



**Up to 3,472,222 Shares of Common Stock
Issuable upon the Exercise of Subscription Rights at \$2.88 per share**

We are Preferred Bank, a California state-chartered bank focused on the Chinese-American market in Southern California with headquarters in Los Angeles, California. We are distributing, at no charge to our shareholders, non-transferable subscription rights to purchase up to an aggregate of 3,472,222 shares of our common stock, no par value. The book value of our common stock as of March 31, 2009 was \$13.40 per share. We reserve the right, in the sole discretion of our board of directors, to increase the shares available by up to an additional 10%. Subscription rights will be distributed to persons who owned shares of our common stock as of 5:00 p.m., Eastern Time, on June 22, 2009, the record date of the rights offering. Each subscription right will entitle you to purchase 0.35 shares of our common stock at the subscription price of \$2.88 per share, which we refer to as the basic subscription right. We have granted to you, as a shareholder of record on the record date, one subscription right for each share of our common stock you owned at that time. If you fully exercise your basic subscription right and other shareholders do not fully exercise their basic subscription rights, you will be entitled to exercise an over-subscription privilege, subject to allotment, to purchase a portion of the unsubscribed shares of our common stock at the same subscription price of \$2.88 per share. To the extent you properly exercise your over-subscription privilege for an amount of shares that exceeds the number of the unsubscribed shares available to you, any excess subscription payments received by the subscription agent will be returned to you, without interest, as soon as practicable following the expiration of the rights offering. We are not requiring a minimum subscription to complete the rights offering. Funds we receive from subscribers in the rights offering will be held in escrow by the subscription agent until the rights offering is completed or canceled.

Certain of our officers, directors and shareholders have indicated their intention to subscribe for 1,129,167 shares of our common stock or \$3.25 million, subject to the terms of this offering.

The subscription rights will expire if they are not exercised by 5:00 p.m., Eastern Time, on August 24, 2009, unless we extend the rights offering period. We may cancel the rights offering at any time prior to the expiration of the rights offering for any reason. In the event the rights offering is canceled, all subscription payments received by the subscription agent will be returned, without interest or deduction, as soon as practicable.

Concurrently with the rights offering, we are offering shares of our common stock to the public. Any shares of common stock that remain unsubscribed (after taking into account all over-subscription rights exercised) at the expiration of the rights offering will be sold to the public at \$2.88 per share. Our public offering is being conducted on a best efforts basis by our officers and directors. The public offering of unsubscribed shares of common stock shall terminate on August 24, 2009.

We are conducting this rights offering to raise equity capital to enhance our capital position. Any capital raised in this offering will provide additional cushion for potential unforeseen losses in the future. Proceeds of the offering will be used for general corporate purposes. Our board of directors has chosen to raise capital through a rights offering to give our shareholders the opportunity to limit ownership dilution.

You should carefully consider whether to exercise your subscription rights prior to the expiration of the rights offering. All exercises of subscription rights are irrevocable. Our board of directors is making no recommendation regarding your exercise of the subscription rights. The subscription rights may not be sold, transferred or assigned and will not be listed for trading on the NASDAQ Global Select Market or any other stock exchange or market.

Our common stock is traded on the NASDAQ Global Select Market under the ticker symbol "PFBC." The last reported sales price of our shares of common stock on July 21, 2009 was \$3.30 per share. The shares of common stock issued in the rights offering will also be listed on the NASDAQ Global Select Market under the same ticker symbol.

NEITHER THE FEDERAL DEPOSIT INSURANCE CORPORATION, THE U.S. SECURITIES AND EXCHANGE COMMISSION, THE CALIFORNIA DEPARTMENT OF FINANCIAL INSTITUTIONS NOR ANY OTHER GOVERNMENT AGENCY HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS OFFERING CIRCULAR IS ADEQUATE, TRUTHFUL, ACCURATE OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THESE SECURITIES ARE NOT SAVINGS ACCOUNTS, DEPOSITS OR OTHER OBLIGATIONS OF ANY BANK AND ARE NOT INSURED OR GUARANTEED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER INSURER OR GOVERNMENTAL AGENCY, AND ARE SUBJECT TO INVESTMENT RISK, INCLUDING THE POSSIBLE LOSS OF PRINCIPAL.

THE OFFER AND SALE OF OUR COMMON STOCK HAS 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 OUR COMMON STOCK.

OFFERING SUMMARY

	Per Share	Total
Offering Price	\$ 2.88	\$ 10,000,000
Proceeds, before expenses, to Preferred Bank(1)	\$ 2.88	\$ 10,000,000

(1) Before deducting expenses payable by us, estimated at \$200,000

The exercise of your subscription right for shares of our common stock involves risk. See "Risk Factors" beginning on page 20 of this offering circular, the section entitled "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2008, and all other documents incorporated by reference in this offering circular in their entirety to read about important factors you should consider before exercising your subscription rights.

The date of this offering circular is July 22, 2009.



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ABOUT THIS OFFERING CIRCULAR

You should rely only on the information contained or incorporated by reference in this offering circular. We have not authorized any person to provide you with different or inconsistent information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this offering circular and the documents incorporated by reference are accurate only as of their respective dates. Our business, financial condition, results of operations and prospects may have changed since such dates.

In this offering circular, we rely on and refer to information and statistics regarding the banking industry and the banking markets in Southern California. We obtained this market data from independent publications or other publicly available information. Although we believe these sources are reliable, we have not independently verified and do not guarantee the accuracy and completeness of this information.

Unless otherwise indicated or unless the context requires otherwise, all references in this offering circular to "Preferred Bank," "we," "us," and "our," or similar references, refer to Preferred Bank and its subsidiary on a consolidated basis.

WHERE YOU CAN FIND MORE INFORMATION

Our common stock is registered with the FDIC under Section 12(g) of the Exchange Act. In accordance with Sections 12, 13 and 14 of the Exchange Act and as a bank that is not a member of the Federal Reserve System, we file annual, quarterly, and current reports, proxy 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) 898-8913 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 offering circular, information on our web site is not part of this offering circular.

You should review the information and exhibits included in our filings with the FDIC for further information about the securities we are offering and 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 offering circular concerning any document we filed with the FDIC are not intended to be comprehensive and are qualified by reference to our FDIC filings. You should review the complete document to evaluate these statements.

The California Department of Financial Institutions allows us to "incorporate by reference" information we file with the FDIC, which means that we can disclose important information to you by referring you to other documents. The information incorporated by reference is considered to be a part of this offering circular. Information contained in this offering circular supersedes information incorporated by reference that we have filed with the FDIC prior to the date of this offering circular.

We incorporate by reference the following documents listed below, except to the extent that any information contained in such filings is deemed "furnished" in accordance with FDIC rules:

- Our Annual Report on Form 10-K for the fiscal year ended December 31, 2008, filed with the FDIC on March 30, 2009, including portions incorporated by reference therein to our Definitive Proxy Statement on Schedule 14A, filed with the FDIC on April 16, 2009;



- Our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2009, as filed with the FDIC on May 19, 2009; and
- Our Current Reports on Form 8-K filed with the FDIC on April 21, 2009, April 22, 2009, June 10, 2009, and June 17, 2009.

These documents contain important information about us, our business and our financial condition. You may request a copy of these filings, at no cost, by writing or telephoning us at:

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



QUESTIONS AND ANSWERS RELATING TO THE RIGHTS OFFERING

The following are examples of what we anticipate will be common questions about the rights offering. The answers are based on selected information included elsewhere in this offering circular. The following questions and answers do not contain all of the information that may be important to you and may not address all of the questions that you may have about the rights offering. This offering circular contains more detailed descriptions of the terms and conditions of the rights offering and provides additional information about us and our business, including potential risks related to the rights offering and our business.

What is the rights offering?

We are distributing, at no charge, to holders of our shares of common stock, non-transferable subscription rights to purchase shares of our common stock. You will receive one subscription right for each share of common stock you owned as of 5:00 p.m., Eastern Time, on June 22, 2009, the record date. Each subscription right entitles the holder to a basic subscription right and an over-subscription privilege, which are described below. The shares to be issued in the rights offering, like our existing shares of common stock, will be traded on the NASDAQ Global Select Market under the ticker symbol "PFBC."

What is the basic subscription right?

The basic subscription right gives our shareholders the opportunity to purchase 0.35 shares of our common stock at a subscription price of \$2.88 per share. We have granted to you, as a shareholder of record on the record date, one subscription right for each share of our common stock you owned at that time. Fractional shares of our common stock resulting from the exercise of the basic subscription right will be eliminated by rounding down to the nearest whole share, with the total subscription payment being adjusted accordingly. For example, if you owned 100 shares of our common stock on the record date, you would have received 100 subscription rights and would have the right to purchase 35 shares of common stock for \$2.88 per share. You may exercise all or a portion of your basic subscription right, or you may choose not to exercise any subscription rights at all. However, if you exercise less than your full basic subscription right, you will not be entitled to purchase shares under your over-subscription privilege.

If you hold a Preferred Bank stock certificate, the number of shares you may purchase pursuant to your basic subscription right is indicated on the enclosed rights certificate. If you hold your shares in the name of a custodian bank, broker, dealer or other nominee, you will not receive a rights certificate. Instead, the Depository Trust Company (DTC) will issue one subscription right to your nominee record holder for each share of our common stock that you own at the record date. If you are not contacted by your nominee, you should contact your nominee as soon as possible.

What is the over-subscription privilege?

In the event that you purchase all of the shares of our common stock available to you pursuant to your basic subscription right, you may also choose to purchase a portion of any shares of our common stock that are not purchased by our other shareholders through the exercise of their basic subscription rights. You should indicate on your rights certificate, or the form provided by your nominee if your shares are held in the name of a nominee, how many additional shares you would like to purchase pursuant to your over-subscription privilege.

If sufficient shares of common stock are available, we will seek to honor your over-subscription request in full. If, however, over-subscription requests exceed the number of shares of common stock available, we will allocate the available shares of common stock among shareholders who over-subscribed by multiplying the number of shares requested by each shareholder through the exercise of his or her over-subscription privilege by a fraction that equals (x) the number of shares available to be issued through over-subscription privileges divided by (y) the total number of shares requested by all subscribers through the exercise of their over-subscription privileges. As described above for the basic subscription right, we will not issue fractional shares through the exercise of over-subscription privileges.



In order to properly exercise your over-subscription privilege, you must deliver the subscription payment related to your over-subscription privilege at the same time you deliver payment related to your basic subscription right. Because we will not know the total number of unsubscribed shares prior to the expiration of the rights offering, if you wish to maximize the number of shares you purchase pursuant to your over-subscription privilege, you will need to deliver payment in an amount equal to the aggregate subscription price for the maximum number of shares of our common stock that may be available to you. For that calculation, you must assume that no other shareholder will subscribe for any shares of our common stock pursuant to their basic subscription right. See “The Rights Offering—The Subscription Rights—Over-Subscription Privilege.”

What will happen if less than all of the subscription rights are exercised?

Concurrently with the rights offering, we are offering shares of our common stock to the public on a best efforts basis. In the event shares of common stock remain available for sale after taking into account the exercise of basic subscription rights and over-subscription privileges, we will sell those remaining shares to the public at the \$2.88 per share subscription price.

What is the maximum number of shares that will be available for subscription in this rights offering?

Our shareholders (and the general public if any shares remain following the close of the rights offering) will have the opportunity to purchase up to 3,472,222 shares of our common stock in this rights offering. However, we reserve the right, at the discretion of our board of directors, to increase the 3,472,222 shares available by up to an additional 10%.

Why are we conducting the rights offering?

Our capital position has been impacted negatively by increases in our provision for loan losses due to deteriorating economic conditions which, in turn, have resulted in deterioration in real estate collateral values and the ability of certain of our borrowers to repay their loans. In addition, we have sustained losses due to other-than-temporary-impairment charges recorded on our investment portfolio also due to the current economic conditions. We are conducting the rights offering to raise common equity capital to enhance our capital position and to provide an additional cushion for potential unforeseen losses in the future. Management believes that a higher level of capital is prudent due to the current market conditions and the related impact on our financial position. Proceeds of this offering will be used initially to invest in investment securities and thereafter for general corporate purposes. See “Use of Proceeds.”

Our board of directors has chosen to raise capital through a rights offering to give our current shareholders the opportunity to limit ownership dilution from a capital raise by allowing our current shareholders to purchase additional shares of our common stock.

How was the \$2.88 per share subscription price determined?

Our board of directors established the subscription price at 85% of the volume weighted average closing price of our common stock on the NASDAQ Global Select Market for 5 trading days ending two business days immediately prior to the commencement date of the offering. In determining the subscription price, our board of directors considered a number of factors, including: the price at which our shareholders might be willing to participate in the rights offering, historical and current trading prices for our common stock, the need for liquidity and capital, potential market conditions, and the desire to provide an opportunity to our shareholders to participate in the rights offering on a pro rata basis. In conjunction with its review of these factors, our board of directors also reviewed our history and prospects, including our past and present earnings, our prospects for future earnings, our current financial condition and regulatory status. Our board of directors did not seek or obtain the opinion of a financial advisor in establishing the subscription price. You should not assume or expect that, after the rights offering, our shares of common stock will trade at or above the \$2.88 purchase price.



Am I required to exercise all of the subscription rights I receive in the rights offering?

No. You may exercise any number of your subscription rights, or you may choose not to exercise any subscription rights. If you do not exercise any subscription rights, the number of shares of our common stock you own will not change. However, if you choose not to exercise your subscription rights, your ownership interest in us will be diluted as a result of the rights offering. In addition, if you do not exercise your basic subscription right in full, you will not be entitled to participate in the over-subscription privilege. See “Risk Factors—If you do not exercise your subscription rights, your percentage ownership in us will be diluted.”

How soon must I act to exercise my subscription rights?

If you received a rights certificate and elect to exercise any or all of your subscription rights, the subscription agent must receive your completed and signed rights certificate and payments prior to the expiration of the rights offering, which is August 24, 2009, at 5:00 p.m., Eastern Time. If you hold your shares in the name of a custodian bank, broker, dealer or other nominee, your nominee may establish a deadline prior to 5:00 p.m. Eastern Time, on August 24, 2009 by which you must provide it with your instructions to exercise your subscription rights. Although our board of directors may, in its discretion, extend the expiration of the rights offering, we currently do not intend to do so. Our board of directors may cancel the rights offering at any time. In the event that the rights offering is canceled, all subscription payments received will be returned, without interest or deduction, as soon as practicable.

Although we will make reasonable attempts to provide this offering circular to holders of subscription rights, the rights offering and all subscription rights will expire at 5:00 p.m., Eastern Time on August 24, 2009, whether or not we have been able to locate each person entitled to subscription rights.

May I transfer my subscription rights?

No. You may not sell, transfer or assign your subscription rights to anyone. Subscription rights will not be listed for trading on the NASDAQ Global Select Market or any other stock exchange or market. Rights certificates may only be completed by the shareholder who receives the certificate.

Are we requiring a minimum subscription to complete the rights offering?

No. There is no individual minimum purchase requirement in the rights offering and we are not requiring a minimum subscription to complete the rights offering.

Can the board of directors cancel, amend or extend the rights offering?

Yes. Our board of directors may decide to cancel or terminate the rights offering at any time before the expiration of the rights offering and for any reason. If our board of directors cancels or terminates the rights offering, any money received from subscribing shareholders will be returned, without interest or deduction, as soon as practicable. We also reserve the right to amend or modify the terms of the rights offering. If the terms of this rights offering are materially amended or modified, you will be notified in writing and you will have the right to rescind any subscription previously delivered.

Has our board of directors made a recommendation to our shareholders regarding the rights offering?

No. Our board of directors is making no recommendation regarding your exercise of the subscription rights. Shareholders who exercise subscription rights risk investment loss on new money invested. We cannot predict the price at which our shares of common stock will trade. The market price for our common stock may decrease to an amount below the subscription price, and, if you purchase shares at the subscription price, you may not be able to sell those shares in the future at the same price or a higher price. You are urged to make your decision based on your own assessment of our business and financial condition, our prospects for the future, the terms of the rights offering and the information contained in, or incorporated by reference into, this offering circular. See “Risk Factors” for a discussion of some of the risks involved in investing in our common stock.



Will our officers and directors participate in the rights offering?

We expect certain of our officers, directors and shareholders, together with certain of their affiliates, to exercise their basic subscription rights and over-subscription privileges to purchase up to a maximum of approximately \$3.25 million in available common stock in the rights offering. See "Subscriptions by Directors." The purchase price paid by our directors, together with their affiliates, will be \$2.88 per share, the same price paid by all other persons who purchase shares of our common stock in the rights offering. While our directors have indicated their intention to participate in the rights offering, our directors are under no legal obligation to subscribe for shares in the indicated amounts or at all. Following the rights offering, our directors, together with their affiliates are expected to own approximately 4,630,125 shares of common stock, 33.58% of our total outstanding shares of common stock, if we sell 3,472,222 shares offered in the rights offering, including shares of our common stock they currently own.

Are there any limitations on the number of subscription rights I may exercise in the rights offering?

You may only purchase the number of whole shares of common stock purchasable upon exercise of the number of subscription rights distributed to you in the rights offering, plus the maximum amount of over-subscription privilege shares available. Accordingly, the number of shares of common stock you may purchase in the rights offering is limited by the number of shares of our common stock you held on the record date, and by the extent to which other shareholders exercise their subscription rights and over-subscription privilege, which we cannot determine prior to completion of the rights offering.

Prior clearance or approval of, or notice to, state or federal bank regulatory authorities may be required prior to any person or entity, together with certain related persons or entities, exercising subscription rights (including over-subscription privileges) to purchase shares of our common stock that, when aggregated with their existing ownership, would result in such person or entity, together with any related persons or entities, owning in excess of 9.9% of our issued and outstanding shares of common stock following the closing of the transactions contemplated by this rights offering. If you have not received prior regulatory approval from any state or federal bank regulatory authority to acquire, own or control such shares prior to the August 24, 2009 expiration date, we will not be able to issue your shares of common stock in excess of the 9.9% ownership threshold until such time as you have obtained such approval. We may, in our discretion, refuse to issue shares of common stock if the required regulatory approval or clearance has not been obtained within a reasonable period following August 24, 2009. If we elect not to issue shares in such a case, the unissued shares will become available to satisfy over-subscriptions by other shareholders pursuant to their subscription rights and will thereafter be available to third party purchasers in our public offering of available shares.

How do I exercise my subscription rights if I own shares in certificate form?

If you hold a Preferred Bank stock certificate and you wish to participate in the rights offering, you must take the following steps:

- deliver payment to the subscription agent before 5:00 p.m., Eastern Time, on August 24, 2009, and
- deliver a properly completed and signed rights certificate to the subscription agent.

The subscription agent is Computershare. In certain cases, you may be required to provide additional documentation or signature guarantees.

Please follow the delivery instructions on the rights certificate. Do not deliver documents to Preferred Bank. You are solely responsible for completing delivery to the subscription agent of your subscription documents, rights certificate and payment. We urge you to allow sufficient time for delivery of your subscription materials to the subscription agent so that they are received by the subscription agent by 5:00 p.m., Eastern Time, on August 24, 2009.

If you send a payment that is insufficient to purchase the number of shares you requested, or if the number of shares you requested is not specified in the forms, the payment received will be applied to exercise your



subscription rights to the fullest extent possible based on the amount of the payment received, subject to the availability of shares under the over-subscription privilege and the elimination of fractional shares. Any excess subscription payments received by the subscription agent will be returned, without interest, as soon as practicable following the expiration of the rights offering.

What form of payment is required to purchase the shares of our common stock?

As described in the rights certificate, payments submitted to the subscription agent must be made in full United States currency by:

- certified check to Computershare, drawn upon a United States bank;
- personal check to Computershare, drawn upon a United States bank; or
- postal or express money order payable to Computershare.

If you submit a personal check to the subscription agent, your subscription will not be deemed received by the subscription agent until the check has cleared. If you send a certified check or bank draft, drawn upon a U.S. bank, a postal or express money order, payment will be deemed to have been received by the subscription agent immediately upon receipt of such instruments.

Any personal check used to pay for shares of our common stock must clear the appropriate financial institutions prior to 5:00 p.m., Eastern Time, on August 24, 2009, which is the expiration of the rights offering. The clearinghouse may require five or more business days. Accordingly, holders that wish to pay the subscription price by means of an uncertified personal check are urged to make payment sufficiently in advance of the expiration of the rights offering to ensure such payment is received and clears by such date.

What should I do if I want to participate in the rights offering, but my shares are held in the name of a custodian bank, broker, dealer or other nominee?

If you hold your shares of common stock through a custodian bank, broker, dealer or other nominee, then your nominee is the record holder of the shares you own. If you are not contacted by your nominee, you should contact your nominee as soon as possible. Your nominee must exercise the subscription rights on your behalf for the shares of common stock you wish to purchase. You will not receive a rights certificate. Please follow the instructions of your nominee. Your nominee may establish a deadline that may be before the expiration date that we have established for the rights offering.

When will I receive my new shares?

If you purchase stock in the rights offering by submitting a rights certificate and payment, we will mail you a stock certificate representing your new shares as soon as practicable after the expiration of the rights offering. If your shares are held by your nominee, and you participate in the rights offering, you will not receive a stock certificate for your new shares. Your nominee will be credited with the shares of common stock you purchase in the rights offering as soon as practicable after the expiration of the rights offering.

After I send in my payment and rights certificate, may I cancel my exercise of subscription rights?

No. All exercises of subscription rights are irrevocable unless the rights offering is terminated, even if you later learn information that you consider to be unfavorable to the exercise of your subscription rights. You should not exercise your subscription rights unless you are certain that you wish to purchase shares of our common stock in the rights offering.

Are there any conditions to completing the rights offering?

No, there are no conditions to completion of the rights offering.



What effects will the rights offering have on our outstanding common stock?

As of June 22, 2009, the Record Date, we had 9,854,207 shares of our common stock issued and outstanding. The number of shares of our common stock that we will issue in this rights offering through the exercise of subscription rights and in any public offering of available shares will depend on the number of shares that are subscribed for in the rights offering. If all shares are subscribed for, we will have 13,326,429 shares outstanding.

The issuance of shares of our common stock in the rights offering will dilute, and thereby reduce, your proportionate ownership in our shares of common stock unless you fully exercise your basic subscription right and a certain level of your over-subscription privilege. In addition, the issuance of shares of our common stock at the subscription price, which is less than the market price on July 21, 2009, will likely reduce the market price per share of shares held by you if you do not purchase the shares in the rights offering.

How much will Preferred Bank receive from the rights offering?

If all of the subscription rights (including all over-subscription privileges) are exercised in full by our shareholders, we expect the gross proceeds from the rights offering to be approximately \$10 million. We are offering shares in the rights offering to shareholders with no individual minimum purchase requirement. We may not sell all or any of the shares being offered to existing shareholders. Concurrently with the rights offering, we are offering shares of our common stock to the public. Any shares that are not subscribed for in the rights offering will be sold to the public. The offering of such shares of common stock is on a best effort basis and requires a minimum individual purchase requirement of 100 shares. As a result, upon completion of the rights offering, we expect to sell a minimum of \$7,500,000, or 2,604,166 shares of our common stock, based on indications from our directors and a maximum of \$10 million, or 3,472,222 shares of our common stock, depending on the number of shares subscribed for by other shareholders pursuant to their basic subscription rights and over-subscription privileges and the offer and sale of unsubscribed shares to the public.

Are there risks in exercising my subscription rights?

Yes. The exercise of your subscription rights involves risks. Exercising your subscription rights involves the purchase of additional shares of our common stock and should be considered as carefully as you would consider any other equity investment. Among other things, you should carefully consider the risks described under the heading "Risk Factors" and in the documents incorporated by reference in this offering circular.

If the rights offering is not completed, will my subscription payment be refunded to me?

Yes. The subscription agent will hold all funds it receives in a segregated account until completion of the rights offering. If the rights offering is not completed, all subscription payments received by the subscription agent will be returned, without interest or deduction, as soon as practicable. If your shares are held in the name of a custodian bank, broker, dealer or other nominee, it may take longer for you to receive your subscription payment because the subscription agent will return payments through the record holder of your shares.

What fees or charges apply if I purchase shares of common stock in the rights offering?

We are not charging any fee or sales commission to issue subscription rights to you or to issue shares to you if you exercise your subscription rights. If you exercise your subscription rights through a custodian bank, broker, dealer or other nominee, you are responsible for paying any fees your nominee may charge you.

What are the material U.S. federal income tax consequences of exercising rights?

A holder should not recognize income or loss for United States federal income tax purposes in connection with the receipt or exercise of subscription rights in the rights offering. You should consult your tax advisor as to the particular consequences to you of the rights offering. For a detailed discussion, see "Material U.S. Federal Income Tax Consequences."



Who should I contact if I have other questions?

If you have other questions regarding us or the rights offering, please contact Edward J. Czajka, Executive Vice President and Chief Financial Officer at (213) 891-1188, Monday through Friday (except bank holidays), between 8:30 a.m. and 5:30 p.m., Pacific Time.

