any and all stock transfer and documentary stamp taxes that may be payable in respect of any issuance or delivery of shares of Series A Preferred Stock or shares of Common Stock or other securities issued on account of Series A Preferred Stock pursuant hereto or certificates representing such shares or securities. The Corporation shall not, however, be required to pay any such tax that may be payable in respect of any transfer involved in the issuance or delivery of shares of Series A Preferred Stock or Common Stock or other securities in a name other than that in which the shares of Series A Preferred Stock with respect to which such shares or other securities are issued or delivered were registered, or in respect of any payment to any Person other than a payment to the registered holder thereof, and shall not be required to make any such issuance, delivery or payment unless and until the Person otherwise entitled to such issuance, delivery or payment has paid to the Corporation the amount of any such tax or has established, to the satisfaction of the Corporation, that such tax has been paid or is not payable.

(c) All payments on the shares of Series A Preferred Stock shall be subject to withholding and backup withholding of tax to the extent required by applicable law, subject to applicable exemptions, and amounts withheld, if any, shall be treated as received by the holders thereof.

(d) No share of Series A Preferred Stock shall have any rights of preemption whatsoever under this Certificate of Determination as to any securities of the Corporation, or any warrants, rights or options issued or granted with respect thereto, regardless of how such securities, or such warrants, rights or options, may be designated issued or granted.

(e) The shares of Series A Preferred Stock shall not have any voting powers, preferences or relative, participating, optional or other special rights, or qualifications, limitations or restrictions thereof, other than as set forth herein or in the Amended and Restated Articles of Incorporation or as provided by applicable law.

(f) The Corporation covenants not to treat the Series A Preferred Stock as preferred stock for purposes of Section 305 of the Internal Revenue Code of 1986, as amended, except as otherwise required by applicable law.

RESOLVED, that all actions taken by the officers and directors of the Corporation or any of them in connection with the foregoing resolutions through the date hereof be, and they hereby are, ratified and approved.

[signature page follows]

IN WITNESS WHEREOF, the undersigned have caused this Certificate of Determination to be executed this 10th day of June, 2010.

/s/ LI YU
Name: Li Yu
Title: President and Chief Executive Officer

/s/ EDWARD CZAJKA
Name: Edward Czajka
Title: Chief Financial Officer

We further declare under penalty of perjury under the laws of the State of California that the matters set forth in this certificate are true and correct of our own knowledge.

/s/ LI YU
Name: Li Yu
Title: President and Chief Executive Officer

/s/ EDWARD CZAJKA
Name: Edward Czajka
Title: Chief Financial Officer

Date: June 10, 2010.

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Appendix B
Form of Subscription Agreement by and among Preferred Bank and the Purchasers

SUBSCRIPTION AGREEMENT

THE OFFER AND SALE OF THE SECURITIES WHICH ARE THE SUBJECT OF THIS AGREEMENT HAVE BEEN AUTHORIZED BY A PERMIT ISSUED BY THE CALIFORNIA DEPARTMENT OF FINANCIAL INSTITUTIONS. THIS PERMIT IS PERMISSIVE ONLY AND DOES NOT CONSTITUTE A RECOMMENDATION OR ENDORSEMENT OF THE SECURITIES PERMITTED TO BE OFFERED OR SOLD. NEITHER THE FEDERAL DEPOSIT INSURANCE CORPORATION, UNITED STATES SECURITIES EXCHANGE COMMISSION, THE CALIFORNIA DEPARTMENT OF FINANCIAL INSTITUTIONS NOR ANY OTHER GOVERNMENT AGENCY HAS PASSED UPON THE ACCURACY OR ADEQUACY OF THIS SUBSCRIPTION AGREEMENT. THE SECURITIES OFFERED HEREBY ARE NOT SAVINGS ACCOUNTS, DEPOSITS OR OTHER OBLIGATIONS OF A BANK OR SAVINGS ASSOCIATION AND ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENTAL ENTITY.

This Subscription Agreement (this "*Agreement*") is dated as of June 21, 2010, by and among Preferred Bank, a California banking corporation (the "*Company*"), and each purchaser identified on the signature pages hereto (each, including its successors and assigns, a "*Purchaser*" and collectively, the "*Purchasers*").

RECITALS

A. The Company wishes to sell and each Purchaser, severally and not jointly, wishes to purchase, upon the terms and conditions stated in this Agreement, that aggregate number of shares of the Company's Mandatorily Convertible Non-Cumulative Non-Voting Perpetual Preferred Stock, Series A, \$1,000 liquidation preference per share (the "*Preferred Stock*"), set forth below such Purchaser's name on the signature page of this Agreement (which aggregate amount for all Purchasers together shall be 77,000 shares of Preferred Stock and shall be collectively referred to herein as the "*Preferred Shares*").

B. When purchased, the Preferred Stock will have the terms set forth in a certificate of determination for the Preferred Stock in the form attached as Exhibit A hereto (the "*Certificate of Determination*") made a part of the Company's Amended and Restated Articles of Incorporation, as amended, by the filing of the Certificate of Determination with the Secretary of State of the State of California (the "*California Secretary*").

C. The Preferred Stock will be convertible into shares (the "*Underlying Shares*" and, together with the Preferred Shares, the "*Securities*") of the common stock, no par value per share, of the Company (the "*Common Stock*"), subject to and in accordance with the terms and conditions of the Certificate of Determination.

D. The Company's securities are exempt from registration under the Securities Act of 1933, as amended (the "*Securities Act*") pursuant to Section 3(a)(2) thereof. These securities are being issued pursuant to an authorization from the Commissioner of the California Department of Financial Institutions (the "*DFI*").

E. The Company has engaged Sandler O'Neill & Partners, L.P. as its exclusive placement agent (the "*Placement Agent*") for the offering of the Preferred Shares.

AGREEMENT

NOW, THEREFORE, IN CONSIDERATION of the mutual covenants contained in this Agreement, and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the Company and the Purchasers hereby agree as follows:

ARTICLE I DEFINITIONS

1.1 Definitions. In addition to the terms defined elsewhere in this Agreement, for all purposes of this Agreement, the following terms shall have the meanings indicated in this Section 1.1:

“*Action*” means any action, suit, inquiry, notice of violation, proceeding (including any partial proceeding such as a deposition) or investigation pending or, to the Company’s Knowledge, threatened in writing against the Company, its Subsidiary or any of their respective properties or any officer, director or employee of the Company or any Subsidiary acting in his or her capacity as an officer, director or employee before or by any federal, state, county, local or foreign court, arbitrator, governmental or administrative agency, regulatory authority, stock market, stock exchange or trading facility.

“*Affiliate*” means, with respect to any Person, any other Person that, directly or indirectly through one or more intermediaries, Controls, is controlled by or is under common control with such Person, as such terms are used in and construed under Rule 405 under the Securities Act.

“*Agreement*” shall have the meaning ascribed to such term in the Preamble.

“*Articles of Incorporation*” means the Amended and Restated Articles of Incorporation of the Company and all amendments and certificates of determination thereto, as the same may be amended from time to time.

“*Business Day*” means a day, other than a Saturday or Sunday, on which banks chartered in California are open for business.

“*Bylaws*” means the Amended and Restated Bylaws of the Company, as the same may be amended from time to time.

“*California Corporations Code*” means the Corporations Code of the State of California.

“*California Courts*” means the state and federal courts sitting in the State of California.

“*California Secretary*” has the meaning set forth in the Recitals.

“*Certificate of Determination*” has the meaning set forth in the Recitals.

“*Closing*” means the closing of the purchase and sale of the Preferred Shares pursuant to this Agreement.

“*Closing Date*” means the Trading Day when all of the Transaction Documents have been executed and delivered by the applicable parties thereto, and all of the conditions set forth in Sections 2.1, 5.1 and 5.2 hereof are satisfied, or such other date as the parties may agree.

“*Code*” has the meaning set forth in Section 3.1(o).

“*Commission*” means the United States Securities and Exchange Commission.

“*Common Shareholder Proposal*” means the proposal submitted by the Company to the holders of the Common Stock for the purpose of approving the conversion of the Preferred Stock into Common Stock pursuant to Rule 5635(c) and Rule 5635(d) of the NASDAQ Stock Market Rules in accordance with Section 4.7 hereof.

“*Common Stock*” has the meaning set forth in the Recitals, and also includes any securities into which the Common Stock may hereafter be reclassified or changed.

“*Common Stock Approval*” means the affirmative vote of a majority of the shares of Common Stock represented, in person or by proxy, and voting at a duly held meeting of the Company’s shareholders at which a quorum of such class of shares is present (which shares voting affirmatively also constitute at least a majority of the required quorum) approving the conversion of the Preferred Stock into Common Stock pursuant to Rule 5635(c) and Rule 5635(d) of the NASDAQ Stock Market Rules.

“*Company*” has the meaning set forth in the Preamble.

“*Company Counsel*” means Manatt, Phelps & Phillips, LLP.

“*Company Deliverables*” has the meaning set forth in Section 2.1(d).

“*Company Reports*” has the meaning set forth in Section 3.1(hh).

“*Consent Order*” has the meaning set forth in Section 3.1(e).

“*Control*” (including the terms “controlling”, “controlled by” or “under common control with”) means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

“*Covered Securities*” has the meaning set forth in Section 4.10(a).

“*Designated Securities*” has the meaning set forth in Section 4.10(b).

“*DFI*” has the meaning set forth in the Recitals.

“*ERISA*” has the meaning set forth in Section 3.1(o).

“*Environmental Laws*” has the meaning set forth in Section 3.1(l).

“*Escrow Agent*” has the meaning set forth in Section 2.1(g).

“*Exchange Act*” means the Securities Exchange Act of 1934, as amended, or any successor statute, and the rules and regulations promulgated thereunder, as applicable to the Company pursuant to 12 C.F.R. Part 335 of the FDIC regulations.

“*FDIC*” means the Federal Deposit Insurance Corporation.

“*FDIC Reports*” has the meaning set forth in Section 3.1(h).

“*Follow-up Special Meeting*” has the meaning set forth in Section 4.7.

“*GAAP*” means U.S. generally accepted accounting principles, as applied by the Company.

“*Indemnified Person*” has the meaning set forth in Section 4.4(b).

“*Initial Shareholders’ Meeting*” has the meaning set forth in Section 4.7.

“*Intellectual Property Rights*” has the meaning set forth in Section 3.1(s).

“*Knowledge*” means with respect to any statement made to the knowledge of the Company, that the statement is based upon the actual knowledge of the executive officers of the Company having responsibility for the matter or matters that are the subject of the statement after reasonable investigation.

“*Lien*” means any lien, charge, claim, encumbrance, security interest, right of first refusal, preemptive right or other restrictions of any kind.

“*Material Adverse Effect*” means any of (i) a material and adverse effect on the legality, validity or enforceability of any Transaction Document, (ii) a material and adverse effect on the results of operations, assets, properties, business, condition (financial or otherwise) or prospects of the Company, or (iii) any adverse impairment to the Company’s ability to perform in any material respect on a timely basis its obligations under any Transaction Document.

“*Material Contract*” means any contract of the Company that was, or was required to be, filed as an exhibit to the FDIC Reports pursuant to Item 601 of Regulation S-K.

“*Material Permits*” has the meaning set forth in Section 3.1(q).

“*Money Laundering Laws*” has the meaning set forth in Section 3.1(ff).

“*Non-NDA Purchaser*” has the meaning set forth in Section 4.2.

“*OFAC*” has the meaning set forth in Section 3.1(ee).

“*Offering Materials*” means (i) the Preliminary Offering Circular and (ii) the Private Placement Memorandum.

“*Offer Period*” has the meaning set forth in Section 4.10(b).

“*Outside Date*” means the thirtieth day following the date of this Agreement; provided that if such day is not a Business Day, the first day following such day that is a Business Day.

“*Person*” means an individual, corporation, partnership, limited liability company, trust, business trust, association, joint stock company, joint venture, sole proprietorship, unincorporated organization, governmental authority or any other form of entity not specifically listed herein.

“*Placement Agent*” has the meaning set forth in the Recitals.

“*Preferred Shares*” has the meaning set forth in the Recitals.

“*Preferred Shareholder Proposal*” means the proposal submitted by the Company to the holders of the Preferred Shares for the purposes of approving the conversion of the Preferred Stock into Common Stock pursuant to the terms of the Certificate of Determination and in accordance with the California Corporations Code.

“*Preferred Stock*” has the meaning set forth in the Recitals.

“*Preferred Stock Approval*” means the affirmative vote of the holders of at least a majority of the shares of Preferred Stock at the time outstanding and entitled to vote thereon, voting together as a single class, given in person or by proxy at a duly held meeting at which a quorum of such class of shares is present approving the conversion of the Preferred Shares into Common Stock.

“*Preliminary Offering Circular*” means the preliminary offering circular, dated May 11, 2010, including exhibits and annexes thereto and any documents incorporated therein by reference, which was distributed to Purchasers in connection with the offer of the Preferred Shares.

“*Press Release*” has the meaning set forth in Section 4.2.

“*Principal Trading Market*” means the Trading Market on which the Common Stock is primarily listed on and quoted for trading, which, as of the date of this Agreement and the Closing Date, shall be the NASDAQ Global Select Market.

“*Private Placement Memorandum*” means the private placement memorandum, dated May 26, 2010, including exhibits and annexes thereto and any documents incorporated therein by reference, which has been filed with, and approved by, the DFI and distributed to Purchasers in connection with the offer and sale of the Preferred Shares.

“*Proceeding*” means an action, claim, suit, investigation or proceeding (including, without limitation, an investigation or partial proceeding, such as a deposition), whether commenced or threatened.

“*Proxy*” has the meaning set forth in Section 5.1(k).

“*Purchase Price*” means \$1,000.00 per Preferred Share.

“*Purchaser*” has the meaning set forth in the Preamble.

“*Purchaser Deliverables*” has the meaning set forth in Section 2.1(f).

“*Purchaser Party*” has the meaning set forth in Section 4.4(a).

“*Qualified Offering*” has the meaning set forth in Section 4.10(a).

“*Qualified Offering Notice*” has the meaning set forth in Section 4.10(b).

“*Qualified Purchaser Percentage Interest*” has the meaning set forth in Section 4.10(a).

“*Regulatory Agreement*” has the meaning set forth in Section 3.1(ii).

“*Required Approvals*” has the meaning set forth in Section 3.1(e).

“*Rule 144A offering*” has the meaning set forth in Section 4.10(c).

“*Securities*” has the meaning set forth in the Recitals.

“*Securities Act*” has the meaning set forth in the Recitals.

“*Shareholder Approval*” means (i) the Common Stock Approval and (ii) the Preferred Stock Approval.

“*Shareholder Proposals*” means (i) the Common Shareholder Proposal and (ii) the Preferred Shareholder Proposal.

“*Stock Certificate Questionnaire*” has the meaning set forth in Section 2.1(d)(v).

“*Subscription Amount*” means with respect to each Purchaser, the aggregate amount to be paid for the Preferred Shares purchased hereunder as indicated on such Purchaser’s signature page to this Agreement next to the heading “Aggregate Purchase Price (Subscription Amount).”

“*Subsidiary*” has the meaning set forth in Section 3.1(b).

“*Trading Day*” means a day on which the Common Stock is listed or quoted and traded on its Principal Trading Market, or if the Common Stock is not so listed or quoted, then Trading Day shall mean a Business Day.

“*Trading Market*” means the NASDAQ Global Select Market, the NASDAQ Global Market, the NASDAQ Capital Market or the OTC Bulletin Board on which the Common Stock is listed or quoted for trading on the date in question.

“*Transaction Documents*” means this Agreement and exhibits attached hereto, the Certificate of Determination and any other documents or agreements executed in connection with the transactions contemplated hereunder.

“*Transfer Agent*” means Computershare, or any successor transfer agent for the Company.

“*Underlying Shares*” has the meaning set forth in the Recitals.

ARTICLE II PURCHASE AND SALE

2.1 Closing.

(a) Purchase of Preferred Shares. Subject to the terms and conditions set forth in this Agreement, at the Closing, the Company shall issue and sell to each Purchaser, and each Purchaser shall, severally and not jointly, purchase from the Company, the number of Preferred Shares set forth below such Purchaser’s name on the signature page of this Agreement at a per Preferred Share price equal to the Purchase Price.

(b) Closings. The Closing of the purchase and sale of the Preferred Shares shall take place at the main offices of Manatt, Phelps & Phillips, LLP in Los Angeles, California, on a Closing Date or at such other locations or remotely by facsimile transmission or other electronic means as the parties may mutually agree.

(c) Acceptance. This Agreement sets forth various representations, warranties, covenants and agreements of the Company and the Purchasers, as the case may be, all of which shall be deemed to be made, and shall be effective without further action by the Company and the Purchasers, immediately upon the Company’s acceptance of a Purchaser’s subscription and shall thereupon be binding upon the Company and the applicable Purchasers. Acceptance is evidenced only by execution of this Agreement by the Company on its signature page attached to this Agreement and the Company shall have no obligation hereunder to a Purchaser until the Company shall have delivered to such Purchaser an executed copy of this Agreement.

(d) Closing Deliveries. On or prior to the Closing, the Company shall issue, deliver or cause to be delivered to each Purchaser the following (the “*Company Deliverables*”):

(i) this Agreement, duly executed by the Company;

(ii) the Private Placement Memorandum;

(iii) a certificate of the Secretary of the Company, dated as of the Closing Date,

(a) certifying the resolutions adopted by the Board of Directors of the Company or a duly authorized committee thereof approving the transactions contemplated by this Agreement and the other Transaction Documents and the issuance of the Securities, (b) certifying the current versions of the Articles of Incorporation, and amended and restated by-laws, as amended, of the Company and (c) certifying as to the signatures and authority of persons signing the Transaction Documents and related documents on behalf of the Company;

(iv) an Officer's Certificate certifying that (a) the representations and warranties of the Company contained in this Agreement are true and correct as of the date when made and as of the Closing Date, as though made on and as of such date, except for such representations and warranties that speak as of a specific date and (b) the Company has performed, satisfied and complied in all material respects with all covenants, agreements and conditions required by the Transaction Documents to be performed, satisfied or complied with by it at or prior to the Closing;

(v) the Company shall cause to be made a book-entry record through the facilities of The Depository Trust Company representing the Preferred Shares registered in the name of such Purchaser or as otherwise set forth on the Stock Certificate Questionnaire of each such Purchaser in the form attached hereto as Exhibit C (the "*Stock Certificate Questionnaire*"); provided, however, that (i) if such Purchaser requires the Company to issue physical certificates (as indicated on the Stock Certificate Questionnaire), then the Company shall deliver one or more stock certificates evidencing the Preferred Shares subscribed for by Purchaser hereunder, registered in the name of such Purchaser or as otherwise set forth on the Stock Certificate Questionnaire and (ii) if such Purchaser requires the Company to consummate the purchase and sale of the Preferred Shares to be on a delivery-versus payment basis (as indicated on the Stock Certificate Questionnaire), such Purchaser shall not be required to pay its Subscription Amount until it has first received stock certificates or book-entry shares, as applicable, for its Preferred Shares; and

(vi) a legal opinion of Company Counsel, dated as of the Closing Date and in the form attached hereto as Exhibit D, executed by such counsel and addressed to the Purchasers.

(e) Intentionally Omitted.

(f) Purchaser Deliverables. On or prior to the Closing, each applicable Purchaser shall deliver or cause to be delivered the following (the "*Purchaser Deliverables*") in accordance with the subscription procedures described below:

(i) this Agreement, duly executed by such Purchaser;

(ii) his, her or its Subscription Amount, in U.S. dollars and in immediately available funds, in the amount indicated below such Purchaser's name on the applicable signature page hereto under the heading "Aggregate Purchase Price (Subscription Amount)" in the form of (X) a certified or bank cashier's check payable to "Computershare, as escrow agent for Preferred Bank" or (Y) a wire transfer of immediately available funds to the Escrow Agent, in accordance with the Escrow Agent's written instructions; provided, however, that if such Purchaser requires the Company to consummate the purchase and sale of the Preferred Shares to be on a delivery-versus payment basis (as indicated on the Stock Certificate Questionnaire), such Purchaser shall not be required to pay its Subscription Amount until it has first received stock certificates or book-entry shares, as applicable, for its Preferred Shares; and

(iii) a fully completed and duly executed Accredited Investor Questionnaire, in the form attached hereto as Exhibit B, and Stock Certificate Questionnaire.

(g) Escrow. The funds received pursuant to Section 2(f)(ii) will be placed with Computershare, who will serve as escrow agent for the Closing (the "*Escrow Agent*"). At the Closing, the Escrow Agent will deliver the applicable funds related to the Closing to the Company. If this Agreement is terminated pursuant to Section 6.15, each Purchaser shall receive his, her or its Subscription Amount promptly, without interest.

(h) Subscription Procedure. Purchaser shall deliver or cause to be delivered this Agreement, a fully completed and duly executed Accredited Investor Questionnaire and a Stock Certificate Questionnaire to the Placement Agent at the following address: Sandler O'Neill & Partners, L.P., Attention: Syndicate Desk, 919 Third Avenue, 6th Floor, New York, New York 10022.

ARTICLE III
REPRESENTATIONS AND WARRANTIES

3.1 Representations and Warranties of the Company. The Company hereby represents and warrants to the Purchasers as of the date hereof and as of the Closing Date (except for the representations and warranties that speak as of a specific date, which shall be made as of such date) as follows:

(a) Organization and Qualification; Compliance. The Company is a corporation duly incorporated, validly existing and in good standing under the laws of the State of California and the Company is qualified to do business in each jurisdiction in which qualification is required, except where failure to do so would not have a Material Adverse Effect. The Company holds the requisite authority from the DFI to do business as a state-chartered banking corporation under the laws of the State of California. The Company has the requisite power and authority to own or lease and use its properties and assets and to carry on its business as currently conducted. The Company is not in violation of any of the provisions of its Articles of Incorporation, Bylaws or other organizational or charter documents. The Company's deposit accounts are insured up to applicable limits by the FDIC, and all premiums and assessments required to be paid in connection therewith have been paid when due. The Company has conducted its business in compliance with all applicable federal, state and foreign laws, orders, judgments, decrees, rules, regulations and applicable stock exchange requirements, including all laws and regulations restricting activities of banking organizations, except for any noncompliance that, individually or in the aggregate, has not had and would not be reasonably expected to have a Material Adverse Effect.

(b) Subsidiaries. The Company has no direct or indirect subsidiaries other than PB Investment and Consulting, Inc., a California corporation (the "*Subsidiary*"), of which the Company owns, directly or indirectly, all of the capital stock free and clear of any and all Liens, and of which all the issued and outstanding shares of capital stock are validly issued and are fully paid, non-assessable and free of preemptive and similar rights to subscribe for or purchase securities. The Subsidiary is an entity duly incorporated or otherwise organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation, with the requisite power and authority to own or lease and use its properties and assets and to carry on its business as currently conducted. The Subsidiary is not in violation of any of the provisions of its articles of incorporation, bylaws or other organizational or charter documents. The Subsidiary has conducted its business in compliance with all applicable federal, state and foreign laws, orders, judgments, decrees, rules, regulations, including all laws and regulations restricting activities of banking organizations, except for any noncompliance that, individually or in the aggregate, has not had and would not be reasonably expected to have a Material Adverse Effect.

(c) Authorization; Enforcement; Validity. The Company has the requisite corporate power and authority to enter into and to consummate the transactions contemplated by the Offering Materials and the Transaction Documents and otherwise to carry out its obligations hereunder and thereunder, including, without limitation, to issue the Preferred Shares in accordance with the terms hereof and, subject to Shareholder Approval, to issue the Underlying Shares in accordance with the Certificate of Determination. The Company's execution and delivery of each of the Transaction Documents to which it is a party and the consummation by it of the transactions contemplated hereby and thereby (including, but not limited to, the sale and delivery of the Preferred Shares and the Underlying Shares) have been duly authorized by all necessary corporate action on the part of the Company, and no further corporate action is required by the Company, its Board of Directors or its shareholders in connection therewith other than in connection with the Required Approvals. Each of the Transaction Documents to which it is a party has been (or upon delivery will have been) duly executed by the Company and is, or when delivered in accordance with the terms hereof, will constitute the legal, valid and binding obligation of the Company enforceable against the Company in accordance with its terms, except (i) as such enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium, liquidation or similar laws relating to, or affecting generally the enforcement of, creditors' rights and remedies or by other equitable principles of general application, (ii) as limited by laws relating to the availability of specific

performance, injunctive relief or other equitable remedies and (iii) insofar as indemnification and contribution provisions may be limited by applicable law. Other than the Proxy, there are no shareholder agreements, voting agreements, or other similar arrangements with respect to the Company's capital stock to which the Company is a party or, to the Company's Knowledge, between or among any of the Company's shareholders.