If you have any questions regarding completing a rights certificate or submitting payment in the rights offering, please contact our information agent for the rights offering at (866) 828-4315 (toll free), Monday through Friday (except bank holidays), between 9:00 a.m. and 5:00 p.m., Eastern Time.

If I am not a shareholder but wish to subscribe for shares of common stock in the public offering of any available shares, what do I do?

We will accept nonbinding subscriptions for unsold shares of common stock during the pendency of the rights offering. Upon completion of the rights offering, we will furnish supplemental information that sets forth the results of our rights offering and the amount of unsubscribed shares of common stock accompanied by an acknowledgement of subscription for investors to complete and submit together with the subscription price. At that time, subscriptions for the offered shares of common stock will be accepted by us in the order in which they are received subject, however, to prior sale. All subscription proceeds we receive will be deposited in a segregated noninterest-bearing deposit account with us until the time that we accept or reject those subscriptions. Our board of directors may choose to end the rights offering prior to August 24, 2009, extend the rights offering or cancel the rights offering. In the event the rights offering is canceled, all subscription payments we received will be returned, without interest or deduction, as soon as practicable.

Is the offer to the public subject to any minimum or maximum subscription amount?

You must subscribe for at least 100 shares of common stock. There is no maximum amount of shares you can subscribe for as long as we have shares remaining available for sale after our rights offering is completed. We reserve the right, at the discretion of our board of directors, to increase the shares available by up to an additional 10%. You may not revoke or change your subscription after you have submitted your acknowledgement of subscription (which must be accompanied by payment). We may choose to reject your subscription entirely or accept it for only a portion of the shares for which you subscribe.

Prior clearance or approval of, or notice to, state or federal bank regulatory authorities may be required prior to any person or entity, together with certain related persons or entities, subscribing to purchase shares of our common stock that, when aggregated with their existing ownership, would result in such person or entity, together with any related persons or entities, owning in excess of 9.9% of our issued and outstanding shares of common stock following the closing of the transactions contemplated by this rights offering. If you have not received prior regulatory approval from any state or federal bank regulatory authority to acquire, own or control such shares prior to August 24, 2009, we will not be able to issue your shares of common stock in excess of the 9.9% ownership threshold until such time as you have obtained such approval. We may, in our discretion, refuse to issue shares of common stock if the required regulatory approval or clearance has not been obtained within a reasonable period following August 24, 2009.



CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

A number of the presentations and disclosures in this offering circular 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:

- 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;
- credit performance on loans made by us;
- future losses in our loan portfolio;
- increases in competitive pressure among financial institutions;
- tangible capital generation;
- market share;
- expense levels;
- changes in the interest rate environment;
- 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.

Forward-looking statements involve inherent risks and uncertainties that are subject to change based on various important factors, many of which are beyond our control. We caution you that a number of important factors could cause actual results to differ materially from those contained in any forward-looking statement. Such factors include those included in the “Risk Factors” section of this offering circular.

In addition, we sometimes explore opportunities for acquisitions of, and hold discussions with, financial institutions and related businesses, and also regularly explore opportunities for acquisitions of liabilities and assets of financial institutions and other financial services providers. From time to time, we analyze our lines of business and from time to time may increase, decrease or terminate one or more activities.

If one or more of the factors affecting our forward-looking information and statements proves incorrect, then our actual results, performance or achievements could differ materially from those expressed in, or implied by, the forward-looking information and statements contained in this offering circular. Therefore, we caution you not to place undue reliance on our forward-looking information and statements. The forward-looking statements are made as of the date of this offering circular, and we do not intend, and assume no obligation, to update the forward-looking statements or to update the reasons why actual results could differ from those projected in the forward-looking statements. All forward-looking statements contained in this offering circular are expressly qualified by these cautionary statements.



OFFERING CIRCULAR SUMMARY

This summary provides an overview of selected information contained elsewhere in this offering circular and does not contain all of the information you should consider. You should read the following summary together with the more detailed information set out in this offering circular, including the "Risk Factors" section beginning on page 19 and our financial statements and notes to those financial statements incorporated herein by reference.

Preferred Bank

We are one of the largest independent 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 with initial capital of \$20 million. Our deposits are insured by the Federal Deposit Insurance Corporation (the "FDIC"). We are a member of the Federal Home Loan Bank of San Francisco ("FHLB"). At December 31, 2008, total assets were \$1.5 billion, loans and leases were \$1.2 billion, deposits were \$1.3 billion and shareholders' equity was \$137 million. We had a net loss of \$5.0 million for the year ended December 31, 2008, as compared to net income of \$26.5 million for the year ended December 31, 2007. At March 31, 2009, we had total assets of \$1.4 billion, loans and leases of \$1.2 billion, deposits of \$1.2 billion, and shareholders' equity of \$132 million. We recorded a net loss of \$1.3 million for the three months ended March 31, 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 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.

In 2007, we formed PB Investment and Consulting, Inc. as our wholly owned subsidiary for the purpose of operating a representative office for us in Taipei, Taiwan. This office's primary function is to coordinate banking services to our customers in Taiwan.

Our Employees and Management Team

We believe that a contributing factor to our performance is our experienced staff and management team led by our founder, Chairman, President and Chief Executive Officer, Li Yu. Mr. Yu has served as Chairman since our founding in 1991 and as President and Chief Executive Officer since 1993. In addition, Mr. Yu has 25 years of experience providing banking services to our target customers in Southern California. Mr. Yu owned approximately 8.99% of our outstanding common stock as of March 31, 2009. We seek to attract and retain experienced and relationship-oriented individuals who want to participate in a high-achieving, growth-oriented community bank. We have structured incentive programs that are intended to reward both superior performance as well as adherence to our credit standards, business philosophy and strategy.



Our Customers

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

- *Real Estate Finance*—consisting of investors and developers within the real estate industry and of owner-occupied properties in Southern California. We do not typically provide single-family residential mortgages. We provide construction loans and mini-permanent (“mini-perm”) loans for residential, commercial, industrial and other income producing properties. A portion of our real estate loans are to borrowers who are also international trade finance customers.
- *Middle Market Business*—consisting of manufacturing, service and distribution companies with annual sales of approximately \$5 million to \$100 million and with borrowing requirements of up to approximately \$12 million. We offer a range of lending products to customers in this market, including working capital loans, equipment financing and commercial real estate loans. Additionally, we provide a full range of deposit products and related services including safe deposit boxes, account reconciliation, courier service and cash management services.
- *International Trade Finance*—consisting of importers and exporters based in the U.S. requiring both borrowing and operational products. We offer a full range of products to international trade finance customers, including commercial and standby letters of credit, acceptance financing, documentary collections, foreign draft collections, international wires and foreign exchange.
- *Private Banking*—consisting of wealthy individuals residing in the Pacific Rim area with residences, real estate investments or businesses in Southern California. We offer all of our banking products and services to this segment through our multi-lingual team of professionals knowledgeable in the business environment and financial affairs of Pacific Rim countries. We believe our language capabilities provide us with a competitive advantage.
- *Professionals*—consisting generally of physicians, accountants, attorneys, business managers and other professionals. We provide specialized personal banking services to customers in this segment including courier service, several types of specialized deposit accounts and personal and business loans as well as lines of credit.
- We provide a fully operating traditional internet banking system with bill pay services for these customers.

Our Market

We conduct banking business from our main office in downtown Los Angeles, California and 12 full-service branch banking offices in Los Angeles, Orange and San Bernardino Counties. We market our services and conduct our business primarily in Los Angeles, Orange, Ventura, Riverside and San Bernardino counties.

We believe that Chinese-Americans continue to be the largest Asian ethnic group in Los Angeles County. According to the U.S. Census 2000, between 1990 and 2000, the Chinese-American population in the United States grew by approximately 48% with 40% of all Chinese-Americans living in California. During this same period, it is estimated that the Chinese-American population in Los Angeles grew by 34%. According to the U.S. Census Bureau, as of 2005, there were over 450,000 Chinese-Americans living in the three counties served by us which represented 41% of all Chinese-Americans in California.

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



While we believe deteriorating economic conditions have adversely impacted the banking industry generally, including us, we believe we are well positioned to compete effectively with the Chinese-American community banks, the larger commercial banks and major publicly listed and foreign bank-owned Chinese banks operating in Southern California by offering the following:

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

Our Current Focus

Our national economy and California in particular are in the midst of a significant recession. Management's primary focus during 2008 was on credit quality, capital management and liquidity management. This focus will continue during 2009.

Operating Strategies

- *Improve asset quality* as we shift our lending focus from production to portfolio management and close monitoring.
- *Maintain strong capital ratios* as needed to weather the current economic crisis through possible reduced cash dividends and downsizing of the balance sheet.

Our Lending Activities

We originate a variety of types of loans, most of which fall into the following four categories:

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

In addition to these loan types, we make a small amount of consumer loans principally as an accommodation to our business customers. We also utilize our relationships within the banking industry to purchase and sell participations in loans that meet our underwriting criteria. As of March 31, 2009, we had a total of \$214 million in purchased loans and \$18.7 million in loans that we sold. The purchased loans were accounted for in accordance with the Accounting Standards Executive Committee (AcSEC) Statement of Position (SOP) 03-3. We manage our loan portfolio to provide for an adequate return, but also to provide a diversification of risk. Due to the extremely difficult economic environment during 2008, we limited the origination of new loans as management was more focused on managing existing loan relationships, specifically, troubled borrowers.

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



At March 31, 2009, 80% of our loans carried interest rates that adjust with changes in the Prime Rate, 11% carried interest rates tied to LIBOR or other indices and 4% carried a fixed and other rate. Approximately 52% of our loan portfolio has an interest rate floor.

Company Information

We are chartered by the State of California, and our deposits are insured by the FDIC to the maximum extent permitted by law. We conduct our banking business from our main office in Los Angeles, California, and through our eleven full-service branch offices in Alhambra, Arcadia Century City, City of Industry, Diamond Bar, Pico Rivera, Santa Monica, Torrance, Anaheim, Irvine, and Chino, California. The address of our main office is 601 S. Figueroa Street, 29th Floor, Los Angeles, California, 90017, and our telephone number is (213) 891-1188. We maintain a website at www.preferredbank.com. The reference to our website address does not constitute incorporation by reference of the information contained in the website, except to the extent expressly stated under "Where You Can Find More Information," and should not be considered part of this offering circular.



The Offering

- Securities Offered We are distributing to you, at no charge, one non-transferable subscription right for each share of our common stock that you owned as of 5:00 p.m., Eastern Time, on June 22, 2009, the record date, either as a holder of record or, in the case of shares held of record by custodian banks, brokers, dealers or other nominees on your behalf, as a beneficial owner of such shares. If the rights offering is fully subscribed, we expect the gross proceeds from the rights offering will be up to \$10 million. We reserve the right, in the sole discretion of our board of directors, to increase the shares available by up to an additional 10%.

- Subscription Price \$2.88 per share. To be effective, any payment related to the exercise of a right must clear prior to the expiration of the rights offering.

- Record Date 5:00 p.m., Eastern Time, on June 22, 2009.

- Expiration of the Rights Offering 5:00 p.m., Eastern Time, on August 24, 2009.

- Use of Proceeds We intend to use the proceeds of the rights offering initially to invest in investment securities and thereafter for general corporate purposes.

- Basic Subscription Right The basic subscription right of each subscription right will entitle you to purchase 0.35 shares of our common stock at a subscription price of \$2.88 per share; however, fractional shares of our common stock resulting from the exercise of the basic subscription right will be eliminated by rounding down to the nearest whole share. The number of shares you may purchase appears on your rights certificate if you are a holder of record.

- Over-Subscription Privilege In the event that you purchase all of the shares of our common stock available to you pursuant to your basic subscription right, you may also choose to subscribe for a portion of any shares of our common stock that are not purchased by our shareholders through the exercise of their basic subscription rights. You may subscribe for shares of common stock pursuant to your over-subscription privilege, subject to allocation.

- Non-Transferability of Rights The subscription rights may not be sold, transferred or assigned and will not be listed for trading on the NASDAQ Global Select Market or on any stock exchange or market.

- No Board Recommendation Our board of directors is making no recommendation regarding your exercise of the subscription rights. You are urged to make your decision based on your own assessment of our business and the rights offering. Please see "Risk Factors" for a discussion of some of the risks involved in investing in our common stock.



Public Offering Concurrently with the rights offering, we are offering our shares of common stock to the public on a best efforts basis. If shares of common stock remain available for sale after the closing of the rights offering, our officers and directors will sell those remaining shares to the public at the \$2.88 per share subscription price.

No Revocation All exercises of subscription rights are irrevocable, even if you later learn of information that you consider to be unfavorable to the exercise of your subscription rights. You should not exercise your subscription rights unless you are certain that you wish to purchase additional shares of our common stock at a subscription price of \$2.88 per share.

Material U.S. Federal Income Tax Considerations For U.S. federal income tax purposes, you should not recognize income or loss upon receipt or exercise of a subscription right. You should consult your own tax advisor as to the tax consequences to you of the receipt, exercise or lapse of the rights in light of your particular circumstances.

Extension, Cancellation and Amendment Although we do not presently intend to do so, we have the option to extend the rights offering and public offering expiration date. In no event will the exercise period of the rights offering exceed 90 days in the event of an extension. Our board of directors may cancel the rights offering or public offering at any time prior to the expiration date for any reason. In the event that the rights offering or the public offering is canceled, all subscription payments received by the subscription agent will be returned, without interest or deduction, as soon as practicable. We also reserve the right to amend or modify the terms of the rights offering or public offering at any time prior to the expiration date.

Procedures for Exercising Rights To exercise your subscription rights, you must take the following steps:

- If you hold a Preferred Bank stock certificate, you may deliver payment and a properly completed rights certificate to the subscription agent to be received before 5:00 p.m., Eastern Time, on August 24, 2009. You may deliver the documents and payments by hand delivery, first class mail or courier service. If first class mail is used for this purpose, we recommend using registered mail, properly insured, with return receipt requested.
- If you are a beneficial owner of shares that are registered in the name of a custodian bank, broker, dealer or other nominee, you will not receive a rights certificate. You should instruct your custodian bank, broker, dealer or other nominee to exercise your subscription rights on your behalf. Please follow the instructions of your nominee, who may require that you meet a deadline earlier than 5:00 p.m., Eastern Time, on August 24, 2009.



Subscription Agent	Computershare Trust Company, N.A., 250 Royall Street, Suite V, Canton, MA 02021
Information Agent	Georgeson, Inc. at (866) 828-4315.
Shares Outstanding Before the Rights Offering	9,854,207 shares of our common stock were outstanding as of July 21, 2009.
Shares Outstanding After Completion of the Rights Offering	Assuming no options are exercised prior to the expiration of the rights offering, all shares are sold in the rights offering, and the shares available are not increased by the board of directors, we expect approximately 13,326,429 shares of our common stock will be outstanding immediately after completion of the rights offering if the maximum number of shares are sold.
Fees and Expenses	We will pay the expenses related to the rights offering, including the fees and expenses of our counsel.
NASDAQ Global Select Market Symbol	“PFBC.” Shares of common stock issued upon the exercise of the subscription rights will be listed on the NASDAQ Global Select Market under the same ticker symbol.



SUMMARY FINANCIAL DATA

You should read the summary financial data presented below in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our financial statements and the notes to those financial statements incorporated herein by reference.

The following tables set forth summary financial data for us at and for each of the years in the five-year period ended December 31, 2008 and at and for the three month periods ended March 31, 2009 and 2008.

The summary statement of operations data for the years ended December 31, 2008, 2007 and 2006, and the summary statement of financial condition data as of December 31, 2008 and 2007, have been derived from our audited financial statements incorporated herein by reference. The summary statement of operations data for the years ended December 31, 2005 and 2004 and the summary statement of financial condition data as of December 31, 2006, 2005 and 2004 have been derived from our audited financial statements that are not included in this offering circular.

The summary financial data at and for the three months ended March 31, 2009 and 2008 have been derived from our unaudited interim financial statements incorporated herein by reference. These unaudited interim financial statements include all adjustments (consisting only of normal recurring adjustments) that we consider necessary for a fair presentation of our financial condition and results of operations as of the dates and for the periods indicated. Historical results are not necessarily indicative of future results and the results for the three months ended March 31, 2009, are not necessarily indicative of our expected results for the full year ended December 31, 2009.

	At or for the Three Months Ended March 31,		At or for the Year Ended December 31,				
	2009	2008	2008	2007	2006	2005	2004
(Dollars in thousands, except per share data)							
Financial Condition Data:							
Total assets	\$1,433,770	\$1,550,925	\$1,483,231	\$1,542,610	\$1,348,841	\$1,136,720	\$907,270
Total deposits	1,205,285	1,264,960	1,257,323	1,253,110	1,161,344	975,467	801,535
Investments securities available-for-sale, at fair value	89,389	267,234	104,406	245,268	198,689	162,935	164,635
Loans and leases	1,191,310	1,230,140	1,231,232	1,233,099	997,317	771,143	615,961
Cash and cash equivalent	82,641	22,472	69,586	22,803	26,878	25,123	35,212
Other real estate owned	43,032	8,441	35,127	8,444	—	—	8,258
Shareholders’ equity	132,094	149,654	137,491	152,952	145,932	123,846	76,808
Statement of Operations Data:							
Interest income	\$ 16,926	\$ 25,288	\$ 85,959	\$ 112,607	\$ 90,262	\$ 60,082	\$ 38,643
Interest expense	7,222	10,447	34,634	44,199	31,424	16,062	7,447
Net interest income	9,704	14,841	51,325	68,408	58,838	44,020	31,196
Provision for loan and lease losses	6,550	5,080	30,560	4,900	1,960	2,110	1,550
Net interest income after provision for loan and lease losses	3,154	9,761	20,765	63,508	56,878	41,910	29,646
Noninterest income	1,278	782	4,941	3,090	3,028	3,868	4,199
Noninterest expense	6,583	5,005	35,594	21,461	20,017	17,571	15,339
(Loss) income before provision for income taxes	(2,151)	5,538	(9,888)	45,137	39,889	28,207	18,506
Provision for income taxes	(829)	2,160	(4,876)	18,670	16,538	11,382	7,354
Net (loss) income	\$ (1,322)	\$ 3,378	\$ (5,012)	\$ 26,467	\$ 23,351	\$ 16,825	\$ 11,152



	At or for the Three Months Ended March 31,		At or for the Year Ended December 31,				
	2009	2008	2008	2007	2006	2005	2004
(Dollars in thousands, except per share data)							
Share Data:							
Net (loss) income per share, basic	\$ (0.14)	\$ 0.34	\$ (0.51)	\$ 2.56	\$ 2.29	\$ 1.72	\$ 1.35
Net (loss) income per share, diluted	\$ (0.13)	\$ 0.34	\$ (0.51)	\$ 2.50	\$ 2.21	\$ 1.65	\$ 1.28
Book value per share	\$ 13.40	\$ 15.34	\$ 14.09	\$ 15.37	\$ 14.20	\$ 12.34	\$ 9.22
Shares outstanding at period end	9,854,207	9,755,207	9,755,207	9,953,532	10,274,706	10,037,856	8,331,273
Weighted average number of shares outstanding, basic	9,791,507	9,898,204	9,790,858	10,330,232	10,194,515	9,782,645	8,227,597
Weighted average number of shares outstanding, diluted	9,794,271	9,937,828	9,810,391	10,580,949	10,556,282	10,195,958	8,713,851
Selected Other Balance Sheet Data:							
Average assets	\$1,488,143	\$1,531,723	\$1,506,228	\$ 1,405,311	\$ 1,180,749	\$ 1,006,222	\$1,840,265
Average earning assets	1,397,653	1,478,608	1,444,340	1,362,433	1,142,126	926,019	791,227
Average shareholders' equity	138,784	154,891	149,635	156,217	134,384	110,250	71,896
Selected Financial Ratios:							
Return on average assets	(0.36)%	0.89%	(0.33)%	1.88%	1.98%	1.67%	1.33%
Return on average shareholders' equity	(3.86)	8.77	(3.35)	16.94	17.38	15.26	15.51
Shareholders' equity to assets	9.21	9.65	9.27	9.92	10.82	10.90	8.47
Net interest margin	2.88	4.11	3.62	5.06	5.18	4.54	3.94
Efficiency ratio	59.95	32.04	63.26	30.02	32.35	36.69	43.34
Selected Asset Quality Ratios:							
Non-performing loans to total loans and leases	7.22%	2.95%	5.42%	1.69%	0.11%	— %	0.06%
Non-performing assets to total assets . . .	9.00	2.88	6.87	1.90	0.08	—	0.95
Allowance for loan and lease losses to total loans and leases	2.59	1.62	2.19	1.21	1.03	1.16	1.09
Allowance for loan and lease losses to non-performing loans	35.90	55.12	40.33	71.27	913.93	—	1758.64
Net charge-offs to average loans and leases	0.86	—	1.52	0.02	0.08	(0.02)	0.18



RISK FACTORS

The exercise of your subscription rights for shares of our common stock involves risks. We describe below the material risks and uncertainties that affect our business. Before making an investment decision, you should carefully consider all of these risks and all other information contained in this offering circular. If any of the risks described in this offering circular occur, our business, financial condition, results of operations and cash flows could be materially and adversely affected. If this were to happen, the value of our common stock could decline significantly, and you could lose all or a part of your investment.

Risks Related to the Rights Offering

The future price of the shares of common stock may be less than the \$2.88 purchase price per share in the rights offering.

If you exercise your subscription rights to purchase shares of common stock in the rights offering, you may not be able to sell them later at or above the \$2.88 purchase price in the rights offering. The actual market price of our common stock could be subject to wide fluctuations in response to numerous factors, some of which are beyond our control. These factors include, among other things, actual or anticipated variations in our costs of doing business, operating results and cash flow, the nature and content of our earnings releases and our competitors' earnings releases, changes in financial estimates by securities analysts, business conditions in our markets and the general state of the securities markets and the market for other financial stocks, changes in capital markets that affect the perceived availability of capital to companies in our industry, governmental legislation or regulation, currency and exchange rate fluctuations, as well as general economic and market conditions, such as downturns in our economy and recessions.

If you exercise your subscription rights, you commit to purchasing the shares of common stock at the designated price and may not revoke your subscription rights if the public trading market price of such shares decreases below the subscription price.

Once you exercise your subscription rights, you may not revoke them. If you exercise your subscription rights and, afterwards, the public trading market price of our shares of common stock decreases below the subscription price, you will have committed to buying shares of our common stock at a price above the prevailing market price and could have an immediate unrealized loss. Our common stock is traded on the NASDAQ Global Select Market under the symbol "PFBC," and the last reported sales price of our common stock on the NASDAQ Global Select Market on July 21, 2009 was \$3.30 per share. Following the exercise of your subscription rights, you may not be able to sell your common stock at a price equal to or greater than the subscription price.

The subscription price determined for the rights offering is not an indication of the fair value of our common stock.

Our board of directors established the subscription price at 85% of the volume weighted average closing price of our common stock on the NASDAQ Global Select Market for 5 trading days ending two business days immediately prior to the commencement date of the offering. In determining the subscription price, our board of directors considered a number of factors, including: the price at which our shareholders might be willing to participate in the rights offering, historical and current trading prices for our common stock, the need for liquidity and capital, potential market conditions, and the desire to provide an opportunity to our shareholders to participate in the rights offering on a pro rata basis. In conjunction with its review of these factors, our board of directors also reviewed our history and prospects, including our past and present earnings, our prospects for future earnings, our current financial condition and regulatory status. Our board of directors did not seek or obtain the opinion of a financial advisor in establishing the subscription price. You should not assume or expect that, after the rights offering, our shares of common stock will trade at or above the \$2.88 purchase price. The



market price of our shares of common stock may decline during or after the rights offering and you may not be able to sell shares of our common stock purchased during the rights offering at a price equal to or greater than the subscription price.

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

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

- actual or anticipated quarterly fluctuations in our operating results and financial condition;
- changes in revenue or earnings estimates or publication of research reports and recommendations by financial analysts;
- failure to meet analysts' revenue or earnings estimates;
- speculation in the press or investment community;
- strategic actions by us or our competitors, such as acquisitions or restructurings;
- actions by institutional shareholders;
- fluctuations in the stock price and operating results of our competitors;
- general market conditions and, in particular, developments related to market conditions for the financial services industry;
- proposed or adopted regulatory changes or developments;
- anticipated or pending investigations, proceedings or litigation that involve or affect us; or • domestic and international economic factors unrelated to our performance.

The stock market and, in particular, the market for financial institution stocks, has experienced significant volatility. As a result, the market price of our common stock has been and in the future may be volatile. In addition, the trading volume in our common stock may fluctuate more than usual and cause significant price variations to occur. The trading price of the shares of our common stock and the value of our other securities will depend on many factors, which may change from time to time, including, without limitation, our financial condition, performance, creditworthiness and prospects, future sales of our equity or equity related securities, and other factors identified above in "Cautionary Note Regarding Forward-Looking Information". Current levels of market volatility are unprecedented. The capital and credit markets have been experiencing volatility and disruption for more than a year. In recent months, the volatility and disruption have reached unprecedented levels. In some cases, the markets have produced downward pressure on stock prices and credit availability for certain issuers without regard to those issuers' underlying financial strength.