(d) No Conflicts. The execution, delivery and performance by the Company of the Transaction Documents to which it is a party and the consummation by the Company of the transactions contemplated by the Offering Materials and the Transaction Documents (including, without limitation, the issuance of the Preferred Shares and the Underlying Shares) do not and will not (i) conflict with or violate any provisions of the Company's or Subsidiary's certificate or articles of incorporation, bylaws or otherwise result in a violation of the organizational documents of the Company or the Subsidiary, (ii) conflict with, or constitute a default (or an event that with notice or lapse of time or both would result in a default) under, result in the creation of any Lien upon any of the properties or assets of the Company or the Subsidiary or give to others any rights of termination, amendment, acceleration or cancellation (with or without notice, lapse of time or both) of, any Material Contract, or (iii) except for the restriction on payment of cash dividends or any other payments to Company shareholders described in the Consent Order and subject to the Required Approvals, conflict with or result in a violation of any law, rule, regulation, order, judgment, injunction, decree or other restriction of any court or governmental authority to which the Company is subject (including federal and state securities laws and regulations and the rules and regulations, assuming the correctness of the representations and warranties made by the Purchasers herein, of any self-regulatory organization to which the Company or its securities are subject, including all applicable Trading Markets), or by which any property or asset of the Company is bound or affected, except in the case of clauses (ii) and (iii) such as would not have or reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect.

(e) Filings, Consents and Approvals. Neither the Company nor the Subsidiary is required to obtain any consent, waiver, authorization or order of, give any notice to, or make any filing or registration with, any court or other federal, state, local or other governmental authority, self-regulatory organization or other Person in connection with the execution, delivery and performance by the Company of the Transaction Documents (including, without limitation, the issuance of the Preferred Shares and the Underlying Shares), other than (i) obtaining Shareholder Approval to issue the Underlying Shares in accordance with the terms of the Certificate of Determination, (ii) the filing of the Certificate of Determination with the California Secretary with the endorsement of the DFI thereon, (iii) obtaining a stock permit from the DFI to sell and issue the Preferred Shares, (iv) obtaining authorization from the DFI and the FDIC to the terms and conditions of the Preferred Shares pursuant to Section 4(g) of the Consent Order, dated March 22, 2010, issued to the Company by the FDIC and the DFI (the "*Consent Order*"), (v) filings required by applicable state securities laws, (vi) the filing of any requisite notices and/or application(s) to the Principal Trading Market for the issuance and sale of the Underlying Shares and the listing of the Underlying Shares for trading or quotation, as the case may be, thereon in the time and manner required thereby, and (vii) those that have been made or obtained prior to the date of this Agreement (collectively, the "*Required Approvals*"). The Company is unaware of any facts or circumstances relating to the Company or its Subsidiary which would be likely to prevent the Company from obtaining or effecting any of the foregoing.

(f) Issuance of the Shares. The issuance of the Preferred Shares has been duly authorized and the Preferred Shares, when issued and paid for in accordance with the terms of the Transaction Documents, will be duly and validly issued, fully paid and non-assessable and free and clear of all Liens, and shall not be subject to preemptive or similar rights. The issuance of the Underlying Shares has been duly authorized and the Underlying Shares, when issued in accordance with the terms of the Certificate of Determination, will be duly and validly issued, fully paid and non-assessable and free and clear of all Liens, and shall not be subject to preemptive or similar rights. Assuming the accuracy of the representations and warranties of the Purchasers in this Agreement, the Securities will be issued in compliance with all applicable federal and state securities laws.

(g) Capitalization. The number of shares and type of all authorized, issued and outstanding capital stock, options and other securities of the Company (whether or not presently convertible into or exercisable or exchangeable for shares of capital stock of the Company) has been set forth in the Offering Materials and has

changed since the date of the Private Placement Memorandum only due to stock grants or other equity awards or stock option and warrant exercises that do not, individually or in the aggregate, have a material effect on the issued and outstanding capital stock, options and other securities. All of the outstanding shares of capital stock of the Company are duly authorized, validly issued, fully paid and non-assessable, have been issued in compliance in all material respects with all applicable federal and state securities laws, and none of such outstanding shares was issued in violation of any preemptive rights or similar rights to subscribe for or purchase any capital stock of the Company. Except as specified in the Offering Materials: (i) no shares of the Company's outstanding capital stock are subject to preemptive rights or any other similar rights; (ii) there are no outstanding options, warrants, scrip, rights to subscribe to, calls or commitments of any character whatsoever relating to, or securities or rights convertible into, or exercisable or exchangeable for, any shares of capital stock of the Company, or contracts, commitments, understandings or arrangements by which the Company is or may become bound to issue additional shares of capital stock of the Company or options, warrants, scrip, rights to subscribe to, calls or commitments of any character whatsoever relating to, or securities or rights convertible into, or exercisable or exchangeable for, any shares of capital stock of the Company, other than those issued or granted pursuant to Material Contracts or equity or incentive plans or arrangements described in the Offering Materials; (iii) there are no material outstanding debt securities, notes, credit agreements, credit facilities or other agreements, documents or instruments evidencing indebtedness of the Company or by which the Company is bound; (iv); there are no outstanding securities or instruments of the Company that contain any redemption or similar provisions, and there are no contracts, commitments, understandings or arrangements by which the Company is or may become bound to redeem a security of the Company; (v) the Company does not have any stock appreciation rights or "phantom stock" plans or agreements or any similar plan or agreement; and (vi) neither the Company nor the Subsidiary have any liabilities or obligations required to be disclosed in the FDIC Reports or the Offering Materials but not so disclosed in the FDIC Reports or Offering Materials, which, individually or in the aggregate, will have or would reasonably be expected to have a Material Adverse Effect. There are no securities or instruments containing anti-dilution or similar provisions that will be triggered by the issuance of the Securities.

(h) FDIC Reports. The Company has filed all reports, schedules, forms, statements and other documents, including amendments thereto, required to be filed by it under the Exchange Act, including pursuant to Section 13(a) or 15(d) thereof, for the twelve months preceding the date hereof (the foregoing materials, including the exhibits thereto and documents incorporated by reference therein, being collectively referred to herein as the "*FDIC Reports*"). Unless an FDIC Document was later amended, as of their respective filing dates, the FDIC Reports (and to the extent of any amendment, at the time of filing of such amendment) complied in all material respects with the requirements of the Exchange Act and the rules and regulations of the Commission promulgated thereunder and adopted by the FDIC, and unless later amended, none of the FDIC Reports, when filed (and to the extent of any amendment at the time of filing of such amendment), contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

(i) Financial Statements. The financial statements of the Company included in the Offering Materials comply in all material respects with applicable accounting requirements and the rules and regulations of the Commission as adopted by the FDIC with respect thereto as in effect at the time of filing. Such financial statements have been prepared in accordance with GAAP applied on a consistent basis during the periods involved, except as may be otherwise specified in such financial statements or the notes thereto and except that unaudited financial statements may not contain all footnotes required by GAAP, and fairly present in all material respects the balance sheet of the Company and the Subsidiary taken as a whole as of and for the dates thereof and the results of operations and cash flows for the periods then ended, subject, in the case of unaudited statements, to normal, year-end audit adjustments, which would not be material, either individually or in the aggregate.

(j) Tax Matters. The Company (i) has prepared and filed all foreign, federal and state income and all other tax returns, reports and declarations required by any jurisdiction to which it is subject, (ii) has paid all taxes and other governmental assessments and charges that are material in amount, shown or determined to be due on such returns, reports and declarations, except those being contested in good faith, with respect to which

adequate reserves have been set aside on the books of the Company and (iii) has set aside on its books provisions reasonably adequate for the payment of all taxes for periods subsequent to the periods to which such returns, reports or declarations apply, except, in the case of clauses (i) and (ii) above, where the failure to so pay or file any such tax, assessment, charge or return would not have or reasonably be expected to have a Material Adverse Effect. There are no transfer taxes or other similar fees or charges under federal law or the laws of any state, or any political subdivision thereof, required to be paid in connection with the execution and delivery of this Agreement or the issuance by the Company or sale by the Company of the Preferred Stock.

(k) Material Changes. Since the date of the latest audited financial statements included or incorporated by reference in the Offering Materials, (i) there have been no events, occurrences or developments that have had or would reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect, (ii) the Company has not incurred any material liabilities (contingent or otherwise) other than (A) trade payables, accrued expenses and other liabilities incurred in the ordinary course of business consistent with past practice and (B) liabilities not required to be reflected in the Company's financial statements pursuant to GAAP or required to be disclosed in filings made with the FDIC, (iii) the Company has not altered materially its method of accounting or the manner in which it keeps its accounting books and records, (iv) the Company has not declared or made any dividend or distribution of cash or other property to its shareholders or purchased, redeemed or made any agreements to purchase or redeem any shares of its capital stock (other than in connection with repurchases of unvested stock issued to employees of the Company), (v) the Company has not issued any equity securities to any officer, director or Affiliate, except Common Stock issued pursuant to existing Company stock option or stock purchase plans or executive and director arrangements disclosed in the Offering Materials and (vi) there has not been any material change or amendment to, or any waiver of any material right by the Company under, any Material Contract under which the Company or the Subsidiary is bound or subject. Except for the transactions contemplated by this Agreement, no event, liability or development has occurred or exists with respect to the Company or the Subsidiary or their respective businesses, properties, operations or financial condition that would be required to be disclosed by the Company under applicable securities laws at the time this representation is made that has not been publicly disclosed at least one Trading Day prior to the date that this representation is made.

(l) Environmental Matters. Neither the Company nor the Subsidiary (i) is in violation of any statute, rule, regulation, decision or order of any governmental agency or body or any court, domestic or foreign, relating to the use, disposal or release of hazardous or toxic substances or relating to the protection or restoration of the environment or human exposure to hazardous or toxic substances (collectively, "*Environmental Laws*"), (ii) owns or operates any real property contaminated with any substance that is in violation of any Environmental Laws, (iii) is liable for any off-site disposal or contamination pursuant to any Environmental Laws, or (iv) is subject to any claim relating to any Environmental Laws; in each case, which violation, contamination, liability or claim has had or would reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect; and, to the Company's Knowledge, there is no pending or threatened investigation that might lead to such a claim.

(m) Litigation. There is no Action which (i) adversely affects or challenges the legality, validity or enforceability of any of the Transaction Documents or the Securities or (ii) except as disclosed in the Offering Materials, is reasonably likely to have a Material Adverse Effect, individually or in the aggregate, if there were an unfavorable decision. Neither the Company nor the Subsidiary, nor any director or officer thereof, is or has been the subject of any Action involving a claim of violation of or liability under federal or state securities laws or a claim of breach of fiduciary duty. There has not been and to the Company's Knowledge there is not pending or contemplated, any investigation by the FDIC or the Commission involving the Company or any current or former director or officer of the Company. There are no outstanding orders, judgments, injunctions, awards or decrees of any court, arbitrator or governmental or regulatory body against the Company or any executive officers or directors of the Company in their capacities as such, which individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect.

(n) Employment Matters. No labor disturbance by the employees of the Company or the Subsidiary exists or, to the Company's Knowledge, is imminent that might be expected to have a Material Adverse Effect. The Company is not aware that any key employee or significant group of employees of the Company or the Subsidiary plans to terminate employment with the Company or the Subsidiary. To the Company's Knowledge, no executive officer is, or is now expected to be, in violation of any material term of any employment contract, confidentiality, disclosure or proprietary information agreement or non-competition agreement, or any other contract or agreement or any restrictive covenant in favor of a third party, and to the Company's Knowledge, the continued employment of each such executive officer does not subject the Company or the Subsidiary to any liability with respect to any of the foregoing matters. The Company is in compliance with all U.S. federal, state, local and foreign laws and regulations relating to employment and employment practices, terms and conditions of employment and wages and hours, except where the failure to be in compliance would not have or reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect.

(o) ERISA. The Company and the Subsidiary are in compliance in all material respects with all presently applicable provisions of the Employee Retirement Income Security Act of 1974, as amended, including the regulations and published interpretations thereunder (herein called "*ERISA*"). No "reportable event" (as defined in ERISA) has occurred with respect to any "pension plan" (as defined in ERISA) for which the Company or the Subsidiary would have any material liability and the Company and the Subsidiary have not incurred and do not expect to incur any material liability under (i) Title IV of ERISA with respect to termination of, or withdrawal from, any "pension plan" or (ii) Sections 412 or 4971 of the Internal Revenue Code of 1986, as amended, including the regulations and published interpretations thereunder (the "*Code*"). Each "Pension Plan" for which the Company or the Subsidiary would have liability that is intended to be qualified under Section 401(a) of the Code is so qualified in all material respects and nothing has occurred, whether by action or by failure to act, which would cause the loss of such qualification.

(p) Compliance. Neither the Company nor the Subsidiary (i) is in default under or in violation of (and no event has occurred that has not been waived that, with notice or lapse of time or both, would result in a default by the Company or the Subsidiary under), nor has the Company or the Subsidiary received written notice of a claim that it is in default under or that it is in violation of, any Material Contract (whether or not such default or violation has been waived), (ii) is in violation of any order of which the Company or Subsidiary have been made aware in writing of any court, arbitrator or governmental body having jurisdiction over the Company or the Subsidiary or their respective properties or assets, or (iii) is in violation of, or in receipt of written notice that it is in violation of, any statute, rule, regulation, policy, guideline or order of any governmental authority or self-regulatory organization applicable to the Company or the Subsidiary, or which would have the effect of revoking or limiting FDIC deposit insurance, except in each case as would not have or reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect.

(q) Regulatory Permits. The Company and the Subsidiary possess or have applied for all certificates, authorizations and permits issued by the appropriate federal, state, local or foreign regulatory authorities necessary to conduct their respective businesses as currently conducted and as described in the Offering Materials, except where the failure to possess such permits, individually or in the aggregate, has not and would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect ("*Material Permits*"), and (i) neither the Company nor the Subsidiary has received any notice in writing of proceedings relating to the revocation or material adverse modification of any such Material Permits and (ii) the Company is unaware of any facts or circumstances that would give rise to the revocation or material adverse modification of any Material Permits.

(r) Title to Assets. The Company and the Subsidiary have good and marketable title to all real property and tangible personal property owned by them which is material to the business of the Company and the Subsidiary, taken as a whole, in each case free and clear of all Liens except such as do not materially affect the value of such property or do not interfere with the use made and proposed to be made of such property by the Company and the Subsidiary. Any real property and facilities held under lease by the Company and the

Subsidiary are held by them under valid, subsisting and enforceable leases with such exceptions as are not material and do not interfere with the use made and proposed to be made of such property and facilities by the Company and the Subsidiary.

(s) Patents and Trademarks. The Company and the Subsidiary own or possess adequate rights or licenses to use, all trademarks, trade names, service marks, service mark registrations, service names, patents, patent rights, copyrights, inventions, licenses, approvals, governmental authorizations, trade secrets, technology, Internet domain names and other intellectual property rights (the “*Intellectual Property Rights*”) necessary for the conduct of their respective businesses as now conducted. The Company has no Knowledge of any infringement by the Company or the Subsidiary of the Intellectual Property Rights of others, except for such as would not reasonably be expected to have a Material Adverse Effect. There is no claim, action or proceeding being made or brought, or to the Knowledge of the Company being threatened, against the Company or the Subsidiary regarding the Intellectual Property Rights, which could reasonably be expected to have a Material Adverse Effect.

(t) Insurance. The Company and the Subsidiary are insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as are prudent and customary in the businesses and location in which they are engaged. Neither the Company nor the Subsidiary has received any notice of cancellation of any such insurance, nor, to the Company’s Knowledge, will it or the Subsidiary be unable to renew their respective existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its business at a cost that would not have a Material Adverse Effect.

(u) Transactions With Affiliates and Employees. Except as set forth in the Offering Materials and other than the grant of stock options or other equity awards that are not individually or in the aggregate material in amount, none of the officers or directors of the Company and, to the Company’s Knowledge, none of the employees of the Company, is presently a party to any transaction with the Company or to a presently contemplated transaction (other than for services as employees, officers and directors) that would be required to be disclosed pursuant to Item 404 of Regulation S-K promulgated under the Securities Act.

(v) Internal Control Over Financial Reporting. Except as set forth in the Offering Materials, the Company maintains internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) 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 and such internal control over financial reporting is effective.

(w) Sarbanes-Oxley; Disclosure Controls. The Company is in compliance in all material respects with all of the provisions of the Sarbanes-Oxley Act of 2002 which are applicable to it. Except as disclosed in the Offering Materials, the Company maintains disclosure controls and procedures (as such term is defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act), and such disclosure controls and procedures are effective.

(x) Certain Fees. No person or entity will have, as a result of the transactions contemplated by this Agreement, any valid right, interest or claim against or upon the Company or a Purchaser for any commission, fee or other compensation pursuant to any agreement, arrangement or understanding entered into by or on behalf of the Company, other than the Placement Agent with respect to the offer and sale of the Preferred Shares (which placement agent fees are being paid by the Company). The Company shall indemnify, pay, and hold each Purchaser harmless against, any liability, loss or expense (including, without limitation, attorneys’ fees and out-of-pocket expenses) arising in connection with any such right, interest or claim.

(y) Principal Trading Market. The issuance and sale of the Preferred Shares hereunder does not contravene the rules and regulations of the Principal Trading Market and, upon Shareholder Approval, the issuance of the Underlying Shares in accordance with the Certificate of Determination will not contravene the rules and regulations of the Principal Trading Market.

(z) Listing and Maintenance Requirements. The Company's Common Stock is registered pursuant to Section 12(b) of the Exchange Act, and the Company has taken no action designed to terminate the registration of the Common Stock under the Exchange Act nor has the Company received any notification that the FDIC is contemplating terminating such registration. The Company has not, in the 12 months preceding the date hereof, received written notice from any Trading Market on which the Common Stock is listed or quoted to the effect that the Company is not in compliance with the listing or maintenance requirements of such Trading Market. The Company is, and has no reason to believe that it will not in the foreseeable future continue to be, in compliance in all material respects with the listing and maintenance requirements for continued trading of the Common Stock on the Principal Trading Market.

(aa) Investment Company. The Company is not required to be registered as, and is not an Affiliate of, and immediately following the Closing will not be required to register as, an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

(bb) Disclosure. The Company confirms that neither it nor any of its officers or directors nor any other Person acting on its or their behalf has provided, and it has not authorized the Placement Agent to provide, any Non-NDA Purchaser or its respective agents or counsel with any information that it believes constitutes or could reasonably be expected to constitute material, non-public information except insofar as the existence, provisions and terms of the Transaction Documents and the proposed transactions hereunder may constitute such information. The Company understands and confirms that each of the Purchasers will rely on the foregoing representations in effecting transactions in securities of the Company. No event or circumstance has occurred or information exists with respect to the Company or its Subsidiary or their businesses, properties, operations or financial conditions, which, under applicable law, rule or regulation, requires public disclosure or announcement by the Company but which has not been so publicly announced or disclosed, except for the announcement of this Agreement and related transactions and as may be disclosed on a Form 8-K under the Exchange Act.

(cc) Acknowledgment Regarding Purchasers' Purchase of Preferred Shares. The Company acknowledges and agrees that each of the Purchasers is acting solely in the capacity of an arm's length purchaser with respect to the Transaction Documents and the transactions contemplated hereby and thereby. The Company further acknowledges that no Purchaser is acting as a financial advisor or fiduciary of the Company (or in any similar capacity) with respect to the Offering Materials or the Transaction Documents and the transactions contemplated hereby and thereby and any advice given by any Purchaser or any of their respective representatives or agents in connection with the Offering Materials and the Transaction Documents and the transactions contemplated hereby and thereby is merely incidental to the Purchasers' purchase of the Preferred Shares.

(dd) Absence of Manipulation. The Company has not, and to the Company's Knowledge no one acting on its behalf has, taken, directly or indirectly, any action designed to cause or to result in the stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of any of the Securities.

(ee) OFAC. Neither the Company nor the Subsidiary nor, to the Company's Knowledge, any director, officer, agent, employee, Affiliate or Person acting on behalf of the Company or the Subsidiary is currently subject to any U.S. sanctions administered by the Office of Foreign Assets Control of the U.S. Treasury Department ("OFAC"); and the Company will not knowingly directly or indirectly use the proceeds of the sale of the Preferred Shares, or lend, contribute or otherwise make available such proceeds to the Subsidiary, joint venture partner or other Person or entity, towards any sales or operations in Cuba, Iran, Syria, Sudan, Myanmar or any other country sanctioned by OFAC or for the purpose of financing the activities of any Person currently subject to any U.S. sanctions administered by OFAC.

(ff) Money Laundering Laws. The operations of each of the Company and the Subsidiary are and have been conducted at all times in compliance with the money laundering statutes of applicable jurisdictions,

the rules and regulations thereunder and any related or similar rules, regulations or guidelines, issued, administered or enforced by any applicable governmental agency (collectively, the “*Money Laundering Laws*”) and to the Company’s Knowledge, no action, suit or proceeding by or before any court or governmental agency, authority or body or any arbitrator involving the Company and/or any Subsidiary with respect to the Money Laundering Laws is pending or threatened.

(gg) No Additional Agreements. The Company does not have any agreement or understanding with any Purchaser with respect to the transactions contemplated by the Offering Materials other than as contemplated by this Agreement.

(hh) Reports, Registrations and Statements. Since December 31, 2008, the Company and the Subsidiary have filed all material reports, registrations and statements, together with any required amendments thereto, that it was required to file with the FDIC, the DFI, and any other applicable federal or state securities or banking authorities, except where the failure to file any such report, registration or statement would not have or reasonably be expected to have a Material Adverse Effect. All such reports and statements filed with any such regulatory body or authority are collectively referred to herein as the “*Company Reports*.” As of their respective dates, the Company Reports complied as to form in all material respects with all the rules and regulations promulgated by the FDIC, the DFI and any other applicable foreign, federal or state securities or banking authorities, as the case may be.

(ii) Agreements with Regulatory Agencies; Compliance with Certain Banking Regulations. Except as disclosed in the Offering Materials, neither the Company nor the Subsidiary is subject to any cease-and-desist or other similar order or enforcement action issued by, or is a party to any written agreement, consent agreement or memorandum of understanding with, or is a party to any commitment letter or similar undertaking to, or is subject to any capital directive by, or, has adopted any board resolutions at the request of, any governmental entity that currently restricts in any material respect the conduct of its business or that in any material manner relates to its capital adequacy, its liquidity and funding policies and practices, its ability to pay dividends, its credit, risk management or compliance policies, its internal controls, its management or its operations or business (each item in this sentence, a “*Regulatory Agreement*”), nor has the Company or the Subsidiary been advised by any governmental entity that it is considering issuing, initiating, ordering, or requesting any such Regulatory Agreement.

The Company has no Knowledge of any facts and circumstances, and has no reason to believe that any facts or circumstances exist, that would cause it: (i) to be deemed not to be in satisfactory compliance with the Community Reinvestment Act and the regulations promulgated thereunder or to be assigned a CRA rating by federal or state banking regulators of lower than “satisfactory”; (ii) to be deemed to be operating in violation, in any material respect, of the Bank Secrecy Act, the Patriot Act, any order issued with respect to anti-money laundering by the U.S. Department of the Treasury’s Office of Foreign Assets Control, or any other anti-money laundering statute, rule or regulation; or (iii) to be deemed not to be in satisfactory compliance, in any material respect, with all applicable privacy of customer information requirements contained in any federal and state privacy laws and regulations as well as the provisions of all information security programs adopted by it.

Except as would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect, each of the Company and the Subsidiary has properly administered all accounts for which it acts as a fiduciary, including accounts for which it serves as a trustee, agent, custodian, personal representative, guardian, conservator or investment advisor, in accordance with the terms of the governing documents, applicable federal and state law and regulation and common law. None of the Company, the Subsidiary or any director, officer or employee of the Company or the Subsidiary has committed any breach of trust or fiduciary duty with respect to any such fiduciary account that would reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect and, except as would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect, the accountings for each such fiduciary account are true and correct and accurately reflect the assets of such fiduciary account.

(jj) Reservation of Underlying Shares. The Company has reserved, and will continue to reserve, free of any preemptive or similar rights of shareholders of the Company, a number of unissued shares of Common Stock, sufficient to issue and deliver the Underlying Shares into which the Preferred Shares are convertible, assuming Shareholder Approval has been obtained.

(kk) Questionable Payments. Neither the Company nor the Subsidiary, nor any directors, officers, nor to the Company's Knowledge, employees, agents or other Persons acting at the direction of or on behalf of the Company or the Subsidiary has, in the course of its actions for, or on behalf of, the Company: (i) directly or indirectly, used any corporate funds for unlawful contributions, gifts, entertainment or other unlawful expenses relating to foreign or domestic political activity; (ii) made any direct or indirect unlawful payments to any foreign or domestic governmental officials or employees or to any foreign or domestic political parties or campaigns from corporate funds; (iii) violated any provision of the Foreign Corrupt Practices Act of 1977, as amended, or (iv) made any other unlawful bribe, rebate, payoff, influence payment, kickback or other material unlawful payment to any foreign or domestic government official or employee.

(ll) Adequate Capitalization. As of March 31, 2010, the Company met or exceeded the standards necessary to be considered "adequately capitalized" under the FDIC's regulatory framework for prompt corrective action.

(mm) Regulatory Capital Levels. Assuming the Company sells and issues 77,000 Preferred Shares (including 3,154 Preferred Shares issued in the form of rights of the Company's officers to receive the Securities through the Company's Deferred Compensation Plan and which shall not be outstanding until the occurrence of a distribution event under the Deferred Compensation Plan), pursuant to the terms and conditions of this Agreement, and assuming the conversion of all such Preferred Shares, the Company will have a leverage ratio of not less than 10.0%, a tangible common equity ratio of not less than 10.0%, and a total risk-based capital ratio of not less than 12.0%.

(nn) Nonperforming Assets. To the Company's Knowledge, since the date of the latest audited financial statements included or incorporated by reference into the Offering Materials, the Company believes that it will be able to fully and timely collect substantially all interest, principal or other payments when due under its loans, leases and other assets that are not classified as nonperforming and such belief is reasonable under all the facts and circumstances known to the Company, and the Company believes that the amount of reserves and allowances for loan and lease losses established on the Company's financial statements is adequate and such belief is reasonable under all the facts and circumstances known to the Company.

(oo) Change in Control. The issuance of the Preferred Shares to the Purchasers as contemplated by this Agreement will not trigger any rights under any "change of control" provision in any of the agreements to which the Company or the Subsidiary is a party, including any employment, "change in control," severance or other compensatory agreements and any benefit plan, which results in payments to the counterparty or the acceleration of vesting of benefits.

(pp) Ranking of Preferred Stock. No capital stock issued by the Company is senior to the Preferred Stock in right of payment, whether with respect of payment of interest or upon liquidation, dissolution or otherwise.

(qq) Private Placement Memorandum Disclosure. The Private Placement Memorandum, as of the date thereof and as of the date of this Agreement and as of the Closing Date, did not and, as amended or supplemented, if applicable, will not, contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading. The documents incorporated into the Private Placement Memorandum, when they were filed with the FDIC, conformed in all material respects to the requirements of the Exchange Act and the applicable rules and regulations, and none of such documents, when they were filed with the FDIC, contained any untrue statement of a material fact or omitted to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made not misleading.

(rr) Exemption. The Company's securities are exempt from registration under the Securities Act pursuant to Section 3(a)(2) thereof and, accordingly, each of the issuance of the Preferred Shares hereunder and the issuance of the Underlying Shares upon conversion of the Preferred Shares is exempt from the registration requirements under the Securities Act.

(ss) Application of Takeover Protections; Rights Agreements. The Company has not adopted any stockholder rights plan or similar arrangement relating to accumulations of beneficial ownership of Common Stock or a change in control of the Company. The Company and its board of directors have taken all necessary action, if any, in order to render inapplicable with respect to the transactions contemplated by this Agreement, including, without limitation, the Company's issuance of the Securities and any Purchaser's ownership of the Securities, any control share acquisition, business combination, poison pill (including any distribution under a rights agreement) or other similar anti-takeover provision under the Company's articles of incorporation or other organizational documents or the laws of the jurisdiction of its incorporation or otherwise which is or could become applicable to any Purchaser solely as a result of the transactions contemplated by this Agreement, including, without limitation, the Company's issuance of the Securities and any Purchaser's ownership of the Securities.

(tt) Off Balance Sheet Arrangements. There is no transaction, arrangement, or other relationship between the Company (or the Subsidiary) and an unconsolidated or other off balance sheet entity that is required to be disclosed by the Company in its Exchange Act filings and is not so disclosed and would have or reasonably be expected to have a Material Adverse Effect.

(uu) Risk Management Instruments. Except as has not had or would not reasonably be expected to have a Material Adverse Effect, since January 1, 2009, all material derivative instruments, including, swaps, caps, floors and option agreements, whether entered into for the Company's own account, or for the account of the Subsidiary, were entered into (i) only in the ordinary course of business, (ii) in accordance with prudent practices and in all material respects with all applicable laws, rules, regulations and regulatory policies and (iii) with counterparties believed to be financially responsible at the time; and each of them constitutes the valid and legally binding obligation of the Company or one of the Subsidiary, enforceable in accordance with its terms. Neither the Company or the Subsidiary, nor, to the knowledge of the Company, any other party thereto, is in breach of any of its material obligations under any such agreement or arrangement.

3.2 Representations and Warranties of the Purchasers. Each Purchaser hereby, for itself and for no other Purchaser, represents and warrants to the Company as of the date hereof and as of the Closing Date as follows:

(a) Organization; Authority. If such Purchaser is an entity, it is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization with the requisite corporate or partnership power and authority to enter into and to consummate the transactions contemplated by the applicable Transaction Documents and otherwise to carry out its obligations hereunder and thereunder. If such Purchaser is an entity, the execution, delivery and performance by such Purchaser of the transactions contemplated by this Agreement have been duly authorized by all necessary corporate or, if such Purchaser is not a corporation, such partnership, limited liability company or other applicable like action, on the part of such Purchaser. If such Purchaser is an entity, this Agreement has been duly executed by such Purchaser, and when delivered by such Purchaser in accordance with the terms hereof, will constitute the valid and legally binding obligation of such Purchaser, enforceable against it in accordance with its terms, except as such enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium, liquidation or similar laws relating to, or affecting generally the enforcement of, creditors' rights and remedies or by other equitable principles of general application.

(b) No Conflicts. The execution, delivery and performance by such Purchaser of this Agreement and the consummation by such Purchaser of the transactions contemplated hereby will not (i) result in a violation of the organizational documents of such Purchaser (if such Purchaser is an entity), (ii) conflict with, or constitute

a default (or an event which with notice or lapse of time or both would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, any agreement, indenture or instrument to which such Purchaser is a party, or (iii) result in a violation of any law, rule, regulation, order, judgment or decree (including federal and state securities laws) applicable to such Purchaser, except in the case of clauses (ii) and (iii) above, for such conflicts, defaults, rights or violations which would not, individually or in the aggregate, reasonably be expected to have a material adverse effect on the ability of such Purchaser to perform its obligations hereunder.

(c) No Public Sale or Distribution; No Other Agreements with Respect to Securities. Such Purchaser was contacted by either the Company or the Placement Agent with respect to a potential investment in the Securities. Such Purchaser understands that neither the Preferred Shares nor the Underlying Shares have been registered under the Securities Act, and that the Purchaser is acquiring the Securities in the ordinary course of its business, as principal for its own account and not with a view towards, or for resale in connection with, the public sale or distribution thereof. Except with respect to Purchaser's Affiliates who may participate in this transaction and as otherwise contemplated by this Agreement, such Purchaser does not presently have any agreement or understanding, directly or indirectly, with any Person (other than its investment adviser) to (i) distribute any of the Securities; (ii) hold or to dispose of the Securities; (iii) vote the Securities; (iv) acquire any Securities from any other Person other than pursuant to this Agreement; or (v) consult with any other Person with respect to the voting of any Securities. In connection herewith, the Purchaser represents that it is familiar with the Securities Act, as presently in effect, and understands the requirements for resale contained therein. Notwithstanding the foregoing, by making the representations herein, the Purchaser does not agree to hold any of the Securities for any minimum or other specific term and reserves the right to sell or dispose of the Securities at any time in accordance with applicable banking and securities laws.

(d) Purchaser Status. At the time such Purchaser was offered the Preferred Shares, it was, and at the date hereof it is, an "accredited investor" as defined in Rule 501(a) under the Securities Act. Such Purchaser is not a registered broker-dealer under Section 15 of the Exchange Act.

(e) General Solicitation. Such Purchaser is not purchasing the Preferred Shares as a result of any advertisement, article, notice or other communication regarding the Preferred Shares published in any newspaper, magazine or similar media or broadcast over television or radio or presented at any seminar or any other general advertisement.

(f) Reliance on Exemptions and Compliance with Stock Permit. Such Purchaser understands that the Securities are being offered and sold to it in reliance on specific exemptions from the registration requirements of United States federal and state securities and will be sold pursuant to a stock permit to be issued by the DFI, and that the Company is relying in part upon the truth and accuracy of, and such Purchaser's compliance with, the representations, warranties, agreements, acknowledgments and understandings of the Purchaser set forth herein in order to determine the availability of such exemptions, the compliance with such stock permit and the eligibility of such Purchaser to acquire the Securities.

(g) Experience of Such Purchaser. Such Purchaser, either alone or together with its representatives, has such knowledge, sophistication and experience in business and financial matters so as to be capable of evaluating the merits and risks of the prospective investment in the Preferred Shares, and has so evaluated the merits and risks of such investment. Such Purchaser is able to bear the economic risk of an investment in the Preferred Shares and, at the present time, is able to afford a complete loss of such investment.

(h) Access to Information. Such Purchaser acknowledges that it has received and reviewed the Offering Materials (including the Risk Factors therein) and has been afforded (i) the opportunity to ask such questions as it has deemed necessary of, and to receive answers from, representatives of the Company concerning the terms and conditions of the offering of the Preferred Shares and the merits and risks of investing in the Preferred Shares; (ii) access to information about the Company and its Subsidiary and their financial condition,

results of operations, business, properties, management and prospects sufficient to enable it to evaluate its investment; and (iii) the opportunity to obtain such additional information that the Company possesses or can acquire without unreasonable effort or expense that is necessary to make an informed investment decision with respect to the investment. Neither such inquiries nor any other investigation conducted by or on behalf of such Purchaser or its representatives or counsel shall modify, amend or affect such Purchaser's right to rely on the truth, accuracy and completeness of the Offering Materials and the Company's representations and warranties contained in the Transaction Documents. Such Purchaser has sought such accounting, legal and tax advice as it has considered necessary to make an informed decision with respect to its acquisition of the Preferred Shares. The Purchaser acknowledges that any financial or other projections provided in the Offering Materials are based on numerous assumptions and estimates by management of the Company as to future events, and that neither the Company nor the Placement Agent makes any representation or warranty as to the accuracy or correctness of such projections, and there are no assurances that such projections will be achieved.

(i) Brokers and Finders. Other than the Placement Agent with respect to the Company, no Person will have, as a result of the transactions contemplated by this Agreement, any valid right, interest or claim against or upon the Company or any Purchaser for any commission, fee or other compensation pursuant to any agreement, arrangement or understanding entered into by or on behalf of the Purchaser. Such Purchaser acknowledges that it is purchasing the Preferred Shares directly from the Company and not from the Placement Agent.

(j) Risk of Loss. The Purchaser understands that its investment in the Preferred Shares (and any Underlying Shares upon conversion thereof) involves a significant degree of risk, including a risk of total loss of the Purchaser's investment. The Purchaser understands that the market price of the Company's Common Stock has been volatile, that there is no existing market for the Preferred Shares and that no representation is being made as to the future value of the Preferred Shares or the Underlying Shares.

(k) Independent Investment Decision. Such Purchaser has independently evaluated the merits of its decision to purchase Preferred Shares pursuant to the Transaction Documents, and such Purchaser confirms that it has not relied on the advice of any other Purchaser's business and/or legal counsel in making such decision. Such Purchaser understands that nothing in this Agreement or any other materials presented by or on behalf of the Company to the Purchaser in connection with the purchase of the Preferred Shares constitutes legal, tax or investment advice. Such Purchaser has consulted such legal, tax and investment advisors as it, in its sole discretion, has deemed necessary or appropriate in connection with its purchase of the Preferred Shares. Such Purchaser understands that the Placement Agent has acted solely as the agent of the Company in this placement of the Preferred Shares and such Purchaser has not relied on the business or legal advice of the Placement Agent or any of their agents, counsel or Affiliates in making its investment decision hereunder, and confirms that none of such Persons has made any representations or warranties to such Purchaser in connection with the transactions contemplated by the Transaction Documents.

(l) No Governmental Review. Such Purchaser understands that no U.S. federal or state agency or any other government or governmental agency has passed on or made any recommendation or endorsement of the Preferred Shares or the fairness or suitability of the investment in the Preferred Shares nor have such authorities passed upon or endorsed the merits of the offering of the Preferred Shares.

(m) Residency. Such Purchaser's residence (if an individual) or office in which its investment decision with respect to the Preferred Shares was made (if an entity) are located at the address immediately below such Purchaser's name on its signature page hereto.

(n) Trading. Purchaser acknowledges that there is no trading market for the Preferred Stock, and no such market is expected to develop.

(o) Knowledge as to Conditions. Purchaser does not know of any reason why, to the extent necessary, any regulatory approvals and any other approvals, authorizations, filings, registrations, and notices required or otherwise a condition to the consummation by it of the transactions contemplated by this Agreement will not be obtained.

(p) Foreign Investors. If the undersigned is not a United States person (as defined by Section 7701(a)(30) of the Code), such Purchaser hereby represents that it has satisfied itself as to the full observance of the laws of its jurisdiction in connection with any invitation to subscribe for the shares, including (i) the legal requirements applicable to such Purchaser within its jurisdiction for the purchase of the shares, and (ii) any governmental or other consents applicable to such Purchaser that may need to be obtained. Such Purchaser's subscription and payment for and continued beneficial ownership of the shares, will not violate any applicable securities or other laws of the Purchaser's jurisdiction. If the Purchaser is a foreign bank, such Purchaser has obtained any and all approvals required for this investment in the Company from all banking regulatory authorities which regulate the bank in its jurisdiction.

3.3 The Company and each of the Purchasers acknowledge and agree that no party to this Agreement has made or makes any representations or warranties with respect to the transactions contemplated hereby other than those specifically set forth in this Article III and the Transaction Documents.

ARTICLE IV OTHER AGREEMENTS OF THE PARTIES

4.1 Blue Sky. The Company, on or before the Closing Date, shall take such action as the Company shall reasonably determine is necessary in order to obtain an exemption for or to qualify the Preferred Shares for sale to the Purchasers at the Closing pursuant to this Agreement under applicable securities or "Blue Sky" laws of the states of the United States (or to obtain an exemption from such qualification). The Company shall make all filings and reports relating to the offer and sale of the Preferred Shares required under applicable securities or "Blue Sky" laws of the states of the United States following the Closing Date.

4.2 Publicity. No later than the first Business Day immediately following the date of this Agreement, the Company shall issue one or more press releases (collectively, the "*Press Release*") disclosing all material terms of the transactions contemplated hereby and any other material, nonpublic information that the Company may have provided, at any time prior to the filing of the Press Release, to each Purchaser who did not enter into a separate, stand-alone non-disclosure agreement with the Company in connection with the transactions contemplated hereby (each, a "*Non-NDA Purchaser*"). No later than the fourth Trading Day immediately following the execution of this Agreement, the Company will file a Current Report on Form 8-K with the FDIC (and concurrently post such report on its website) describing the terms of the Transaction Documents (and including as exhibits to such Current Report on Form 8-K the material Transaction Documents (including, without limitation, this Agreement and the Certificate of Determination)). If this Agreement terminates prior to Closing, by 9:00 a.m., New York City time, on the first Business Day following the date of such termination, the Company shall issue one or more press releases disclosing such termination. Notwithstanding the foregoing, the Company shall not publicly disclose the name of any Purchaser or any Affiliate or investment adviser of any Purchaser, or include the name of any Purchaser or any Affiliate or investment adviser of any Purchaser in any press release or filing with the DFI or any regulatory agency or Trading Market, without the prior written consent of such Purchaser, except to the extent such disclosure is required by law, at the request of the DFI or Trading Market regulations, in which case the Company shall provide the Purchasers with prior written notice of such disclosure. From and after the issuance of the Press Release, no Non-NDA Purchaser shall be in possession of any material, non-public information received from the Company, the Subsidiary or any of their respective officers, directors and employees, that is not disclosed in the Press Release. Each Purchaser, severally and not jointly with the other Purchasers, covenants that, until such time as the transactions contemplated by this Agreement are publicly disclosed by the Company, such Purchaser will maintain the confidentiality of all disclosures made to it in connection with this transaction (including the existence and terms of this transaction), unless otherwise previously agreed to by the Company.

4.3 Non-Public Information. Except with the express written consent of such Purchaser and unless, prior thereto, such Purchaser shall have executed a written agreement regarding the confidentiality and use of such information, the Company shall not, and shall cause the Subsidiary and each of their respective officers, directors, employees and agents, not to, and each Purchaser shall not directly solicit the Company, the Subsidiary or any of their respective officers, directors, employees or agents to provide any Purchaser with any material, non-public information regarding the Company or the Subsidiary from and after the public announcement of the issuance of the Securities.

4.4 Indemnification.

(a) Indemnification of Purchasers. The Company will indemnify and hold each Purchaser and its directors, officers, shareholders, members, partners, employees and agents (and any other Persons with a functionally equivalent role of a Person holding such titles notwithstanding a lack of such title or any other title), each Person who controls such Purchaser (within the meaning of Section 15 of the Securities Act and Section 20 of the Exchange Act), and the directors, officers, shareholders, agents, members, partners or employees (and any other Persons with a functionally equivalent role of a Person holding such titles notwithstanding a lack of such title or any other title) of such controlling person (each, a "*Purchaser Party*") harmless from any and all losses, liabilities, obligations, claims, contingencies, damages, costs and expenses, including all judgments, amounts paid in settlements, court costs and reasonable attorneys' fees and costs of investigation that any such Purchaser Party may suffer or incur as a result of (i) any breach of any of the representations, warranties, covenants or agreements made by the Company in this Agreement or in the other Transaction Documents or (ii) any action instituted against a Purchaser Party in any capacity, or any of them or their respective Affiliates, by any shareholder of the Company who is not an Affiliate of such Purchaser Party, with respect to any of the transactions contemplated by this Agreement. The Company will not be liable to any Purchaser Party under this Agreement to the extent, but only to the extent that a loss, claim, damage or liability is attributable to any Purchaser Party's breach of any of the representations, warranties, covenants or agreements made by such Purchaser Party in this Agreement or in the other Transaction Documents.

(b) Conduct of Indemnification Proceedings. Promptly after receipt by any Person (the "*Indemnified Person*") of notice of any demand, claim or circumstances which would or might give rise to a claim or the commencement of any action, proceeding or investigation in respect of which indemnity may be sought pursuant to Section 4.4(a), such Indemnified Person shall promptly notify the Company in writing and the Company shall assume the defense thereof, including the employment of counsel reasonably satisfactory to such Indemnified Person, and shall assume the payment of all fees and expenses; *provided, however*, that the failure of any Indemnified Person so to notify the Company shall not relieve the Company of its obligations hereunder except to the extent that the Company is actually and materially and adversely prejudiced by such failure to notify. In any such proceeding, any Indemnified Person shall have the right to retain its own counsel, but the fees and expenses of such counsel shall be at the expense of such Indemnified Person unless: (i) the Company and the Indemnified Person shall have mutually agreed to the retention of such counsel; (ii) the Company shall have failed promptly to assume the defense of such proceeding and to employ counsel reasonably satisfactory to such Indemnified Person in such proceeding; or (iii) in the reasonable judgment of counsel to such Indemnified Person, representation of both parties by the same counsel would be inappropriate due to actual or potential differing interests between them. The Company shall not be liable for any settlement of any proceeding effected without its written consent, which consent shall not be unreasonably withheld, delayed or conditioned. Without the prior written consent of the Indemnified Person, which consent shall not be unreasonably withheld, delayed or conditioned, the Company shall not effect any settlement of any pending or threatened proceeding in respect of which any Indemnified Person is or could have been a party and indemnity could have been sought hereunder by such Indemnified Party, unless such settlement includes an unconditional release of such Indemnified Person from all liability arising out of such proceeding.

4.5 Listing of Common Stock. The Company will use its reasonable best efforts to list the Underlying Shares on the NASDAQ Global Select Market and maintain the listing of the Common Stock on the NASDAQ Global Select Market.

4.6 Use of Proceeds. The Company intends to use the net proceeds from the sale of the Preferred Shares hereunder for the purpose of increasing its capital to meet the capital requirements of the Consent Order and for general corporate purposes.

4.7 Shareholders Meeting.

(a) The Company shall call a meeting of its shareholders (the “*Initial Shareholders’ Meeting*”), as promptly as practicable following the Closing, to be held no later than three months following the Closing Date, to vote upon and approve the Shareholder Proposals. The Board of Directors of the Company shall unanimously recommend to the Company’s shareholders that such shareholders vote in favor of the Shareholder Proposals and shall not modify or withdraw such Board recommendation. In connection with such meeting, the Company shall promptly prepare and file with the FDIC a preliminary proxy statement, shall use its reasonable best efforts to respond to any comments of the FDIC or its staff and to cause a definitive proxy statement related to such shareholders’ meeting to be mailed to the Company’s shareholders not more than seven (7) Business Days after clearance thereof by the FDIC, and shall use its reasonable best efforts to solicit proxies for such Shareholder Approval. If, at any time prior to such Initial Shareholders’ Meeting, there shall occur any event that is required to be set forth in an amendment or supplement to the definitive proxy statement, the Company shall as promptly as practicable prepare and mail to its shareholders such an amendment or supplement.

(b) In the event that either the Common Stock Approval or the Preferred Stock Approval is not obtained at the Initial Shareholders’ Meeting, the Bank shall take all reasonable action required, including the procedures set forth in paragraph (a) above, in order to obtain the Common Stock Approval or the Preferred Stock Approval, as applicable, at a subsequent special meeting of its shareholders to be held no later than sixty (60) days from the date of the Initial Shareholders’ Meeting (the “*Follow-up Special Meeting*”). If the Common Stock Approval or the Preferred Stock Approval, as applicable, is not obtained at the Follow-up Special Meeting, then the Bank shall continue to call special meetings of its shareholders in accordance with the procedural requirements of this paragraph no less than once in each subsequent sixty (60) day period beginning on the date following the last special meeting until such Common Stock Approval or Preferred Stock Approval, as applicable, has been obtained. At each such special meeting of shareholders held pursuant to this paragraph (b), the Board of Directors of the Company shall unanimously recommend to the Company’s shareholders that such shareholders vote in favor of the Common Shareholder Proposal and the Preferred Shareholder Proposal, as applicable.

4.8 Purchase and Beneficial Ownership Limitations. No Purchaser will be entitled to purchase a number of Preferred Shares offered hereby that would result in such Purchaser, collectively with any other Person whose ownership of the Company’s capital stock would be aggregated with the Purchaser’s ownership of the Company’s capital stock for regulatory purposes, (i) needing the prior approval of any banking regulator to acquire such Preferred Shares or (ii) beneficially owning, controlling or having the power to vote more than 9.9% of the Company’s issued and outstanding shares of Common Stock, upon conversion of such Purchaser’s Preferred Shares (assuming all shares of Preferred Stock are converted at the initial conversion price of \$1.50). Purchaser acknowledges that it will be subject to, and agrees to be bound by the terms of, the ownership limitations set forth in Section 15 of the Certificate of Determination.

4.9 No Rights Agreement. The Company shall not enter into any poison pill agreement, shareholders’ rights plan or similar agreement that could limit the rights of a Purchaser to acquire Common Stock unless such poison pill agreement, shareholders’ rights plan or similar agreement grants an exemption or waiver to the Purchaser immediately effective upon execution of such plan or agreement that would allow the Purchaser to acquire such Common Stock.