We may terminate the rights offering at any time without further obligation to you.

We may terminate the rights offering at our discretion prior to the expiration of the rights offering. If we terminate the rights offering, neither we nor the subscription agent will have any obligation to you with respect to the rights except to return any payment received by the subscription agent, without interest or deduction, as soon as practicable. Similarly, we may terminate the public offering at any time with no obligation to you, except to return any payment received by the subscription agent, without interest or deduction, as soon as practicable.



The subscription rights are not transferable and there is no market for the subscription rights.

You may not sell, give away or otherwise transfer your subscription rights. The subscription rights are only transferable by operation of law. Because the subscription rights are non-transferable, there is no market or other means for you to directly realize any value associated with the subscription rights. You must exercise the subscription rights and acquire additional shares of our common stock to realize any value from your subscription rights.

If you do not act promptly and follow the subscription instructions, we will reject your exercise of subscription rights.

If you desire to purchase shares in the rights offering, you must act promptly to ensure that the subscription agent actually receives all required forms and payments before the expiration of the rights offering at 5:00 p.m., Eastern Time, on August 24, 2009. If you are a beneficial owner of shares, you must act promptly to ensure that your broker, dealer, custodian bank, or other nominee acts for you and that all required forms and payments are actually received by the subscription agent before the expiration of the rights offering. We are not responsible if your nominee fails to ensure that the subscription agent receives all required forms and payments before the expiration of the rights offering. If you fail to complete and sign the required subscription forms, send an incorrect payment amount, or otherwise fail to follow the subscription procedures that apply to your exercise of your subscription rights prior to the expiration of the rights offering, the subscription agent will reject your subscription or accept it only to the extent of the payment received. Neither we nor our subscription agent will undertake any action to contact you concerning an incomplete or incorrect subscription form or payment, nor are we under any obligation to correct such forms or payment. We have the sole discretion to determine whether a subscription exercise properly complies with the subscription procedures.

You will not be able to sell the shares you buy in the rights offering until you receive your stock certificates or your account is credited with the shares of common stock.

If you purchase shares of our common stock in the rights offering by submitting a rights certificate and payment, we will mail you a stock certificate as soon as practicable after August 24, 2009, or such later date as to which the rights offering may be extended. If your shares are held by a custodian bank, broker, dealer or other nominee and you purchase shares of our common stock, your account with your nominee will be credited with the shares of common stock you purchased in the rights offering as soon as practicable after the expiration of the rights offering, or such later date as to which the rights offering may be extended. Until your stock certificates have been delivered or your account is credited, you may not be able to sell your shares even though the common stock issued in the rights offering will be listed for trading on the NASDAQ Global Select Market. The stock price may decline between the time you decide to sell your shares and the time you are actually able to sell your shares.

Because our management will have broad discretion over the use of the net proceeds from the rights offering, you may not agree with how we use the proceeds, and we may not invest the proceeds successfully.

We intend to use the net proceeds from the rights offering for general corporate purposes. Our management may allocate the proceeds among such purposes as it deems appropriate. In addition, market factors may require our management to allocate portions of the proceeds for other purposes. Accordingly, you will be relying on the judgment of our management with regard to the use of the proceeds from the rights offering, and you will not have the opportunity, as part of your investment decision, to assess whether the proceeds are being used appropriately. It is possible that we may invest the proceeds in a way that does not yield a favorable, or any, return for us.



This is a “best efforts” rights offering and we may not be able to raise all the capital we desire.

This is a “best efforts” rights offering, which means there is no guarantee that we will be able to sell all or any of the shares of common stock offered in this offering circular. There is no minimum number of shares that we must sell to complete the rights offering. To the extent that our deposits and total assets continue to grow, or we experience losses in the future, we may need to raise additional capital if we are unable to raise sufficient capital in this rights offering. We may also need additional capital to fund growth in our loan portfolio or in the event we are unable to attract sufficient deposits in order to fund our growth. We cannot predict the timing and amount of our future capital requirements. If our capital needs exceed our earnings, we may seek funding through the capital markets; however, we may not be able to obtain capital when we need to or when it would be advantageous for us to do so. Failure to raise capital when needed could limit or eliminate our ability to grow, or in extreme instances, materially adversely affect our operations. Moreover, even if capital is available, it may be upon terms that are not favorable to existing common shareholders and could dilute their interest.

A limited public offering of unsubscribed shares as described in this offering circular will reduce, and future common stock offerings may reduce, the ownership percentage of our current shareholders.

Our current shareholders who do not fully exercise their subscription rights may experience dilution in their percentage ownership of our outstanding common stock as a result of the rights offering. In addition, if we do not sell all of the shares offered in the rights offering, and offer unsubscribed shares in a limited public offering, any shares sold in the limited public offering will dilute the ownership interests of our current shareholders. The sale and issuance of new shares of our common stock will be accretive to purchasers in the limited public offering. If we conduct additional offerings of shares of our common stock in the future, you may experience dilution in your percentage ownership of our outstanding common stock. In many situations, our board of directors has the authority, without any vote of our shareholders, to issue shares of our authorized but unissued stock, including shares authorized but unissued under our stock option plans. In the future, we may issue additional securities, through public or private offerings, in order to raise additional capital. Any such issuance would dilute the percentage of ownership interest of existing shareholders. In addition, option holders may exercise their options at a time when we would otherwise be able to obtain additional equity capital on more favorable terms.

Risks Related to Our Business

Difficult economic and market conditions have adversely affected our industry.

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

- We potentially face increased regulation of our industry. Compliance with such regulation may increase our costs and limit our ability to pursue business opportunities. Proposals have been discussed that call for a complete overhaul of the current regulatory framework applicable to commercial banks. We cannot assess the impact of any such changes on our business at this time.



- The process we use to estimate losses inherent in our credit exposure requires difficult, subjective and complex judgments, including forecasts of economic conditions and how these economic conditions might impair the ability of our borrowers to repay their loans. The level of uncertainty concerning economic conditions may adversely affect the accuracy of our estimates which may, in turn, impact the reliability of the process.
- We may be required to pay significantly higher FDIC premiums because market developments have significantly depleted the insurance fund of the FDIC and reduced the ratio of reserves to insured deposits. The FDIC is increasing assessments on FDIC-insured institutions and may impose a one-time assessment of 10-20 basis points on all deposits on June 30, 2009.
- Our banking operations are concentrated primarily in Southern California. Adverse economic conditions in this region in particular could further impair borrowers' ability to service their loans, decrease the level and duration of deposits by customers, and further erode the value of loan collateral. These conditions include the effects of the current general decline in real estate sales and prices in many markets across the United States, the current economic recession, and higher rates of unemployment. These conditions could increase the amount of our non-performing assets and have an adverse effect on our efforts to collect our non-performing loans or otherwise liquidate our nonperforming assets (including other real estate owned) on terms favorable to us, if at all, and could also cause a decline in demand for our products and services, or a lack of growth or a decrease in deposits, any of which may cause us to incur losses, adversely affect our capital, and hurt our business.

A continued deterioration in the California real estate market could hurt our business because most of our loans are secured by real estate located in California. As of March 31, 2009, approximately 73.6% of the book value of our loan portfolio consisted of loans collateralized by various types of real estate. Real estate values and real estate markets are generally affected by changes in national, regional or local economic conditions, fluctuations in interest rates and the availability of loans to potential purchasers, changes in tax laws and other laws, regulations and policies and acts of nature. In addition, real estate values in California could be affected by, among other things, earthquakes and national disasters particular to the state. If real estate prices decline, particularly in California, the value of real estate collateral securing our loans could be significantly reduced. As a result, we may experience greater charge-offs and, similarly, our ability to recover on defaulted loans by foreclosing and selling the real estate collateral would then be diminished and we would be more likely to suffer losses on defaulted loans. If there is a significant decline in real estate values, especially in California, the collateral for our loans will provide less security.

If recent federal legislation enacted to address the current economic downturn is ineffective, we may experience an adverse effect, which may be material, on our ability to access capital and on our business, financial condition and results of operations.

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



Recent developments related to the subprime mortgage market and the capital markets and the response of Congress and bank regulators to such developments could adversely affect banks in the future.

Negative developments beginning in the latter half of 2007 in the subprime mortgage market and the securitization markets for such loans have contributed to uncertainty in the financial markets generally and the expectation of a general economic downturn in 2008 and are anticipated to continue at least well through 2009. Performance of consumer loans and residential mortgage loan portfolios are reported to have deteriorated at many institutions. The values of real estate collateral supporting many residential mortgages and commercial loans have declined and may continue. Stock prices of financial companies, including banks and bank holding companies, have decreased substantially, which could negatively affect the ability of banks and bank holding companies to raise capital or borrow in the debt markets compared to recent years. There is a potential for new federal or state laws and regulations regarding lending and funding practices and liquidity standards, and bank regulatory agencies are expected to be very aggressive in responding to concerns and trends identified in examinations, including the expected issuance of many formal enforcement orders.

Adverse economic conditions in Asia could impact our business adversely.

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

At March 31, 2009, approximately \$68.8 million, or 5.8%, of our loan portfolio consisted of loans made to finance international trade activities. Changes in monetary policy, including changes in interest rates, governmental regulation of international trade activities, currency valuation, price competition, competition from other financial institutions and general economic and political conditions could negatively impact the amount of goods imported to and exported from the United States, the ability of borrowers to repay loans made by us, and the number and extent of importers' and exporters' need for our trade finance activities. It is possible that if the U.S. dollar weakens against other foreign currencies, the cost of imported goods will increase, which could have an adverse impact on some of our customers who import goods for resale in the United States. Such factors could have a material adverse effect on our business, financial condition, results of operations and cash flows.

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

Our success depends heavily on the abilities and continued service of our executive officers, especially Li Yu, our founder, Chairman, President and Chief Executive Officer. Mr. Yu, who founded the company, is integral to implementing our business plan. We currently do not have an employment agreement or non-competition agreement with Mr. Yu. Accordingly, members of our senior management team are not contractually prohibited from leaving or joining one of our competitors. If we lose the services of any of our executive officers, especially Mr. Yu, our business, financial condition, results of operations and cash flows may be adversely affected. Furthermore, attracting suitable replacements may be difficult and may require significant management time and resources.

We also rely to a significant degree on the abilities and continued service of our private banking, loan origination, underwriting, administrative, marketing and technical personnel. Competition for qualified



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

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

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

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

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

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

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

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



regulatory restrictions may have larger lending limits which would allow them to serve the credit needs of larger customers. These institutions, particularly to the extent they are more diversified than we are, may be able to offer the same loan products and services we offer at more competitive rates and prices.

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

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

We seek to mitigate the risks inherent in our loan portfolio by adhering to specific underwriting practices. Depending on the type of loan, these practices include analysis of a borrower's prior credit history, financial statements, tax returns and cash flow projections, valuation of collateral based on reports of independent appraisers and verification of liquid assets. Although we believe that our underwriting criteria are appropriate for the types of loans we make, we cannot assure you that they will be effective in mitigating all risks. Although we have significantly curtailed our lending activities and substantially tightened our underwriting standards, if our more underwriting criteria in effect when loans were granted proves to be ineffective, we may incur additional losses in our loan portfolio, and these losses may exceed the amounts set aside as reserves in our allowance for loan losses.

A significant amount of our loan portfolio has not been performing in accordance with the terms of such loans which could continue to adversely impact our financial performance. If our allowance for loan and lease losses is inadequate to cover actual losses, our financial results would be harmed.

A significant source of risk arises from the possibility that we could sustain losses because borrowers, guarantors and related parties may fail to perform in accordance with the terms of their loans and leases. Although a substantial amount of loan losses were incurred in 2008 and in the first quarter of 2009, the underwriting and credit monitoring policies and procedures that we have adopted to address this risk may not prevent additional losses that could have a material adverse effect on our business, financial condition, results of operations and cash flows. Additional losses may arise for a wide variety of reasons, many of which are beyond our ability to predict, influence or control. Some of these reasons could include a continued economic downturn in the State of California, a further decline in the California real estate market, changes in the interest rate environment, adverse economic conditions in Asia and natural disasters.

Like all financial institutions, we maintain an allowance for loan and lease losses to provide for loan and lease defaults and non-performance. Our allowance for loan and lease losses may not be adequate to cover actual loan and lease losses, and future provisions for loan and lease losses could materially and adversely affect our business, financial condition, results of operations and cash flows. Our allowance for loan and lease losses reflects our best estimate of the losses inherent in the existing loan and lease portfolio at the relevant balance sheet date and is based on management's evaluation of the collectability of the loan and lease portfolio, which evaluation is based on historical loss experience and other significant factors. The determination of an appropriate level of loan and lease loss allowance is an inherently difficult process and is based on numerous assumptions. The amount of future losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates, that may be beyond our control and these losses may exceed current estimates. At March 31, 2009, our allowance for loan and lease losses was \$30,885,000, which represented approximately 36% of our non-performing loans at such date. While we believe that our allowance for loan and lease losses is adequate to cover current losses, we cannot assure you that we will not increase the allowance for loan and lease losses further or that regulators will not require us to increase our allowance. Either of these occurrences could materially adversely affect our business, financial condition and results of operations would not affect cash flow directly.



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

At March 31, 2009, our construction loans were \$296.5 million, or 24.9% of our total loans and leases held, and the average loan size of our construction loans was \$4.8 million. The risks inherent in construction lending include, among other things, the possibility that contractors may fail to complete, or fail to complete on a timely basis, construction of the relevant properties; substantial cost overruns in excess of original estimates and financing; market deterioration during construction; and a lack of permanent take-out financing. Loans secured by these properties also involve additional risk because the properties have no operating histories. In these loans funds are advanced upon the security of the project under construction, which is of uncertain value prior to completion of construction, and the estimated operating cash flow to be generated, by the completed project. The borrowers' ability to repay their obligations to us and the value of our security interest in the collateral will be materially adversely affected if the projects do not generate sufficient cash flow by being either sold or leased. Construction lending has been a significant source of the loan losses incurred in 2008 and the first quarter of 2009. This may continue throughout 2009 due to declining real estate values and lack of available financing to sell finished residential properties.

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

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

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

Although we are shifting our lending focus from production to portfolio management and close monitoring, we anticipate some increase in the level of our assets, including our loan portfolio. Our ability to increase our asset base depends in large part on our ability to attract additional deposits at attractive rates. We intend to seek additional deposits by continuing to establish and strengthening our personal relationships with our customers and by offering deposit products that are competitive with those offered by other financial institutions in our markets. We cannot assure you that these efforts will be successful. Our inability to attract additional deposits at competitive rates could have a material adverse effect on our business, financial condition, results of operations and cash flows.

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

We primarily rely on deposits, in particular certificates of deposit of \$100,000 or more, or Jumbo CDs, to fund our operations. At March 31, 2009, we held \$467.5 million of Jumbo CDs, representing 38.8% of total deposits. These deposits are considered by the banking industry to be volatile and could be subject to withdrawal. Withdrawal of a material amount of such deposits would adversely impact our liquidity, profitability, business, financial condition, results of operations and cash flows.



Our inability to manage our growth could harm our business.

Our financial performance and profitability depend on our ability to execute our corporate growth strategy. We anticipate that our asset size and deposit base will grow over time, but not in the immediate future. In the long term, in addition to seeking deposit and loan growth in our existing markets, we intend to pursue expansion opportunities through strategically placed new branches, or by acquiring branch locations that we find attractive as they become available. Continued growth, however, may present operating and other integration problems. Our growth plans may place a strain on our administrative, operational, staffing and financial resources and increase demands on our systems and controls. To manage the expected growth of our operations and personnel, we will be required to, among other things:

- maintain effective transaction processing, operational and financial systems, procedures and controls;
- maintain effective underwriting guidelines; and
- expand our employee base and train and manage this growing employee base.
- The following risks, associated with our growth, internally or by acquisition, could have a material adverse effect on our business, financial condition, results of operations and cash flows:
- the potential disruption of our ongoing business
- our inability to continue to upgrade or maintain effective operating and financial control systems
- our inability to recruit and hire necessary personnel or to successfully integrate new personnel into our operations
- our inability to successfully integrate the operations of an acquired business or to manage our growth effectively
- the inability of our management to maximize our financial and strategic position after acquisitions by successful implementation of uniform product offerings and the incorporation of uniform technology into our product offerings, services and control systems
- the inability to maintain uniform standards, controls, procedures and policies and the impairment of relationships with employees and customers as a result of changes in management
- our inability to respond promptly or adequately to the emergence of unexpected expansion difficulties

We cannot assure you that we will be successful in overcoming these risks or any other problems encountered in connection with implementing our internal growth strategies. If we are unable to manage our growth effectively, our business, financial condition, results of operations and cash flows could be materially adversely affected.

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

We rely on communications, information, operating and financial control systems technology from third-party service providers, and we may suffer an interruption in or break of those systems that may result in lost business and we may not be able to obtain substitute providers on terms that are as favorable if our relationships with our existing service providers are interrupted. We rely heavily on third-party service providers for much of our communications, information, operating and financial control systems technology, including customer relationship management, general ledger, deposit, servicing and loan origination systems. Any failure, interruption or breach in security of these systems could result in failures or interruptions in our customer relationship management, general ledger, deposit, servicing and/or loan origination systems. We cannot assure you that such failures or interruptions will not occur or, if they do occur, that they will be adequately addressed by us or the third parties on which we rely. The occurrence of any failures or interruptions could have a material



adverse effect on our business, financial condition, results of operations and cash flows. If any of our third-party service providers experience financial, operational or technological difficulties, or if there is any other disruption in our relationships with them, we may be required to locate alternative sources of such services, and we cannot assure you that we could negotiate terms that are as favorable to us, or could obtain services with similar functionality as found in our existing systems without the need to expend substantial resources, if at all. Any of these circumstances could have a material adverse effect on our business, financial condition, results of operations and cash flows.

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

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

The monetary policies of the FRB, affected principally through open market operations and regulation of the discount rate and reserve requirements, have had major effects upon the levels of bank loans, investments and deposits. For example, in 2007-2008, multiple rate decreases in the Fed Funds rate by the Federal Open Market Committee placed tremendous pressure on the profitability of many financial institutions because of the resulting contraction of net interest margins. It is not possible to predict the nature or effect of future changes in monetary and fiscal policies.

We are subject to extensive government regulation which may hamper our ability to increase our assets and earnings and could result in a decrease in the value of your shares.

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

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

In the course of our business, we have foreclosed on and taken title to properties securing our loans and we are likely to do so in the future. If hazardous substances were discovered on any of the properties, we may be held liable to governmental entities or to third parties for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination or may be required to investigate or clean up hazardous or toxic substances or chemical releases at a property. Many environmental laws can impose liability regardless of whether we knew of or were responsible for the contamination. In



addition, if we arrange for the disposal of hazardous or toxic substances at another site, we may be liable for the costs of cleaning up and removing those substances from the site, even if we neither own nor operate the disposal site. Environmental laws may require us to incur substantial expenses and may materially limit use of properties we acquire through foreclosure, reduce their value or limit our ability to sell them in the event of a default on the loans they secure. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability.

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

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

Negative publicity could damage our reputation.

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

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

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



USE OF PROCEEDS

Assuming all of the rights in the rights offering are subscribed for, we estimate that the net proceeds to us from the sale of our common stock offered, after deducting estimated offering expenses, will be approximately \$10 million. We intend to use a portion of any capital raised to improve our regulatory capital position. We intend to use any remaining net proceeds for general corporate purposes. Although we may engage in strategic acquisitions of financial institutions and related businesses and acquisition of assets and liabilities of financial institutions, bank branches and other financial services providers if and when opportunities arise, we have no present plans, commitments, understandings or agreements concerning any acquisitions and we are not currently in negotiation with respect to any such matter.

Our management will retain broad discretion in deciding how to allocate the net proceeds of this offering. The precise amounts and timing of the application of the net proceeds from this offering depend upon many factors, including, but not limited to, the amount of any such proceeds and actual funding requirements. Accordingly, we will have significant flexibility in applying the net proceeds of this offering. Until the proceeds are used, we may invest the proceeds, depending on our cash flow requirements, in short and long-term investments, including, but not limited to, treasury bills, commercial paper, certificates of deposit, securities issued by U.S. government agencies, money market funds, repurchase agreements and other similar investments.

TRADING HISTORY AND DIVIDENDS

Trading History

As of March 31, 2009, there were approximately 138 holders of record of our common stock. Our common stock is listed for trading on the NASDAQ Global Select Market under the symbol "PFBC". The following table sets forth the high and low sales prices for our common stock for the periods indicated as reported on the NASDAQ Global Select Market:

	<u>High</u>	<u>Low</u>
2009		
First Quarter	\$ 6.80	\$ 4.85
Second Quarter	\$ 5.60	\$ 3.80
Third Quarter	\$ 3.80	\$ 2.71
2008		
First Quarter	\$26.00	\$16.15
Second Quarter	\$17.20	\$ 5.10
Third Quarter	\$12.25	\$ 3.70
Fourth Quarter	\$11.49	\$ 5.03
2007		
First Quarter	\$44.84	\$36.09
Second Quarter	\$41.61	\$36.04
Third Quarter	\$43.44	\$35.05
Fourth Quarter	\$41.00	\$24.51



Dividends

The following table sets forth during the periods indicated the dividends declared per share of our common stock.

<u>Calendar Year Ending December 31,</u>	<u>Dividends Declared Per Share</u>
2008	\$0.47
2007	\$0.68
2006	\$0.53
First Quarter 2009	\$0.08

On January 28, 2009 our board of directors declared a dividend of \$0.08 per share payable on February 26, 2009 to shareholders of record on February 12, 2009. On April 20, 2009 we announced that on April 16, 2009 our board of directors had elected to suspend our cash dividend. Any determination to pay dividends in the future will be at the discretion of our board of directors and will depend upon our earnings, financial condition, results of operations, capital requirements, available investment opportunities, regulatory restrictions, contractual restrictions and other factors that our board of directors may deem relevant. Accordingly, there can be no assurance that any stock or cash dividends will be declared in the future, and if any are declared, what amount they will be.

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

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

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

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

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

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



CAPITALIZATION

The following table sets forth our capitalization and capital ratios as of March 31, 2009:

- on an actual basis; and
- on an as adjusted basis to give effect to the sale by us of 1,388,888 and 3,472,222 shares of our common stock offered by this offering circular, at a public offering price of \$2.88 per share, after deducting estimated offering expenses.

You should read this table in conjunction with the financial statements and the other financial information incorporated herein by reference.

	At March 31, 2009(3)		
	Actual	As Adjusted if a Minimum of \$4 Million Sold	As Adjusted if a Maximum of \$10 Million Sold
(Dollars in thousands)			
Shareholders' Equity:			
Preferred stock (no par value, 25,000,000 shares authorized, none issued and outstanding)	—	—	—
Common stock (no par value, 100,000,000 shares authorized, 9,854,207 shares issued and outstanding actual, 13,326,429 shares issued and outstanding, as adjusted)	\$ 72,009	\$ 75,809	\$ 81,809
Treasury stock	(19,115)	(19,115)	(19,115)
Additional paid-in capital	5,022	5,022	5,022
Retained earnings	84,480	84,480	84,480
Accumulated other comprehensive income	(10,302)	(10,302)	(10,302)
Total shareholders' equity	<u>\$132,094</u>	<u>\$135,894</u>	<u>\$141,894</u>
Book value per share	\$ 13.40	\$ 12.09	\$ 10.65
Capital Ratios:(2)(3)			
Tier 1 leverage capital ratio	9.51%	9.74%	10.10%
Tier 1 risk-based capital ratio	10.61%	10.89%	11.34%
Total risk-based capital ratio	11.87%	12.15%	12.60%

- (1) The computations set forth in the above table 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, 2009 in our annual report on Form 10-K for the fiscal year ended December 31, 2008.
- (2) For a discussion of these ratios, see "Regulation and Supervision—Capital Standards."
- (3) The net proceeds from our sale of common stock in this offering are presumed to be invested in 0% risk weighted U.S. Treasury bonds for purposes of as adjusted risk-board regulatory capital ratios.



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

This offering circular, including the following Management's Discussion and Analysis of Financial Condition and Results of Operations, contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from the results discussed in the forward-looking statements as a result of certain factors, including those set forth under "Risk Factors" and elsewhere in this offering circular. We assume no obligation to update any such forward-looking statements or reasons why actual results may differ. The following discussion should be read in conjunction with our financial statements and the notes thereto incorporated herein by reference.

We are a California chartered, full-service commercial bank focused on the Chinese-American market in Southern California. We conduct our banking business from our headquarters in Los Angeles, and through our eleven full-service branch offices in Alhambra, Arcadia Century City, City of Industry, Diamond Bar, Pico Rivera, Santa Monica, Torrance, Anaheim, Irvine, and Chino, California.

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 and how our performance for the year ended December 31, 2008 compared with prior years and with our first quarter ended March 31, 2009. This discussion and analysis should be read in conjunction with our unaudited interim financial statements and the accompanying notes incorporated herein by reference from our quarterly report on Form 10-Q for the period ended March 31, 2009.

Overview

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

As a result of the rapid slowdown in the real estate market, deteriorating economic conditions, significant credit quality issues as well as losses and volatile interest rate movements, we incurred a net operating loss in 2008 on our investment portfolio. If general economic conditions and the real estate market continue to deteriorate, this loss trend could continue and/or intensify and we could experience other negative effects in our performance. In addition, if the corporate bond market does not improve in liquidity and values from 2008 levels or worsens from 2008 levels, we could experience additional other-than-temporarily impaired ("OTTI") charges on our investment portfolio.

We recorded a net loss for the first quarter of 2009 of \$1.3 million, compared to net income of \$3.4 million in the first quarter last year, a decrease of \$4.7 million. Diluted loss per share for the first quarter of 2009 was (\$0.13) compared to earnings per share of \$0.34 in the first quarter of 2008. Results for the quarter were negatively impacted by a provision for loan losses of \$6.55 million, other real estate owned ("OREO") expense of \$613,000 and a pre-tax charge to earnings of \$425,000 on available-for-sale securities we had determined that as of March 31, 2009 were credit related other-than-temporarily impaired, partially offset by a pre-tax gain on sale of \$460,000 of investment securities.

For the first quarter of 2009, return on average assets was (0.36)%, down from 0.89% in the same period in 2008, while return on average equity was (3.86)% for the first quarter of 2009, compared to 8.77% a year ago.



Our loan portfolio decreased to \$1.191 billion at March 31, 2009, from \$1.231 billion at December 31, 2008. At March 31, 2009, assets totaled \$1.434 billion, a decrease of \$49.46 million, or (3.3)% from \$1.483 billion at December 31, 2008. Total loans decreased due to loans paid off and not renewed as well as the transfer of certain foreclosed loans into OREO.

At March 31, 2009, deposits totaled \$1.205 billion, decreasing \$52.0 million, or 4.1% from \$1.257 billion at December 31, 2008. The primary reason for the decrease in deposits was a planned decrease of \$35 million in brokered deposits.

Non-performing assets were \$129.1 million as of March 31, 2009 compared to \$101.9 million as of December 31, 2008. This was due to an increase in the dollar amount of non-accrual residential 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. Unless economic conditions improve, the level of our non-performing assets could increase or remain at high levels.

At March 31, 2009, we exceeded all regulatory capital ratios, with a Tier 1 leverage ratio of 9.51%, Tier 1 risk-based capital of 10.61%, and a total risk-based capital ratio of 11.87%. These capital levels are significantly above the “well capitalized” standards defined by the federal banking regulators of 5.0% for Tier 1 leverage, 6.0% for Tier 1 risk-based capital, and 10.0% for total risk-based capital. If we realize significant continued losses, we may be required to raise additional capital or fall below well capitalized standards.

Regulatory Matters

On April 16, 2009, we agreed to a Memorandum of Understanding, or an MOU, with the FDIC and Commissioner of the California Department of Financial Institutions, or the California Commissioner. An MOU is an informal regulatory action that is used when circumstances warrant attention to particular matters of concern, but is less severe than a formal supervisory action, such as a formal written agreement or cease and desist order. Among the measures provided for in the MOU is that we maintain a minimum Tier 1 leverage capital ratio and a minimum tangible common equity to total tangible assets ratio of not less than 8%. As of March 31, 2009, these ratios were 9.51% and 9.21%, respectively. Other requirements of the MOU are to reduce adversely classified assets, maintain an adequate allowance for loan and lease losses and to diversify our funding sources. In addition, we also agreed to provide notice to the FDIC and the California Commissioner prior to making any changes to our senior executives or board of directors, and to provide periodic reports on our progress in implementing the measures set forth in the MOU.

Recent Developments

There have been significant disruptions in the U.S. and international financial system which commenced during the third quarter 2008 and continued through March 31, 2009. As a result, the availability of credit, confidence in the entire financial sector, and the financial markets have been adversely affected. The U.S. Government, the governments of other countries, and multinational institutions have provided vast amounts of liquidity and capital for the banking system.

In response to the financial crises affecting the overall banking system and financial markets in the United States, on October 3, 2008, the Emergency Economic Stabilization Act was enacted to provide up to \$700 billion to the United States Department of Treasury (“U.S. Treasury”) to purchase mortgages, mortgage backed securities and certain other financial instruments from financial institutions for the purpose of stabilizing and providing liquidity to the U.S. financial markets.

On October 14, 2008, under the authority of the Emergency Economic Stabilization Act, the U.S. Treasury announced the Troubled Asset Relief Program (“TARP”) Capital Purchase Program. Under this program, the U.S. Treasury would purchase up to \$250 billion of senior preferred shares from qualified U.S. financial institutions.



On February 17, 2009, President Obama signed into law the American Recovery and Reinvestment Act in response to the current crisis in the financial sector. The U.S. Treasury and banking regulators are implementing a number of programs under this legislation to address capital and liquidity issues in the banking system.

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

The FDIC insures deposits at FDIC insured financial institutions up to certain limits. The FDIC charges insured financial institutions premiums to maintain the Deposit Insurance Fund. Current economic conditions have increased expectations for bank failures, in which case the FDIC would take control of failed banks and ensure payment of deposits up to insured limits using the resources of the Deposit Insurance Fund. In such case, the FDIC may increase premium assessments to maintain adequate funding of the Deposit Insurance Fund, including requiring riskier institutions to pay a larger share of the premiums. An increase in premium assessments would increase our expenses. The Emergency Economic Stabilization Act included a provision for a temporary increase in the amount of deposits insured by FDIC to \$250,000 until December 2009. On October 14, 2008, the FDIC announced a new program—the Temporary Liquidity Guarantee Program—that provides unlimited deposit insurance coverage on funds in non-interest bearing transaction deposit accounts and NOW accounts with rates not in excess of 0.5% not otherwise covered by the existing temporary deposit insurance limit of \$250,000. All eligible institutions will be covered under the program for the first 30 days without incurring any costs. After the initial period, participating institutions will be assessed an annualized 10 basis point surcharge on the additional insured deposits. We have chosen to participate in the Temporary Liquidity Guarantee Program. The behavior of depositors in regard to the level of FDIC insurance could cause our existing customers to reduce the amount of deposits held with us, and or could cause new customers to open deposit accounts with us. The level and composition of our deposit portfolio directly impacts our funding cost and net interest margin. As a result of these measures, it is likely that the premiums we pay for FDIC insurance will increase, which would adversely affect net income. The impact of such measures cannot be assessed at this time.

The actions described above, together with additional actions announced by the U.S. Treasury and other regulatory agencies, continue to develop. It is not clear at this time what impact, Emergency Economic Stabilization Act, TARP, other liquidity and funding initiatives of the U.S. Treasury and of other bank regulatory agencies that have been previously announced, and any additional programs that may be initiated in the future, will have on the financial markets and the financial services industry. The extreme levels of volatility and limited credit availability currently being experienced could continue to effect the U.S. banking industry and the broader U.S. and global economies, which will have an affect on all financial institutions, including us.

Critical Accounting Policies

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

Allowance for Loan and Lease Losses

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



We evaluate our allowance for loan and lease losses quarterly. We believe that the allowance for loan and lease losses is a “critical accounting estimate” because it is based upon management’s assessment of various factors affecting the collectability of the loans and leases, including current economic conditions, past credit experience, delinquency status, the value of the underlying collateral, if any, and a continuing review of the portfolio of loans and leases. On a 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 SFAS No. 114, *Accounting for Impairments by a Creditor*.

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

Under SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, 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 SFAS 157, *Fair Value Measurements*. Management reviews the fair value of investment securities on a monthly basis for reasonableness.

On a quarterly basis, management 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. This assessment is made before we determine whether we 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 other-than-temporary impairment. In instances when a determination is made that an other-than-temporary impairment exists but we do not intend to sell the 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 Staff Position FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*, changes the presentation and amount of the other-than-temporary impairment recognized in the income statement. The other-than-temporary impairment is separated into (a) the amount of the total other-than-temporary impairment related to a decrease in cash flows expected to be collected from the debt security (the credit loss) and (b) the amount of the total other-than-temporary impairment related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the total other-than-temporary impairment related to all other factors is recognized in other comprehensive income. The determination of other-than-temporary impairment is a subjective process, requiring the use of judgments and assumptions. We examine all individual securities that are in an unrealized loss position at each reporting date for other-than-temporary impairment. Specific investment-related factors we examine to assess impairment include the nature of the investment, severity and duration of the loss, the probability that we will be unable to collect all amounts due, an analysis of the issuers of the securities and whether there has been any cause for default on the securities and any change in the rating of the securities by the various rating agencies. Additionally, we evaluate whether the creditworthiness of the issuer calls the realization of contractual cash flows into question.

As required under Emerging Issues Task Force (“EITF”) 99-20, *Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interest in Securitized Financial Assets*, and EITF 99-20-1, *Amendments to the Impairment Guidance of EITF Issue No. 99- 20*, 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 its other-than-temporary impairment 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, 2009. Investment securities are discussed in more detail in the notes to the Company’s consolidated financial statements incorporated herein by reference.

Results of Operations

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

	<u>Three Months Ended March 31,</u>		<u>Year Ended December 31,</u>		
	<u>2009</u>	<u>2008</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
	(Dollars in thousands, except per share amounts)				
Net (loss) income	\$ (1,322)	\$ 3,378	\$ (5,012)	\$ 26,467	\$ 23,351
Net (loss) income per share, basic	\$ (0.14)	\$ 0.34	\$ (0.51)	\$ 2.56	\$ 2.29
Net (loss) income per share, diluted	\$ (0.13)	\$ 0.34	\$ (0.51)	\$ 2.5	\$ 2.21
Return on average assets	(0.36%)	0.89%	(0.33)%	1.88%	1.98%
Return on average shareholders’ equity	(3.86%)	8.77%	(3.35)%	16.94%	17.38%



Three Months Ended March 31, 2009 Compared to Three Months Ended March 31, 2008

	Three Months Ended March 31,		Increase (Decrease)
	2009	2008	
	(Dollars in thousands, except per share amounts)		
Statement of Operations Data:			
Interest income	\$16,926	\$25,288	\$(8,362)
Interest expense	7,222	10,447	(3,225)
Net interest income	9,704	14,841	(5,137)
Provision for credit losses	6,550	5,080	1,470
Net interest income after provision for loan and lease losses	3,154	9,761	(6,607)
Noninterest income	1,278	782	496
Noninterest expense	6,583	5,005	1,578
(Loss) income before income taxes	(2,151)	5,538	(7,689)
Income tax (benefit) expense	(829)	2,160	(2,989)
Net (loss) income	<u>\$ (1,322)</u>	<u>\$ 3,378</u>	<u>\$(4,700)</u>
Net (loss) income per share, basic(1)	<u>\$ (0.14)</u>	<u>\$ 0.34</u>	<u>\$ (0.48)</u>
Net (loss) income per share, diluted(1)	<u>\$ (0.13)</u>	<u>\$ 0.34</u>	<u>\$ (0.47)</u>

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

Net loss for the three months ended March 31, 2009 was \$1.3 million, or \$(0.13) per share on a diluted basis, a decrease of \$4.7 million from net income of \$3.4 million, or \$0.34 per share on a diluted basis for the three months ended March 31, 2008. Return on average assets was (0.36)% and return on average shareholders' equity was (3.86)% for the three months ended March 31, 2009, compared to 0.89% and 8.77%, respectively, for the three months ended March 31, 2008.

The decrease in net income in the first quarter of 2009 compared to 2008 is due to a decrease in net interest income before provision for credit losses of \$5.1 million, an increase in the provision for credit losses of \$1.5 million, and a pre-tax charge to earnings of \$425,000 for a credit-related other-than-temporary impairment on securities available-for-sale, and offset by a decrease in the income tax provision of \$3.0 million. The decrease in net interest income is due primarily to the lower interest rate environment as well as a significant increase in non-accrual loans compared to the same period last year. Average yields on earning assets decreased to 4.98% during the first quarter of 2009 compared to 6.96% in the same period last year while average rates paid on interest-bearing liabilities decreased to 2.58% in the first quarter of 2009 compared to 3.68% during 2008. The net interest margin declined to 2.88% during the first quarter of 2009 from 4.11% for the same period last year. This was due to the combination of a decrease in interest rates as well as an increase in non-accrual loans. While our average rates paid on deposits and borrowings decreased by 110 basis points, yield on earning assets decreased by 198 basis points due to the fact that our earning assets re-price faster than its liabilities when interest rates change. If we continue to carry a large amount of non-accrual loans, our net interest margin will continue to be subject to downward pressure.

As of March 31, 2009, 82.0% of our loan portfolio was tied to the Prime Rate, which has the potential to re-price daily and 10.6% was tied to the London Interbank Offering Rate, or LIBOR, or other indices, which reprice periodically. Approximately 52.0% of our loan portfolio had a floor interest rate at various levels, which can provide us with some protection in a falling interest rate environment should the Prime Rate decline to a level below the interest rate floor. Approximately 2.1% 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.



Year Ended December 31, 2008 Compared to Year Ended December 31, 2007

	Year Ended December 31,		
	2008	2007	Increase (Decrease)
	(Dollars in thousands, except per share data)		
Statement of Operations Data:			
Interest income	\$85,959	\$112,607	\$(26,648)
Interest expense	34,634	44,199	(9,565)
Net interest income	51,325	68,408	(17,083)
Provision for credit losses	30,560	4,900	25,660
Net interest income after provision for loan and lease losses	20,765	63,508	(42,743)
Noninterest income	4,941	3,090	1,851
Noninterest expense	35,594	21,461	14,133
(Loss) income before income taxes	(9,888)	45,137	(55,025)
Income tax (benefit) expenses	(4,876)	18,670	(23,546)
Net (loss) income	<u>\$(5,012)</u>	<u>\$ 26,467</u>	<u>\$(31,479)</u>
Net (loss) income per share, basic(1)	<u>\$ (0.51)</u>	<u>\$ 2.56</u>	<u>\$ (3.07)</u>
Net (loss) income per share, diluted(1)	<u>\$ (0.51)</u>	<u>\$ 2.50</u>	<u>\$ (3.01)</u>

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

Net income decreased \$31.5 million, or \$3.01 per diluted share, for the year-ended December 31, 2008, from \$26.5 million, or \$2.50 per diluted share, for the year ended December 31, 2007. Our return on average assets was (0.33)% and return on average shareholders' equity was (3.35)% for the year ended December 31, 2008, compared to 1.88% and 16.94%, respectively, for the year ended December 31, 2007.

Net income declined in 2008 from 2007, principally as a result of a decrease in net interest income by \$17.1 million, a \$25.7 million increase in the provision for credit losses and an increase in the impairment on available for sale securities by \$11.8 million, partially offset by a decrease in the provision for income taxes by \$23.5 million.

The \$17.1 million, or 25%, decrease in net interest income was due primarily to the lower interest rate environment as well as an increase in nonaccrual loans in 2008. Our overall cost of funds in 2008 decreased by 134 basis points to 3.06%, compared to 4.40% for 2007 while yields on earning assets decreased 228 basis points to 6.02% from 8.31%. The combined impact of a declining interest rate environment in 2008 and increased competition in the deposit market were the primary drivers of our decreased cost of funds during 2008.

As of December 31, 2008, 80% of our loan portfolio was tied to the Prime Rate, which has the potential to re-price daily, and 11% was tied to LIBOR, or other indices, which re-price periodically. Approximately 45% of our loan portfolio had a floor interest rate at various levels, which would provide us with some protection in a falling interest rate environment should the Prime Rate decline to a level below the floor interest rate. Approximately 2% of our loan portfolio had interest rate ceilings at various rates limiting the amount of interest rate increases that can be passed on to the borrower. Our weighted average maturity of certificates of deposit at December 31, 2008 was 4.4 months. As a result, our interest-bearing liabilities generally re-price slower than our loan portfolio and our net income has been negatively impacted by the declining rate environment during 2008.



Year Ended December 31, 2007 Compared to Year Ended December 31, 2006

	Year Ended December 31,		
	2007	2006	Increase (Decrease)
	(Dollars in thousands, except per share data)		
Statement of Income Data:			
Interest income	\$112,607	\$90,262	\$22,345
Interest expense	44,199	31,424	12,775
Net interest income	68,408	58,838	9,570
Provision for credit losses	4,900	1,960	2,940
Net interest income after provision for loan and lease losses	63,508	56,878	6,630
Noninterest income	3,090	3,028	62
Noninterest expense	21,461	20,017	1,444
Income before income taxes	45,137	39,889	5,248
Income taxes	18,670	16,538	2,132
Net income	<u>\$ 26,467</u>	<u>\$23,351</u>	<u>\$ 3,116</u>
Net income per share, basic(1)	<u>\$ 2.56</u>	<u>\$ 2.29</u>	<u>\$ 0.27</u>
Net income per share, diluted(1)	<u>\$ 2.50</u>	<u>\$ 2.21</u>	<u>\$ 0.29</u>

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

Net income increased 13.3% to \$26.5 million, or \$2.50 per diluted share, for the year-ended December 31, 2007, from \$23.4 million, or \$2.21 per diluted share, for the year ended December 31, 2006. Our return on average assets was 1.88% and return on average shareholders' equity was 16.94% for the year ended December 31, 2007, compared to 1.98% and 17.38%, respectively, for the year ended December 31, 2006.

Net income improved in 2007 from 2006, principally as a result of an increase in net interest income by \$9.6 million, partially offset by a \$2.9 million increase in the provision of credit losses, an increase in noninterest expense by \$1.4 million and an increase in the provision for income taxes by \$2.1 million.

The \$9.6 million, or 16%, increase in net interest income was primarily as a result of the growth in the loan portfolio across all loan products partially offset by a decrease in the net interest margin of 12 basis points. Our overall cost of funds in 2007 increased by 57 basis points to 4.40%, compared to 3.83% for 2006 while yields on earning assets increased 38 basis points to 8.31% from 7.93%. The combined impact of a rising interest rate environment in late 2006 and increased competition in the deposit market were the primary drivers of our increased cost of funds during 2007.

As of December 31, 2007, 84% of our loan portfolio was tied to the Prime Rate, which has the potential to re-price daily, and 14% was tied to LIBOR, or other indices, which re-price periodically. Approximately 37% of our loan portfolio had a floor interest rate at various levels, which would provide us with some protection in a falling interest rate environment should the Prime Rate decline to a level below the floor interest rate. Approximately 1% of our loan portfolio had interest rate ceilings at various rates limiting the amount of interest rate increases that can be passed on to the borrower. Our weighted average maturity of certificates of deposit at December 31, 2007 was 3.7 months. As a result, our interest-bearing liabilities generally re-price slower than our loan portfolio and our net income has been negatively impacted by the declining rate environment during 2007.



Net Interest Income and Net Interest Margin

Quarter ended March 31, 2009 Compared to March 31, 2008

Net interest income before provision for credit losses decreased \$5.1 million for the three months ended March 31, 2009 compared to the same quarter in the prior year. The decrease in net interest income is primarily due to the lower interest rate environment as well as significant increase in non-accrual loans. Our balance sheet is considered to be 'asset sensitive', that is, its interest earning assets re-price to market interest rates faster than its interest-bearing liabilities so that when overall interest rates decrease, our net interest margin decreases as well. Our net interest margin decreased 123 basis points for the three months ended March 31, 2009, compared to the first quarter of 2008 due to the aforementioned interest rate cuts and non-accrual loans. From March 2008 through December 2008, the Federal Open Market Committee, or FOMC, lowered its target fed funds rate from 2.25% to 0-0.25%, with each of these rate cuts, all major banks lowered their prime lending rate by the same amounts. Since 82.0% of our loan portfolio is tied to this prime rate, rates on loans in our portfolio decreased significantly. While we have attempted to lower deposit rates, these rates cannot be lowered as quickly as the prime rate has decreased and so our net interest margin has compressed.

The cost of average interest-bearing liabilities decreased to 2.58% for the three months ended March 31, 2009 from 3.68% for the three months ended March 31, 2008. This decrease was due to our lowering of interest rates paid on all types of deposits due to the dramatic decrease in short-term interest rates.

The average yield on interest-earning assets decreased to 4.98% in the three months ended March 31, 2009 from 6.96% in the three months ended March 31, 2008. 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,

	2009			2008		
	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)	\$1,224,181	\$15,161	5.02%	\$1,218,485	\$21,972	7.25%
Investment securities(2)(3)	118,083	1,961	6.74%	251,875	3,501	5.59%
Federal funds sold	49,457	32	0.26%	1,570	12	3.07%
Certificate of deposits with other banks	—	—	0.00%	—	—	0.00%
Other earning assets(4)	5,932	—	0.00%	4,764	62	5.23%
Total interest-earning assets	\$1,397,653	17,154	4.98%	\$1,476,694	\$25,547	6.96%
Deferred loan fees, net	(69)			(593)		
Allowance for loan losses	(26,869)			(14,952)		
Noninterest earning assets:						
Cash and due from banks	23,411			21,307		
Bank furniture and fixtures	7,239			5,842		
Other assets	86,778			43,425		
Total assets	<u>\$1,488,143</u>			<u>\$1,531,723</u>		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Interest-bearing liabilities:						
Deposits:						
Interest-bearing demand/ savings	\$ 191,311	\$ 444	0.94%	\$ 228,274	\$ 992	1.75%
TCD \$100K or more	473,128	3,379	2.90%	664,826	6,784	4.10%
TCD less than \$100K	397,444	2,720	2.78%	146,139	1,630	4.49%
Total interest-bearing deposits	1,061,883	6,543	2.50%	1,039,239	9,406	3.64%
Short-term borrowings	5	—	0.50%	28,175	248	3.54%
Long-term debt	72,153	679	3.81%	75,000	793	4.25%
Total interest-bearing liabilities	1,134,041	7,222	2.58%	1,142,414	10,447	3.68%
Non-interest bearing liabilities:						
Demand deposits	195,527			212,754		
Other liabilities	19,791			21,664		
Total liabilities	<u>1,349,359</u>			<u>1,376,832</u>		
Shareholders' equity	138,784			154,891		
Total liabilities and shareholders' equity	<u>\$1,488,143</u>			<u>\$1,531,723</u>		
Net interest income		<u>\$ 9,932</u>			<u>\$15,100</u>	
Net interest spread			2.40%			3.28%
Net interest margin			2.88%			4.11%

- (1) Includes non-accrual loans and leases of \$85.8 million and \$36.2 million for the three months ended March 31, 2009 and 2008, respectively.
- (2) Yields on tax-exempt income have been computed on a tax-equivalent basis, using effective marginal rate of 42.05%.
- (3) Yields on AFS securities have been calculated using fair market value rather than historical cost. The use of fair value does not have a material impact on the yield.
- (4) Includes Federal Home Loan Bank 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, 2009 Compared to Three Months Ended March 31, 2008		
	Net Change	Rate	Volume
	(In thousands)		
Interest income:			
Loans and leases	\$(6,811)	\$(6,913)	\$ 102
Investment securities	(1,540)	585	(2,125)
Federal funds sold	20	(21)	41
Interest-bearing deposits with other banks	—	—	—
Other earning assets	(62)	(74)	12
Total interest income	(8,393)	(6,423)	(1,970)
Interest expense:			
Interest-bearing demand	(50)	(23)	(27)
Money market	(161)	(142)	(19)
Savings	(337)	(234)	(103)
Time certificates of deposit	(2,315)	(2,566)	251
Short-term borrowings	(248)	(115)	(133)
Long-term debt	(114)	(85)	(29)
Total interest expense	(3,225)	(3,165)	(60)
Net interest income	\$(5,168)	\$(3,258)	\$(1,910)

Year ended December 31, 2008 compared to 2007

Net interest income before the provision for credit losses for the year ended December 31, 2008 decreased \$17.1 million, or 25%, to \$51.3 million from \$68.4 million for the year ended December 31, 2007. This decrease was due to a decrease in interest income of \$26.6 million, partially offset by a decrease in interest expense of \$9.6 million. Total interest expense decreased primarily as a result of decreases in interest rates on time certificates of deposit maturing and being replaced at current lower prevailing rates. The \$26.6 million decrease in total interest income was due to both a decrease in interest rates on loans and an increase in the total amount of loans that went into nonaccrual status during 2008.

The average yield on our interest-earning assets decreased to 6.02% in the year ended December 31, 2008 from 8.31% in the year ended December 31, 2007. The decrease was mainly due to lower rates earned on loans and investment securities and an increase in loans on nonaccrual status.