4.10 Preemptive Rights.

(a) If, so long as any Preferred Shares are outstanding, the Company offers to sell Covered Securities (as defined below) in a public or private offering of Covered Securities solely for cash any time during a period of 24 months commencing on the Closing Date (a “*Qualified Offering*”), each Purchaser shall be

afforded the opportunity to acquire from the Company, for the same price and on the same terms as such Covered Securities are offered, in the aggregate up to the amount of Covered Securities required to enable it to maintain its Qualified Purchaser Percentage Interest. “*Qualified Purchaser Percentage Interest*” means, as of any date of determination, the percentage equal to (A) the aggregate number of shares of Common Stock issuable upon conversion of the Preferred Shares then held by the Purchaser as of the date of determination divided by (B) the total number of outstanding shares of Common Stock as of such date. “*Covered Securities*” means Common Stock and any rights, options or warrants to purchase or securities convertible into or exercisable or exchangeable for Common Stock, other than securities that are (A) issued by the Company pursuant to any employment contract, employee incentive or benefit plan, stock purchase plan, stock ownership plan, stock option or equity compensation plan or other similar plan where stock is being issued or offered to a trust, other entity to or for the benefit of any employees, consultants, officers or directors of the Company, (B) issued by the Company in connection with a business combination or other merger, acquisition or disposition transaction, partnership, joint venture, strategic alliance or investment by the Company or similar non-capital raising transaction, (C) issued as a dividend or in connection with a dividend reinvestment or stockholder purchase plan, or (D) issued by the Company upon conversion of any of the Preferred Shares.

(b) Prior to making any Qualified Offering of Covered Securities, the Company shall give each Purchaser written notice at the address shown on such Purchaser’s signature page hereto of its intention to make such an offering, describing, to the extent then known, the anticipated amount of securities, and other material terms then known to the Company upon which the Company proposes to offer the same (such notice, a “*Qualified Offering Notice*”). Each Purchaser shall then have 10 days after receipt of the Qualified Offering Notice (the “*Offer Period*”) to notify the Company in writing that it intends to exercise such preemptive right and as to the amount of Covered Securities the Purchaser desires to purchase, up to the maximum amount calculated pursuant to Section 4.10(a) (the “*Designated Securities*”). Such notice constitutes a non-binding indication of interest of such Purchaser to purchase the amount of Designated Securities specified by such Purchaser (or a proportionately lesser amount if the amount of Covered Securities to be offered in such Qualified Offering is subsequently reduced) at the price (or range of prices) established in the Qualified Offering and other terms set forth in the Company’s notice to it. The failure to respond during the Offer Period constitutes a waiver of its preemptive right in respect of such offering. The sale of the Covered Securities in the Qualified Offering, including any Designated Securities, shall be closed not later than 30 days after the end of the Offer Period except as to any Purchaser that requires prior approval of any governmental authorities, in which case the closing of any the sale of Covered Securities to such Investor shall occur as soon as practicable following the receipt of all necessary governmental authority approvals and the expiration of statutory waiting periods. The Covered Securities to be sold to other investors in such Qualified Offering shall be sold at a price not less than, and upon terms no more favorable to such other investors than, those specified in the Qualified Offering Notice. If the Company does not consummate the sale of Covered Securities to other investors within such 30-day period (excluding Purchasers that require prior approval of any governmental authorities), the right provided hereunder shall be revived and such securities shall not be offered unless first reoffered to the Purchasers in accordance herewith. Notwithstanding anything to the contrary set forth herein and unless otherwise agreed by the Purchasers, by not later than the end of such 30-day period, the Company shall either confirm in writing to the Purchasers that the Qualified Offering has been abandoned or shall publicly disclose its intention to issue the Covered Securities in the Qualified Offering, in either case in such a manner that the Purchasers will not be in possession of any material, non-public information thereafter.

(c) If a Purchaser exercises its preemptive right provided in this Section 4.10 with respect to a Qualified Offering that is an underwritten public offering or an offering made to qualified institutional buyers (as such term is defined in SEC Rule 144A under the Securities Act) for resale pursuant to Rule 144A under the Securities Act (a “*Rule 144A offering*”), a private placement or other offering, whether or not registered under the Securities Act, the Company shall offer and sell such Purchaser, if any such offering is consummated, the Designated Securities (as adjusted, upward to reflect the actual size of such offering when priced) at the same price as the Covered Securities are offered to third persons (not including the underwriters or the initial purchasers in a Rule 144A offering that is being reoffered by the initial purchasers) in such offering and shall provide written notice of such price upon the determination of such price.

(d) Anything to the contrary in this Section 4.10 notwithstanding, the preemptive right to purchase Covered Securities granted by this Section 4.10 shall terminate as of and not be available any time after the date on which (i) such Purchaser sells all of its Securities, and (ii) the Preferred Shares convert to Common Stock.

(e) In addition to the pricing provision of Section 4.10(c), the Company will offer and sell the Designated Securities to each Purchaser upon terms and conditions not less favorable than the most favorable terms and conditions offered to other persons or entities in a Qualified Offering.

ARTICLE V CONDITIONS PRECEDENT TO CLOSING

5.1 Conditions Precedent to the Obligations of the Purchasers to Purchase Preferred Shares. The obligation of each Purchaser to acquire Preferred Shares at the Closing is subject to the fulfillment to such Purchaser's satisfaction, on or prior to the Closing Date, of each of the following conditions, any of which may be waived by such Purchaser (as to itself only):

(a) Representations and Warranties. The representations and warranties of the Company contained herein shall be true and correct as of the date when made and as of the Closing Date, as though made on and as of such date, except for such representations and warranties that speak as of a specific date.

(b) Performance. The Company shall have performed, satisfied and complied in all material respects with all covenants, agreements and conditions required by the Transaction Documents to be performed, satisfied or complied with by it at or prior to the Closing.

(c) No Injunction. No statute, rule, regulation, executive order, decree, ruling or injunction shall have been enacted, entered, promulgated or endorsed by any court or governmental authority of competent jurisdiction that prohibits the consummation of any of the transactions contemplated by the Transaction Documents.

(d) Consents. The Company shall have obtained in a timely fashion any and all consents, permits, approvals, registrations and waivers necessary for consummation of the purchase and sale of the Preferred Shares (including all Required Approvals), all of which shall be and remain so long as necessary in full force and effect.

(e) No Suspensions of Trading in Common Stock; Listing. The Common Stock (i) shall be designated for quotation or listed on the Principal Trading Market and (ii) shall not have been suspended, as of the Closing Date, by the FDIC or the Principal Trading Market from trading on the Principal Trading Market nor shall suspension by the FDIC or the Principal Trading Market have been threatened, as of the Closing Date, either (A) in writing by the FDIC or the Principal Trading Market or (B) by falling below the minimum listing maintenance requirements of the Principal Trading Market. The Company shall have obtained approval of the Principal Trading Market to list the Underlying Shares.

(f) Company Deliverables. The Company shall have delivered the Company Deliverables in accordance with Section 2.1(d).

(g) Certificate of Determination. The Company shall have filed the Certificate of Determination with the California Secretary.

(h) Termination. This Agreement shall not have been terminated as to such Purchaser in accordance with Section 6.15 herein.

(i) Minimum Sales. (i) the Company shall have sold (or shall sell concurrently with the Closing) not less than 70,000 Preferred Shares, 3,154 of which represent rights of our officers to receive the Securities

through the Company's Deferred Compensation Plan and which shall not be outstanding until the occurrence of a distribution event under the Deferred Compensation Plan, and (ii) the directors, executive officers, and certain other employees of the Company, and their immediate family members investing through trusts shall have purchased at least 7,000 Preferred Shares in the aggregate (including rights to receive such shares through the Company's Deferred Compensation Plan) on the same terms as the other Purchasers.

(j) Bank Regulatory Issues. The purchase of such Preferred Shares shall not (i) cause such Purchaser or any of its Affiliates to violate any bank regulation, (ii) require such Purchaser or any of its Affiliates to file a prior notice with or obtain the prior approval of any bank regulator or (iii) cause such Purchaser, together with any other person whose Company securities would be aggregated with such Purchaser's Company securities for purposes of any bank regulation or law, to collectively be deemed to own, control or have the power to vote securities which (assuming, for this purpose only, full conversion and/or exercise of such securities by the Purchaser) would represent more than 9.9% of the voting securities of the Company outstanding at such time.

(k) Proxy. Purchasers with the obligation to purchase at least a majority of the Preferred Shares to be issued at Closing shall have each executed a revocable proxy, in the form attached hereto as Exhibit E (the "Proxy"), appointing Li Yu, President and Chief Executive Officer of the Company, and Edward J. Czajka, Executive Vice President and Chief Financial Officer of the Company, or either of them, as proxies of each such Purchaser to vote all Preferred Shares acquired by each such Purchaser pursuant to this Agreement in favor of the Preferred Shareholder Proposal at the Initial Shareholders' Meeting and at any adjournment thereof, and at any Follow-up Special Meeting, if such meeting is required to be held to obtain Preferred Stock Approval.

5.2 Conditions Precedent to the Obligations of the Company to Sell Preferred Shares. The Company's obligation to sell and issue the Preferred Shares to each Purchaser at the Closing is subject to the fulfillment to the satisfaction of the Company on or prior to the Closing Date of the following conditions, any of which may be waived by the Company:

(a) Representations and Warranties. The representations and warranties made by such Purchaser in Section 3.2 hereof shall be true and correct as of the date when made, and as of the Closing Date as though made on and as of such date, except for representations and warranties that speak as of a specific date.

(b) Performance. Such Purchaser shall have performed, satisfied and complied in all material respects with all covenants, agreements and conditions required by the Transaction Documents to be performed, satisfied or complied with by such Purchaser at or prior to the Closing Date.

(c) No Injunction. No statute, rule, regulation, executive order, decree, ruling or injunction shall have been enacted, entered, promulgated or endorsed by any court or governmental authority of competent jurisdiction that prohibits the consummation of any of the transactions contemplated by the Transaction Documents.

(d) Consents. Such Purchaser shall have obtained in a timely fashion any and all consents, permits, approvals, registrations and waivers required to be obtained by such Purchaser which are necessary for consummation of its purchase of the Preferred Shares.

(e) Purchasers Deliverables. Such Purchaser shall have delivered its Purchaser Deliverables in accordance with Section 2.1(f).

(f) Termination. This Agreement shall not have been terminated as to such Purchaser in accordance with Section 6.15 herein.

ARTICLE VI
MISCELLANEOUS

6.1 Fees and Expenses. The parties hereto shall be responsible for the payment of all expenses incurred by them in connection with the preparation and negotiation of the Transaction Documents and the consummation of the transactions contemplated hereby.

6.2 Entire Agreement. The Transaction Documents contain the entire understanding of the parties with respect to the subject matter hereof and supersede all prior agreements, understandings, discussions and representations, oral or written, with respect to such matters, which the parties acknowledge have been merged into such documents, and exhibits. At or after the Closing, and without further consideration, the Company and the Purchasers will execute and deliver to the other such further documents as may be reasonably requested in order to give practical effect to the intention of the parties under the Transaction Documents.

6.3 Notices. Any and all notices or other communications or deliveries required or permitted to be provided hereunder shall be in writing and shall be deemed given and effective on the earliest of (a) the date of transmission, if such notice or communication is delivered via facsimile (provided the sender receives a machine-generated confirmation of successful transmission) at the facsimile number specified in this Section prior to 5:00 p.m., New York time, on a Trading Day, (b) the next Trading Day after the date of transmission, if such notice or communication is delivered via facsimile at the facsimile number specified in this Section on a day that is not a Trading Day or later than 5:00 p.m., New York City time, on any Trading Day, (c) the Trading Day following the date of mailing, if sent by U.S. nationally recognized overnight courier service with next day delivery specified, or (d) upon actual receipt by the party to whom such notice is required to be given. The address for such notices and communications shall be as follows:

If to the Company: Preferred Bank
601 S. Figueroa Street, 20th Floor
Los Angeles, CA 90017
Office: (213) 891-1188
Fax: (213) 622-8765
Attention: Li Yu, President

With a copy to: Manatt, Phelps & Phillips, LLP
11355 West Olympic Boulevard
Los Angeles, CA 90064
Office: (310) 312-4000
Fax: (310) 312-4224
Attention: Gordon Bava, Esq.

If to a Purchaser: To the address set forth under such Purchaser's name on the signature page hereof;

or such other address as may be designated in writing hereafter, in the same manner, by such Person.

6.4 Amendments; Waivers; No Additional Consideration. No provision of this Agreement may be waived or amended except in a written instrument signed, in the case of an amendment, by the Company and each of the Purchasers holding or having the right to acquire at least two-thirds of the Preferred Shares at the time of such amendment or, in the case of a waiver, by the party against whom enforcement of any such waiver is sought. No amendment shall be effective to the extent it applies to less than all of the Purchasers. Any amendment (i) affecting the economics of the transactions completed hereby, (ii) that could result in a regulatory issue for a Purchaser, or (iii) affecting Sections 4.2, 4.10, 5.1 or 6.15 must be signed by each Purchaser affected thereby. No waiver of any default with respect to any provision, condition or requirement of this Agreement shall be deemed to be a continuing waiver in the future or a waiver of any subsequent default or a waiver of any other provision, condition or requirement hereof, nor shall any delay or omission of either party to exercise any right

hereunder in any manner impair the exercise of any such right. No consideration shall be offered or paid to any Purchaser to amend or consent to a waiver or modification of any provision of any Transaction Document unless the same consideration is also offered to all Purchasers who then hold Preferred Shares.

6.5 Construction. The headings herein are for convenience only, do not constitute a part of this Agreement and shall not be deemed to limit or affect any of the provisions hereof. The language used in this Agreement will be deemed to be the language chosen by the parties to express their mutual intent, and no rules of strict construction will be applied against any party. This Agreement shall be construed as if drafted jointly by the parties, and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any provisions of this Agreement or any of the Transaction Documents.

6.6 Successors and Assigns. The provisions of this Agreement shall inure to the benefit of and be binding upon the parties and their successors and permitted assigns. This Agreement, or any rights or obligations hereunder, may not be assigned by the Company without the prior written consent of the Purchasers. Any Purchaser may assign its rights hereunder in whole or in part to any Person to whom such Purchaser assigns or transfers any Securities in compliance with the Transaction Documents and applicable law, provided such transferee shall agree in writing to be bound, with respect to the transferred Securities, by the terms and conditions of this Agreement that apply to the "Purchasers".

6.7 No Third-Party Beneficiaries. This Agreement is intended for the benefit of the parties hereto and their respective successors and permitted assigns and is not for the benefit of, nor may any provision hereof be enforced by, any other Person, other than Indemnified Persons.

6.8 Governing Law. All questions concerning the construction, validity, enforcement and interpretation of this Agreement shall be governed by and construed and enforced in accordance with the internal laws of the State of California, without regard to the principles of conflicts of law thereof. Each party agrees that all Proceedings concerning the interpretations, enforcement and defense of the transactions contemplated by this Agreement and any other Transaction Documents (whether brought against a party hereto or its respective Affiliates, employees or agents) may be commenced on a non-exclusive basis in the California Courts. Each party hereto hereby irrevocably submits to the non-exclusive jurisdiction of the California Courts for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein (including with respect to the enforcement of any of the Transaction Documents), and hereby irrevocably waives, and agrees not to assert in any Proceeding, any claim that it is not personally subject to the jurisdiction of any such California Court, or that such Proceeding has been commenced in an improper or inconvenient forum. Each party hereto hereby irrevocably waives personal service of process and consents to process being served in any such Proceeding by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any manner permitted by law. **EACH PARTY HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.**

6.9 Survival. Subject to applicable statute of limitations, the representations, warranties, agreements and covenants contained herein shall survive the Closing and the delivery of the Preferred Shares.

6.10 Execution. This Agreement may be executed in two or more counterparts, all of which when taken together shall be considered one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to the other party, it being understood that both parties need not sign the same counterpart. In the event that any signature is delivered by facsimile transmission, or by e-mail delivery of a ".pdf" format data file, such signature shall create a valid and binding obligation of the party executing (or on whose behalf such signature is executed) with the same force and effect as if such facsimile signature page were an original thereof.

6.11 Severability. If any provision of this Agreement is held to be invalid or unenforceable in any respect, the validity and enforceability of the remaining terms and provisions of this Agreement shall not in any way be affected or impaired thereby and the parties will attempt to agree upon a valid and enforceable provision that is a reasonable substitute therefor, and upon so agreeing, shall incorporate such substitute provision in this Agreement.

6.12 Replacement of Shares. If any certificate or instrument evidencing any Preferred Shares is mutilated, lost, stolen or destroyed, the Company shall issue or cause to be issued in exchange and substitution for and upon cancellation thereof, or in lieu of and substitution therefor, a new certificate or instrument, but only upon receipt of evidence reasonably satisfactory to the Company and the Transfer Agent of such loss, theft or destruction and the execution by the holder thereof of a customary lost certificate affidavit of that fact and an agreement to indemnify and hold harmless the Company and the Transfer Agent for any losses in connection therewith or, if required by the Transfer Agent, a bond in such form and amount as is required by the Transfer Agent. The applicants for a new certificate or instrument under such circumstances shall also pay any reasonable third-party costs associated with the issuance of such replacement Shares. If a replacement certificate or instrument evidencing any Preferred Shares is requested due to a mutilation thereof, the Company may require delivery of such mutilated certificate or instrument as a condition precedent to any issuance of a replacement.

6.13 Remedies. In addition to being entitled to exercise all rights provided herein or granted by law, including recovery of damages, each of the Purchasers and the Company will be entitled to specific performance under the Transaction Documents. The parties agree that monetary damages may not be adequate compensation for any loss incurred by reason of any breach of obligations described in the foregoing sentence and hereby agree to waive in any action for specific performance of any such obligation (other than in connection with any action for a temporary restraining order) the defense that a remedy at law would be adequate.

6.14 Independent Nature of Purchasers' Obligations and Rights. The obligations of each Purchaser under any Transaction Document are several and not joint with the obligations of any other Purchaser, and no Purchaser shall be responsible in any way for the performance of the obligations of any other Purchaser under any Transaction Document. The decision of each Purchaser to purchase Preferred Shares pursuant to the Transaction Documents has been made by such Purchaser independently of any other Purchaser and independently of any information, materials, statements or opinions as to the business, affairs, operations, assets, properties, liabilities, results of operations, condition (financial or otherwise) or prospects of the Company which may have been made or given by any other Purchaser or by any agent or employee of any other Purchaser, and no Purchaser and any of its agents or employees shall have any liability to any other Purchaser (or any other Person) relating to or arising from any such information, materials, statement or opinions. Nothing contained herein or in any Transaction Document, and no action taken by any Purchaser pursuant thereto, shall be deemed to constitute the Purchasers as a partnership, an association, a joint venture or any other kind of entity, or create a presumption that the Purchasers are in any way acting in concert or as a group with respect to such obligations or the transactions contemplated by the Transaction Documents. Each Purchaser acknowledges that no other Purchaser has acted as agent for such Purchaser in connection with making its investment hereunder and that no Purchaser will be acting as agent of such Purchaser in connection with monitoring its investment in the Preferred Shares or enforcing its rights under the Transaction Documents. Each Purchaser shall be entitled to independently protect and enforce its rights, including without limitation the rights arising out of this Agreement or out of the other Transaction Documents, and it shall not be necessary for any other Purchaser to be joined as an additional party in any proceeding for such purpose. It is expressly understood and agreed that each provision contained in this Agreement is between the Company and a Purchaser, solely, and not between the Company and the Purchasers collectively and not between and among the Purchasers.

6.15 Termination. This Agreement may be terminated (A) by a Purchaser (with respect to such Purchaser only) by written notice to the Company given prior to the Closing (i) in the event that the Company shall have failed, refused or been unable to perform all obligations and satisfy all conditions on its part to be performed or satisfied hereunder at or prior thereto, (ii) upon the occurrence of an event having a Material Adverse Effect on

the Company or (iii) if the Closing has not been consummated on or prior to 5:00 p.m., New York City time, on the Outside Date and (B) by the Company upon written notice to the Purchasers if the Closing has not been consummated on or prior to 5:00 p.m., New York City time, on the Outside Date; *provided, however*, that the right to terminate this Agreement under this Section 6.15 shall not be available to any Person whose failure to comply with its obligations under this Agreement has been the cause of or resulted in the failure of the Closing to occur on or before such time. Nothing in this Section 6.15 shall be deemed to release any party from any liability for any breach by such party of the terms and provisions of this Agreement or the other Transaction Documents. In lieu of termination pursuant to this Section, a Purchaser may compel specific performance by any other party of its obligations under this Agreement or the other Transaction Documents. In the event of a termination pursuant to this Section, the Company shall promptly notify all non-terminating Purchasers. Upon a termination in accordance with this Section, the Company and the terminating Purchaser(s) shall not have any further obligation or liability (including arising from such termination) to the other, and no Purchaser will have any liability to any other Purchaser under the Transaction Documents as a result therefrom.

6.16 Purchaser Signature Pages. The Purchasers acknowledge that the Purchaser signature pages to this Agreement exists in two forms: (i) a Purchaser signature page on which each Purchaser's name and contact information is represented by an assigned number as listed on Schedule 1 attached hereto; and (ii) a complete Purchaser signature page listing information relating to all Purchasers. Except as otherwise determined by the Company, the complete Purchaser signature page referred to in the preceding clause (ii) shall be viewed solely by the Company. The Purchasers specifically acknowledge and agree that the purpose of this approach is to maximize the confidential treatment of the name and contact information of the Purchasers vis-a-vis each other and third parties. To the maximum extent permitted by applicable law, each Purchaser hereby irrevocably waives any rights such Purchaser might otherwise have to view the name, contact information and investment amount of any other Purchaser. In the event that any issue arising under this Agreement turns upon information set forth on Schedule 1, any Purchaser may request that, at the Purchaser's expense, the Company's attorneys or accountants confirm that such issue was properly addressed or resolved in accordance with the terms of this Agreement, but shall not thereby be entitled to view or otherwise gain access to the name or contact information of any other Purchaser. At the request of a Purchaser, the Company shall notify such Purchaser of the assigned number representing such Purchaser's name and contact information on Schedule 1 referred to in clause (i) of this paragraph.

6.17 Payment Set Aside. To the extent that the Company makes a payment or payments to any Purchaser pursuant to any Transaction Document or a Purchaser enforces or exercises its rights thereunder, and such payment or payments or the proceeds of such enforcement or exercise or any part thereof are subsequently invalidated, declared to be fraudulent or preferential, set aside, recovered from, disgorged by or are required to be refunded, repaid or otherwise restored to the Company, a trustee, receiver or any other person under any law (including, without limitation, any bankruptcy law, state or federal law, common law or equitable cause of action), then to the extent of any such restoration the obligation or part thereof originally intended to be satisfied shall be revived and continued in full force and effect as if such payment had not been made or such enforcement or setoff had not occurred.

6.18 Rescission and Withdrawal Right. Notwithstanding anything to the contrary contained in (and without limiting any similar provisions of) the Transaction Documents, whenever any Purchaser exercises a right, election, demand or option under a Transaction Document and the Company does not timely perform its related obligations within the periods therein provided, then such Purchaser may rescind or withdraw, in its sole discretion from time to time upon written notice to the Company, any relevant notice, demand or election in whole or in part without prejudice to its future actions and rights.

**[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]
[SIGNATURE PAGES FOR COMPANY & PURCHASERS FOLLOW]**

IN WITNESS WHEREOF, the parties hereto have caused this Subscription Agreement to be duly executed by their respective authorized signatories as of the date first indicated above.