The cost of average interest-bearing liabilities decreased to 3.06% in the year ended December 31, 2008 from 4.40% in the year ended December 31, 2007. The decrease was primarily driven by generally lower rates paid on deposits during 2008 over 2007 which is a result of lower market rates.

Year ended December 31, 2007 compared to 2006

Net interest income before the provision for credit losses for the year ended December 31, 2007 increased \$9.6 million, or 16.3%, to \$68.4 million from \$58.8 million for the year ended December 31, 2006. This increase was due to an increase in interest income of \$22.5 million, partially offset by an increase in interest expense of \$12.8 million. Total interest expense increased primarily as a result of increases in interest rates on time certificates of deposit maturing and being replaced at current prevailing rates. The \$22.5 million increase in total interest income was due to both an increase in interest rates on loans and a shift in asset mix from overnight investments such as fed funds to loans.



The average yield on our interest-earning assets increased to 8.31% in the year ended December 31, 2007 from 7.93% in the year ended December 31, 2006. The increase was mainly due to slightly higher rates earned on the investment portfolio as well as a shift in earning assets away from fed funds and into loans.

The cost of average interest-bearing liabilities increased to 4.40% in the year ended December 31, 2007 from 3.83% in the year ended December 31, 2006. The increase was primarily driven by generally higher rates paid on deposits during 2007 over 2006 which is partially a result of higher market rates and increased competition for deposit dollars from banks and thrifts.

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. Nonaccrual loans are included in the calculation of average loans and leases while non-accrued interest thereon is excluded from the computation of yields earned.

	Year Ended December 31, 2008			Year Ended December 31, 2007			Year Ended December 31, 2006		
	Average Balance	Interest Income or Expense	Average Yield or Cost	Average Balance	Interest Income or Expense	Average Yield or Cost	Average Balance	Interest Income or Expense	Average Yield or Cost
(Dollars in thousands)									
ASSETS									
Interest-earning assets:									
Loans and leases (2)(3)	\$1,220,348	\$75,120	6.16%	\$1,103,248	\$ 98,817	8.96%	\$ 867,672	\$77,186	8.90%
Investment securities(1)	209,714	11,458	5.46%	210,635	11,818	5.61%	179,533	8,793	4.90%
Federal funds sold	9,073	96	1.06%	43,278	2,268	5.24%	89,322	4,377	4.90%
Certificates of deposits with other banks	—	—	—	399	22	5.51%	2,401	108	4.50%
Other earning assets(4)	5,204	253	4.86%	4,280	214	5.00%	3,590	189	5.26%
Total interest-earning assets	\$1,444,339	\$86,927	6.02%	\$1,361,840	\$113,139	8.31%	\$1,142,528	\$90,653	7.93%
Noninterest-earning assets:									
Cash and due from banks	22,200			22,943			24,228		
Other assets	39,699			20,524			13,993		
Total assets	\$1,506,238			\$1,405,307			\$1,180,749		
LIABILITIES AND SHAREHOLDERS' EQUITY									
Interest-bearing liabilities:									
Deposits									
Interest-bearing demand	33,650	\$ 265	0.79%	\$ 31,489	\$ 458	1.45%	\$ 26,353	\$ 316	1.20%
Money market	109,383	1,099	1.01%	99,551	2,210	2.22%	106,962	2,140	2.00%
Savings	73,042	1,433	1.96%	91,717	3,494	3.81%	67,317	2,427	3.61%
Time certificates of deposit	823,249	28,396	3.45%	739,696	36,263	4.90%	597,504	25,675	4.30%
Total interest-bearing deposits	1,039,324	31,193	3.00%	962,453	42,425	4.41%	798,136	30,558	3.83%
Short-term borrowings	19,547	533	2.73%	6,249	295	4.72%	1,071	58	5.42%
Long-term debt (FHLB)	72,691	2,908	4.00%	35,608	1,479	4.15%	21,233	808	3.81%
Total interest-bearing liabilities	1,131,562	34,634	3.06%	1,004,310	44,199	4.40%	820,440	31,424	3.83%
Noninterest-bearing liabilities:									
Demand deposits	205,764			220,050			207,685		
Other liabilities	19,267			24,732			18,237		
Total liabilities	1,356,593			1,249,092			1,046,362		
Shareholders' equity	149,635			156,215			\$ 134,387		
Total liabilities and shareholders' equity	\$1,506,238			\$1,405,307			\$1,180,749		
Net interest income		\$52,294			\$ 68,940			\$59,229	
Net interest spread			2.96%			3.91%			4.10%
Net interest margin			3.62%			5.06%			5.18%

- (1) Yields on securities have been adjusted to a tax-equivalent basis. The average balance of investment securities for 2006 represents the carrying value.
- (2) Includes average nonaccrual loans and leases.



- (3) Net loan and lease fees of \$250,000, \$2.2 million and \$4.5 million for the year ended December 31, 2008, 2007 and 2006, respectively, are included in the yield computations.
- (4) Includes Federal Home Loan Bank stock.

While our interest income decreased, primarily due to the lower interest rate environment as well as an increase in nonaccrual loans in 2008, decreases in interest expense on our deposits reflecting decreases on rates primarily on our time certificates of deposit, caused our net interest margin to decrease from 5.06% in 2007 to 3.62% in 2008.

The following table shows the change in interest income and interest expense and the amount of change attributable to variances in volume, rates and the combination of volume and rates based on the relative changes of volume and rates.

	Year Ended December 31,					
	2008 vs. 2007			2007 vs. 2006		
	Net Change	Rate	Volume	Net Change	Rate	Volume
	(In thousands)					
Interest income:						
Loans and leases	\$(23,698)	\$(33,354)	\$ 9,656	\$21,631	\$ 213	\$21,418
Investment securities(1)	(359)	(275)	(84)	3,025	1,340	1,685
Federal funds sold	(2,172)	(1,091)	(1,081)	(2,109)	286	(2,395)
Interest-bearing deposits with other banks	(22)	(11)	(11)	(86)	20	(106)
Other earning assets	39	(6)	45	25	(1)	26
Total interest income	<u>(26,212)</u>	<u>(34,737)</u>	<u>8,525</u>	<u>22,486</u>	<u>1,858</u>	<u>20,628</u>
Interest expense:						
Interest-bearing demand	(194)	(223)	29	142	74	68
Money market	(1,111)	(1,311)	200	70	225	(155)
Savings	(2,061)	(1,452)	(609)	1,108	190	918
Time certificates of deposit	(7,867)	(13,731)	5,864	10,547	3,934	6,613
Short-term borrowings	239	(168)	407	237	(8)	245
Long-term debt (FHLB)	1,428	(57)	1,485	671	80	591
Total interest expense	<u>(9,566)</u>	<u>(16,942)</u>	<u>7,376</u>	<u>12,775</u>	<u>4,495</u>	<u>8,280</u>
Net interest income	<u>\$(16,646)</u>	<u>\$(17,795)</u>	<u>\$ 1,149</u>	<u>\$ 9,711</u>	<u>\$(2,637)</u>	<u>\$12,348</u>

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

As reflected above, although average total loans increased, rates on those loans were substantially lower due to market rates and were lower due to a significant increase in loans on nonaccrual status. The lower asset yields were only partially offset by lower rates paid on deposits due to overall lower market rates and the asset sensitivity of the balance sheet.

Provision for Credit Losses

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



We recorded a provision for credit losses of \$6.6 million for the three months ended March 31, 2009, compared to \$5.1 million for the three months ended March 31, 2008. The provision for loan losses for the first quarter was based on the need to increase the allowance for loan and lease losses as determined by our allowance methodology which included consideration of the increase in non performing loans to \$86.0 million as of March 31, 2009 from \$66.8 million at December 31, 2008. Net charge-offs were \$2.6 million for the three months ended March 31, 2009 compared to net charge-offs of \$0 for the same period in 2008.

The provision for credit losses for 2008 increased \$25.7 million to \$30.6 million from \$4.9 million for 2007. Our net loans and lease charge-offs increased \$18.3 million to \$18.5 million during 2008 from \$240,000 in 2007. The increase in the provision for credit losses during 2008 is due to a higher level of classified loans and nonperforming loans at December 31, 2008 and is the result of the application of management’s established allowance for loan and lease loss adequacy calculation. Classified assets increased from \$27.6 million as of December 31, 2007 to \$117.6 million as of December 31, 2008 and nonperforming loans increased from \$7.9 million as of December 31, 2007 to \$66.8 million as of December 31, 2008. This decrease in credit quality was primarily centered in two types of loans: residential construction and residential land. As of December 31, 2008, these two loan types comprised 64% of nonperforming loans. Throughout 2008, management has worked to decrease the balances of these two loan types. The ratio of allowance for loan losses to total loans increased from 1.21% of total loans at December 31, 2007 to 2.19% at December 31, 2008. Management believes that through the application of the methodology’s quantitative and qualitative components, the provision and overall level of reserves is adequate for losses estimated to be inherent in the portfolio as of December 31, 2008.

The provision for credit losses for 2007 increased \$2.9 million to \$4.9 million from \$1.96 million for 2006. Our net loans and lease charge-offs decreased \$423,000 to \$240,000 during 2007 from \$663,000 in 2006. The increase in the provision for credit losses during 2007 is due to a higher level of classified assets identified during 2007 and is the result of the application of management’s established allowance for loan and lease loss methodology. Although net loan and lease charge-offs decreased for the same period, the application of the methodology’s quantitative and qualitative components resulted in management’s judgment that the provision and overall level of reserve is adequate for losses estimated to be inherent in the portfolio as of December 31, 2007. For details on the nonperforming loans, please see the table under “Non-Performing Assets” below.

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 and income from increases in the cash surrender value of bank owned life insurance policies.

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

	Three Months Ended March 31,		Year Ended December 31,		
	2009	2008	2008	2007	2006
	(In thousands)				
Service charges and fees on deposit accounts	\$ 549	\$457	\$1,764	\$1,696	\$1,660
Trade finance income	125	141	652	752	777
Increase in cash surrender value of life insurance	78	88	362	343	326
Net gain on sale of investment securities	460	—	—	—	—
Other income	66	96	2,163	299	265
Total noninterest income	\$1,278	\$782	\$4,941	\$3,090	\$3,028



Noninterest income for the three months ended March 31, 2009 increased \$496,000, or 63.4%, to \$1,278,000, compared to \$782,000 from the corresponding period in 2008 primarily due to a gain on sale of investment securities of \$460,000.

Total noninterest income increased by \$1.9 million or 60%, to \$4.9 million during 2008 from \$3.1 million during 2007. The increase in noninterest income was due mainly to life insurance proceeds of \$1.6 million recorded in connection with the untimely passing of one of our executives.

Total noninterest income increased by \$62,000 or 2%, to \$3.1 million during 2007 from \$3.0 million during 2006. The increase in noninterest income was due to a slight increase in service charge income of \$36,000, an increase in earnings on life insurance of \$17,000, an increase in other income of \$34,000 offset by a decrease in trade finance income of \$25,000.

Noninterest Expense

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

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

	Three Months Ended March 31,		Year Ended December 31,		
	2009	2008	2008	2007	2006
	(In thousands)				
Salaries and employee benefits	\$ 2,128	\$2,638	\$ 8,557	\$11,868	\$12,216
Net occupancy expense	839	592	2,822	2,395	2,303
Business development and promotion expense	46	96	424	409	451
Professional services	877	632	3,023	2,719	1,948
Office supplies and equipment expense	317	294	1,269	955	943
Total other-than temporary impairment losses	4,774	—	12,371	621	—
Portion of loss recognized in other comprehensive income . . .	(4,349)	—	—	—	—
OREO related expense	613	44	3,016	205	17
Other expense	1,338	709	4,112	2,289	2,139
Total noninterest expense	<u>\$ 6,583</u>	<u>\$5,005</u>	<u>\$35,594</u>	<u>\$21,461</u>	<u>\$20,017</u>

Total noninterest expense increased \$1.6 million or 31.5% for the three months ended March 31, 2009, as compared with the corresponding period of 2008. Salaries and benefits decreased \$510,000 due to a decrease in bonus expense which is based on overall profitability. Occupancy expense increased \$247,000 over the first quarter of 2008 due to the two new branches opened in the fourth quarter of 2008 located in Anaheim and Pico Rivera, California, normal lease expense increases as well as a retroactive increase in operating expense associated with our headquarters office. Professional fees increased \$245,000 due primarily to an increase in legal costs associated with non-performing loans as well as higher audit fees. Net OTTI credit-related charges totaled \$425,000 for the first quarter of 2009 and were related to two preferred trust collateralized debt obligations, one corporate bond and FHLMC preferred stock. This compares to no OTTI impairment in same period of 2008. OREO related expenses totaled \$613,000 for the first quarter of 2009 compared to \$44,000 in the same period last year. Other expenses increased \$629,000 from same period in 2008 due mainly to increases in loan collection expenses and higher FDIC insurance assessments.

Total noninterest expense increased \$14.1 million, or 66% to \$35.6 million during 2008 from \$21.5 million during 2007. Net occupancy expense increased by \$427,000 from \$2.4 million in 2007 to \$2.8 million in 2008 mainly due to normal lease expense increases as well as to the Anaheim and Pico Rivera branches opened in the fourth quarter of 2008. Professional fees increased by \$304,000 to \$3.0 million during 2008 from \$2.7 million in



2007 due primarily to an increase in legal costs associated with non-performing loans. Impairment on available for sale securities increased by \$11.8 million to \$12.4 million during 2008 from \$621,000 in 2007 primarily due to OTTI charges representing the write-down to fair value of investment securities which management had deemed to be other than temporarily impaired. Office supplies and equipment expense increased \$314,000 from \$1.0 million in 2007 to \$1.3 million in 2008. OREO related expenses totaled \$3.0 million in 2008, increasing \$2.8 million from \$205,000 in 2007 due primarily to an increase in OREO valuation allowance. Other expenses were \$4.1 million in 2008, an increase of \$1.8 million over \$2.3 million in 2007 due mainly to increases in loan collection related expenses and FDIC insurance assessments. Salaries and benefits decreased \$3.3 million due primarily to a decrease in bonus expense which is based on overall profitability. We had 142 and 137 full-time equivalent employees at December 31, 2008 and 2007, respectively.

Total noninterest expense increased \$1.4 million, or 7% to \$21.5 million during 2007 from \$20.0 million during 2006. Professional fees increased by \$771,000 to \$2.7 million during 2007 from \$1.9 million in 2006 mainly due to increased audit fees and the cost of compliance with Section 404 of the Sarbanes-Oxley Act. In addition, we began to outsource our internal audit function during 2007, the cost of which was also included in professional fees. Other expense increased by \$150,000 to \$2.3 million during 2007 from \$2.1 million in 2006 primarily due to a \$289,000 charge and a \$332,000 charge representing the write-down to fair value of two investment securities which management had deemed to be other than temporarily impaired. Salaries and benefits decreased \$348,000 due primarily to a decrease in bonus expense in accordance with our incentive bonus plan. We had 132 full-time equivalent employees at December 31, 2006.

Provision for Income Taxes

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

We record net tax assets to the extent we believe these assets will more likely than not be realized. In making such determination, we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent financial operations. In the event we determine that we would be able to realize our deferred income tax assets in the future in excess of our net recorded amount, we would make an adjustment to reduce the current period provision for income taxes.

We recorded a tax benefit of \$829,000 for the three months ended March 31, 2009 compared to a tax provision of \$2.16 million for the three month period ended March 31, 2008. The effective tax rate for the three months ended March 31, 2009, was (38.6)%, compared with 39.0% for the corresponding period in 2008. The decrease in the effective tax rate for the three months ended March 31, 2009 resulted from a loss and an enterprise zone net interest deduction associated with Financial Accounting Standards Board Interpretation No. 48 analysis. We recorded an income tax benefit of \$4.9 million for 2008, and the provision for income taxes of \$18.7 million for 2007 and \$16.5 million for 2006. Our effective tax rates were (49.3)%, 41.4% and 41.5% for 2008, 2007 and 2006, respectively, as compared to the statutory tax rate of 42.05%.

The difference from the statutory rate for 2008, 2007 and 2006 is mainly due to the tax preferential tax treatment of life insurance proceeds received, the earnings on cash surrender value of Bank-Owned Life Insurance, the interest income from municipal securities and stock option expense associated with the adoption of SFAS No. 123(R).



Financial Condition

Total assets as of March 31, 2009 were \$1.43 billion compared to \$1.48 billion as of December 31, 2008. Earning assets as of March 31, 2009 totaled \$1.35 billion compared to \$1.39 billion as of December 31, 2008. Total deposits were \$1.21 billion as of March 31, 2009 compared to \$1.26 billion as of December 31, 2008. The primary reason for the decrease in deposits was a planned decrease of \$35 million in brokered deposits.

For the period between December 31, 2008 and December 31, 2007, our assets declined at the rate of 3.9%, while our loans and deposits were essentially flat. Our total assets at December 31, 2008 were \$1.48 billion compared to \$1.54 billion at December 31, 2007. Our earning assets at December 31, 2008 totaled \$1.39 billion compared to \$1.48 billion at December 31, 2007. Total deposits at December 31, 2008 and December 31, 2007 were \$1.26 billion and \$1.25 billion, respectively.

Loans and Leases

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

	Three Months Ended March 31		Year Ended December 31				
	2009	2008	2008	2007	2006	2005	2004
	(In thousands)						
Loans and leases:							
Real estate—mini-perm	\$ 580,648	\$ 543,767	\$ 592,697	\$ 518,304	\$438,280	\$372,251	\$358,220
Real estate—construction	296,515	350,426	290,803	366,706	271,021	171,646	112,002
Commercial	244,986	253,852	273,890	255,912	201,385	149,428	98,547
Trade finance	68,814	81,592	73,205	91,565	86,067	76,700	45,951
Consumer	30		48	44	45	121	222
Other	317	503	589	568	519	997	1,018
Total gross loans and leases . . .	1,191,310	1,230,140	1,231,232	1,233,099	997,317	771,143	615,960
Less: allowance for loan and lease losses	(30,885)	(19,976)	(26,935)	(14,896)	(10,236)	(8,939)	(6,724)
Deferred loan and lease fees, net	(22)	(1,154)	(167)	(682)	(1,759)	(1,537)	(2,383)
Total net loans and leases	\$1,160,403	\$1,209,010	\$1,204,130	\$1,217,521	\$985,322	\$760,667	\$606,853

Total gross loans and leases decreased by \$39.9 million, or 3.2%, to \$1.19 billion as of March 31, 2009 from \$1.23 billion as of December 31, 2008. Total gross loans and leases at December 31, 2008 were \$1.23 billion, flat from the \$1.23 billion as of December 31, 2007. Commercial real estate loans decreased from \$592.7 million as of December 31, 2008 to \$580.6 million at March 31, 2009. Construction loans increased \$5.7 million from December 31, 2008. Commercial and trade finance loans decreased \$33.3 million from December 31, 2008.

Our real estate mini-perm loan portfolio declined during the first three months ended March 31, 2009 by \$12.0 million or (2.0)% to \$580.6 million from \$592.7 million at December 31, 2008. For the four years prior to 2008, the growth trend for our real estate mini-perm has been as follows: during the year 2005 it grew by \$14.0 million, or 3.9%, to \$372.3 million from \$358.2 million at December 31, 2004; during 2006 it grew by \$66.0 million, or 17.7%, from \$372.3 million at December 31, 2005; during 2007 it grew by \$80.0 million, or 18.3% from \$438.3 million at December 31, 2006. We believe this growth reflects a combination of our marketing efforts as well as a previously strong real estate market.

Real estate construction loans increased in the first three months ended March 31, 2009 by \$5.7 million to \$296.5 million at March 31, 2009 from \$290.8 million at December 31, 2008. During 2008 real estate



construction loans declined by \$75.9 million or (20.7)% to \$290.8 million at December 31, 2008 from \$366.7 million at December 31, 2007; and grew in 2007 by \$95.7 million or 35.3%, from \$271.0 million at December 31, 2006; and grew in 2006 by \$99.4 million or 57.9%, from \$171.6 million at December 31, 2005; and grew in 2005 by \$59.6 million, or 53.2%, from \$112.0 million at December 31, 2004. We expect the construction portfolio will continue to decrease in total balances and will decrease as a percentage of the total loan portfolio as management works to reduce our exposure to this type of real estate loan due to the weakness in the real estate market.

Commercial loans outstanding during the first three months of 2009 decreased by \$28.9 million to \$245.0 million at March 31, 2009 from \$273.9 million at December 31, 2008. Commercial loans outstanding at December 31, 2008 increased by \$18.0 million, or 7.0%, to \$273.9 million from \$255.9 million at December 31, 2007; and increased by \$54.5 million, or 27.1%, to \$255.9 million at December 31, 2007 from \$201.4 million at December 31, 2006; and increased by \$52.0 million, or 34.8%, to \$201.4 million at December 31, 2006 from \$149.4 million at December 31, 2005; and increased by \$50.9 million, or 51.6%, to \$149.4 million at December 31, 2005 from \$98.5 million at December 31, 2004. Total commercial loan commitments (including undisbursed amounts) at March 31, 2009 stayed flat at \$369.5 million from \$370.0 million at December 31, 2008. Total commercial loan commitments (including undisbursed amounts) at December 31, 2008 decreased \$1.6 million or 0.4% to \$370.0 from \$371.6 million at December 31, 2007 while the rate of credit utilization increased to 74.0% as of December 31, 2008 from 68.9% at December 31, 2007. We believe that this increase in utilization is a result of an increase in the number of commercial customers and is consistent with the rest of the market. Subject to market conditions and interest rates, we intend to expand our commercial loans in the future through enhanced marketing efforts and expansion of our branch network.

Trade finance loans outstanding during the first three months of 2009 decreased by \$4.4 million or (6.0)% to \$68.8 million at March 31, 2009 from \$73.2 million at December 31, 2008. Trade finance loans decreased \$18.4 million or 20% during 2008 to \$73.2 million from \$91.6 million at December 31, 2007, and grew in 2007 by \$5.5 million, or 6.4%, from \$86.1 million at December 31, 2006. We believe this increase is due to the economic recession and to the realized decline in import and export activity. With economic recovery not expected to occur in 2009, trade finance activity likewise, we will not see any rebound in 2009.

Other loans declined during the first three months of 2009 by \$272,000 to \$317,000 at March 31, 2009 from \$589,000 at December 31, 2008. Other loans increased during 2008 by \$21,000, or 4%, to \$589,000 at December 31, 2008 from \$568,000 at December 31, 2007; and increased during 2007 by \$49,000, or 9.4%, to \$519,000 from December 31, 2006.

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

Property Type	At March 31, 2009		At December 31, 2008	
	Amount	Percentage of Loans in Each Category in Total Loan Portfolio	Amount	Percentage of Loans in Each Category in Total Loan Portfolio
	(Dollars in thousands)			
Commercial/Office	\$ 70,766	6.61%	\$ 77,924	6.33%
Retail	80,390	6.75	82,663	6.71
Industrial	53,029	4.45	55,424	4.50
Residential 1-4	62,892	5.28	66,968	5.44
Apartment 4+	119,003	9.99	110,922	9.01
Land/Special purpose	186,567	15.66	198,796	16.15
Total	<u>\$580,648</u>	<u>48.74%</u>	<u>\$592,697</u>	<u>48.14%</u>



The following table depicts our real estate loan portfolio by geographic location as of March 31, 2009.

Type	Inland Empire	Southern California	All other California	Out-of-State	Total
(In thousands)					
Mini-Perm Residential	\$ 3,608	\$100,600	\$23,436	\$ 4,350	\$131,994
Mini-Perm Commercial	31,913	328,592	41,620	46,529	448,654
Construction Commercial	16,239	101,529	—	2,250	120,018
Construction Residential	10,615	154,432	1,777	9,673	176,497
Total real estate loans	<u>\$62,375</u>	<u>\$685,153</u>	<u>\$66,833</u>	<u>\$62,802</u>	<u>\$877,163</u>

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.

Total non-performing assets were \$129.1 million at March 31, 2009 as compared with \$101.9 million at December 31, 2008 and \$44.7 million as of March 31, 2008. As of March 31, 2009 total non-accrual loans were \$85.8 million compared to \$66.6 million as of December 31, 2008 and \$36.2 million as of March 31, 2008.

Total OREO increased to \$43.0 million as of March 31, 2009 compared to \$35.1 million as of December 31, 2008. As of December 31, 2008 we had five properties totaling \$35.1 million as compared to one OREO property for \$8.4 million as of December 31, 2007. We had no OREO properties as of December 31, 2006. For the years-ended December 31, 2008, 2007 and 2006, we had no OREO income.

The following table summarizes our OREO, which is included in non-performing assets of \$129.1 million.