PREFERRED BANK

By: _____

Name: Li Yu

Title: Chairman, President and Chief Executive Officer

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]
[SIGNATURE PAGES FOR PURCHASERS FOLLOW]

NAME OF PURCHASER: _____

By: _____

Name:

Title:

Aggregate Purchase Price (Subscription Amount):

\$ _____

Number of Preferred Shares to be Acquired:

Tax ID No. (for entities): _____

Social Security No. (for natural persons):

Address for Notice:

Telephone No.: _____

Facsimile No.: _____

E-mail Address: _____

Attention: _____

Delivery Instructions:
(if different than above)

c/o _____

Street: _____

City/State/Zip: _____

Attention: _____

Telephone No.: _____

Appendix C
**Unaudited Consolidated Financial Statements (including Notes thereto) of Preferred Bank, as
included in our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2010**

PREFERRED BANK
Consolidated Statements of Financial Condition
(In thousands except share data)
(Unaudited)

	<u>March 31, 2010</u>	<u>December 31, 2009</u>
Assets		
Cash and due from banks	\$ 222,011	\$ 14,071
Federal funds sold	—	54,000
Cash and cash equivalents	222,011	68,071
Securities available-for-sale, at fair value	90,738	114,464
Loans and leases	970,287	1,043,299
Less allowance for loan and lease losses	(37,069)	(42,810)
Less unamortized deferred loan fees, net	846	585
Net loans and leases	934,064	1,001,074
Loans held for sale, at lower of cost or fair value	10,333	—
Other real estate owned	66,145	59,190
Bank furniture and fixtures, net	5,994	6,325
Bank-owned life insurance	7,366	7,304
Accrued interest receivable	5,458	5,582
Federal Home Loan Bank stock, at cost	4,996	4,996
Net deferred tax assets	3,662	3,604
Other assets	30,326	36,171
Total assets	<u>\$1,381,093</u>	<u>\$1,306,781</u>
Liabilities and Shareholders' Equity		
Deposits:		
Demand	\$ 233,136	\$ 204,545
Interest-bearing demand	128,426	119,168
Savings	46,369	44,033
Time certificates of \$100,000 or more	347,877	328,597
Other time certificates	475,153	464,069
Total deposits	1,230,961	1,160,412
Advances from the Federal Home Loan Bank	23,000	23,000
Senior debt	25,996	25,996
Accrued interest payable	2,169	2,949
Other liabilities	8,248	9,050
Total liabilities	<u>1,290,374</u>	<u>1,221,407</u>
Commitments and contingencies		
Shareholders' equity:		
Preferred stock. Authorized 25,000,000 shares; no shares issued and outstanding at March 31, 2010 and December 31, 2009.	—	—
Common stock, no par value. Authorized 100,000,000 shares; issued and outstanding 16,012,126 and 15,767,126 shares at March 31, 2010 and December 31, 2009, respectively.	89,038	89,038
Treasury stock, at cost (718,425, and 715,425 shares at March 31, 2010 and December 31, 2009, respectively)	(19,115)	(19,115)
Additional paid-in capital	6,642	6,291
Retained earnings	16,376	13,267
Accumulated other comprehensive loss:		
Non-credit portion of other-than-temporary impairment on securities available-for-sale, net of tax of \$555 at March 31, 2010 and December 31, 2009, respectively.	(1,249)	(764)
Unrealized loss on securities available-for-sale, net of tax of \$2,426 at March 31, 2010 and December 31, 2009, respectively.	(973)	(3,343)
Total shareholders' equity	<u>90,719</u>	<u>85,374</u>
Total liabilities and shareholders' equity	<u>\$1,381,093</u>	<u>\$1,306,781</u>

PREFERRED BANK

Consolidated Statements of Operations and Comprehensive Income (Loss)
(In thousands, except share and per share data)
(Unaudited)

	Three Months Ended March 31,	
	2010	2009
Interest income:		
Loans and leases	\$ 12,437	\$ 15,161
Investment securities, available-for-sale	1,457	1,733
Federal funds sold	1	32
Total interest income	13,895	16,926
Interest expense:		
Interest-bearing demand	167	227
Savings	58	217
Time certificates of \$100,000 or more	1,490	3,379
Other time certificates	2,060	2,720
Federal Home Loan Bank borrowings	238	578
Senior Debt	188	101
Total interest expense	4,201	7,222
Net interest income before provision for credit losses	9,694	9,704
Provision for credit losses	—	6,550
Net interest income after provision for credit losses	9,694	3,154
Noninterest income:		
Fees and service charges on deposit accounts	491	549
Trade finance income	109	125
BOLI income	81	78
Net (loss) gain on sale of investment securities	(68)	460
Other income	146	66
Total noninterest income	759	1,278
Noninterest expense:		
Salaries and employee benefits	2,184	2,128
Net occupancy expense	850	839
Business development and promotion expense	35	46
Professional services	939	877
Office supplies and equipment expense	305	317
Total other-than-temporary impairment losses	—	4,774
Portion of loss recognized in other comprehensive income	—	(4,349)
Net of other-than-temporary impairment losses	—	425
Loss on sale of OREO and related expense	1,140	613
Other	1,891	1,338
Total noninterest expense	7,344	6,583
Income (loss) before income taxes	3,109	(2,151)
Income tax (benefit) expense	—	(829)
Net income (loss)	\$ 3,109	\$ (1,322)
Other comprehensive income (loss):		
Unrealized net gain (loss) on securities available-for-sale	3,932	(9,268)
Less reclassification adjustments included in net income	(2,047)	86
Income taxes related to items of other comprehensive income	—	3,861
Other comprehensive income (loss), net of tax	1,885	(5,321)
Comprehensive income (loss)	\$ 4,994	\$ (6,643)
Net (loss) income per share		
Basic	\$ 0.20	\$ (0.14)
Diluted	\$ 0.20	\$ (0.14)
Weighted-average common shares outstanding		
Basic	15,885,115	9,791,507
Diluted	15,885,115	9,791,507
Dividends per share	\$ 0.00	\$ 0.08

PREFERRED BANK

Consolidated Statements of Changes in Shareholders' Equity
(In thousands, except for share amounts)
(Unaudited)

	Common Stock		Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares	Amount					
Balance as of December 31,							
2008	9,755,207	\$72,009	\$(19,115)	\$4,582	\$84,996	\$ (4,981)	\$137,491
Cumulative effect adjustment for reclassification of the previously recognized non-credit related impairment write-downs . . .	—	—	—	—	1,586	(1,586)	—
Balance as of December 31, 2008, as revised	9,755,207	\$72,009	\$(19,115)	\$4,582	\$86,582	\$ (6,567)	\$137,491
Cash dividends paid (\$0.08 per share)	—	—	—	—	(780)	—	(780)
Restricted stock award grant	99,000	—	—	—	—	—	—
Share-based compensation expense	—	—	—	440	—	—	440
Net loss	—	—	—	—	(1,322)	—	(1,322)
Noncredit related impairment loss on investment securities recorded in the current year, net of tax	—	—	—	—	—	(934)	(934)
Change in unrealized loss, net of tax	—	—	—	—	—	(2,801)	(2,801)
Balance as of March 31, 2009	<u>9,854,207</u>	<u>\$72,009</u>	<u>\$(19,115)</u>	<u>\$5,022</u>	<u>\$84,480</u>	<u>\$(10,302)</u>	<u>\$132,094</u>
Balance as of December 31,							
2009	15,767,126	\$89,038	\$(19,115)	\$6,291	\$13,267	\$ (4,107)	\$ 85,374
Restricted stock award grant	248,000	—	—	—	—	—	—
Stock buyback	(3,000)	—	—	—	—	—	—
Share-based compensation expense	—	—	—	351	—	—	351
Net income	—	—	—	—	3,109	—	3,109
Noncredit related impairment loss on investment securities recorded in the current year, net of tax	—	—	—	—	—	(485)	(485)
Change in unrealized loss, net of tax	—	—	—	—	—	2,370	2,370
Balance as of March 31, 2010 . . .	<u>16,012,126</u>	<u>\$89,038</u>	<u>\$(19,115)</u>	<u>\$6,642</u>	<u>\$16,376</u>	<u>\$ (2,222)</u>	<u>\$ 90,719</u>

The accompanying notes are an integral part of these financial statements

PREFERRED BANK
Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Three Months Ended March 31,	
	2010	2009
Cash flows from operating activities:		
Net income (loss)	\$ 3,109	\$ (1,322)
Adjustments to reconcile net loss to net cash used in operating activities:		
Provision for credit losses	—	6,550
Net change in deferred loan fees	(261)	(145)
Loss (gain) on sale of other real estate owned	207	(51)
Loss (gain) on sale of securities	68	(460)
Amortization (accretion) of investment securities discounts and premiums, net ...	38	(463)
Depreciation and amortization	302	109
Impairment of securities available-for-sale	—	425
Share-based compensation expense	351	440
Write-down on other real estate owned	1,182	—
Deferred tax benefits	(58)	—
Decrease in BOLI, accrued interest receivable and other assets	5,908	13,180
Decrease in accrued interest payable and other liabilities	(1,582)	(17,235)
Net cash provided by operating activities	9,264	1,028
Cash flows from investing activities:		
Proceeds from maturities and redemptions of securities available-for-sale	5,860	10,314
Proceeds from sale of securities available-for-sale	19,644	26,323
Purchase of securities available-for-sale	—	(27,177)
Proceeds from recoveries of written off loans	35	—
Net decrease in loans	46,203	27,325
Proceeds from sale (purchase) of bank premises and equipment	28	(81)
Proceeds from sale of other real estate owned	2,357	2,145
Net cash provided by investing activities	74,127	38,849
Cash flows from financing activities:		
Increase (decrease) in deposits	70,549	(52,038)
Proceeds from senior debt borrowings, net of issuance cost	—	25,996
Cash payment of dividends	—	(780)
Net cash provided (used) in financing activities	70,549	(26,822)
Net increase in cash and cash equivalents	153,940	13,055
Cash and cash equivalents at beginning of period	68,071	69,586
Cash and cash equivalents at end of period	\$222,011	\$ 82,641
Supplemental disclosure of cash flow information		
Cash paid during the period for:		
Interest	\$ 4,982	\$ 8,004
Income taxes	\$ 58	\$ 975
Noncash activities		
Real estate acquired in settlement of loans	\$ 10,700	\$ 7,904
Loans to facilitate the sale of other real estate owned	\$ —	\$ 6,760
Transfer of loan receivable to loans held for sale	\$ 10,333	\$ —

The accompanying notes are an integral part of these financial statements

Basis of Presentation

The financial statements include the accounts of Preferred Bank and its subsidiary, PB Investment and Consulting, Inc. (herein referred to as the “Bank”, “we”, “us” or “our”). The unaudited interim consolidated financial statements of the Bank have been prepared in conformity with U.S. generally accepted accounting principles. The unaudited interim financial statements reflect all adjustments consisting of principally normal recurring adjustments which are, in the opinion of management, necessary to present a fair statement of the results for the interim periods indicated. Certain reclassifications have been made to the prior year’s financial statements to conform to the current year’s presentation. Certain information and note disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). The results of operations for the three months ended March 31, 2010 are not necessarily indicative of the results of operations to be expected for the remainder of the year.

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 period.

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

Principles of Consolidation

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

Summary of Significant Accounting Policies

(a) Going Concern

During 2009, we continued to experience significant increases in non-performing assets and potential problem loans, particularly related to residential construction and land development. This resulted in a significant increase in our credit costs experienced. The increase in non-accrual loans has also resulted in margin compression as a result of accrued interest reversals and the lack of on-going interest recognition. Non-accrual loans increased from \$66.6 million at December 31, 2008 to \$137.3 million at December 31, 2009. This credit deterioration has resulted in significant net losses. Given the current economic conditions, we may continue to experience asset quality weakness and high levels of non-performing assets which could result in future negative earnings and financial condition pressures. However, we noted an improvement in the first quarter of 2010 as total non-performing assets decreased by 9.7% and non-accrual loans decreased by 20% or \$28.1 million, down to \$109.2 million at March 31, 2010 compared to December 31, 2009. In addition, we reported net earnings of \$3.1 million in the first quarter of 2010.

We are required by federal regulatory authorities to maintain adequate levels of capital to support our operations. As part of the recently issued Consent Order, from the FDIC and the DFI, which the members of our board of directors consented to issuance of on March 16, 2010 and which was signed on March 22, 2010 (the “Order”), we are also required to increase our capital and maintain certain regulatory capital ratios prior to certain dates specified in the Order.

We have also committed to the FDIC and the DFI to adopt a consolidated capital plan to augment and maintain a sufficient capital position. Our existing capital resources may not satisfy our capital requirements for

the foreseeable future and may not be sufficient to offset any problem assets. Further, should our asset quality erode and require significant additional provision for credit losses, resulting in net operating losses, our capital levels will decline. Consistent with the Order, we will attempt to raise capital to satisfy our agreements with the FDIC and the DFI. Our ability to raise additional capital will depend on conditions in the capital markets at that time, which are outside our control, and on our financial performance. Accordingly, we cannot be certain of our ability to raise additional capital on terms acceptable to us.

Depending on our ability to return to profitability, the level of capital raised and satisfaction of other aspects of the Order, the FDIC and DFI can institute other corrective measures and have broad enforcement powers to impose additional restrictions on operations. The conditions and events discussed above raise substantial doubt as to our ability to continue as a going concern.

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the discharge of liabilities in the normal course of business for the foreseeable future, and do not include any adjustments to reflect the possible future effects on the recoverability or classification of assets, and the amounts or classification of liabilities that may result from the outcome of any regulatory action including being placed into receivership or conservatorship.

To address the items contained in the Order, management has undertaken the following actions:

- hired an investment banker to raise approximately \$70 million in a private placement transaction of our convertible preferred stock. If this capital raise is successful, our management and board of directors believe the proceeds from such offering will be adequate to comply with the capital requirements of the Order. The securities being offered in the private placement will not be registered under the Act or any other state securities laws, and are being offered and sold pursuant to an exemption from the registration requirements of the Act and applicable state securities law;
- developed a plan to reduce assets classified as substandard as of September 30, 2009 in order to comply with the Order;
- created a written plan addressing the retention of profits and have a Board-approved budget for 2010;
- worked to develop written plans to reduce construction and land loan concentrations and to revise our liquidity and funds management policies; and
- intend to retain a third party to assess the Bank's leadership structure.

However, there can be no assurance that we will be able to comply fully with the provisions of the Order, or that efforts to comply with the Order will not have adverse effects on our ability to continue as a going concern.

These interim consolidated financial statements should be read in conjunction with the Bank's consolidated financial statements, and the notes thereto, included in its annual report on Form 10-K for the year ended December 31, 2009.

(b) Earnings (Loss) per Share

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

The following tables present a reconciliation of the components used to derive basic and diluted EPS for the periods indicated (dollars in thousands, except per share amounts):

	<u>Income(Loss) (Numerator)</u>	<u>Weighted Average Shares (Denominator)</u>	<u>Per share Amount</u>
Three Months Ended March 31, 2010			
Basic EPS – income available to common shareholders	\$ 3,109	15,885,115	\$ 0.20
Effect of dilutive securities – stock options	—	—	—
Diluted EPS – income available to common shareholders	<u>\$ 3,109</u>	<u>15,885,115</u>	<u>\$ 0.20</u>
Three Months Ended March 31, 2009			
Basic EPS – (loss) income available to common shareholders	\$(1,322)	9,794,507	\$(0.14)
Effect of dilutive securities – stock options	—	—	—
Diluted EPS – (loss) income available to common shareholders	<u>\$(1,322)</u>	<u>9,794,507</u>	<u>\$(0.14)</u>

(c) Share-Based Compensation

The Bank remunerates employees and directors through stock option compensation plans; the 1992 Stock Option Plan, Interim Stock Option Plan and the 2004 Equity Incentive Plan which are discussed below. The Bank adopted FASB Accounting Standards Codification (“ASC”) 718 “Compensation – Stock Compensation” (“ASC 718”), on January 1, 2006. Under this method, awards that are granted, modified or settled after December 31, 2005 are measured and accounted for in accordance with ASC 718. Also, under this method, expense is recognized for services attributed to the current period for unvested awards that were granted prior to January 1, 2006, based upon the fair value determined at the grant date under the previous guidance. ASC 718 also requires that cash flows resulting from the realization of tax deductions in excess of the compensation cost recognized (excess tax benefits) are to be classified as financing cash flows. The Bank recognized no excess tax benefits for the three months ended March 31, 2010 and 2009, respectively.

For the Bank’s stock option plans (see below for plan descriptions), compensation cost is based on the fair value of the underlying stock on the award date and is recognized over the requisite service period of the award. This was due to the exercise price of option grants being equal to or higher than the quoted market price of the Bank’s common stock on the grant date as provided under the intrinsic value method. Beginning in 2006 and thereafter, the Bank recognizes compensation expense based on the vesting period. For the three months ended March 31, 2010 and 2009, the Bank recognized \$351,000 and \$440,000 of share-based compensation expense with respect to these plans, respectively.

When options are exercised, the Bank’s policy is to issue new shares of stock. There was no cash received from options exercised under both plans for the three months ended March 31, 2010 and 2009, respectively.

1992 Stock Option Plan and Interim Stock Option Plan

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

In May 2003, April 2004 and June 2004, the Bank granted an additional 81,000, 48,000 and 150,000 stock options, respectively, to its employees and directors at exercise prices ranging from \$10.69 to \$19.01 per share under the Bank’s Interim Stock Option Plan (the “Interim Plan”) which expired in 2004. Even though the terms of these stock options are consistent with the terms of the stock options granted under its 1992 Plan, these stock options are outside of the 1992 Plan because they were granted after the 1992 Plan’s expiration.

There were no share options exercised during the three months ended March 31, 2010 and 2009. As of March 31, 2010, there was no compensation cost recognized that relates to options granted under the 1992 Plan and Interim Plans. The Bank did not recognize any tax benefits for the three months ended March 31, 2010 under the 1992 Plan and the Interim Plan.

2004 Equity Incentive Plan

The Bank's 2004 Equity Incentive Plan (the "2004 Plan") provides for granting of nonstatutory stock options and incentive stock options to key full-time employees, officers, and the directors of the Bank. Stock options granted under the 2004 Plan have an exercise price equal to the fair value of the underlying common stock on the date of grant. Stock options granted under the 2004 Plan generally vest in installments between 20-33% each year and become fully vested after three to five years and expire between four to ten 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 2004 Plan). There are 1,800,000 shares authorized under this plan.

For the three months ended March 31, 2010 and 2009, the Bank granted 0 and 79,000 options under the 2004 Plan, respectively. For the three months ended March 31, 2010 and 2009, the estimated weighted-average fair value of options granted under the 2004 Plan was \$0 per share and \$1.44 per share, respectively.

Historically, expected volatility was determined based on the historical daily volatility of a set of California peer banks whose shares are publicly available over a period equal to the expected term of the options granted, as a proxy for the Bank's historical daily volatility. Currently, the expected volatility is determined based on the historical daily volatility of the Bank's stock price over a period equal to the expected term of the options granted. The expected term of the options represents the period of time that options granted are expected to be outstanding and is calculated based on the "simplified" method. The Bank will continue to use the "simplified" method until it has enough historical experience to provide a reasonable estimate of expected term. The risk-free interest rate is based on the U.S. Treasury yield curve at the time of grant for a period equal to the expected term of the options granted. Dividend yield is computed over the four consecutive quarters preceding the date of grant.

There were no share options exercised during the three months ended March 31, 2010 and 2009. As of March 31, 2010, the total compensation cost not yet recognized that relates to unvested options granted under the 2004 Plan was \$1.6 million with a weighted-average recognition period of 1.59 years. The Bank did not recognize tax benefits for the three months ended March 31, 2010 under the 2004 Plan.

The following is a summary of the stock option activity under the 1992 Plan, the Interim Plan and 2004 Plan for the three months ended March 31, 2010:

	<u>Number of Shares</u>	<u>Weighted Average Exercise Price Per Share</u>	<u>Weighted Average Remaining Contractual Life (in years)</u>	<u>Aggregate Intrinsic Value</u>
1992 Plan and Interim Plan				
Options outstanding as of December 31, 2009	260,800	\$16.51		
First Quarter 2010				
Granted	—	—		
Exercised	—	—		
Forfeited or expired	—	—		
Options outstanding as of March 31, 2010	<u>260,800</u>	<u>\$16.51</u>	3.8	\$—

	<u>Number of Shares</u>	<u>Weighted Average Exercise Price Per Share</u>	<u>Weighted Average Remaining Contractual Life (in years)</u>	<u>Aggregate Intrinsic Value</u>
2004 Plan				
Options outstanding as of December 31, 2009	1,167,200	\$23.85		
First Quarter 2010				
Granted	—	—		
Exercised	—	—		
Forfeited or expired	<u>(16,500)</u>	<u>16.78</u>		
Options outstanding as of March 31, 2010	<u>1,150,700</u>	<u>\$23.87</u>	3.1	\$ —

The following is a summary of the transactions for non-vested stock options under the 1992 Plan, the Interim Plan and the 2004 Plan for the three months ended March 31, 2010:

	<u>Number of Shares</u>	<u>Weighted Average Grant Date Fair Value</u>
Non-Vested Options Outstanding as of December 31, 2009	494,651	\$ 4.26
First Quarter 2010		
Granted	—	\$ —
Forfeited or expired	(7,600)	\$(3.74)
Vested	<u>(110,336)</u>	<u>\$(5.89)</u>
Non-Vested Options outstanding as of March 31, 2010	<u>376,715</u>	\$ 9.23

Restricted Stock Awards

The Bank's 2004 Plan provides for granting of restricted stock awards ("RSAs") to key full-time employees, officers, and the directors of the Bank. The Bank began granting RSA's in calendar year 2009. During the three months ended March 31, 2010, the Bank granted 248,000 RSAs, of which 3,000 were forfeited. The RSAs granted under the 2004 Plan have a two year vesting period and are to be distributed at the end of the two year period. The total unrecognized compensation expense for outstanding RSAs was \$583,000 as of March 31, 2010, and will be recognized over 1.6 years.

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

	<u>Number of Shares</u>	<u>Weighted Average Grant Date Fair Value</u>
Non-Vested RSAs as of December 31, 2009	99,000	\$5.40
First Quarter 2010		
Granted	248,000	\$1.56
Forfeited or expired	(3,000)	\$5.40
Vested	<u>(3,000)</u>	<u>\$5.40</u>
Non-Vested RSAs outstanding as of March 31, 2010	<u>341,000</u>	\$2.61

(d) 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 unaudited interim financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from these estimates. The most significant estimate subject to change relates to the allowance for credit losses. The Bank made refinements in the assumptions for calculating its adequacy of allowance for credit losses as prescribed under Contingencies Topic of FASB ASC. In calculating the need for allowance levels based on historical losses, the Bank shortened its historical loss measurement period from seven years to four years during 2009. If the allowance is not adequate as of March 31, 2010 then additional losses could be realized in the remainder of 2010. The carrying value of other real estate owned; if real estate values deteriorate further then the Bank could suffer additional losses on the disposition of its other real estate owned. If estimates related to future cash flows used to determine fair value of investment securities is incorrect then the Bank could be subject to further other-than-temporary impairment charges. Finally, if the Bank does not return to sustained profitability within the prescribed time frame then the Bank will have to provide a valuation allowance against its deferred tax assets.

(e) Risk and Uncertainties

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

As of March 31, 2010 approximately 94% of the total dollar amount of the Bank's gross loans was related to collateral or borrowers located within California. Because the Bank's loan portfolio is concentrated in commercial and residential real estate, the performance of these loans may be affected by changes in California's economic and business conditions and the real estate market of Southern California. Deterioration in economic conditions could have a material adverse effect on the quality of the Bank's loan portfolio and the demand for its products and services. In addition, during periods of economic slowdown or a recession, the Bank may experience a decline in collateral values and an increase in delinquencies and defaults. A decline in collateral values such as that experienced in housing prices in 2008 and in 2009, and an increase in delinquencies and defaults increase the possibilities and severity of losses. California real estate is also subject to certain natural disasters, such as earthquakes, fires, floods and mudslides, as well as civil unrest, which are typically not covered by the standard hazard insurance policies maintained by borrowers. Uninsured disasters may render borrowers unable to repay loans made by the Bank and result in lower collateral values. The occurrence of adverse economic conditions or natural disasters in California could have a material adverse effect on the Bank's financial condition, results of operations, and business prospects.

(f) Segment Reporting

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

(g) Recently Issued Accounting Standards

In December 2009, the FASB issued ASU 2009-16, which codifies FASB Statement No. 166, Accounting for Transfers of Financial Assets into Codification Topic 860. ASU 2009-16 represents a revision to former

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

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

In August 2009, the FASB issued ASC Update No. 2009-05, "Fair Value Measurements and Disclosures (Topic 820)-Measuring Liabilities at Fair Value". This update provides amendments to FASB ASC 820, "Fair Value Measurements and Disclosures", for the fair value measurement of liabilities. This update also provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more of the following techniques: 1) A valuation technique that uses: a) the quoted price of the identical liability when traded as an asset, b) quoted prices for similar liabilities or similar liabilities when trades as assets, and 2) another valuation technique that is consistent with the principles of Topic 820. Two examples would be an income approach, such as a present value technique, or a market approach, such as a technique that is based on the amount at the measurement date that the reporting entity would pay to transfer the identical liability or would receive to enter into the identical liability. This update is effective for the first interim and annual periods beginning after August 28, 2009. The Bank's adoption of this guidance did not have a material effect on the Bank's consolidated financial statements.

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

(h) Off-Balance-Sheet Risks

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 but are instead in the nature of executor contracts.

Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some commitments expire without being drawn upon, the total commitment amounts do

not necessarily represent future cash requirements. Financial instrument transactions are subject to the Bank's 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 Bank requires collateral to support commitments when deemed necessary. The most significant categories of collateral include real estate properties underlying mortgage loans, liens on personal property and cash on deposit with the Bank.

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

The following table sets forth the Bank's commitments to fund loans and other financial instruments with off-balance-sheet risk as of March 31, 2010 and December 31, 2009:

	<u>March 31,</u> <u>2010</u>	<u>December 31,</u> <u>2009</u>
	(In thousands)	
Commitments to extend credit	\$202,680	\$199,430
Commercial letters of credit	3,843	1,009
Standby letters of credit	<u>12,297</u>	<u>7,639</u>
Total	<u>\$218,820</u>	<u>\$208,078</u>

The majority of loan commitments have terms up to one year and have variable rates of interest. Standby letters of credit have terms up to one year. Most standby letters of credit expire unused.

(i) Cash Dividend

On April 16, 2009, the Bank's Board of Directors elected to indefinitely suspend the Bank's cash dividend in order to preserve the Bank's capital. The dividend has not been re-instated as of March 31, 2010. In addition, pursuant to the Order, the Bank is prohibited from paying cash dividends or any other payments to its shareholders without the prior written consent of the FDIC and the DFI.

(j) Investments Securities

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

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

March 31, 2010					
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Non-credit other-than- temporary impairment	Estimated fair value
(In thousands)					
Corporate notes	\$ 22,677	\$ —	\$(1,844)	\$ —	\$ 20,833
Mortgage-backed securities	23,631	350	(23)	—	23,958
Municipal Securities	46,118	146	(2,029)	—	44,235
Collateralized debt obligations	3,516	—	—	(1,804)	1,712
Total securities available-for-sale	<u>\$ 95,942</u>	<u>\$ 496</u>	<u>\$(3,896)</u>	<u>\$(1,804)</u>	<u>\$ 90,738</u>

December 31, 2009					
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Non-credit other-than- temporary impairment	Estimated fair value
(In thousands)					
Corporate notes	\$ 26,564	\$ 54	\$(1,877)	\$ —	\$ 24,741
Mortgage-backed securities	25,002	229	(3)	—	25,228
Collateralized mortgage obligations	20,118	—	(2,002)	—	18,116
Municipal securities	46,348	122	(2,292)	—	44,178
Collateralized debt obligations	3,520	—	—	(1,319)	2,201
Total securities available-for-sale	<u>\$121,552</u>	<u>\$ 405</u>	<u>\$(6,174)</u>	<u>\$(1,319)</u>	<u>\$114,464</u>

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 March 31, 2010 and December 31, 2009 are as follows:

March 31, 2010						
	Less than 12 months		12 months or greater		Total	
	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses
(In thousands)						
Corporate notes	\$10,141	\$ (119)	\$10,692	\$(1,725)	\$20,833	\$(1,844)
Mortgage-backed securities	9,898	(23)	102	—	10,000	(23)
Municipal securities	11,760	(210)	17,085	(1,819)	28,845	(2,029)
Collateralized debt obligations	517	(588)	1,195	(1,216)	1,712	(1,804)
Total securities available-for-sale	<u>\$32,316</u>	<u>\$ (940)</u>	<u>\$29,074</u>	<u>\$(4,760)</u>	<u>\$61,390</u>	<u>\$(5,700)</u>

December 31, 2009						
	Less than 12 months		12 months or greater		Total	
	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses
(In thousands)						
Corporate notes	\$ 9,411	\$ (111)	\$10,648	\$(1,766)	\$20,059	\$(1,877)
Mortgage-backed securities	18,116	(2,002)	388	(3)	18,504	(2,005)
Municipal securities	11,394	(204)	16,821	(2,088)	28,215	(2,292)
Collateralized debt obligations	1,262	(982)	939	(337)	2,201	(1,319)
Total securities available-for-sale	<u>\$40,183</u>	<u>\$(3,299)</u>	<u>\$28,796</u>	<u>\$(4,194)</u>	<u>\$68,979</u>	<u>\$(7,493)</u>

The Bank's investment portfolio is primarily comprised of corporate notes, mortgage-backed securities, municipal securities, and collateralized debt obligations. Other than U.S. government agencies; Fannie Mae, and the Federal Home Loan Bank of San Francisco, ("FHLB"), the Bank has no exposure within its investment portfolio to any single issuer greater than 10% of equity capital.

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

The Bank owns four collateralized debt obligations ("CDO's") which consist of pools of bank trust preferred securities. As of March 31, 2010, the amortized cost of all four CDO's exceeded the fair value. The fair value was determined based on future expected cash flows which were estimated using a discount rate that is an interest rate that represents a market equivalent rate on a similarly-rated corporate security with a similar maturity date that trades in an active market. Added to that rate was an illiquidity premium of 300 basis points which determined the actual discount rate. Management then estimated the expected future defaults within the underlying pool of issuers which was based on taking the current deferrals/defaults in the pools and then determining which banks were likely to default in the future. This future expectation of defaults was based on the individual banks' Tier 1 leverage capital (compared to regulatory requirements), tangible common equity ("TCE") ratios and levels of non-performing assets compared to total assets. Based on this information, management would then make an assertion as to whether each bank issuer was likely to defer interest payments or default altogether. In addition to those specific defaults, management estimated an additional default rate of 1.0% annually for the first three years of the cash flow analysis and 0.5% thereafter. The difference of \$1.8 million between the amortized cost and the fair value of these CDO's was determined to be non-credit related OTTI and was reflected in accumulated other comprehensive loss. Management then proceeded to determine credit-related OTTI based on guidance of Investments – Debt and Equity Securities Topic of FASB ASC. In this analysis, management ran expected cash flows on all four securities using a discount rate that was equal to the accretable yield on all four securities and using the same default assumptions as described above. The result of this analysis indicated that none of these securities had credit-related OTTI during the three months ended March 31, 2010.

As of March 31, 2010, the Bank owned eight corporate securities where the amortized cost exceeded fair value. The total amortized cost of these securities was \$22.7 million and their fair value was \$20.8 million. Management performed a thorough analysis on all of the issuers of these securities which focused on the recent financial results of the companies, capital ratios and long-term prospects of the issuer and deemed the all eight corporate securities to be temporarily impaired.

The Bank owns 59 municipal investment securities. All but three carry an investment-grade rating. The Bank's strategy with respect to municipal bond investing is to provide liquidity and federal tax exempt interest income. Typically, the Bank buys general obligation ("GO") bonds and seek to minimize its investments in revenue bonds as GO bonds have multiple sources of revenue with which this debt can be serviced. The Bank also seeks to purchase municipal bonds that are insured by a major municipal bond insurer as an enhancement to credit. The Bank typically purchases municipal bonds that have at least an underlying rating of "A" or better. The size of the average investment security in the municipal portfolio is \$750,000. As of March 31, 2010, 26 of these issues with a total amortized cost of \$30.9 million were in an unrealized loss position. The unrealized loss on these 26 securities was \$2.0 million. Management determined that none of the municipal securities was other-than-temporarily impaired as of March 31, 2010. This determination was made based on several factors such as the Bank's intent and ability to hold the securities until a recovery in value and the determination that it is not more likely than not that the Bank will be required to sell the securities prior to recovery of amortized cost basis.

At March 31, 2010, there were 19 and 23 investment securities that were in an unrealized loss position for less than 12 months and for 12 months or greater, respectively. Unrealized losses related to corporate notes, non-agency mortgage-backed securities, and municipal securities are primarily attributable to declining market prices caused by lack of trading liquidity in these instruments and in the case of corporate notes and municipal bonds, resulted from increases in credit spreads between U.S. Treasuries and corporate and municipal bonds subsequent to the date that these securities were purchased. None of the securities in the Bank's investment portfolio rely on an insurance wrap as a credit enhancement. Management believes that it is not probable that the Bank will not receive all amounts due under the contractual terms of these securities. If economic conditions worsen, or if the financial condition of specific issuers within these portfolios deteriorates, then the Bank could record further OTTI charges in 2010 on specific investments within these portfolios.

Cash proceeds from sales of securities available-for-sale totaled \$19.7 million during the three months ended March 31, 2010. Gross realized gains on sales of securities available-for-sale totaled \$16,000 offset with gross realized losses of \$84,000 for the three months ended March 31, 2010. Investment securities having a fair value of approximately \$85.4 million and \$90.1 million were pledged to secure governmental deposits, treasury tax and loan deposits, borrowing line from the Federal Reserve Bank, and government deposits as of March 31, 2010 and December 31, 2009, respectively.

The amortized cost and estimated fair value of securities at March 31, 2010, by contractual maturity, are shown below. Mortgage-backed 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.

	March 31, 2010	
	Amortized cost	Estimated fair value
	(In thousands)	
Due in one year or less	\$ —	\$ —
Due after one year through five years	—	—
Due after five years through ten years	7,862	7,813
Due after ten years	<u>88,080</u>	<u>82,925</u>
Total securities available-for-sale	<u>\$95,942</u>	<u>\$90,738</u>

The following table provides a roll-forward of the amounts recognized in earnings for those debt securities that have been other-than-temporarily impaired because of credit losses which also have an other-than-temporary impairment due to non-credit factors recorded as a component of other comprehensive income (“OCI”) for the three months ended March 31, 2010 and March 31, 2009:

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

	Beginning Balance as of December 31, 2008	Additions for the amount related to the credit loss for which OTTI was not previously recognized	Reductions for Securities Sold	Reductions for securities for which the amount previously recognized in OCI was recognized in earnings	Additional increases to the amount related to credit loss for which OTTI loss was previously recognized	Reductions for increases in cash flows expected to be collected that are recognized over the remaining life of the security	Ending Balance as of March 31, 2009
(in thousands)							
Amounts related to credit losses on debt securities for which a portion of OTTI was recognized in OCI	\$1,149	\$ —	\$ —	\$ —	\$401	\$ —	\$1,550

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

The loans and leases portfolio, excluding loans held for sale, as of March 31, 2010 and December 31, 2009 are summarized as follows:

	March 31, 2010	December 31, 2009
(In thousands)		
Real estate-mini perm	\$551,951	\$ 565,273
Real estate-construction	168,749	202,187
Commercial	202,698	227,421
Trade finance	46,547	47,998
Other Loans	342	420
	<u>970,287</u>	<u>1,043,299</u>
Less:		
Allowance for loan and lease losses	(37,069)	(42,810)
Deferred loan and fees, net	846	585
	<u>\$934,064</u>	<u>\$1,001,074</u>

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

We had \$99.2 million and \$106.1 of impaired loans or leases at March 31, 2010 and December 31, 2009, respectively. The total allowance for loan and lease losses related to these loans and leases were \$12.1 million and \$10.6 million at March 31, 2010 and December 31, 2009, respectively. The average recorded investment on impaired loans and leases during the first quarter 2010 and 2009 was \$102.6 million, and \$101.8 million, respectively.

The Bank had \$109.2 million of nonaccrual loans and leases at March 31, 2010 compared to \$137.3 million at December 31, 2009. The Bank did not have any loans past due 90 or more days and still accruing interest as of March 31, 2010 compared to \$7.6 million in December 31, 2009.

Changes in the allowance for loan and lease losses are summarized as follows:

	<u>March 31,</u> <u>2010</u>	<u>December 31,</u> <u>2009</u>
	(In thousands)	
Balance at beginning of period	\$42,810	\$ 26,935
Provision for credit losses	—	71,250
Loans and leases charged off	(5,777)	(59,711)
Recoveries	<u>36</u>	<u>4,336</u>
Balance at end of year	<u>\$37,069</u>	<u>\$ 42,810</u>

(l) 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 affect upon the Bank's financial condition, results of operations, or business prospects.

(m) Fair Value

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 under the Financial Instruments Topic of FASB ASC, the fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

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

(i) 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.

(ii) Securities available-for-sale

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

(iii) Federal Home Loan Bank

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

(iv) Loans

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

Loans measured for impairment based on the fair value of the underlying collateral are considered recorded at fair value on a non-recurring basis. Impaired loans include all of the Bank's non-accrual loans and certain restructured loans, all of which are reviewed individually for the amount of impairment, if any. The fair value of each loan's collateral is generally based on estimated market prices from an independently prepared appraisal, which is then adjusted for the cost related to liquidating such collateral; such valuation inputs result in a nonrecurring 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, 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.

(v) Loans held for sale

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

(vi) 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.

(vii) Deposits

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

(viii) FHLB Borrowings and Senior Debt

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

(vii) Commitment to Extend Credit and Letters of Credit

The majority of the Bank's 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.

	<u>March 31, 2010</u>		<u>December 31, 2009</u>	
	<u>Carrying amount</u>	<u>Estimated fair value</u>	<u>Carrying amount</u>	<u>Estimated fair value</u>
	(In thousands)			
Assets:				
Cash and cash equivalents	\$222,011	\$222,011	\$ 68,071	\$ 68,071
Securities available-for-sale	90,738	90,738	114,464	114,464
Loans, net of allowance and net deferred loan fees	934,064	944,440	1,001,074	1,001,058
Loans held for sale	10,333	10,333	—	—
Accrued interest receivable	5,458	5,458	5,582	5,582
FHLB stock	4,996	4,996	4,996	4,996
Liabilities:				
Demand deposits and savings:				
Noninterest-bearing	\$233,136	\$233,136	\$ 204,545	\$ 204,545
Interest-bearing	174,795	174,793	163,201	163,820
Time deposits	823,030	823,030	792,666	795,967
FHLB borrowings and Senior Debt	48,996	49,049	48,996	49,033
Accrued interest payable	2,169	2,169	2,949	2,949
Off-balance sheet financial instruments				
Commitments to extend credit and letters of credit	64	64	217	217

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

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

In April 2009, the FASB issued new standard that provides guidance on how to determine fair value when the volume and level of activity for the asset or liability have significantly decreased when compared with normal market activity for the asset or liability. This standard also provides additional authoritative guidance in determining whether a market is active or inactive, and whether a transaction is distressed. This guidance is effective for interim periods ending after June 15, 2009, but early adoption is permitted for interim periods ending after March 15, 2009. The Bank early adopted the provisions of this standard during the first quarter of 2009.

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:

U.S. Government Agencies – The Bank measures fair value of U.S. Government agency securities by using quoted market prices for similar securities or dealer quotes, a level 2 measurement.

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

Municipal securities – The Bank measures fair value of state and municipal securities by using quoted market prices for similar securities or dealer quotes, a level 2 measurement.

Mortgage-backed securities – The Bank measures fair value of mortgage-backed securities by using quoted market prices for similar securities or dealer quotes, a level 2 measurement.

Collateralized mortgage obligations – The Bank measures fair value of collateralized mortgage obligations by using quoted market prices for similar securities or dealer quotes, a level 2 measurement.

Collateralized debt obligations – The Bank uses a discounted cash flow analysis to determine the fair value of the four collateralized debt obligations which is level 3 measurement. The discount rate is determined by using a market interest rate for a similarly rated single issuer corporate security using loss rates determined by the financial health of the underlying issuer banks in each pool. See “Notes to Interim Consolidated Financial Statements (Unaudited) – (j) *Investment Securities*.”

Equity investments – The Bank measures the fair value of agency preferred equity investments by using quoted market prices for similar securities or dealer quotes at the reporting date, a level 2 measurement.

The following tables present the Bank’s hierarchy for its assets and liabilities measured at fair value on a recurring basis at March 31, 2010, December 31, 2009 and March 31, 2009:

(In thousands)	At March 31, 2010 Fair Value Measurements Using			At March 31, 2010
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Assets				
Securities, available-for-sale:				
Corporate notes	—	20,833	—	20,833
Mortgage-backed securities	—	23,958	—	23,958
Municipal securities	—	44,235	—	44,235
Collateralized debt obligations	—	—	1,712	1,712
Total	\$—	\$89,026	\$1,712	\$90,738

(In thousands)	At December 31, 2009 Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	At December 31, 2009
Assets				
Securities, available-for-sale:				
Corporate notes	\$ —	\$ 24,741	\$ —	\$ 24,741
Mortgage-backed securities	—	25,228	—	25,228
Collateralized mortgage obligations	—	18,116	—	18,116
Municipal securities	—	44,178	—	44,178
Collateralized debt obligations	—	—	2,201	2,201
Total	\$ —	\$112,263	\$2,201	\$114,464

(In thousands)	At March 31, 2009 Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	At March 31, 2009
Assets				
Securities, available-for-sale:				
U.S. Government agencies	\$ —	\$ 6,309	\$ —	\$ 6,309
Corporate notes	—	20,128	—	20,128
Residential mortgage-backed securities	—	14,143	—	14,143
Collateralized mortgage obligations	—	3,222	—	3,222
Municipal securities	—	43,121	—	43,121
Collateralized debt obligations	—	—	2,367	2,367
Equity investment	—	99	—	99
Total	\$ —	\$ 87,022	\$2,367	\$ 89,389

The following tables present the Bank's reconciliation and income statement classification of gains and losses for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended March 31, 2010 and March 31, 2009:

	For three months ended March 31, 2010 Fair Value Measurements Using Significant Unobservable Inputs (Level 3)				
	(In thousands)				
	Beginning Balance as of December 31, 2009	Purchases, Issuance and Settlements	Realized Gains or Losses in Earnings (Expense)	Unrealized Gains or Losses in Other Comprehensive Income	Ending Balance as of March 31, 2010
ASSETS:					
Securities, available-for-sale:					
Collateral debt obligations	\$2,201	\$ —	\$ —	\$(489)	\$1,712

	For three months ended March 31, 2009 Fair Value Measurements Using Significant Unobservable Inputs (Level 3)				
	(In thousands)				
	Beginning Balance as of December 31, 2008	Purchases, Issuance and Settlements	Realized Gains or Losses in Earnings (Expense)	Unrealized Gains or Losses in Other Comprehensive Income	Ending Balance as of March 31, 2009
ASSETS:					
Securities, available-for-sale:					
Collateral debt obligations	\$2,075	\$ —	\$(181)	\$ 473	\$2,367

Impaired loans – On a non-recurring basis, the Bank measures the fair value of impaired collateral dependent loans based on fair value of the collateral value which is derived from appraisals that take into consideration prices in observable transactions involving similar assets in similar locations in accordance with Receivables Topic of FASB ASC covering loan impairments. Impaired loans held for sale that have a sales contract are considered a Level 1 measurement. Collateral value determined based on recent independent appraisals are considered a Level 2 measurement. Collateral values based on unobservable inputs that are supported by little or no market data and less current appraisals are considered a Level 3 measurement.

Other real estate owned – Real estate acquired in the settlement of loans is initially recorded at fair value, less estimated costs to sell. The Bank records other real estate owned at fair value on a non-recurring basis. However, from time to time, nonrecurring fair value adjustments to other real estate owned are recorded based on current appraisal value of the property, a Level 2 measurement, or management’s judgment and estimation based on reported appraisal value, a Level 3 measurement.

The following tables present the Bank’s hierarchy for its assets measured at estimated fair value on a nonrecurring basis through the three months ended March 31, 2010 and March 31, 2009, and the total losses resulting from these fair value adjustments for the three months ended March 31, 2010:

Assets Measured at Fair Value on a Non-Recurring Basis
(In thousands)

	At March 31, 2010				Three Months Ended March 31, 2010
	Level 1	Level 2	Level 3	Total	Total Losses
Assets					
Impaired loans	\$ —	\$62,178	\$ 6,299	\$ 68,477	\$ 550
Other real estate owned	—	—	66,145	66,145	1,389
Total Assets	\$ —	\$62,178	\$72,444	\$134,622	\$1,939

Assets Measured at Fair Value on a Non-Recurring Basis
(In thousands)

	At March 31, 2009			Total at Fair Value
	Level 1	Level 2	Level 3	
Assets				
Impaired loans	\$ —	\$38,745	\$18,619	\$ 57,364
Other real estate owned	\$ —	\$14,911	\$28,121	\$ 43,032
Total Assets	\$ —	\$53,656	\$46,740	\$100,396

(n) Senior Debt

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

(o) Regulatory Matters

As discussed above, on March 16, 2010, the members of the board of directors of the Bank consented to the issuance of Order”) from the FDIC and the DFI. The Order among other things, requires that the Bank (i) have and maintain qualified management and notify the FDIC and the DFI in writing when it proposes to make any changes in its Board of Directors or senior executive officers at least 30 days prior to the date any change is to become effective, (ii) requires that the Bank must develop and adopt a plan to meet and maintain the capital requirements contained in the order and the FDIC’s Statement of Policy on Risk-Based Capital. The Order also prohibits the Bank from paying cash dividends or making any other payments to its shareholders. without prior written consent of the FDIC and the DFI, (iii) reduce classified assets to not more than 50% of the Bank’s Tier 1 capital and ALLL within 270 days of the Order, (iv) reduce concentrations of construction and land loans, (v) adopt an enhanced written liquidity management policy and adopt a written plan which addresses profit retention, and (vi) submit quarterly progress reports detailing actions taken to comply with the Order.

The minimum capital ratios and the dates by which such capital ratios must be obtained are set forth in the table below:

<u>Ratio</u>	<u>Preferred Bank as of 3/31/10</u>	<u>Requirement as of 7/20/10</u>	<u>Requirement as of 9/17/10</u>
Tier 1 Leverage Ratio	6.68%	8.5%	10.0%
Tangible Common Equity Ratio	6.57%	8.5%	10.0%
Total Risk-Based Capital Ratio	9.30%	10.0%	12.0%

The board of directors and management are committed to addressing and resolving the matters raised in the Order on a timely basis and actions have already been undertaken to comply with each requirement.

On February 9, 2010, the Bank was notified by the FDIC that the Bank was ‘adequately capitalized’ as of December 31, 2009 based on the capital ratios contained in the Bank’s Call Report as of December 31, 2009 which was filed on January 28, 2010. An amended Call Report was filed on April 20, 2010 and the Bank’s capital ratios remained in the adequately capitalized category.

The Bank utilizes a variety of funding sources in conducting its operations, including the use of “brokered deposits” as defined by banking regulators. Such brokered deposits and Certificate of Deposit Account Registry Service deposits (“CDARS”) totaled \$168.9 million at March 31, 2010. During the fourth quarter of 2009, due to the fact that the Bank was no longer considered to be well-capitalized, the Bank was no longer allowed to access the brokered deposit market which also includes the CDARS reciprocal deposits. As such, the Bank will not renew any of these brokered deposits and will let all of them mature during the course of 2010, 2011 and 2012. To prepare for this, the Bank has accumulated \$222 million in cash as of March 31, 2010 in order to have ample liquidity to pay out these maturing brokered CD’s.

(p) Stock Offering

On July 24, 2009, the Bank commenced a rights offering and concurrent public offering of up to \$10 million of the Bank’s common stock, no par value, to its existing shareholders. Each right entitled the holder to purchase its pro rata allocation of shares of the Bank’s common stock at the subscription price of \$2.88 per share. The Bank had the right, in its sole discretion, to increase the number of shares offered by up to an additional 10% of the offering amount. The rights offering was over-subscribed and the Bank received approval from the DFI to issue additional shares.

On September 9, 2009, the Bank completed its rights offering and concurrent public offering. The Bank issued 5,912,919 shares of its common stock in exchange for approximately \$17.0 million.

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

(q) Subsequent Events

The Bank has evaluated events and transactions subsequent to the balance sheet date. Based on this evaluation, the Bank is not aware of any events or transactions that occurred subsequent to the balance sheet date but prior to filing that would require recognition or disclosure in its consolidated financial statements.

Appendix D

Management's Discussion and Analysis of Financial Condition and Results of Operations, as included in our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2010 (includes additional information regarding our Federal Home Loan Bank advances filed with the FDIC on June 23, 2010, under Item 8.01 of Form 8-K)

Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

Certain matters discussed in this report may constitute forward-looking statements within the meaning of Section 27A of the 1933 Act and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and as such, may involve risks and uncertainties. These forward-looking statements relate to, among other things, expectations of the environment in which we operate and projections 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. For discussion of some of the factors that might cause such differences, see our 2009 Annual Report on Form 10-K as filed with the FDIC under the heading "Item 1A. RISK FACTORS – Risk Factors That May Affect Future Results." 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.

The following discussion provides information about our results of operations, financial condition, liquidity, and capital resources. This information is intended to facilitate the understanding and assessment of significant changes and trends related to our financial condition and the results of operations. This discussion and analysis should be read in conjunction with our unaudited interim financial statements and the accompanying notes presented elsewhere herein.