Property Location	Gross Book Value	Valuation Reserve	Fair Value
(In thousands)			
Oakland, CA	\$ 8,441	\$ 527	\$ 7,914
Carson City, NV	1,809	—	1,809
Beaumont, CA	7,497	—	7,497
Beaumont, CA	5,735	—	5,735
Westchester, CA	13,398	1,225	12,173
Corona, CA	2,716	—	2,716
Other in CA and AZ	7,520	2,332	5,188
	<u>\$47,116</u>	<u>\$4,084</u>	<u>\$43,032</u>

Management anticipates that the balances of our OREO will most likely increase in future quarters as we eventually take title to more nonperforming loans through the foreclosure process and then seek to dispose of such properties. We 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 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:

	Three Month Ended March 31,		Year Ended December 31,				
	2009	2008	2008	2007	2006	2005	2004
	(Dollars in thousands)						
Nonaccrual loans and leases, not restructured	\$ 85,832	\$36,244	\$ 66,588	\$20,900	\$1,120	\$—	\$ 382
Accruing loans and leases past due 90 days or more	—	—	—	—	—	—	—
Restructured loans and leases	190	—	197	—	—	—	—
Total non-performing loans (NPLs)	86,022	36,244	66,785	20,900	1,120	—	382
OREO	43,032	8,441	35,127	8,444	—	—	8,258
Total non-performing assets (NPAs)	\$129,054	\$44,685	\$101,912	\$29,344	\$1,120	\$—	\$8,641
Selected ratios:							
NPLs to total gross loans and leases held for investment	7.22%	2.95%	5.42%	1.69%	0.11%	0.00%	0.06%
NPAs to total assets	9.00%	2.88%	6.87%	1.90%	0.08%	0.00%	0.95%

The following table depicts our past due loans by type.

Loan Type	30-89 Days		90 + Days & Still Accruing		Non-accrual	
	#	\$	#	\$	#	\$
	(\$ in thousands)					
Commercial & Industrial	5	\$ 598	—	\$—	6	\$ 7,233
Real Estate-Mini-Perm	7	17,264	—	—	5	10,916
Construction-Residential	2	20,378	—	—	6	37,337
Construction-Commercial	—	—	—	—	1	3,961
Land-residential	—	—	—	—	3	17,229
Land-commercial	2	11,452	—	—	3	9,156
Total as of March 31, 2009	16	\$49,692	—	\$—	24	\$85,832
Total as of December 31, 2008	13	\$51,445	—	\$—	20	\$66,588

The amount of interest income that would have been recorded on the nonaccrual and impaired loans and leases had the loans and leases been current totaled \$2,025,000 for the period ended March 31, 2009, and \$4,953,000, \$546,000, and \$41,000 for the years ended 2008, 2007, and 2006, respectively. All payments received on loans classified as nonaccrual are applied first to principal.

Impaired Loans and Leases

Impaired loans and leases are commercial & industrial, 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, although the two categories overlap. Nonaccrual loans and leases include impaired loans and leases that are not reviewed on an individual basis for impairment. 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.



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 \$187.7 million of impaired loans or leases at March 31, 2009. We had \$117.6 million, \$27.6 million and \$5.4 million of impaired loans or leases at December 31, 2008, 2007, and 2006, respectively. The total allowance for loan and lease losses related to these loans and leases were \$20.7 million at March 31, 2009, and \$12.9 million, \$3.7 million and \$357,000 at December 31, 2008, 2007 and 2006, respectively. Interest income recognized on such loans and leases was \$1.7 million at March 31, 2009, and \$4.3 million, \$1.9 million and \$395,000 during 2008, 2007 and 2006, respectively. The average recorded investment on impaired loans and leases was \$143.9 million at March 31, 2009, and \$94.2 million, \$17.1 million and \$4.1 million during 2008, 2007 and 2006, respectively.

At March 31, 2009 and December 31, 2008, we had \$85.8 million and \$66.6 million, respectively, of outstanding loans disclosed above as nonaccrual loans for which management questions the ability of the borrower to comply with the present loan repayment terms. For the quarter ended March 31, 2009, these consisted of twenty loans totaling \$78.6 million that are secured by real estate and six commercial loans totaling \$7.2 million. For the year ended December 31, 2008, these consisted of nineteen loans totaling \$60.3 million that are secured by real estate and five commercial loans totaling \$6.3 million.

Allowance for Loan and Lease Losses

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

The methodology we use to estimate the amount of our allowance for credit 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'; (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.



Our loan portfolio, excluding impaired loans which are evaluated individually, is categorized into several pools for purposes of determining allowance amounts by loan pool. The loan pools we currently evaluate are: commercial & industrial, international, real estate—residential land, real estate construction—residential, real estate construction-commercial and real estate—other. 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; non-accrual 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:

	Three Months Ended March 31		Year Ended December 31				
	2009	2008	2008	2007	2006	2005	2004
Allowance for loan losses:							
Balance at beginning of period	\$ 26,935	\$ 14,896	\$ 14,896	\$ 10,236	\$ 8,939	\$ 6,724	\$ 6,168
Actual charge-offs:							
Commercial	—	—	4,686	240	273	5	103
Trade finance	—	—	—	—	390	—	—
Real estate-construction	—	—	8,636	—	—	—	—
Real estate -mini-perm	2,616	—	5,206	—	—	—	—
Leveraged lease	—	—	—	—	—	—	1,000
Other (credit card)	—	—	—	—	—	—	—
Total charge-offs	2,616	—	18,528	240	663	5	1,103
Less recoveries:							
Commercial	16	—	—	—	—	110	106
Trade finance	—	—	—	—	—	—	—
Real estate-construction	—	—	—	—	—	—	—
Real estate -mini-perm	—	—	7	—	—	—	—
Leveraged leases	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	3
Total recoveries	16	—	7	—	—	110	109
Net loans charged-off (recovered)	2,600	—	18,521	240	663	(105)	994
Provision for credit losses	6,550	5,080	30,560	4,900	1,960	2,110	1,550
Balance at end of period	\$ 30,885	\$ 19,976	\$ 26,935	\$ 14,896	\$ 10,236	\$ 8,939	\$ 6,724
Total gross loans and leases at end of period	1,191,310	1,230,140	1,231,232	1,233,099	997,317	771,143	615,961
Average total loans and leases	1,224,181	1,218,485	1,220,348	1,103,248	867,674	692,320	541,402
Non-performing loans and leases	86,022	36,244	66,785	20,900	1,120	—	382
Selected ratios:							
Net charge-offs (recoveries) to average loans and leases(1)	0.86%	0.00%	1.52%	0.02%	0.08%	(0.02)%	0.18%
Provision for allowance for credit losses to average loans and leases(1)	2.17%	1.67%	2.50%	0.44%	0.23%	0.30%	0.29%
Allowances for credit losses to loans and leases at end of period	2.59%	1.62%	2.19%	1.21%	1.03%	1.16%	1.09%
Allowance for credit losses to non-performing loans and leases	35.90%	55.12%	40.33%	71.27%	913.93%	n.m.	1,758.64%

(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, 2009 and 2008 are calculated on an annualized basis. See the above section entitled "Provision for Credit Losses" for further discussion regarding our provision.

For the three months ended March 31, 2009, we experienced net loan and lease charge-offs of \$2.6 million as compared to \$0 for the same period in 2008. The level of provision for loan losses for 2009 and 2008 was determined based on our analysis of its loan and lease portfolio at each quarter-end.



The allowance for credit losses was 2.59% of total gross loans at March 31, 2009, compared to 2.19% at December 31, 2008 and 1.62% at March 31, 2008. At December 31, 2008, the allowance for loan and lease losses was \$26.9 million which represented 2.19% of total loans and leases and 40.33% of non-performing loans and leases. At December 31, 2007, the allowance for loan and lease losses totaled \$14.9 million, or 1.21% of total loans and leases, net of deferred fees and costs, and 71.27% of non-performing loans and leases. At December 31, 2006 the allowance for loan and lease losses totaled \$10.2 million or 1.03% of total loans and leases, net of deferred fees and costs, and 913.93% of non-performing loans and leases as of that date. Net charge-offs (recoveries) to average loans and leases were 1.52% for the year-ended December 31, 2008 compared to 0.02% for the year-ended December 31, 2007. See "Critical Accounting Policies" and Note 3 of the "Notes to Consolidated Financial Statements" in our Annual Report on Form 10-K for the year ended December 31, 2008, incorporated herein by reference.

Investment Securities

We classify our debt and equity securities in two categories: held to maturity or available for sale. Securities that could be sold in response to changes in interest rates, increased loan demand, liquidity needs, capital requirements, or other similar factors are classified as securities available for sale. These securities are carried at fair value. Unrealized holding gains or losses, net of the related tax effect, on available for sale securities are excluded from income and are reported as a separate component of shareholders' equity as other comprehensive income net of applicable taxes until realized. Realized gains and losses from the sale of available for sale securities are determined on a specific identification basis. Securities classified as held to maturity are those that we have 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, 2009, and at December 31, 2008 and 2007, there were no securities classified in the held-to-maturity portfolio.

We perform regular impairment analysis on our investment securities portfolio. If we determine that a decline in fair value is other-than-temporary, an impairment write-down is recognized in current earnings. Other-than-temporary declines in fair value are assessed based on the duration the security has been in a continuous unrealized loss position, the severity of the decline in value, the rating of the security, the long-term financial prospects of the issuer and our ability and intent on holding the securities until recovery. The new cost basis is not changed for subsequent recoveries in fair value.

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

Our portfolio of investment securities consists primarily of U.S. Agency securities, corporate notes, agency mortgage-backed securities, municipal bonds and FHLMC ("Freddie Mac") preferred stock. We classify 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, 2009 totaled \$89.4 million compared to \$104.4 million at December 31, 2008 and \$245.3 million at December 31, 2007. During the three months ended March 31, 2009, the decrease in our investment securities portfolio was due to the sale of investments securities and not replacing maturing investment securities. We realized a gain of \$460,000 on the sale of these securities. During 2008, our investment securities portfolio decreased which was due to sales of investment securities and not replacing maturing investment securities which were no longer required to be pledged to secure public agency deposits. In addition, the Bank recorded other than temporary impairment charges on certain corporate notes and collateralized debt obligations of \$12.4 million during 2008.



The carrying value of our portfolio of investment securities at March 31, 2009, and at December 31, 2008, 2007 and 2006, was as follows:

	March 31, 2009	Estimated Market Value At December 31,		
		2008	2007	2006
		(In thousands)		
U.S. Government agencies	\$ 6,309	\$ 23,115	\$131,032	\$142,106
Corporate notes	20,128	22,722	30,191	16,657
Residential mortgage-backed securities	14,143	13,601	25,899	11,030
Collateralized mortgage obligations	3,222	—	—	—
Municipal securities	43,121	42,778	46,553	19,308
Collateralized debt obligations	2,367	2,075	6,684	7,027
Freddie Mac preferred stock	99	115	4,909	2,561
Total securities available-for-sale	<u>\$89,389</u>	<u>\$104,406</u>	<u>\$245,268</u>	<u>\$198,689</u>

The following table shows the maturities of investment securities at March 31, 2009, and the weighted average yields of such securities:

	At March 31, 2009									
	Within One Year		After One Year but within Five Years		After Five Years but within Ten Years		After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
	(Dollars in Thousands)									
U.S. Government agencies	\$1,003	4.92%	\$ —	— %	\$ —	— %	\$ 5,303	5.89%	\$20,128	4.86%
Corporate notes	—	—	2,681	13.92	—	—	17,447	7.78	20,128	8.60
Residential mortgage-backed securities	—	—	—	—	834	4.39	13,308	4.02	14,142	4.04
Collateralized mortgage obligations	—	—	—	—	—	—	3,222	5.03	3,222	5.03
Municipal securities	—	—	—	—	1,048	6.71	42,073	6.87	43,121	6.86
Collateralized debt obligations	—	—	—	—	—	—	2,367	11.07	2,367	11.07
Freddie Mac preferred stock	—	—	—	—	—	—	99	—	99	—
Total securities Available-for-sale	<u>\$1,003</u>	<u>4.92%</u>	<u>\$2,681</u>	<u>13.92%</u>	<u>\$1,882</u>	<u>5.68%</u>	<u>\$83,823</u>	<u>6.59%</u>	<u>\$89,389</u>	<u>6.77%</u>



The following table sets forth the amortized cost and carrying values of investment securities as of March 31, 2009:

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Non-Credit Other-Than-Temporary impairment	Estimated fair value
	(In thousands)				
U.S. Government agencies	\$ 6,295	\$ 14	\$ —	\$ —	\$ 6,309
Corporate notes	29,912	137	(9,921)	—	20,128
Residential mortgage-backed securities . . .	14,082	77	(16)	—	14,143
Collateralized mortgage obligation	3,213	9	—	—	3,222
Municipal securities	46,857	80	(3,816)	—	43,121
Collateralized debt obligations	6,716	—	—	(4,349)	2,367
Freddie Mac preferred stock	91	8	—	—	99
Total securities available-for-sale	<u>\$107,166</u>	<u>\$325</u>	<u>\$(13,753)</u>	<u>\$(4,349)</u>	<u>\$89,389</u>

We perform a regular impairment analysis on our investment securities portfolio. On January 1, 2009, we adopted FSP’s FAS 157-4, 115-2, 124-2, 107-1, APB 28-1 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. In accordance with the adoption of these new accounting statements, management has analyzed all investment securities which have an amortized cost that exceeds fair market value as of March 31, 2009.

We own four collateralized debt obligations (“CDO’s”) which consist of pools of bank trust preferred securities. As of March 31, 2009, the amortized cost of all four CDO’s exceeded the fair market value. The fair market 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 single-issuer trust preferred 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) and levels of non-performing assets compared to total assets. If management determined that we may have a future default, then Management calculated the ‘Texas Ratio’. (The Texas ratio is defined as the total of non-performing assets divided by the sum of tangible capital plus loan loss reserves). If the Texas ratio was close to 100%, then Management would deem this bank to be a future default unless there were other significant positive compensating factors which Management believed would mitigate the risk of default. In addition to those specific defaults, Management estimated an additional default rate of 0.5% annually. The difference between the amortized cost and the fair market value of these CDO’s was \$4,530,000 and was determined to be other-than-temporary impairment. As of December 31, 2008, the carrying value of CDO’s totaled \$3.76 million. During 2008, we recorded \$4.3 million in OTTI charges related to two of these securities.

Management then proceeded to determine credit-related OTTI based on the provisions of Emerging Issues Task Force (EITF) 99-20 Recognition of Interest Income and Impairment on Purchased Beneficial Interests That Continue to be Held by a Transferor in Securitized Financial Assets and further clarified by FSP’s FAS 115-2 and 124-2. 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 one security had a credit-related other-than-temporary impairment of \$181,000 which was recognized in income.

As of March 31, 2009, we owned 8 corporate securities with an amortized cost that exceeded their fair market value. The total amortized cost of these securities was \$27,816,000 and their fair market value was \$17,675,000. Management performed an analysis on all of the issuers of these securities which focused on the



recent financial results of the companies, capital ratios and long-term prospects of the issuer and determined that one of these corporate debt securities, General Motors Acceptance Corporation, had a credit-related other-than-temporarily impairment. As such, an OTTI charge of \$220,000 was recorded for this security, which was the difference between amortized cost and fair value. Management deemed the other 7 corporate securities to be temporarily impaired.

We owned \$22.7 million in corporate notes as of December 31, 2008, two of which were rated as below investment grade as of that date. These are the two corporate notes for which we have previously recorded OTTI charges. The aggregate carrying amount of these two notes is \$1.18 million as of December 31, 2008. In 2007, we determined that two corporate notes were other than temporarily impaired and recorded a charge of \$621,000. These are the same two corporate securities that we recorded an OTTI charge in 2008 as well.

As of March 31, 2009 we owned 3 issues of Freddie Mac preferred stock with a face value of \$7,250,000 and an amortized cost of \$115,000. As of March 31, 2009, due to the Office of Federal Housing Enterprise Oversight's ("OFHEO") seizure of Fannie Mae and Freddie Mac in September of 2008, two of these issues were deemed to have sustained credit-related other-than-temporary impairments and we recorded a charge of \$24,000 to reflect this OTTI charge. After this charge, our current total amortized cost of all Freddie Mac preferred stock is \$91,000. We recognized an other-than-temporary impairment loss of \$6.4 million in 2008 to write down the value of its Freddie Mac preferred stock to its fair value as of December 31, 2008. As of December 31, 2008 and 2007, the fair value of the Freddie Mac preferred stock was \$115,000 and \$4.9 million, respectively.

It is possible that we may recognize other-than-temporary impairment in future periods. We have the ability and the intent to hold these securities until recovery and have determined that it is not more likely than not that we will be required to sell the securities prior to recovery of amortized cost basis.

Deposits

Total deposits at March 31, 2009 were \$1.205 billion, a decrease of 4.1% from the balance of \$1.257 billion as of December 31, 2008. Noninterest-bearing demand deposits decreased by \$0.8 million or 0.4%, interest-bearing demand and savings deposits decreased by \$17.9 million or 9.4%, and time deposits decreased by \$33.3 million or 3.8%. Total deposits were \$1.26 billion at December 31, 2008 compared to \$1.25 billion at December 31, 2007. Noninterest-bearing demand deposits decreased to \$196.4 million at December 31, 2008 compared to \$230.1 million at December 31, 2007. The ratio of noninterest-bearing deposits to total deposits was 16% at December 31, 2008 and 18% at December 31, 2007. Interest-bearing deposits are comprised of interest-bearing demand deposits, money market accounts, regular savings accounts, time deposits of under \$100,000 and time deposits of \$100,000 or more.

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

	Three Month Ended March 31,		Year Ended December 31,					
	2009		2008		2007		2006	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
(Dollars in thousands)								
Noninterest-bearing								
deposits	\$ 195,527	0.00%	\$ 205,764	0.00%	\$ 220,050	0.00%	\$ 207,685	0.00%
Interest-bearing demand . .	27,693	0.76	33,650	0.79	31,489	1.45	26,353	1.20
Money market	97,898	0.73	109,383	1.01	99,551	2.22	106,962	2.00
Savings	65,720	1.34	73,042	1.96	91,717	3.81	67,317	3.61
Time certificates of								
deposit	870,572	2.84	823,249	3.45	739,696	4.90	597,504	4.30
Total	<u>\$1,257,410</u>	<u>2.50%</u>	<u>\$1,245,088</u>	<u>3.00%</u>	<u>\$1,182,503</u>	<u>4.41%</u>	<u>\$1,005,821</u>	<u>3.83%</u>



Average total deposits slightly decreased through the first quarter 2009. Average total deposits increased steadily through 2008. The increase in average total deposits for 2008 was primarily driven by an increase of \$83.6 million in time certificates of deposit. Additional information concerning deposits is provided in Note 5 of the “Notes to Consolidated Financial Statements” in our Annual Report on Form 10-K for the year ended December 31, 2008, incorporated herein by reference.

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

The following table shows the maturities of time certificates of deposit and other time deposits of \$100,000 or more at March 31, 2009 and at December 31, 2008, 2007 and 2006:

	At March 31,	At December 31,		
	2009	2008	2007	2006
		(In thousands)		
Three months or less	\$300,032	\$454,178	\$443,511	\$407,432
Over three months through six months	300,114	226,651	221,014	187,890
Over six months through twelve months	232,895	184,131	119,263	107,466
Over twelve months	5,401	6,821	8,621	9,469
Total	<u>\$838,442</u>	<u>\$871,781</u>	<u>\$792,409</u>	<u>\$712,257</u>

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

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 credit losses and preferred stock) to risk-weighted assets of at least 8%. Risk-weighted assets are calculated by multiplying the balance in each category of assets by a risk factor, which ranges from zero for cash assets and certain government obligations to 100% for some types of loans, and adding the products together.

Our goal is to exceed the minimum regulatory capital requirements for well-capitalized institutions. At March 31, 2009, capital ratios were above the minimum requirements for well-capitalized institutions. In the future, we intend to make minor adjustments to our balance sheet which may 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 one year or less, which have a zero percent conversion factor, instead of credit lines with a maturity exceeding 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. Although we believe that our existing capital will be sufficient for the foreseeable future to satisfy minimum regulatory capital requirements, a continued, deepening recessionary economic environment could possibly require us to raise capital, sell off assets or a combination of both.



	<u>At March 31, 2009</u>	<u>At December 31, 2008</u>
Leverage Ratio		
Preferred Bank	9.51%	9.76%
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	10.61%	10.39%
Minimum requirement for "Well-Capitalized" institution	6.00%	6.00%
Minimum regulatory requirement	4.00%	4.00%
Total Risk-Based Capital Ratio		
Preferred Bank	11.87%	11.65%
Minimum requirement for "Well-Capitalized" institution	10.00%	10.00%
Minimum regulatory requirement	8.00%	8.00%

Stock Repurchase Plan

In June 2007, we announced a stock repurchase plan whereby we intend to repurchase up to 500,000 shares or approximately 5% of the outstanding shares as of June 30, 2007. We did not repurchase any stock during the first quarter of 2009. We repurchased the following shares during the first quarter of 2008:

<u>Date</u>	<u>Number of Shares</u>	<u>Total Cost</u>
February 13, 2008	10,300	215,054
February 14, 2008	12,358	254,564
February 19, 2008	5,000	103,923
February 27, 2008	4,600	88,550
February 28, 2008	2,367	45,706
March 3, 2008	20,000	400,000
March 4, 2008	100,000	1,985,000
March 10, 2008	8,300	142,932
March 11, 2008	40,000	696,000
March 13, 2008	12,500	207,993
	<u>215,425</u>	<u>4,139,722</u>

Contractual Obligations

The following table presents contractual cash obligations, excluding deposits, as of March 31, 2009:

<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	\$ 58,000	\$35,000	\$23,000	\$ —	\$ —
Senior Debt	25,996	—	\$25,996	—	—
Operating Lease Obligations	20,007	2,169	4,547	3,847	9,444
Total	<u>\$104,003</u>	<u>\$37,169</u>	<u>\$53,543</u>	<u>\$3,847</u>	<u>\$9,444</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, 2009:

<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	\$347,881	\$246,081	\$78,586	\$11,360	\$11,854
Commercial letters of credit	2,663	2,663	—	—	—
Standby letters of credit	18,946	14,630	4,316	—	—
Total	<u>\$369,490</u>	<u>\$263,374</u>	<u>\$82,902</u>	<u>\$11,360</u>	<u>\$11,854</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. During the balance of 2009, we intend to continue to hold a higher level of lower yielding liquid assets, such as federal funds sold, in order to maintain a higher level of on-balance sheet liquidity. Due to very low short-term interest rates, this strategy will not be as profitable as deploying these funds into lending activities, but given the current economic environment, Management believes this is a most prudent course of action.

We rely on deposits as the principal source of funds and, therefore, must be in a position to service depositors' needs as they arise. Although we attempt to maintain a loan-to-deposit ratio below approximately 95%, market conditions sometimes dictate that we must exceed this targeted ratio. Our net loan-to-deposit ratio was 98.8% as of March 31, 2009 and 97.9% as of December 31, 2008.

Borrowings from the Federal Home Loan Bank of San Francisco ("FHLBSF") are another source of funding for loan and investment activities. As of March 31, 2009, we could borrow up to an additional \$120.4 million with collateral of specifically identified loans and securities (we already had \$58.0 million outstanding with the FHLBSF). In addition to the FHLBSF borrowing facility, we also had approximately \$52.5 million in collateralized borrowing capacity with the Federal Reserve Discount Window which the Bank may borrow from on an overnight basis. We have no uncommitted borrowing lines with other financial institutions. On February 11, 2009, we issued \$26.0 million of unsecured senior debt in a pooled private placement transaction which carries the FDIC guarantee under its Temporary Liquidity Guarantee Program. The issuance has a 3-year maturity and a fixed interest rate of 2.74% paid semiannually. Under the Temporary Liquidity Guarantee Program, the FDIC will provide a 100% guarantee of certain unsecured senior debt of eligible FDIC-insured institutions.

We 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 ratio was 28% as of March 31, 2009 and 27% as of December 31, 2008. We believe that in the event the level of liquid assets (primary liquidity) does not meet its liquidity needs, other available sources of liquid assets (secondary liquidity), including the sales of securities under agreements to repurchase, sales of unpledged investment securities or loans, utilizing the discount window borrowings from the Federal Reserve Bank as well as borrowing from the FHLBSF could be employed to meet those funding needs. We have a Contingency Funding Plan Policy which is reviewed annually by the Board of Directors which sets forth actions to be taken in the event that its 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 its 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 our interest rate risk exposure. We do not have any market risk sensitive instruments entered into for trading purposes. We manage our interest rate sensitivity by matching the re-pricing opportunities on our earning assets to those on our funding liabilities. Management uses various asset/liability strategies to manage the re-pricing characteristics of our assets and liabilities designed to ensure that exposure to interest rate fluctuations is limited and within our guidelines of acceptable levels of risk-taking.

Interest rate risk is addressed by our Asset Liability Management Committee, or the 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.

Our 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

We measure the impact of market interest rate changes on the net present value of estimated cash flows from our 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, 2009.