Overview

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

We commenced operations in December 1991 as a California state-chartered bank in Los Angeles, California. Our deposits are insured by the FDIC. We are a member of the FHLB. At March 31, 2010, our total assets were \$1.4 billion, loans and leases including loans held for sale were \$980.6 million, deposits were \$1.2 billion and shareholders' equity was \$90.7 million. We had net earnings per share on a diluted basis of \$0.20 for the three months ended March 31, 2010 as compared to net loss of \$0.14 per share for the three months ended March 31, 2009. The loss in 2009 was due to a provision for loan loss of \$6.6 million. As a result of the loss incurred in 2009 and pursuant to the regulatory requirements discussed below, we intend to seek to raise capital in an effort to increase our capital ratios. In addition we have worked successfully and continue to work diligently to reduce our levels of non-performing assets which contributed significantly to our losses in 2009.

We provide personalized deposit services as well as real estate finance, commercial loans and trade finance to small and mid-sized businesses and their owners, entrepreneurs, real estate developers and investors, professionals and high net worth individuals. We are generally focused on businesses as opposed to retail customers and have a small number of customer relationships for whom we provide a high level of service and personal attention. We believe we have benefited, and will continue to benefit from the significant migration to Southern California of ethnic Chinese from China and other areas of East Asia. While our business is not solely dependent on the Chinese-American market, it represents an important element of our operating strategy, especially for our branch network and deposit products and services.

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

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

As a result of the rapid slowdown in the real estate market and deteriorating economic conditions, the Bank incurred a net operating loss in 2009 due to significant credit quality issues. If general economic conditions and the real estate market do not show signs of sustained recovery, these trends could continue. Our national economy and California in particular are in the midst of a recovery from an unprecedented recession that has its roots in real estate values. As a result, management's primary focus during 2010 will remain on credit quality, capital preservation and liquidity management.

Net income for the first quarter of 2010 totaled \$3.1 million, compared to net loss of \$1.3 million in the first quarter last year, an increase in net income of \$4.4 million. Diluted earnings per share for the first quarter of 2010 was \$0.20 compared to loss per share of \$0.14 in the first quarter of 2009. Net income for the quarter was mainly due to a provision for loan losses of \$6.6 million taken in the first quarter of 2009 and no provision was taken for the first quarter of 2010.

For the first quarter of 2010, return (loss) on average assets was 0.91%, up from (0.36)% in the same period in 2009, while return (loss) on average equity was 14.46% for the first quarter of 2010, compared to (3.86)% a year ago.

Our loan portfolio decreased to \$980.6 million at March 31, 2010, from \$1.043 billion at December 31, 2009. At March 31, 2010, assets totaled \$1.381 billion, an increase of \$74.6 million, or 5.7% from \$1.307 billion at December 31, 2009.

At March 31, 2010, deposits totaled \$1.231 billion, increasing \$70.5 million, or 6.1% from \$1.160 billion at December 31, 2009.

Non-performing assets were \$184.6 million as of March 31, 2010 compared to \$204.4 million as of December 31, 2009. This was due to an increase in the dollar amount of non-accrual residential and commercial construction and land loans since the end of 2008 as the real estate market in certain areas of Southern California continues to deteriorate. See discussion of non-performing assets later in this filing for detail about our non-performing assets.

At March 31, 2010, the Bank had a Tier 1 leverage ratio of 6.68%, Tier 1 risk-based capital of 8.02%, and a total risk-based capital ratio of 9.30%. As previously mentioned, we are in the process of seeking to raise additional capital in order to comply with the Order.

Regulatory Matters

Consent Order

On March 16, 2010, the members of the board of directors of the Bank consented to the issuance of the Order from the FDIC and the DFI. The following discussion summarizes the provisions of the Order issued on March 22, 2010:

(i) we must have and maintain qualified management and notify the FDIC and the DFI in writing when it proposes to make any changes in its board of directors or senior executive officers at least 30 days prior to the date any change is to become effective;

(ii) within 120 days of the Order, we must obtain an independent study of our management and personnel structure to determine whether our leadership structure is appropriate;

(iii) the board of directors must increase its participation in the affairs of the Bank, assuming full responsibility for the approval of sound policies and objectives and for the supervision of all of our activities;

(iv) within 60 days of the Order, we must develop and adopt a plan to meet and maintain the capital requirements contained in the Order and the FDIC's Statement of Policy on Risk-Based Capital. The minimum capital ratios and the dates by which such capital ratios must be obtained are set forth in the table below:

<u>Ratio</u>	<u>Preferred Bank as of 3/31/10</u>	<u>Requirement as of 7/20/10</u>	<u>Requirement as of 9/17/10</u>
Tier 1 Leverage Ratio	6.68%	8.5%	10.0%
Tangible Common Equity Ratio	6.57%	8.5%	10.0%
Total Risk-Based Capital Ratio	9.30%	10.0%	12.0%

(v) if all or part of the increase in capital required by the Order is accomplished by the sale of new securities, our board of directors must adopt and implement a plan for such sale; any offering materials must include an accurate description of our financial condition and the circumstances giving rise to the offering; and the plan for the offering and any materials must be submitted to the FDIC for review and non-objection and to the DFI for any permits or approvals;

(vi) we must not pay cash dividends or make any other payments to its shareholders without prior written consent of the FDIC and the DFI;

(vii) within 270 days of the Order, we must reduce the assets classified as "Substandard" as of September 30, 2009, to not more than 50% of the Bank's Tier 1 capital and ALLL;

(viii) within 60 days of the Order, we must develop or revise, adopt and implement a written plan for systematically reducing the amount of loans or other extensions of credit advanced, directly or indirectly, to or for the benefit of, any borrowers in the "commercial real estate" concentration, with particular emphasis on those borrowers in the construction and land development area;

(ix) within 60 days of the Order, we must develop or revise, adopt and implement a written liquidity and funds management policy that adequately addresses liquidity needs and appropriately reduces its reliance on non-core funding sources;

(x) within 30 days of the Order, we must develop or revise, adopt, and implement a written plan addressing retention of profits, reducing overhead expenses, and setting forth a comprehensive budget covering the calendar year ending December 31, 2010, and thereafter, at least 30 days prior to the commencement of each subsequent calendar year, the board of directors must develop, adopt, and implement a plan and comprehensive budget covering the subsequent calendar year.

To address the items contained in the Order, management has undertaken the following actions:

- hired an investment banker to raise approximately \$70 million in a private placement transaction of our convertible preferred stock. If this capital raise is successful, our management and board of directors believe the proceeds from such offering will be adequate to comply with the capital requirements of the Order. The securities being offered in the private placement will not be registered under the Act or any other state securities laws, and are being offered and sold pursuant to an exemption from the registration requirements of the Act and applicable state securities law;
- made substantial progress in reducing assets classified as substandard as of September 30, 2009 levels in order to comply with item (vii) described in the Order summary above;
- created a written plan addressing the retention of profits and have a Board-approved budget for 2010;
- worked to develop written plans to reduce construction and land loan concentrations and to revise our liquidity and funds management policies; and
- intend to retain a third party to assess the Bank's leadership structure.

Critical Accounting Policies

Our accounting policies are integral to understanding the financial results reported. Our 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 current accounting policies involving significant management valuation judgments.

Allowance for Loan and lease Losses

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

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

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

The allowance adequacy analysis requires a significant amount of judgment and subjectivity by management especially in regards to the qualitative portion of the analysis. We cannot provide you with any assurance that further economic difficulties or other circumstances which would adversely affect our borrowers

and their ability to repay outstanding loans and leases will not occur. These difficulties or other circumstances could result in increased losses in our loan and lease portfolio, which could result in actual losses that exceed reserves previously established.

Investment Securities

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

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

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

We re-examine the financial resources, intent and our overall ability to hold the securities until their fair values recover. Management does not believe that there are any investment securities, other than those identified in the current and previous periods, which are deemed to be “other-than-temporarily” impaired as of March 31, 2010.

Income Taxes

We account 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 our assets and liabilities at enacted tax rates expected to be in effect when such amounts are realized or settled. A valuation allowance is established for deferred tax assets if based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The valuation allowance is sufficient to reduce the deferred tax assets to the amount that is more likely than not to be realized.

Results of Operations

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

	Three Months Ended March 31,	
	2010	2009
	(Dollars in thousands, except per share amounts)	
Net income (loss)	\$3,109	\$(1,322)
Net income (loss) per share, basic	\$ 0.20	\$ (0.14)
Net income (loss) per share, diluted	\$ 0.20	\$ (0.14)
Return on average assets (annualized)	0.91%	(0.36)%
Return on average shareholders' equity (annualized)	14.46%	(3.86)%

	Three Months Ended March 31,		Increase (Decrease)
	2010	2009	
	(Dollars in thousands, except per share amounts)		
Statement of Operations Data:			
Interest income	\$13,895	\$16,926	\$(3,031)
Interest expense	4,201	7,222	(3,021)
Net interest income	9,694	9,704	(10)
Provision for credit losses	—	6,550	(6,550)
Net interest income after provision for loan and lease losses	9,694	3,154	6,540
Noninterest income	759	1,278	(519)
Noninterest expense	7,344	6,583	761
Income (loss) before income taxes	3,109	(2,151)	5,260
Income tax (benefit) expense	—	(829)	829
Net income (loss)	<u>\$ 3,109</u>	<u>\$(1,322)</u>	<u>\$ 4,431</u>
Net earnings (loss) per share, basic	<u>\$ 0.20</u>	<u>\$ (0.14)</u>	<u>\$ 0.34</u>
Net earnings (loss) per share, diluted	<u>\$ 0.20</u>	<u>\$ (0.14)</u>	<u>\$ 0.34</u>

Net income for the three months ended March 31, 2010 was \$3.1 million, or \$0.20 per share on a diluted basis, compared to net loss of \$1.3 million, or \$(0.14) per share on a diluted basis for the three months ended March 31, 2009. Return (loss) on average assets was 0.91% and return (loss) on average shareholders' equity was 14.46% for the three months ended March 31, 2010, compared to (0.36)% and (3.86)%, respectively, for the three months ended March 31, 2009.

The increase in net income in the first quarter of 2010 compared to 2009 is due to the provision for credit losses recorded in 2009, there was no provision recorded at March 31, 2010. Average yields on earning assets

decreased to 4.38% during the first quarter of 2010 compared to 4.98% in the same period last year while average rates paid on interest-bearing liabilities decreased to 1.61% in the first quarter of 2010 from 2.58% during 2009. The net interest margin increased to 3.08% during the first quarter of 2010 from 2.88% for the same period last year. This was due primarily to a decrease in total loans and a decrease in the interest rates paid on all deposit types. During the first quarter of 2010, four loans that were on nonaccrual status as of December 31, 2009 were returned to accrual status which resulted in an additional interest income of \$1.3 million.

As of March 31, 2010, 81.0% of our loan portfolio was tied to the Prime Rate, which has the potential to reprice daily, and 11.1% was tied to the London Interbank Offering Rate, (“LIBOR”), or other indices, which reprice periodically. Approximately 72.6% of our loan portfolio had a floor interest rate at various levels, which can provide us with protection in a falling interest rate environment should the Prime Rate decline to a level below the interest rate floor. Approximately 2.2% of our loan portfolio had interest rate ceilings at various rates limiting the amount of interest rate increases that can be passed on to the borrower.

Net Interest Income and Net Interest Margin

Net interest income before provision for credit losses stayed relatively flat at \$9.7 million for the three months ended March 31, 2010 compared to the same quarter in the prior year. Our balance sheet is considered to be ‘asset sensitive’, that is, our interest earning assets reprice to market interest rates faster than our interest-bearing liabilities so that when overall interest rates decrease, our net interest margin decreases as well. Our net interest margin increased 19 basis points for the three months ended March 31, 2010, compared to the first quarter of 2009 due to lower loan totals and a decrease in non-accrual loans.

The cost of average interest-bearing liabilities decreased to 1.61% for the three months ended March 31, 2010 from 2.58% for the three months ended March 31, 2009. This decrease was due to our lowering of interest rates paid on all types of deposits, which is the result of lower market rates.

The average yield on interest-earning assets decreased to 4.38% in the three months ended March 31, 2010 from 4.98% in the three months ended March 31, 2009. The decrease was mainly due to lower rates earned on loans and investment securities and an increase in loans on non-accrual status. Interest income, interest expense, net interest income, and net interest margin are all influenced by the distribution of assets and liabilities and the income earned and costs incurred on such assets and liabilities.

The following table presents, for the periods indicated, the information regarding the distribution of average assets, liabilities and shareholders' equity, as well as the net interest income from average interest-earning assets and the resulting yields expressed in percentages. Non-accrual loans are included in the calculation of average loans and leases while non-accrued interest thereon is excluded from the computation of yields earned.

	Three Months Ended March 31,					
	2010			2009		
	Average Balance	Interest Income or Expense	Average Yield or Cost	Average Balance	Interest Income or Expense	Average Yield or Cost
(Dollars in thousands)						
ASSETS						
Interest-earning assets:						
Loans and leases ⁽¹⁾	\$1,022,551	\$12,437	4.93%	\$1,224,181	\$15,161	5.02%
Investment securities ⁽²⁾⁽³⁾	105,328	1,603	6.17%	118,083	1,961	6.74%
Federal funds sold	1,742	1	0.13%	49,457	32	0.26%
Other earning assets ⁽⁴⁾	178,003	80	0.18%	5,932	—	0.00%
Total interest-earning assets	\$1,307,624	14,121	4.38%	\$1,397,653	\$17,154	4.98%
Deferred loan fees, net	659			(69)		
Allowance for loan losses	(42,757)			(26,869)		
Noninterest earning assets:						
Cash and due from banks	4,449			23,411		
Bank furniture and fixtures	6,195			7,239		
Other assets	107,271			86,778		
Total assets	\$1,383,441			\$1,488,143		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Interest-bearing liabilities:						
Deposits:						
Interest-bearing demand/savings	\$ 165,772	\$ 224	0.55%	\$ 191,311	\$ 444	0.94%
TCD \$100K or more	358,497	1,490	1.69%	473,128	3,379	2.90%
Other time certificates	485,647	2,060	1.72%	397,444	2,720	2.78%
Total interest-bearing deposits	1,009,916	3,774	1.52%	1,061,883	6,543	2.50%
Short-term borrowings	—	—	0.00%	5	—	0.50%
Long-term debt	48,996	427	3.53%	72,153	679	3.81%
Total interest-bearing liabilities	1,058,912	4,201	1.61%	1,134,041	7,222	2.58%
Non-interest bearing liabilities:						
Demand deposits	222,723			195,527		
Other liabilities	14,633			19,791		
Total liabilities	1,296,268			1,349,359		
Shareholders' equity	87,173			138,784		
Total liabilities and shareholders' equity	\$1,383,441			\$1,488,143		
Net interest income		\$ 9,920			\$ 9,932	
Net interest spread			2.77%			2.40%
Net interest margin			3.08%			2.88%

(1) Includes non-accrual loans and leases.

(2) Yields on tax-exempt income have been computed on a tax-equivalent basis, using effective marginal rate of 42.05%.

(3) Yields on available for sale securities have been calculated using fair value rather than historical cost. The use of fair value does not have a material impact on the yield.

(4) Includes Federal Reserve Bank account and FHLB stock.

In addition to the distribution, yields and costs of assets and liabilities, net income is also affected by changes in the volume of and rates on 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.

	Three Months Ended March 31, 2010 Compared to Three Months Ended March 31, 2009		
	<u>Net Change</u>	<u>Rate</u>	<u>Volume</u>
	(In thousands)		
Interest income:			
Loans and leases	\$(2,724)	\$ (267)	\$(2,457)
Investment securities	(358)	(156)	(202)
Federal funds sold	(31)	(11)	(20)
Other earning assets	80	80	—
Total interest income	(3,033)	(354)	(2,679)
Interest expense:			
Interest-bearing demand	(13)	(26)	13
Money market	(48)	(26)	(22)
Savings	(160)	(106)	(54)
Time certificates of deposit	(2,549)	(2,375)	(174)
Short-term borrowings	—	—	—
Long-term debt	(251)	(47)	(204)
Total interest expense	(3,021)	(2,580)	(441)
Net interest income	<u>\$ (12)</u>	<u>\$ 2,226</u>	<u>\$(2,238)</u>

Provision for Credit Losses

In response to the credit risk inherent in our lending business and the recent ongoing financial crisis, we set aside allowances for loan losses through charges to earnings. Such charges are made for our outstanding loan portfolio and certain off-balance sheet items, such as commitments to extend credits or letters of credit. The charges made for our outstanding loan portfolio were credited to allowance for loan losses, whereas charges for off-balance sheet items were credited to the reserve for off-balance sheet items, which is presented as a component of other liabilities. For further discussion, please see *Allowance for Credit Losses* below.

We did not record a provision for credit losses for the three months ended March 31, 2010, compared to a provision for credit losses of \$6.6 million recorded for the three months ended March 31, 2009. The provision for credit losses during 2009 was due to a higher level of classified loans and non-performing loans at March 31, 2009 compared to March 31, 2010 and was the result of the application of management's established allowance for loan and lease loss adequacy calculation. During the course of the last year, we have made refinements in the assumptions for calculating our adequacy of allowance for loan losses as prescribed under Contingencies Topic of FASB ASC. In calculating the need for allowance levels based on historical losses, we shortened its historical loss measurement period from seven years to three years starting in third quarter of 2009. Also, we have augmented the qualitative factors used in calculating allowance levels, such as the mix of the loan portfolio, local and national economic conditions, changes in capabilities and experience of lending management and staff and other external factors including industry conditions, competition and regulatory requirements. Non-performing loans decreased from \$145.3 million as of December 31, 2009 to \$118.4 million as of March 31, 2010. This was primarily the result of \$31.4 million in loans either returning to accrual status or becoming current on their payments, \$10.7 million in nonaccrual loans transferred to OREO and \$5.8 million in loans either sold or charged off partially offset by the addition of \$8.8 million in troubled debt restructurings and \$23.7 million in additional nonaccrual loans. The ratio of allowance for loan losses to total loans decreased from 4.10% of total loans at December 31, 2009 to 3.82% at March 31, 2010. Management believes that through the application of the

methodology's quantitative and qualitative components, that the provision and overall level of reserve is adequate for losses estimated to be inherent in the portfolio as of March 31, 2010. For details on the non-performing loans, please see the table under *Non-Performing Assets*.

Noninterest Income

We earn noninterest income primarily through fees related to:

- services provided to deposit customers;
- services provided in connection with trade finance; and
- services provided to current loan customers.

In addition, we may earn rental income from OREO property, income from increases in the cash surrender value of bank owned life insurance policies, ("BOLI"), and sale of investment securities.

The following tables present, for the periods indicated, the major categories of noninterest income:

	Three Months Ended March, 31		Increase (Decrease)
	2010	2009	
	(In thousands)		
Service charges and fees on deposit accounts	\$491	\$ 549	\$ (58)
Trade finance income	109	125	(16)
Increase in cash surrender value of life insurance	81	78	3
Net (loss) gain on sale of investment securities	(68)	460	(528)
Other income	146	66	80
Total noninterest income	<u>\$759</u>	<u>\$1,278</u>	<u>\$(519)</u>

Noninterest income for the three months ended March 31, 2010 decreased \$519,000 to \$759,000 compared to \$1,278,000 from the corresponding period in 2009. The decrease in noninterest income this quarter compared to the first quarter of 2009 was primarily due to a gain on sale of investment securities of \$460,000 in the first quarter of 2009.

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 business.

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

	Three Months Ended March 31,		Increase (Decrease)
	2010	2009	
	(In thousands)		
Salaries and employee benefits	\$2,184	\$ 2,128	\$ 56
Net occupancy expense	850	839	11
Business development and promotion expense	35	46	(11)
Professional services	939	877	62
Office supplies and equipment expense	305	317	(12)
Total other-than temporary impairment losses	—	4,774	(4,774)
Portion of loss recognized in other comprehensive income	—	(4,349)	4,349
Loss on sale of OREO and related expense	1,140	613	527
Other expense	1,891	1,338	553
Total noninterest expense	<u>\$7,344</u>	<u>\$ 6,583</u>	<u>\$ 761</u>

Total noninterest expense was \$7.3 million for the three months ended March 31, 2010, compared to \$6.6 million for the corresponding period of 2009. Salaries and benefits expense increased by \$56,000 from the first quarter of 2009 due primarily to a decrease in capitalized loan origination costs partially offset by a decrease in salaries due to staff reductions. Occupancy expense was relatively flat at \$850,000 for the first quarter of 2010 compared to \$839,000 for the first quarter of 2009. Professional services expense increased to \$939,000 compared to \$877,000 for the first quarter in 2009 due primarily to an increase in legal costs associated with non-performing loans. Credit-related OTTI charges were \$0 for the first quarter of 2010 compared to \$425,000 for the same period last year. OREO related expenses totaled \$1.1 million for the first quarter of 2010 (consisting of \$1.2 million in valuation charges, \$207,000 in loss on sale of OREO, \$252,000 in OREO operating expenses partially offset by a \$500,000 settlement received from a former borrower to release a personal guarantee) and this represented an increase of \$527,000 over the \$613,000 in OREO expense posted in the same period last year. Other expenses were \$1.9 million in the first quarter of 2010, an increase of \$553,000 over the same period in 2009 and a decrease of \$350,000 from the fourth quarter of 2009. The increase mainly resulted from higher FDIC premium expense as well as an increase in the cost of our corporate insurance.

Provision for Income Taxes

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

We record net tax assets to the extent it believes these assets will more likely than not be realized. In making such determination, we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent financial operations. We recorded a valuation on our deferred tax asset in 2009 of \$27.1 million and no additional valuation allowance was recorded at March 31, 2010. To the extent future earnings are recognized, the realization of the deferred tax asset will be recorded as a credit to income tax expense. In the meantime until such time as the valuation allowance is reversed, we will not record an income tax provision or benefit on the statement of operations. As of March 31, 2010, no income tax provision or benefit on the statement of operations has been recorded.

Net of the valuation allowance recorded on the deferred tax asset, we recorded an income tax benefit or expense of zero for the three months ended March 31, 2010 and \$829,000 for the three months ended March 31, 2009. Our effective tax rates were zero and (38.6)% for the three months ended March 31, 2010 and 2009, respectively, as compared to the statutory tax rate of 42.05%. The difference from the statutory rates in 2009 is mainly due to the tax preferential tax treatment of life insurance proceeds received, the earnings on cash surrender value of BOLI, the interest income from municipal securities and stock option expense associated with the adoption of ASC 718.

Financial Condition

Total assets as of March 31, 2010 were \$1.38 billion compared to \$1.31 billion as of December 31, 2009. Earning assets as of March 31, 2010 totaled \$1.08 billion compared to \$1.23 billion as of December 31, 2009. Total deposits were \$1.23 billion as of March 31, 2010 compared to \$1.16 billion as of December 31, 2009.

Loans and Leases

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

	<u>March 31, 2010</u>	<u>December 31, 2009</u>	<u>March 31, 2009</u>
	(In thousands)		
Loans and leases:			
Real estate – Single family & Multi-family	\$163,188	\$ 164,906	\$ 181,895
Real estate – Land for Housing	33,897	36,379	69,102
Real estate – Land for Income properties	33,536	38,254	47,435
Real estate – Commercial	321,330	325,734	282,216
Real estate – For Sale Housing Construction	118,339	143,905	176,497
Real estate – Other Construction	60,743	58,282	120,018
Total real estate loans	<u>731,033</u>	<u>767,460</u>	<u>877,163</u>
Commercial & Industrial	202,698	227,421	244,986
Trade Finance & Others	46,889	48,418	69,161
Total gross loans and leases	980,620	1,043,299	1,191,310
Less: allowance for loan and lease losses	(37,069)	(42,810)	(30,885)
Deferred loan and lease fees, net	846	585	(22)
Total net loans and leases	<u>\$944,397</u>	<u>\$1,001,074</u>	<u>\$1,160,403</u>

Total gross loans and leases, including loans held for sale decreased by \$62.7 million, or 6.01%, to \$980.6 million as of March 31, 2010 from \$1.0 billion as of December 31, 2009. Commercial real estate loans decreased from \$565.3 million as of December 31, 2009 to \$552.0 million at March 31, 2010. Construction loans decreased \$23.1 million from December 31, 2009 compared to March 31, 2010. Commercial and trade finance loans and others decreased \$26.3 million from December 31, 2009 compared to March 31, 2010.

Non-Performing Assets

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

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

	<u>As of March 31, 2010</u>	<u>As of December 31, 2009</u>	<u>As of March 31, 2009</u>
	(Dollars in thousands)		
Non-accrual loans and leases ⁽¹⁾	\$109,216	\$137,301	\$ 85,832
Accruing loans and leases past due 90 days or more	—	7,571	—
Troubled debt restructurings (TDRs) ⁽²⁾	9,228	387	190
Total non-performing loans (NPLs)	<u>118,444</u>	<u>145,259</u>	<u>86,022</u>
OREO	66,145	59,190	43,032
Total non-performing assets (NPAs)	<u>\$184,589</u>	<u>\$204,449</u>	<u>\$129,054</u>
Selected ratios:			
NPLs to total gross loans and leases held for investment	12.08%	13.92%	7.22%
NPAs to total assets	13.37%	15.65%	9.00%

(1) Includes TDRs that are on non-accrual status

(2) Includes TDRs that are on accrual status

Total non-performing assets were \$184.6 million at March 31, 2010 as compared with \$204.4 million at December 31, 2009 and \$129.1 million as of March 31, 2009. As of March 31, 2010 total non-accrual loans were \$109.2 million compared to \$137.3 million as of December 31, 2008 and \$85.8 million as of March 31, 2009.

The following table summarizes the migration of non-performing assets from December 31, 2009 to March 31, 2010:

	TDR's *	Loans 90+ Days Past Due & Still Accruing	Non Accrual Loans	OREO
			(In thousands)	
Balance, December 31, 2009	\$ 387	\$ 7,570	\$137,301	\$59,190
Additions	8,841	—	23,669	10,700
Transfers to OREO		—	(10,700)	N/A
Loans Cured		(7,250)	(35,539)	N/A
Sales/Payoffs		(320)	(420)	(2,563)
Charge-offs		—	(5,095)	(1,182)
Balance, March 31, 2010	\$9,228	\$ —	\$109,216	\$66,145

* TDR's that are on nonaccrual status are included in nonaccrual loans. Additions to TDR's were due to restructurings of specific loans.

Total OREO increased to \$66.1 million as of March 31, 2010 compared to \$59.2 million as of December 31, 2009. During the first quarter of 2010, we sold 3 OREO properties at a loss of \$207,000. The following table summarizes the Bank's OREO, which is included in non-performing assets of \$184.6 million:

Loan Type	OREO	
	#	\$
	(Dollars in thousands)	
Commercial & Industrial	—	\$ —
Real Estate-Mini-Perm	1	20,885
Construction-Residential	2	8,058
Construction-Commercial	1	1,611
Land-residential	12	24,333
Land-commercial	4	11,258
Total as of March 31, 2010	20	\$66,145
Total as of December 31, 2009	19	\$59,190

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

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

The following table depicts our past due loans by type:

<u>Loan Type</u>	<u>30-89 Days</u>		<u>90+ Days & Still Accruing</u>		<u>Non-accrual</u>	
	<u>#</u>	<u>\$</u>	<u>#</u>	<u>\$</u>	<u>#</u>	<u>\$</u>
	(Dollars in thousands)					
Commercial & Industrial	5	\$ 5,127	—	\$ —	6	\$ 8,154
Real Estate-Mini-Perm	1	7,250	—	—	8	26,961
Construction-Residential	—	—	—	—	7	39,730
Construction-Commercial	1	2,667	—	—	2	13,897
Land-residential	2	3,329	—	—	3	10,374
Land-commercial	1	4,950	—	—	3	10,100
Total as of March 31, 2010	<u>10</u>	<u>\$23,323</u>	<u>—</u>	<u>\$ —</u>	<u>29</u>	<u>\$109,216</u>
Total as of December 31, 2009	<u>5</u>	<u>\$13,390</u>	<u>2</u>	<u>\$7,571</u>	<u>33</u>	<u>\$137,301</u>

Impaired Loans and Leases

Impaired loans and leases are commercial & industrial, trade finance, real estate mini-perm and real estate construction loans for which it is probable that we will not be able to collect all amounts due according to the contractual terms of the loan or lease agreement. The category of impaired loans and leases is not comparable with the category of nonaccrual loans and leases. Management may choose to place a loan or lease on nonaccrual status due to payment delinquency or uncertain collectability, while not classifying the loan or lease as impaired if it is probable that we will collect all amounts due in accordance with the original contractual terms of the loan or lease or the loan.

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

We had \$99.2 million and \$106.1 of impaired loans or leases at March 31, 2010 and December 31, 2009, respectively. The total allowance for loan and lease losses related to these loans and leases were \$12.1 million and \$10.6 million at March 31, 2010 and December 31, 2009, respectively. The average recorded investment on impaired loans and leases during the first quarter 2010 and 2009 was \$102.6 million, and \$101.8 million, respectively.

Allowance for Credit Losses

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

The methodology we use to estimate the amount of our allowance for loan and lease losses is based on both objective and subjective criteria. While some criteria are formula driven, other criteria are subjective inputs included to capture environmental and general economic risk elements which may trigger losses in the loan portfolio, and to account for the varying levels of credit quality in the loan portfolios of the entities we have acquired that have not yet been captured in our objective loss factors.

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

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

Our loan portfolio, excluding impaired loans which are evaluated individually, is categorized into 45 different pools segmented by participation status, geography and collateral or property type. Within these loan pools, we then evaluate loans rated as pass credits, separately from adversely classified loans. The allowance amounts for pass rated loans, which are not reviewed individually, are determined using historical loss rates developed through migration analyses. The adversely classified loans are further grouped into three credit risk rating categories: special mention, substandard and doubtful.

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

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

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

Allowance for Credit Losses & Loss Histories

	Three Months Ended March 31, 2010	Year Ended December 31, 2009	Three Months Ended March 31, 2009
	(Dollars in thousands)		
Allowance for credit losses:			
Balance at beginning of period	\$ 42,810	\$ 26,935	\$ 26,935
Actual charge-offs:			
Commercial	504	7,716	—
Real estate – construction	4,221	24,293	—
Real estate – mini-perm	—	24,456	2,616
Trade finance	1,052	3,246	—
Total charge-offs	5,777	59,711	2,616
Less recoveries:			
Commercial	5	3,924	16
Real estate – construction	17	397	—
Real estate (mini-perm)	14	15	—
Total recoveries	36	4,336	16
Net loans charged-off	5,741	55,375	2,600
Provision for credit losses	—	71,250	6,550
Balance at end of period	<u>\$ 37,069</u>	<u>\$ 42,810</u>	<u>\$ 30,885</u>
Total gross loans and leases at end of period	\$ 980,620	\$1,043,299	\$1,191,310
Average total loans and leases	\$1,022,551	\$1,162,221	\$1,224,181
Non-performing loans and leases	\$ 118,444	\$ 145,259	\$ 86,022
Selected ratios:			
Net charge-offs (recoveries) to average loans and leases ⁽¹⁾	2.28%	4.76%	0.86%
Provision for allowance for credit losses to average loans and leases ⁽¹⁾	— %	6.13%	2.17%
Allowances for credit losses to loans and leases at end of period ⁽²⁾	3.82%	4.10%	2.59%
Allowance for credit losses to non-performing loans and leases	31.30%	29.47%	35.90%

(1) Net charge-offs to average loans and leases and provisions for allowance for credit losses to average loans and leases for the three months ended March 31, 2010 and 2009 are calculated on an annualized basis.

(2) Loans held for sale are excluded

See the above section entitled “Provision for Credit Losses” for further discussion regarding our provision.

For the three months ended March 31, 2010, we experienced net loan and lease charge-offs of \$5.7 million as compared to \$2.6 million for the same period in 2009. The level of provision for loan losses for 2010 and 2009 was determined based on our analysis of our loan and lease portfolio at each quarter-end.

The allowance for credit losses was 3.82% of total gross loans at March 31, 2010, compared to 4.10% at December 31, 2009 and 2.59% at March 31, 2009.

Investment Securities Available for Sale

Our portfolio of investment securities consists primarily of corporate notes, agency mortgage-backed securities, and municipal bonds. We have classified our entire securities portfolio as available-for-sale. We invest in securities to generate interest income, for interest rate risk management and to maintain a liquid source of funds for lending and other operations, including withdrawals of deposits. While we do not engage in active trading in our investment securities portfolio, we have realized, and intend to realize, gains from sales of selected securities primarily in response to changes in interest rates.

The carrying value of our investment securities at March 31, 2010 totaled \$90.7 million compared to \$114.5 million at December 31, 2009. The decrease in our investment securities portfolio during the first quarter of 2010 was due to the sale of investments securities and not replacing maturing investment securities. We realized a loss of \$68,000 on the sale of these securities in the first quarter of 2010.

The following table sets forth the amortized cost and carrying values of investment securities as of March 31, 2010:

	<u>Amortized Cost</u>	<u>Gross Unrealized gains</u>	<u>Gross Unrealized losses</u>	<u>Non-credit other- than-temporary Impairment</u>	<u>Estimated Fair value</u>
			(In thousands)		
Corporate notes	\$22,677	\$ —	\$(1,844)	\$ —	\$20,833
Residential mortgage-backed securities	23,631	350	(23)	—	23,958
Municipal securities	46,118	146	(2,029)	—	44,235
Collateralized debt obligations	3,516	—	—	(1,804)	1,712
Total securities available-for-sale	<u>\$95,942</u>	<u>\$ 496</u>	<u>\$(2,052)</u>	<u>\$(1,804)</u>	<u>\$90,738</u>

We perform a regular impairment analysis on our investment securities portfolio. On January 1, 2009, we adopted newly issued FASB standards which provide further guidance on; identifying whether a market for an asset or liability is distressed or inactive, determining whether an entity has the intent and ability to hold a security to its anticipated recovery and whether an investment is OTTI. In accordance with the adoption of these new accounting statements, management has analyzed all investment securities which have an amortized cost that exceeds fair value as of March 31, 2010.

We own four collateralized debt obligations (“CDO’s”) which consist of pools of bank trust preferred securities. As of March 31, 2010, the amortized cost of all four CDO’s exceeded the fair value. The fair value was determined based on future expected cash flows which were estimated using a discount rate that is an interest rate that represents a market equivalent rate on a similarly-rated corporate security with a similar maturity date that trades in an active market. Added to that rate was an illiquidity premium of 300 basis points which determined the actual discount rate. Management then estimated the expected future defaults within the underlying pool of issuers which was based on taking the current deferrals/defaults in the pools and then determining which banks were likely to default in the future. This future expectation of defaults was based on the individual banks’ tier 1 leverage capital (compared to regulatory requirements) tangible common equity ratios and levels of non-performing assets compared to total assets. Based on this information, Management would then make an assertion as to whether each bank issuer was likely to defer interest payments or default altogether. In addition to those specific defaults, Management estimated an additional default rate of 1.0% annually in the first three years of the cash flow analysis and 0.5% annually thereafter. The difference between the amortized cost and the fair value of these CDO’s was \$1.8 million and was determined to be other-than-temporary impairment.

Management then proceeded to determine credit-related OTTI based on the provisions of Investments – Debt and Equity Securities Topic of FASB ASC. In this analysis, Management ran expected cash flows on all

four securities using a discount rate that was equal to the accretable yield on all four securities and using the same default assumptions as described above. The result of this analysis indicated that none of the securities had credit-related other-than-temporary impairments.

As of March 31, 2010, we owned eight corporate securities where the amortized cost exceeded fair value. The total amortized cost of these securities was \$22.7 million and their fair value was \$20.8 million. Management performed a thorough analysis on all of the issuers of these securities which focused on the recent financial results of the companies, capital ratios and long-term prospects of the issuer and deemed the all eight corporate securities to be temporarily impaired.

We own 59 municipal investment securities. All but three carry an investment investment-grade rating. As of March 31, 2010, 26 of these issues with a total amortized cost of \$30.9 million were in an unrealized loss position. The unrealized loss on these 26 securities was \$2.0 million. Management determined that none of the municipal securities was OTTI as of March 31, 2010. This determination was made based on several factors such as our intent and ability to hold the securities until a recovery in value and the determination that it is not more likely than not that we will be required to sell the securities prior to recovery of amortized cost basis.

It is possible that we may recognize OTTI in future periods. We have the ability and the intent to hold these securities until recovery and has determined that it is not more likely than not that we will be required to sell the securities prior to recovery of amortized cost basis.

Deposits

Total deposits at March 31, 2010 were \$1.23 billion, an increase of 6.08% from the balance of \$1.16 billion as of December 31, 2009. Noninterest-bearing demand deposits increased by \$28.6 million or 13.98%, interest-bearing demand and savings deposits decreased by \$11.6 million or 7.10%, and time deposits increased by \$30.4 million or 3.83%.

The following table shows the balance of each major category of deposit at the dates indicated:

	March 31, 2010		December 31, 2009	
	Amount	% of Total Deposits	Amount	% of Total Deposits
	(Dollars in thousands)			
Noninterest-Bearing deposits	\$ 233,136	18.94%	\$ 204,545	17.63%
Interest-Bearing Deposits:				
Interest-Bearing Demand	128,426	10.43%	119,168	10.27%
Savings	46,369	3.77%	44,033	3.79%
Time Certificates of \$100,000 or more	347,877	28.26%	328,597	28.32%
Other Time Certificates	475,153	38.60%	464,069	39.99%
Total Interest-Bearing Deposits	<u>997,825</u>	<u>81.06%</u>	<u>955,867</u>	<u>82.37%</u>
Total Deposits	<u>\$1,230,961</u>	<u>100.00%</u>	<u>\$1,160,412</u>	<u>100.00%</u>

The largest component of deposits has been, and in the near term is likely to be, time certificates of deposit. We market and receive time certificates of deposit from existing and new high net worth customers, especially from the Chinese communities within our branch network. While the Bank does 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.

During the fourth quarter of 2009, due to the fact that we are no longer considered to be well-capitalized, we are no longer allowed to access the brokered deposit market which also included the CDARS reciprocal

deposits. As such, we are not renewing any of these brokered deposits and will let all of them mature during the course of 2010 and 2011. Accordingly, management has worked to create and execute a contingency funding plan to ensure that the Bank has sufficient liquidity to meet these brokered deposit maturities and to also have additional contingent cash on hand. In order to be able to meet the cash requirements of the maturities of the brokered deposits, management has worked to increase cash on hand, which as of December 31, 2009 was \$68 million, but has grown to \$222.0 million and represented 131% of total brokered deposits and CDARS balances as of March 31, 2010.

Capital Resources

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

Our goal is to exceed the minimum regulatory capital requirements for well-capitalized institutions as well as maintain tier 1 leverage and tangible common equity above 10% as required by the Order. At March 31, 2010 and December 31, 2009, our capital ratios were above the minimum requirements for adequately capitalized institutions. In the future, we will likely seek to raise additional capital in order to strengthen our capital ratios and to maintain compliance with the provisions of the Order. In addition, we intend to make adjustments to our balance sheet which will include reducing the total size of the balance sheet in order to effectively manage our capital ratios. In addition, in the future, we intend to originate credit lines when possible with an original maturity of less than one year, which have a zero percent conversion factor, instead of one year or more, which are 50% risk weighted assets. On a quarterly basis, we perform a stress test on our capital to determine our level of capital in various economic circumstances looking out twelve months into the future.

	<u>At March 31, 2010</u>	<u>At December 31, 2009</u>
Leverage Ratio		
Preferred Bank	6.68%	6.16%
Minimum requirement for “Well-Capitalized” institution	5.00%	5.00%
Minimum regulatory requirement	4.00%	4.00%
Tier 1 Risk-Based Capital Ratio		
Preferred Bank	8.02%	7.24%
Minimum requirement for “Well-Capitalized” institution	6.00%	6.00%
Minimum regulatory requirement	4.00%	4.00%
Total Risk-Based Capital Ratio		
Preferred Bank	9.30%	8.52%
Minimum requirement for “Well-Capitalized” institution	10.00%	10.00%
Minimum regulatory requirement	8.00%	8.00%

Contractual Obligations

The following table presents contractual cash obligations, excluding deposits, as of March 31, 2010:

<u>Contractual Obligations⁽¹⁾</u>	<u>Amount of Commitment Expiring per Period</u>				
	<u>Total Amounts Committed</u>	<u>Less Than 1 Year</u>	<u>1-3 Years</u>	<u>3-5 Years</u>	<u>After 5 Years</u>
	(In thousands)				
FHLB Advances	\$23,000	\$23,000	\$ —	\$ —	\$ —
Senior Debt	25,996	—	25,996	—	—
Operating Lease Obligations	18,303	2,517	4,213	3,805	7,768
Total	<u>\$67,299</u>	<u>\$25,517</u>	<u>\$30,209</u>	<u>\$3,805</u>	<u>\$7,768</u>

(1) Contractual obligations do not include interest

Off-Balance Sheet Arrangements

In the normal course of business, we enter into off-balance sheet arrangements consisting of commitments to fund commercial letters of credit and standby letters of credit. Many of these products do not necessarily entail present or future funded asset or liability positions but are instead in the nature of executory contracts. 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 our customers when specific future events occur. Historically, we have rarely issued payment under standby letters of credit, which our customer is obligated to reimburse us. We 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 as of March 31, 2010:

<u>Other Commitments</u>	<u>Amount of Commitment Expiring per Period</u>				
	<u>Total Amounts Committed</u>	<u>Less Than 1 Year</u>	<u>1-3 Years</u>	<u>3-5 Years</u>	<u>After 5 Years</u>
	(In thousands)				
Commitments to Extend Credit	\$202,680	\$161,029	\$18,086	\$21,946	\$1,619
Commercial Letters of Credit	3,843	3,843	—	—	—
Standby Letters of Credit	12,297	10,702	1,595	—	—
Total	<u>\$218,820</u>	<u>\$175,574</u>	<u>\$19,681</u>	<u>\$21,946</u>	<u>\$1,619</u>

Liquidity

Based on our existing business plan, we believe that our level of liquid assets is sufficient to meet our current and presently anticipated funding needs. We rely on deposits as the principal source of funds and, therefore, must be in a position to service depositors' needs as they arise. We attempt to maintain a loan-to-deposit ratio below approximately 95%. Our loan-to-deposit ratio was 79.7% at March 31, 2010 compared to 89.9% at December 31, 2009.

Borrowings from the FHLB are another source of funding for our loan and investment activities. At March 31, 2010, we could borrow up to an additional \$48.2 million on top of the \$23 million already outstanding with collateral of specifically identified loans and securities. In addition, we have pledged securities with a market value of \$47.0 million at the Federal Reserve Discount Window which we may borrow from on an overnight basis. We have no uncommitted borrowing lines with other financial institutions. As an additional

condition of borrowing from the FHLB, we are required to purchase FHLB stock. For the three months ended March 31, 2010, we were required to purchase the greater of \$3,503,000 of FHLB stock based on the volume of “membership assets” as defined by the FHLB or \$1,081,000 in FHLB stock based on 4.7% of outstanding borrowings with the FHLB. At March 31, 2010, we held \$4,996,000 in FHLB stock.

We have taken additional steps to both preserve and enhance our future liquidity needs:

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

On April 16, 2009, our board of directors elected to indefinitely suspend our cash dividend in order to preserve our capital.

On July 24, 2009, we commenced a rights offering and concurrent public offering at the subscription price of \$2.88 per share. On September 9, 2009, we completed our rights offering and concurrent public offering. We issued 5,912,919 shares of our common stock, no par value in exchange for approximately \$17.0 million. We conducted this rights offering and concurrent public offering to raise equity capital to enhance our capital position.

We also attempt to maintain a liquidity ratio (liquid assets, including cash and due from banks, federal funds sold and investment securities not pledged as collateral expressed as a percentage of total deposits) above approximately 18%. Our liquidity ratios were 26% at March 31, 2010 and 18% at December 31, 2009. We believe that in the event the level of liquid assets (our primary liquidity) does not meet our liquidity needs, other available sources of liquid assets (our secondary liquidity), including the sales of securities under agreements to repurchase, sales of unpledged investment securities or loans, utilizing the discount window borrowings from the FRB 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. Although we believe that our funding resources will be more than adequate to meet our obligations, we cannot be certain of this adequacy if further economic deterioration or other negative events occur that could impair our ability to meet our funding obligations.

Quantitative and Qualitative Disclosures about Market Risk

Market risk is the risk of loss in a financial instrument arising from adverse changes in market prices and rates, foreign currency exchange rates, commodity prices and equity prices. 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 Asset Liability Management Committee (“ALCO”), which is comprised of the Chief Executive Officer, Chief Financial Officer and members of the board of directors. The ALCO 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 ALCO 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 ALCO and the board of directors at least on a quarterly basis. 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 monthly basis by a third party vendor utilizing detailed data that we provide to them.

Market Value of Portfolio Equity

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

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

Market Value of Portfolio Equity

<u>Interest Rate Scenario</u>	<u>Market Value</u> (Dollars in thousands)	<u>Percentage Change from Base</u>	<u>Percentage of Total Assets</u>	<u>Percentage of Portfolio Equity Book Value</u>
Up 200 basis points	\$92,529	2.88%	6.70%	101.72%
Up 100 basis points	\$89,785	(0.18)%	6.50%	98.71%
Base	\$89,943	—	6.51%	98.88%
Down 100 basis points	\$92,386	2.72%	6.69%	101.57%
Down 200 basis points	\$95,849	6.57%	6.94%	105.37%

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

<u>Interest Rate Scenario</u>	<u>Adjusted Net Interest Income</u> (Dollars in thousands)	<u>Percentage Change from Base</u>	<u>Net Interest Margin Percent</u>	<u>Net Interest Margin Change (in basis points)</u>
Up 200 basis points	\$43,190	4.21%	4.01%	0.16
Up 100 basis points	\$42,950	3.63%	3.99%	0.14
Base	\$41,446	—	3.85%	—
Down 100 basis points	\$40,027	(3.42)%	3.72%	(0.13)
Down 200 basis points	\$40,109	(3.23)%	3.73%	(0.12)

Inflation

The majority of our assets and liabilities are monetary items held by us, the dollar value of which is not affected by inflation. Only a small portion of total assets is in premises and equipment. The lower inflation rate of recent years has not had the positive impact on us that was felt in many other industries. Our small fixed asset investment minimizes any material effect of asset values and depreciation expenses that may result from fluctuating market values due to inflation. Higher inflation rates may increase operating expenses or have other adverse effects 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.

Additional Information

FHLB Advances

Certain information with respect to the our short-term borrowings for the year ended December 31, 2008 and December 31, 2007 was inadvertently omitted from our Form 10-K for the period ended December 31, 2009. We do not believe this omission to be material, in part because we were not required to include information about our short-term borrowings for the year ended December 31, 2009 or the three months ended March 31, 2010 because the average balance outstanding for short-term borrowings was less than 30% of shareholders' equity at the end of each such period. For the periods indicated below, our short-term borrowings consisted solely of FHLB advances. The following table sets forth certain information regarding the Bank's FHLB advances at or for the periods indicated and on the dates indicated consisting of both short-term borrowings to borrowings with terms of up to 3-years (and for the period ended December 31, 2007, the table also includes federal funds purchased):

	<u>(Dollars in thousands)</u>
At March 31, 2010	
Amount outstanding	\$ 23,000
Weighted average interest rate	4.20%
For the quarter ended March 31, 2010	
Highest amount at month-end	\$ 23,000
Daily-average amount outstanding	23,000
Weighted-average interest rate	4.20%
At December 31, 2009	
Amount outstanding	\$ 23,000
Weighted average interest rate	4.20%
For the year ended December 31, 2009	
Highest amount at month-end	\$ 58,000
Average amount outstanding	49,685
Weighted average interest rate	4.05%
At December 31, 2008	
Amount outstanding	\$ 58,000
Weighted average interest rate	4.04%
For the year ended December 31, 2008	
Highest amount at month-end	\$ 98,000
Average amount outstanding	92,238
Weighted average interest rate	3.73%
At December 31, 2007	
Amount outstanding	\$111,000
Weighted average interest rate	3.90%
For the year ended December 31, 2007	
Highest amount at month-end	\$ 75,000
Average amount outstanding	41,857
Weighted average interest rate	4.24%

Appendix E
Quantitative and Qualitative Disclosures About Market Risk, as included in our Quarterly Report
on Form 10-Q for the fiscal quarter ended March 31, 2010

For quantitative and qualitative disclosures regarding market risks in our portfolio, see, *Appendix D* “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Quantitative and Qualitative Disclosure About Market Risk.”

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