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	\$129,396	0.81%	9.02%	97.96%
Up 100 basis points	\$128,397	0.03%	8.96%	97.20%
Base	\$128,353	—	8.95%	97.17%
Down 100 basis points	\$130,103	1.36%	9.07%	98.49%
Down 200 basis points	\$129,554	0.94%	9.04%	98.08%

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, 2009, we used a simulation model to project changes in net interest income that result from forecasted changes in interest rates. This analysis calculates the difference between net interest income forecasted using a rising and a falling interest rate scenario and a net interest income forecast using a base market interest rate derived from the current treasury yield curve. The income simulation model includes various assumptions regarding the re-pricing relationships for each of our products. Many of our assets are floating rate loans, which are assumed to re-price immediately, and to the same extent as the change in market rates according to their contracted index. Some loans and investment vehicles include the opportunity of prepayment (embedded options), and accordingly the simulation model uses national indexes to estimate these prepayments and reinvest their proceeds at current yields. Non-term deposit products re-price more slowly, usually changing less than the change in market rates and at our discretion.

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

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



Sensitivity of Net Interest Income

Interest Rate Scenario	Adjusted Net Interest Income		Percentage Change from Base		Net Interest Margin Percent		Net Interest Margin Change (in basis points)	
	March 31, 2009	December 31, 2008	March 31, 2009	December 31, 2008	March 31, 2009	December 31, 2008	March 31, 2009	December 31, 2008
	(Dollars in thousands)							
Up 200 basis points . . .	\$49,702	\$50,391	19.56%	17.01%	3.69%	3.62%	0.60	0.53
Up 100 basis points . . .	\$45,471	\$46,766	9.38%	8.59%	3.37%	3.36%	0.29	0.27
Base	\$41,570	\$43,066	—	—	3.08%	3.10%	—	—
Down 100 basis points	\$37,946	\$39,488	(8.72)%	(8.31)%	2.82%	2.84%	(0.27)	(0.26)
Down 200 basis points	\$33,015	\$35,362	(20.58)%	(17.89)%	2.45%	2.54%	(0.63)	(0.55)

At March 31, 2009, we had \$1.24 billion in assets and \$895.1 million in liabilities re-pricing within one year. This indicates that approximately \$346.8 million more of our interest rate sensitive assets than our interest rate sensitive liabilities will change to the then current rate (changes occur due to the instruments being at a variable rate or because the maturity of the instrument requires its replacement at the then current rate). The ratio of interest-earning assets to interest-bearing liabilities maturing or re-pricing within one year at March 31, 2009 is 138.7%. In theory, this analysis indicates that at March 31, 2009, if interest rates were to increase, the gap would tend to result in a higher net interest margin. However, changes in the mix of earning assets or supporting liabilities can either increase or decrease the net interest margin without affecting interest rate sensitivity. In addition, the interest rate spread between an asset and its supporting liability can vary significantly while the timing of re-pricing of both the asset and its supporting liability can remain the same, thus impacting net interest income. This characteristic is referred to as basis risk, and generally relates to the re-pricing characteristics of short-term funding sources such as certificates of deposit.

At December 31, 2008, we had \$974.2 million in assets and \$899.8 million in liabilities re-pricing within one year. This indicates that approximately \$74.4 million more of our interest rate sensitive assets than our interest rate sensitive liabilities will change to the then current rate (changes occur due to the instruments being at a variable rate or because the maturity of the instrument requires its replacement at the then current rate). The ratio of interest-earning assets to interest-bearing liabilities maturing or re-pricing within one year at December 31, 2008 is 108.3%. In theory, this analysis indicates that at December 31, 2008, if interest rates were to increase, the gap would tend to result in a higher net interest margin. However, changes in the mix of earning assets or supporting liabilities can either increase or decrease the net interest margin without affecting interest rate sensitivity. In addition, the interest rate spread between an asset and its supporting liability can vary significantly while the timing of re-pricing of both the asset and its supporting liability can remain the same, thus impacting net interest income. This characteristic is referred to as basis risk, and generally relates to the re-pricing characteristics of short-term funding sources such as certificates of deposit.

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. The small fixed asset investment minimizes any material change of asset values and depreciation expenses that may result from fluctuating market values due to inflation. Higher inflation rates may increase operating expenses or have other adverse effects on borrowers of the banks, making collection on extensions of credit more difficult for us. Rates of interest paid or charged generally rise if the marketplace believes inflation rates will increase.

Recently Issued Accounting Standards

In December 2007, the FASB issued SFAS No. 141, “Business Combinations (Revised 2007).” SFAS 141R replaces SFAS 141, “Business Combinations,” and applies to all transactions and other events in which one



entity obtains control over one or more other businesses. SFAS 141R requires an acquirer, upon initially obtaining control of another entity, to recognize the assets, liabilities and any non-controlling interest in the acquiree at fair value as of the acquisition date. Contingent consideration is required to be recognized and measured at fair value on the date of acquisition rather than at a later date when the amount of that consideration may be determinable beyond a reasonable doubt. This fair value approach replaces the cost-allocation process required under SFAS 141 whereby the cost of an acquisition was allocated to the individual assets acquired and liabilities assumed based on their estimated fair value. SFAS 141R requires acquirers to expense acquisition-related costs as incurred rather than allocating such costs to the assets acquired and liabilities assumed, as was previously the case under SFAS 141. Under SFAS 141R, the requirements of SFAS 146, Accounting for Costs Associated with Exit or Disposal Activities,” would have to be met in order to accrue for a restructuring plan in purchase accounting and, instead, that contingency would be subject to the probable and estimable recognition criteria of SFAS 5, “Accounting for Contingencies.” This statement is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We adopted SFAS 141R on January 1, 2009 and the adoption did not have a significant impact on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, “*Noncontrolling Interest in Consolidated Financial Statements*, an amendment of ARB Statement No. 51.” SFAS 160 amends Accounting Research Bulletin (ARB) No. 51, “Consolidated Financial Statements,” to establish accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 clarifies that a non-controlling interest in a subsidiary, which is sometimes referred to as minority interest, is an ownership interest in the consolidated entity that should be reported as a component of equity in the consolidated financial statements. Among other requirements, SFAS 160 requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the non-controlling interest. It also requires disclosure, on the face of the consolidated income statements, of the amounts of consolidated net income attributable to the parent and to the non-controlling interest. We adopted SFAS 160 on January 1, 2009 and the adoption did not have a significant impact on our consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, “*Disclosures about Derivative Instruments and Hedging Activities-an amendment of FASB Statement No. 133.*” SFAS 161 changes disclosure requirements for derivative instruments and hedging activities. The Statement requires enhanced disclosures about (a) how and why derivative instruments are used, (b) how derivative and related hedged items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect financial position, financial performance, and cash flows. This Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early adoption permitted. We have no derivative instruments designated as hedges. We adopted SFAS 161 on January 1, 2009 and the adoption did not have a significant impact on our consolidated financial statements.

In June 2008, the FASB issued FSP EITF 03-06-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*. FSP EITF 03-06-1 requires all outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends to be considered participating securities and requires entities to apply the two-class method of computing basic and diluted earnings per share. This FSP is effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. We adopted FSP EITF 03-06-01 on January 1, 2009 and the adoption did not have a significant impact on our consolidated financial statements.

In December 2008, the FASB issued FSP FAS 140-4 and FIN 46(R)-8, *Disclosures by Public Entities (Enterprises) About Transfers of Financial Assets and Interests in Variable Interest Entities*. This disclosure-only FSP improves the transparency of transfers of financial assets and an enterprise’s involvement with variable interest entities (VIEs), including qualifying special-purpose entities (QSPEs). The disclosures required by this FSP are intended to provide greater transparency to financial statement users about a transferor’s continuing involvement with transferred financial assets and an enterprise’s involvement with variable interest entities and



qualifying SPEs. This FSP shall be effective for the first reporting period ending after December 15, 2008, with earlier application encouraged, and shall be applied for each annual and interim reporting period thereafter. The adoption of this guidance did not have a significant impact on our consolidated financial statements.

In April 2009, the FASB issued a Staff Position FAS 157-4, *Determining Fair Value When the Volume of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*, or FSP FAS 157-4. FSP FAS 157-4 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. FSP FAS 157-4 also provides additional authoritative guidance in determining whether a market is active or inactive, and whether a transaction is distressed. FSP FAS 157-4 is applicable to all assets and liabilities (i.e. financial and nonfinancial) and requires enhanced disclosures. This FSP is effective for interim periods ending after June 15, 2009, but early adoption is permitted for interim periods ending after March 15, 2009. We early adopted the provisions of this FSP during the first quarter of 2009. Our adoption of the FSP FAS 157-4 did not have a material effect on our consolidated financial statements.

In April 2009, the FASB issued a Staff Position FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*, or FSP FAS 115-2 and 124-2. FSP FAS 115-2 and FAS 124-2 clarify the interaction of the factors that should be considered when determining whether a debt security is other-than-temporarily impaired. For debt securities, management must assess whether (a) it has the intent to sell the security and (b) it is more likely than not that it 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 management to assert it has both the intent and the ability to hold a security for a period of time sufficient to allow for an anticipated recovery in fair value to avoid recognizing an other-than-temporary impairment. In instances when a determination is made that an other-than-temporary impairment exists but the investor does not intend to sell the debt security and it is not more likely than not that it will be required to sell the debt security prior to its anticipated recovery, FSP FAS 115-2 and FAS 124-2 changes the presentation and amount of the other-than-temporary impairment recognized in the income statement. The other-than-temporary impairment is separated into (a) the amount of the total other-than-temporary impairment related to a decrease in cash flows expected to be collected from the debt security (the credit loss) and (b) the amount of the total other-than-temporary impairment related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the total other-than-temporary impairment related to all other factors is recognized in other comprehensive income. This FSP is effective for interim periods ending after June 15, 2009, but early adoption is permitted for interim periods ending after March 15, 2009. We early adopted the provisions of this FSP during the first quarter of 2009 and as a result of the adoption recorded a cumulative effect adjustment of \$1.6 million increase to the opening balance of retained earnings.

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*. FSP FAS 107-1 and APB 28-1 amends FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This FSP also amends APB Opinion No. 28, *Interim Financial Reporting*, to require those disclosures in summarized financial information at interim reporting periods. This FSP is effective for interim periods ending after June 15, 2009, but early adoption is permitted for interim periods ending after March 15, 2009. We early adopted the provisions of this disclosure only FSP during the first quarter of 2009.



THE RIGHTS OFFERING

The Subscription Rights

We are distributing to the record holders of our common stock as of June 22, 2009 non-transferable subscription rights to purchase shares of our common stock at \$2.88 per share. The subscription rights entitle the holders of our common stock to purchase an aggregate of approximately 3,472,222 shares of our common stock for an aggregate purchase price of \$10 million. We reserve the right, in the sole discretion of our board of directors, to increase the 3,472,222 shares available by up to an additional 10%.

Each holder of record of our common stock will receive one subscription right for each share of our common stock owned by such holder as of 5:00 p.m., Eastern Time, on June 22, 2009. Each subscription right entitles the holder to a basic subscription right and an over-subscription privilege.

Basic Subscription Right. With your basic subscription right, you may purchase 0.35 shares of our common stock per subscription right, subject to delivery of the required documents and payment of the subscription price of \$2.88 per share, prior to the expiration of the rights offering. The number of shares that you may purchase appears on your rights certificate. You may exercise all or a portion of your basic subscription right, or you may choose not to exercise any of your subscription rights. If you do not exercise your basic subscription rights in full, you will not be entitled to purchase shares under your over-subscription privilege.

Fractional shares of our common stock resulting from the exercise of your basic subscription right will be eliminated by rounding down to the nearest whole share, with the total subscription payment being adjusted accordingly. Any excess subscription payments received by the subscription agent will be returned, without interest, as soon as practicable following the expiration of the rights offering.

We will deliver certificates representing shares or credit your account at your record holder with shares of our common stock you purchased pursuant to your basic subscription right as soon as practicable after the rights offering has expired.

Over-Subscription Privilege. If you purchase all of the shares of common stock available to you pursuant to your basic subscription right, you may also choose to purchase a portion of any shares of our common stock that are not purchased by other shareholders through the exercise of their basic subscription rights. If sufficient shares of common stock are available, we will seek to honor the over-subscription requests in full. If over-subscription requests exceed the number of shares of common stock available, we will allocate the available shares of common stock among shareholders who over-subscribed by multiplying the number of shares requested by each shareholder through the exercise of their over-subscription privileges by a fraction which equals (x) the number of shares available to be issued through over-subscription privileges divided by (y) the total number of shares requested by all subscribers through the exercise of their over-subscription privileges.

In order to properly exercise your over-subscription privilege, you must deliver the subscription payment related to your over-subscription privilege at the time you deliver payment related to your basic subscription right. Because we will not know the total number of unsubscribed shares prior to the expiration of the rights offering, if you wish to maximize the number of shares you purchase pursuant to your over-subscription privilege, you will need to deliver payment in an amount equal to the aggregate subscription price for the maximum number of shares of our common stock that may be available to you, assuming that no shareholder other than you will purchase any shares of our common stock pursuant to their basic subscription right.

You may not be able to purchase the entire number of shares issuable upon the exercise of your over-subscription privilege. We will not be able to satisfy any orders for shares pursuant to the over-subscription privilege if all of our shareholders exercise their basic subscription rights in full. We can only honor an over-subscription privilege to the extent sufficient shares of our common stock are available following the exercise of subscription rights pursuant to the basic subscription rights.



To the extent the aggregate subscription price of the actual number of unsubscribed shares available to you pursuant to the over-subscription privilege is less than the amount you actually paid in connection with the exercise of the over-subscription privilege, you will be allocated only the number of unsubscribed shares available to you, and any excess subscription payments will be returned to you, without interest, as soon as practicable.

To the extent the amount you actually paid in connection with the exercise of the over-subscription privilege is less than the aggregate subscription price of the actual number of unsubscribed shares available to you pursuant to the over-subscription privilege, you will be allocated the number of unsubscribed shares for which you actually paid in connection with the over-subscription privilege.

Fractional shares of our common stock resulting from the exercise of the over-subscription privilege will be eliminated by rounding down to the nearest whole share, with the total subscription payment being adjusted accordingly. Any excess subscription payments received by the subscription agent will be returned, without interest, as soon as practicable following the expiration of the rights offering.

We will deliver certificates representing shares or credit the account of your record holder with shares of our common stock purchased with the over-subscription privilege as soon as practicable after the expiration of the rights offering.

Reasons for the Rights Offering

We are engaging in the rights offering to raise equity capital to enhance our capital position. Our board of directors has chosen to raise capital through a rights offering to give our shareholders the opportunity to limit ownership dilution by participating in the rights offering on a pro-rata basis. Our board of directors also considered several alternative capital raising methods prior to concluding that the rights offering was the appropriate option under the current circumstances. We believe that the rights offering will strengthen our financial condition by generating additional cash and increasing our capital position; however, our board of directors is making no recommendation regarding your exercise of the subscription rights. We may need to seek additional financing or engage in additional capital offerings in the future and any such future capital offerings would result in the dilution of your purchase of our shares of common stock in the rights offering. We urge you to make your decision based on your own assessment of our business and financial condition, our prospects for the future, and the terms of the rights offering.

Unexercised Subscription Rights

Concurrently with the rights offering, we will offer our common stock to the public on a best efforts basis. In the event all or any portion of the subscription rights are not exercised by the holders of common stock upon the expiration of the rights offering, we will sell those remaining shares of common stock to the public at \$2.88 per share.

Limit on How Many Shares of Common Stock You May Purchase in the Rights Offering

You may only purchase the number of whole shares of common stock purchasable upon exercise of the number of subscription rights distributed to you in the rights offering, plus the maximum amount of over-subscription privilege shares available based upon the maximum offering amount of 3,472,222 shares. Accordingly, the number of shares of common stock you may purchase in the rights offering is limited by the number of shares of our common stock you held on the record date, and by the extent to which other shareholders exercise their subscription rights and over-subscription privilege, which we cannot determine prior to completion of the rights offering.

Prior clearance or approval of, or notice to, state or federal bank regulatory authorities may be required prior to any person or entity, together with certain related persons or entities, exercising subscription rights (including



over-subscription privileges) to purchase shares of our common stock that, when aggregated with their existing ownership, would result in such person or entity, together with any related persons or entities, owning in excess of 9.9% of our issued and outstanding shares of common stock following the closing of the transactions contemplated by this rights offering. If you have not received prior regulatory approval from any state or federal bank regulatory authority to acquire, own or control such shares prior to August 24, 2009, we will not be able to issue your shares of common stock in excess of the 9.9% ownership threshold until such time as you have obtained such approval. We may, in our discretion, refuse to issue shares of common stock if the required regulatory approval or clearance has not been obtained within a reasonable period following August 24, 2009. If we elect not to issue shares in such a case, the unissued shares will become available to satisfy over-subscriptions by other shareholders pursuant to their subscription rights and will thereafter be available to third party purchasers in any public offering of available shares.

Method of Exercising Subscription Rights

The exercise of subscription rights is irrevocable and may not be canceled or modified. You may exercise your subscription rights as follows:

Subscription by Registered Holders. If you hold a Preferred Bank stock certificate, the number of shares you may purchase pursuant to your basic subscription right is indicated on the enclosed rights certificate. You may exercise your subscription rights by properly completing and executing the rights certificate and forwarding it, together with your full payment, to the subscription agent at the address set forth below under “—Subscription Agent,” to be received prior to 5:00 p.m., Eastern Time, on August 24, 2009.

Subscription by Beneficial Owners. If you are a beneficial owner of shares of our common stock that are registered in the name of a broker, custodian bank or other nominee, you will not receive a rights certificate. Instead, the DTC will issue one subscription right to the nominee record holder for each share of our common stock that you own at the record date. If you are not contacted by your nominee, you should promptly contact your nominee in order to subscribe for shares of our common stock in the rights offering.

Payment Method

As described in the rights certificate, payments submitted to the subscription agent must be made in full United States currency by:

- certified or cashier’s check, personal check or bank draft payable to Computershare, the subscription agent, drawn upon a United States bank;
- postal or express money order payable to Computershare.

We will not honor payment received after the expiration date of the rights offering, and the subscription agent will return your payment to you, without interest or deduction, as soon as practicable. Personal checks which do not clear prior to the expiration date will not be considered payment for subscription rights. The subscription agent will be deemed to receive payment upon:

- receipt by the subscription agent of any certified check or bank draft, drawn upon a United States bank;
- clearance of any uncertified check deposited by the subscription agent;
- receipt by the subscription agent of any postal or express money order.

If you elect to exercise your subscription rights, we urge you to consider using a certified or cashier’s check, or money order to ensure that the subscription agent receives your funds prior to the expiration of the rights offering. If you send an uncertified check, payment will not be deemed to have been received by the subscription agent until the check has cleared. If you send a certified check or bank draft, drawn upon a U.S. bank, a postal or express money order, payment will be deemed to have been received by the subscription agent immediately upon receipt of such instruments.



Any personal check used to pay for shares of our common stock must clear the appropriate financial institutions prior to 5:00 p.m., Eastern Time, on August 24, 2009, which is the expiration of the rights offering. The clearinghouse may require five or more business days. Accordingly, holders that wish to pay the subscription price by means of an uncertified personal check are urged to make payment sufficiently in advance of the expiration of the rights offering to ensure such payment is received and clears by such date.

You should read and follow the instructions accompanying the rights certificate carefully and strictly follow it. As described in the instructions accompanying the rights certificate, in certain cases additional documentation or signature guarantees may be required. We will not consider your subscription received until the subscription agent has received delivery of a properly completed and duly executed rights certificate and payment of the full subscription amount.

The method of delivery of payments of the subscription amount to the subscription agent will be at the risk of the holders of subscription rights. If sent by mail, we recommend that you send those documents and payments by overnight courier or by registered mail, properly insured, with return receipt requested, and that a sufficient number of days be allowed to ensure delivery to the subscription agent. **Do not send or deliver these materials to us.**

Medallion Guarantee May Be Required

Your signature on your rights certificate must be guaranteed by an eligible institution, such as a member firm of a registered national securities exchange or a member of the Financial Industry Regulatory Authority, Inc., or a commercial bank or trust company having an office or correspondent in the United States, subject to standards and procedures adopted by the subscription agent, unless:

- you provide on the rights certificate that shares are to be delivered to you as record holder of those subscription rights; or
- you are an eligible institution.

Missing or Incomplete Subscription Information

If you hold your shares of common stock in the name of a custodian bank, broker, dealer or other nominee, the nominee will exercise the subscription rights on your behalf in accordance with your instructions. Your nominee may establish a deadline that may be before the 5:00 p.m., Eastern Time, August 24, 2009, expiration date that we have established for the rights offering. If you send a payment that is insufficient to purchase the number of shares you requested, or if the number of shares you requested is not specified in the forms, the payment received will be applied to exercise your subscription rights to the fullest extent possible based on the amount of the payment received, subject to the availability of shares under the over-subscription privilege and the elimination of fractional shares. Any excess subscription payments received by the subscription agent will be returned, without interest, as soon as practicable following the expiration of the rights offering.

Expiration Date and Cancellation Rights

The subscription period, during which you may exercise your subscription rights, expires at 5:00 p.m., Eastern Time, on August 24, 2009, which is the expiration of the rights offering. If you do not exercise your subscription rights prior to that time, your subscription rights will expire and will no longer be exercisable. We will not be required to issue shares of our common stock to you if the subscription agent receives your rights certificate or your subscription payment after that time. We have the option to extend the rights offering without notice to you, although we do not presently intend to do so. In no event will the exercise period of the rights offering exceed 90 days in the event of an extension. We may extend the expiration of the rights offering by giving oral or written notice to the subscription agent prior to the expiration of the rights offering. If we elect to extend the expiration of the rights offering, we will issue a press release announcing such extension no later than 9:00 a.m., Eastern Time, on the next business day after the most recently announced expiration of the rights offering.



If you hold your shares of common stock in the name of a custodian bank, broker, dealer or other nominee, the nominee will exercise the subscription rights on your behalf in accordance with your instructions. The nominee may establish a deadline that may be before the 5:00 p.m., Eastern Time, August 24, 2009, expiration date that we have established for the rights offering.

We may cancel the rights offering at any time for any reason prior to the time the rights offering expires. If we cancel the rights offering, we will issue a press release notifying shareholders of the cancelation and all subscription payments received by the subscription agent will be returned, without interest or deduction, as soon as practicable.

Determination of Subscription Price

Our board of directors established the subscription price at 85% of the volume weighted average closing price of our common stock on the NASDAQ Global Select Market for 5 trading days ending two business days immediately prior to the commencement date of the offering. In determining the subscription price, our board of directors considered a number of factors, including: the price at which our shareholders might be willing to participate in the rights offering, historical and current trading prices for our common stock, the need for liquidity and capital, potential market conditions, and the desire to provide an opportunity to our shareholders to participate in the rights offering on a pro rata basis. In conjunction with its review of these factors, our board of directors also reviewed our history and prospects, including our past and present earnings, our prospects for future earnings, our current financial condition and regulatory status. Our board of directors did not seek or obtain the opinion of a financial advisor in establishing the subscription price. You should not assume or expect that, after the rights offering, our shares of common stock will trade at or above the \$2.88 purchase price.

The market price of our shares of common stock may decline during or after the rights offering and you may not be able to sell shares of our common stock purchased during the rights offering at a price equal to or greater than the subscription price. We urge you to obtain a current quote for our common stock before exercising your subscription rights and to make your own assessment of our business and financial condition, our prospects for the future, and the terms of this rights offering.

Conditions, Withdrawal, Amendment and Termination

We reserve the right to withdraw the rights offering at any time for any reason. We also may amend or terminate the rights offering at any time before completion of the rights offering if our board of directors decides to do so in its sole discretion. We may waive any of these conditions and choose to proceed with the rights offering even if one or more of these events occur. If we terminate the rights offering, all affected subscription rights will expire without value, and all excess subscription payments received by the subscription agent will be returned, without interest, as soon as practicable.

Subscription Agent

The subscription agent for this offering is Computershare. The address to which rights certificates and payments, other than wire transfers, should be mailed or delivered is provided below. If sent by mail, we recommend that you send documents and payments by overnight courier or by registered mail, properly insured, with return receipt requested, and that a sufficient number of days be allowed to ensure delivery to the subscription agent. Do not send or deliver these materials to us.

By Mail:
 Computershare Trust Company, N.A.
 Attn: Voluntary Corporate Actions
 P.O. Box 43011
 Providence, RI 02940-3011

By Hand or Overnight Courier:
 Computershare Trust Company, N.A.
 Attn.: Voluntary Corporate Actions
 250 Royall Street, Suite V
 Canton, MA 02021



If you deliver subscription documents, rights certificates or notices of guaranteed delivery in a manner different than that described in this offering circular, we may not honor the exercise of your subscription rights.

If you have any questions regarding completing a rights certificate or submitting payment in the rights offering, please call our information agent for the rights offering, Georgeson, at (866) 828-4315 (toll free), Monday through Friday, between 8:00 a.m. and 5:00 p.m., Eastern Time. Georgeson is not available to answer questions on weekends or bank holidays.

Any questions or requests regarding Preferred Bank may be directed to (213) 891-1188, Monday through Friday, between 9:00 a.m. and 5:00 p.m., Eastern Time.

Fees and Expenses

We will pay the fees and expenses of the subscription agent. You are responsible for paying any other commissions, fees, taxes or other expenses incurred in connection with the exercise of the subscription rights.

No Fractional Shares

Our board of directors established the subscription price at 85% of the volume weighted average closing price for 5 trading days ending two business days immediately prior to the commencement date of the rights offering. We will not issue fractional shares. Fractional shares of our common stock resulting from the exercise of the basic subscription rights and the over-subscription privileges will be eliminated by rounding down to the nearest whole share. Any excess subscription payments received by the subscription agent will be returned, without interest, as soon as practicable.

Notice to Nominees

If you are a broker, custodian bank or other nominee holder that holds shares of our common stock for the account of others on the record date, you should notify the beneficial owners of the shares for whom you are the nominee of the rights offering as soon as possible to learn their intentions with respect to exercising their subscription rights. You should obtain instructions from the beneficial owners of our common stock. If a registered holder of our common stock so instructs, you should complete the rights certificate and submit it to the subscription agent with the proper subscription payment by the expiration date. You may exercise the number of subscription rights to which all beneficial owners in the aggregate otherwise would have been entitled had they been direct holders of our common stock on the record date, provided that you, as a nominee record holder, make a proper showing to the subscription agent by submitting the form entitled "Nominee Holder Certification," which is provided with your rights offering materials. If you did not receive this form, you should contact the subscription agent to request a copy.

Beneficial Owners

If you are a beneficial owner of shares of our common stock and will receive your subscription rights through a broker, custodian bank or other nominee, we will ask your nominee to notify you of the rights offering. If you wish to exercise your subscription rights, you will need to have your nominee act for you, as described above. To indicate your decision with respect to your subscription rights, you should follow the instructions of your nominee. If you wish instead to obtain a separate rights certificate, you should contact your nominee as soon as possible and request that a rights certificate be issued to you. You should contact your nominee if you do not receive notice of the rights offering, but you believe you are entitled to participate in the rights offering. We are not responsible if you do not receive the notice by mail or otherwise from your nominee or if you receive notice without sufficient time to respond to your nominee by the deadline established by your nominee, which may be before the 5:00 p.m., Eastern Time, August 24, 2009, expiration date.



Non-Transferability of Subscription Rights

The subscription rights granted to you are non-transferable and, therefore, you may not sell, transfer or assign your subscription rights to anyone. The subscription rights will not be listed for trading on the NASDAQ Global Select Market or any other stock exchange or market. The shares of our common stock issuable upon exercise of the subscription rights will be listed on the NASDAQ Global Select Market.

Validity of Subscriptions

We will resolve all questions regarding the validity and form of the exercise of your subscription rights, including time of receipt and eligibility to participate in the rights offering. Our determination will be final and binding. Once made, subscriptions and directions are irrevocable, and we will not accept any alternative, conditional or contingent subscriptions or directions. We reserve the absolute right to reject any subscriptions or directions not properly submitted or the acceptance of which would be unlawful. You must resolve any irregularities in connection with your subscriptions before the subscription period expires, unless waived by us in our sole discretion. Neither we nor the subscription agent shall be under any duty to notify you or your representative of defects in your subscriptions. A subscription will be considered accepted, subject to our right to withdraw or terminate the rights offering, only when a properly completed and duly executed rights certificate and any other required documents and the full subscription payment have been received by the subscription agent. Our interpretations of the terms and conditions of the rights offering will be final and binding.

Escrow Arrangements; Return of Funds

The subscription agent will hold funds received in payment for shares of our common stock in a segregated account pending completion of the rights offering. The subscription agent will hold this money until the rights offering is completed or is withdrawn and canceled. If the rights offering is canceled for any reason, all subscription payments received by the subscription agent will be returned, without interest or deduction, as soon as practicable.

Shareholder Rights

You will have no rights as a holder of the shares of our common stock you purchase in the rights offering until certificates representing the shares of our common stock are issued to you, or your account at your nominee is credited with the shares of our common stock purchased in the rights offering.

No Revocation or Change

Once you submit the rights certificate or have instructed your nominee of your subscription request, you are not allowed to revoke or change the exercise or request a refund of monies paid. All exercises of subscription rights are irrevocable, even if you learn information about us that you consider to be unfavorable. You should not exercise your subscription rights unless you are certain that you wish to purchase additional shares of our common stock at the subscription price.

Material U.S. Federal Income Tax Treatment of Rights Distribution

For U.S. federal income tax purposes, you should not recognize income or loss upon receipt or exercise of these subscription rights to purchase shares of our common stock for the reasons described below in "Material U.S. Federal Income Tax Consequences."



No Recommendation to Rights Holders

Our board of directors is making no recommendation regarding your exercise of the subscription rights. Shareholders who exercise subscription rights risk investment loss on new money invested. The market price for our common stock may decline to a price that is less than the subscription price and, if you purchase shares at the subscription price, you may not be able to sell those shares in the future at the same price or a higher price. You are urged to make your decision based on your own assessment of our business and financial condition, our prospects for the future and the terms of this rights offering. Please see “Risk Factors” for a discussion of some of the risks involved in investing in our common stock.

Shares of Our Common Stock Outstanding After the Rights Offering

Assuming no stock options are exercised prior to the expiration of the rights offering, we anticipate that we will have a minimum of approximately 11,243,095 shares of common stock and a maximum of 13,326,429 shares of common stock outstanding after consummation of the rights offering. The number of shares of common stock that we will issue in the rights offering will depend on the number of shares that are subscribed for by our shareholders in the rights offering.



THE PUBLIC OFFERING OF REMAINING SHARES

Acceptance of Nonbinding Subscriptions During Pendency of Rights Offering

We will permit persons and entities who are not shareholders eligible to participate in the rights offering to submit nonbinding subscriptions to purchase 100 or more shares of our common stock, if any, that remain available for purchase following the expiration date of the rights offering. Prospective purchasers should complete, date and sign the preliminary subscription agreement which accompanies this offering circular and return it to Preferred Bank, 601 S. Figueroa Street, 29th Floor, Los Angeles, California, 90017, Attn: Edward J. Czajka.

Preliminary subscriptions are NOT binding on subscribers. DO NOT send payment for shares of common stock with your preliminary subscription. Upon completion of the rights offering, we will furnish to all persons who previously submitted preliminary subscriptions supplemental information that sets forth the results of the rights offering and the amount of unsubscribed shares of common stock, accompanied by an acknowledgement of subscription. Upon receipt of the supplemental information, each subscriber will be asked to do the following:

- Complete, sign and date the acknowledgement of subscription;
- Make a certified, cashier's or personal check payable to "Preferred Bank" in an amount equal to the subscription price of \$2.88 per share multiplied by the number of shares of common stock subscribed for; and
- Return the completed acknowledgement of subscription and check to Preferred Bank, 601 S. Figueroa Street, 29th Floor, Los Angeles, California, 90017, Attn: Edward J. Czajka.

If you send an uncertified check, payment will not be deemed to have been received by us until the check has cleared. If you send a certified check or bank draft, drawn upon a U.S. bank, or a postal or express money order, payment will be deemed to have been received immediately upon receipt of such instruments.

Any personal check used to pay for shares of our common stock must clear the appropriate financial institutions prior to 5:00 p.m., Pacific Time, on August 24, 2009, which is the expiration of the public offering. The clearinghouse may require five or more business days. Accordingly, persons who wish to acknowledge their preliminary subscription by means of an uncertified personal check are urged to make payment sufficiently in advance of the expiration of the rights offering to ensure such payment is received and clears by such date.

UPON RECEIPT BY PREFERRED BANK OF THE ACKNOWLEDGEMENT OF SUBSCRIPTION, THE PRELIMINARY SUBSCRIPTION AGREEMENT WILL BECOME BINDING ON AND IRREVOCABLE BY THE SUBSCRIBER UNTIL THE EXPIRATION DATE OF THE OFFERING.

Discretion to Accept Subscriptions

We have the right, in our sole discretion, to accept or reject any subscription in whole or in part on or before the expiration date of the public offering. We generally will accept subscriptions in the order in which they are received. As a result, you may not receive any or all of the shares for which you subscribe. We will notify subscribers as soon as practicable following the close of the public offering as to whether and to what extent their subscriptions have been accepted. If we do not accept all or a portion of a subscription, we will return to the subscriber the unaccepted portion of the subscription funds, without interest.

Expiration Date and Cancellation Rights

The public offering will expire at 5:00 p.m. Eastern Time, on August 24, 2009.

We may cancel the public offering of remaining shares at any time for any reason, including following the expiration date of the public offering. If we cancel the public offering of any remaining shares of common stock, we will return all subscription payments, without interest or deduction, as soon as practicable.



Escrow Arrangements; Return of Funds

We will hold funds received with an acknowledgement of subscription in a segregated noninterest-bearing deposit account at Preferred Bank. We will hold these funds in escrow until such time as we accept the subscription or until the public offering is canceled. If the offering of remaining shares is canceled, we will return the subscription payments, without interest or deduction, as soon as practicable.

No Revocation or Change

Once you submit the acknowledgement of subscription and your payment, you will not be allowed to revoke your subscription or request a refund of monies paid. All acknowledgements of subscriptions are irrevocable, even if you learn information about us that you consider to be unfavorable. You should not submit an acknowledgement of subscription unless you are certain that you wish to purchase shares of our common stock at the subscription price.

MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES

The following discussion is a summary of the material federal income tax consequences to U.S. Holders of our common stock (as defined below) of the receipt of subscription rights in the rights offering and the ownership, exercise and disposition of the subscription rights. This discussion is a summary and does not consider all aspects of U.S. federal income taxation that may be relevant to particular U.S. Holders in the light of their individual investment circumstances or to certain types of U.S. Holders that are subject to special tax rules, including partnerships, banks, financial institutions or other “financial services” entities, broker-dealers, insurance companies, tax-exempt organizations, regulated investment companies, real estate investment trusts, retirement plans, individual retirement accounts or other tax-deferred accounts, persons who use or are required to use mark-to-market accounting, persons that received our common stock in satisfaction of our prior indebtedness to such persons, persons that hold rights or our common stock as part of a “straddle,” a “hedge” or a “conversion transaction,” persons that have a functional currency other than the U.S. dollar, investors in pass-through entities, certain former citizens or permanent residents of the United States and persons subject to the alternative minimum tax. This discussion also does not address any federal non-income, state, local or foreign tax considerations to U.S. Holders, nor does it address any tax considerations to persons other than U.S. Holders. This summary assumes that U.S. Holders have held our common stock exclusively as a “capital asset” within the meaning of Section 1221 of the Internal Revenue Code of 1986, as amended, or the “Code.” This summary is based on the Code and applicable Treasury Regulations, rulings, administrative pronouncements and decisions as of the date hereof, all of which are subject to change or differing interpretations at any time with possible retroactive effect. We have received the opinion of Manatt, Phelps & Phillips, LLP, our legal counsel, that the material U.S. federal income tax consequences to us and to U.S. Holders will be as described below. In rendering its opinion, Manatt, Phelps & Phillips, LLP has relied on the facts described herein as well as certain factual representations made by us. The opinion of Manatt, Phelps & Phillips, LLP is not binding on the Internal Revenue Service (“IRS”), and, as a result, the IRS may not agree with the tax opinion contained herein. No advance tax ruling has been sought or obtained from the IRS regarding the U.S. federal income tax consequences described below. If the IRS contests a conclusion set forth herein, no assurance can be given that a U.S. holder would ultimately prevail in a final determination by a court.

For purposes of this discussion, a “U.S. Holder” is a beneficial owner of our common stock who is (1) a citizen or an individual resident of the United States; (2) a corporation (or entity treated as a corporation for U.S. federal income tax purposes) created or organized, or treated as created or organized, in or under the laws of the United States or any political subdivision of the United States; (3) an estate the income of which is subject to U.S. federal income taxation regardless of its source; or (4) a trust (a) if a court within the United States is able to exercise primary supervision over its administration and one or more U.S. persons have authority to control all substantial decisions of the trust or (b) that has a valid election in effect under applicable Treasury Regulations to be treated as a U.S. person.



If a partnership (or entity or arrangement treated as a partnership for U.S. federal income tax purposes) holds our common stock, the tax treatment of a partner in the partnership will depend upon the status of the partner and the activities of the partnership. In this event, the partner and partnership should consult their tax advisors concerning the tax treatment of the receipt of subscription rights in the rights offering and the ownership, exercise and disposition of the subscription rights.

THIS DISCUSSION IS PROVIDED FOR GENERAL INFORMATION ONLY AND DOES NOT CONSTITUTE LEGAL OR TAX ADVICE TO ANY U.S. HOLDER. EACH HOLDER OF OUR COMMON STOCK IS URGED TO CONSULT THEIR TAX ADVISOR REGARDING THE SPECIFIC FEDERAL, STATE, LOCAL AND FOREIGN INCOME AND OTHER TAX CONSIDERATIONS OF THE RECEIPT OF SUBSCRIPTION RIGHTS IN THE RIGHTS OFFERING AND THE OWNERSHIP, EXERCISE AND DISPOSITION OF THE SUBSCRIPTION RIGHTS.

Receipt, Exercise and Expiration of the Subscription Rights; Tax Basis and Holding Period of Shares Received upon Exercise of the Subscription Rights

You should not recognize taxable income for U.S. federal income tax purposes in connection with the receipt of subscription rights in the rights offering. If you allow the subscription rights received in the rights offering to expire, you should not recognize any gain or loss upon the expiration of the subscription rights. You also should not recognize any gain or loss upon the exercise of the subscription rights received in the rights offering, and the tax basis of the shares of our common stock acquired through the exercise of the subscription rights should equal the sum of the subscription price for the shares and your tax basis, if any, in the subscription rights.

Your tax basis in the subscription rights will generally be zero unless either (1) the fair market value of the subscription rights on the date such subscription rights are distributed is equal to or exceeds 15% of the fair market value on such date of our common stock with respect to which the subscription rights are received or (2) you elect, in your United States federal income tax return for the taxable year in which the subscription rights are received, to allocate part of the tax basis of such common stock to the subscription rights. In either case, a portion of your basis in our common stock with respect to which the subscription rights are received will be allocated to the subscription rights in proportion to the respective fair market values of our common stock and the subscription rights on the date the subscription rights are distributed. The fair market value of the subscription rights on the date the subscription rights are distributed is uncertain, and we have not obtained, and do not intend to obtain, an appraisal of the fair market value of the subscription rights on that date. In determining the fair market value of the subscription rights, you should consider all relevant facts and circumstances, including any difference between the subscription price of the subscription rights and the trading price of our common stock on the date that the subscription rights are distributed, the length of the period during which the subscription rights may be exercised and the fact that the subscription rights are non-transferable. If you have tax basis in the subscription rights and you allow the subscription rights to expire, the tax basis of our common stock owned by you with respect to which such subscription rights were distributed will be restored to the tax basis of such common stock immediately before the receipt of the subscription rights in the rights offering. The holding period for the shares of our common stock acquired through the exercise of the rights will begin on the date the rights are exercised.

If you exercise the subscription rights received in this rights offering after disposing of the shares of our common stock with respect to which the subscription rights are received, then certain aspects of the tax treatment of the exercise of the subscription rights are unclear, including (1) the allocation of tax basis between our common stock previously sold and the subscription rights, (2) the impact of such allocation on the amount and timing of gain or loss recognized with respect to our common stock previously sold, and (3) the impact of such allocation on the tax basis of our common stock acquired through exercise of the subscription rights. If you exercise the subscription rights received in the rights offering after disposing of the shares of our common stock with respect to which the subscription rights are received, you should consult your tax advisor.



Sale of Shares of Our Common Stock and Receipt of Distributions on Shares of Our Common Stock

You will recognize capital gain or loss upon the sale of our common stock acquired through the exercise of subscription rights in an amount equal to the difference between the amount realized and your tax basis in our common stock. The capital gain or loss will be long-term if your holding period in the shares is more than one year.

Long-term capital gains recognized by individuals are taxable under current law at a maximum rate of 15%. Under current law, long-term capital gains recognized by individuals will be taxable at a maximum rate of 20% for taxable years beginning after December 31, 2010. Long-term capital gains recognized by corporations are taxable at ordinary corporate tax rates. If you have held your shares of our common stock for one year or less, your capital gain or loss will be short-term. Short-term capital gains are taxed at a maximum rate equal to the maximum rate applicable to ordinary income. Your ability to use any capital loss is subject to certain limitations.

Distributions, if any, on shares of our common stock acquired through the exercise of subscription rights will be taxable to you as a dividend to the extent that the cash and fair market value of property is allocable to our current and accumulated earnings and profits for the taxable year in which the distribution is made. Dividends received by corporate holders of our common stock are taxable at ordinary corporate tax rates, subject to any applicable dividends-received deduction. Dividends received by noncorporate (individual) holders of our common stock in taxable years beginning before January 1, 2011 are taxed under current law at the holder's capital gain tax rate (a maximum rate of 15%) provided that the holder meets applicable holding period and other requirements. Under current law, dividends received by noncorporate holders of our common stock in subsequent taxable years will be taxed as ordinary income at a maximum rate of 35%. Any distributions in excess of our current and accumulated earnings and profits will be treated as a tax-free return of basis, and any further distributions in excess of your basis in our common stock will be treated as gain from the sale or exchange of such common stock.

Information Reporting and Backup Withholding

You may be subject to information reporting and/or backup withholding with respect to dividend payments on or the gross proceeds from the disposition of our common stock acquired through the exercise of subscription rights. Backup withholding may apply under certain circumstances if you (1) fail to furnish your social security or other taxpayer identification number, or TIN, (2) furnish an incorrect TIN, (3) fail to report interest or dividends properly, or (4) fail to provide a certified statement, signed under penalty of perjury, that the TIN provided is correct and that you are not subject to backup withholding. Any amount withheld from a payment under the backup withholding rules is allowable as a credit against (and may entitle you to a refund with respect to) your federal income tax liability, provided that the required information is furnished to the Internal Revenue Service. Certain persons are exempt from backup withholding, including corporations and financial institutions. You should consult your tax advisors as to your qualification for exemption from withholding and the procedure for obtaining such exemption.



PLAN OF DISTRIBUTION

Directors, Executive Officers and Employees

We are offering shares of our common stock directly to you pursuant to the rights offering. Our directors and executive officers may participate in the solicitation of the exercise of subscription rights for the purchase of common stock. These persons will be reimbursed for their reasonable out-of-pocket expenses incurred in connection with any solicitation. Other trained employees of us may assist in the rights offering in ministerial capacities, providing clerical work in effecting an exercise of subscription rights or answering questions of a ministerial nature. Other questions of prospective purchasers will be directed to our executive officers. Our other employees have been instructed not to solicit the exercise of subscription rights for the purchase of shares of common stock or to provide advice regarding the exercise of subscription rights. We will rely on Rule 3a4-1 under the Exchange Act, as adopted by the FDIC, and the solicitation of subscription rights and the sales of the common stock underlying such subscription rights will be conducted within the requirements of Rule 3a4-1, so as to permit officers, directors and employees to participate in the sale of our common stock. None of our officers, directors or employees will be compensated in connection with their participation in the rights offering by the payment of commissions or other remuneration based either directly or indirectly on the transactions in the shares of common stock.

Public Offering of Remaining Shares

To the extent we have shares of common stock remaining available (after taking into consideration all subscription exercises and any increase in the maximum number of shares available as determined by our board of directors), we will offer those shares to the public at the \$2.83 per share subscription price. Unlike the rights offering, the public offering will be made through the best efforts of our officers and directors.

Selling Restrictions—Taiwan

The shares of our common stock have not been and will not be registered with the Securities and Futures Bureau, Financial Supervisory Commission of Taiwan, the Republic of China pursuant to relevant securities laws and regulations and may not be offered or sold in Taiwan, the Republic of China through a public offering or in circumstances which constitute an offer within the meaning of the Securities and Exchange Law of Taiwan, the Republic of China that requires a registration or approval of the Securities and Futures Bureau, Financial Supervisory Commission of Taiwan, the Republic of China. No person or entity in Taiwan, the Republic of China has been authorized to offer, sell or give advice regarding or otherwise intermediate the offering and sale of our shares of common stock in Taiwan, the Republic of China. The purchase of shares of our common stock is offered only to those investors who are eligible investors.

PARTICIPATION OF OUR DIRECTORS, OFFICERS AND PRINCIPAL SHAREHOLDERS

Based solely upon information furnished to us, the following table sets forth information regarding the number of shares for which our officers, directors and certain shareholders intend to subscribe, the beneficial ownership of our common stock as of March 31, 2009, and the number of shares owned on a post-offering basis assuming the maximum number of shares offered are sold, 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;
- all directors and executive officers as a group; and
- a former director.



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 9,854,207 shares of our common stock outstanding as of March 31, 2009, and 13,326,429 shares of our common stock outstanding after the rights offering, 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	Proposed Purchasers of Stock in the Rights Offering		Shares Owned as of March 31, 2009	Total Owned Post-Offering	
	Number of Shares	Amount		Number of Shares Owned Post-Offering	Percent of Total Outstanding if 3,472,222 shares are sold
5% Shareholders					
Bestwood Trust I 1160 Shadow Hill Way, Beverly Hills, CA 90210	416,667	\$1,200,000	1,227,760	1,644,427	11.93%
Directors					
Li Yu	347,222	1,000,000	(1) 1,223,329	1,570,551	11.39%
J. Richard Belliston	34,722	100,000	(2) 26,000	60,722	0.44%
William C.Y. Cheng	138,889	400,000	(3) 301,565	440,454	3.19%
Clark Hsu	—	—	(4) 620,380	620,380	4.50%
Frank T. Lin	138,889	400,000	(5) 35,000	173,889	1.26%
Gary S. Nunnally	34,722	100,000	(6) 60,008	94,730	0.69%
Dr. Albert Yu	3,472	10,000	(7) 21,500	24,972	0.18%
Named Executive Officers					
Robert Kosof	—	—	1,000	1,000	0.01%
Edward J. Czajka	694	2,000	(8) 13,830	14,524	0.11%
Nick Pi	13,889	40,000	(9) 27,550	41,439	0.30%
All directors and executive officers as a group (10 in number)	1,129,167	\$3,252,000	3,557,922	4,687,089	33.99%
Former Director					
Chih-Wei Wu	173,611	\$ 500,000	N/A	N/A	N/A

- (1) Includes 885,829 shares for which he shares beneficial ownership with his wife and 337,500 shares issuable upon the exercise of options exercisable within 60 days of March 31, 2009. Bestwood Trust I holds 1,227,760 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 shares beneficially owned by Mr. Yu.
- (2) Includes 1,500 shares held by the Belliston Family Trust and 18,500 shares issuable upon the exercise of options exercisable within 60 days of March 31, 2009.
- (3) Includes 17,000 shares issuable upon the exercise of options exercisable within 60 days of March 31, 2009.
- (4) Includes 6,500 shares issuable upon the exercise of options exercisable within 60 days of March 31, 2009 and 613,880 shares held by Bestwood Trust I representing 50% of the shares owned by such trust for which Mr. Hsu may be deemed to be the beneficial owner of as a beneficiary under such trust.
- (5) Includes 20,000 shares issuable upon the exercise of options exercisable within 60 days of March 31, 2009.
- (6) Includes 17,000 shares issuable upon the exercise of options exercisable within 60 days of March 31, 2009.
- (7) Includes 12,500 shares issuable upon the exercise of options exercisable within 60 days of March 31, 2009.
- (8) Includes 12,000 shares issuable upon the exercise of options exercisable within 60 days of March 31, 2009.
- (9) Includes 20,550 shares issuable upon the exercise of options exercisable within 60 days of March 31, 2009 and 7,000 Restricted Stock Awards.



DESCRIPTION OF CAPITAL STOCK

General

Upon completion of the rights offering, our authorized capital stock will consist of 100,000,000 shares of common stock, no par value per share, of which 13,326,429 shares will be outstanding, and 25,000,000 shares of preferred stock, no par value per share, none of which will be outstanding.

The following summary of the rights of our common stock and preferred stock is not complete and is qualified in its entirety by reference to our amended and restated articles of incorporation and amended and restated bylaws.

Common Stock

After giving effect to the sale of common stock offered in this offering, there will be 13,326,429 shares of common stock outstanding, assuming no exercise of stock options. As of March 31, 2009, there were outstanding stock options to purchase a total of 1,462,950 shares of common stock.

Holders of our common stock are entitled to one vote for each share held on all matters submitted to a vote of the shareholders. In accordance with California law, the affirmative vote of a majority of the shares represented and voting at a duly held meeting at which a quorum is present (which shares voting affirmatively also constitute at least a majority of the required quorum) shall be the act of the shareholders, unless the vote of a greater number is required by law or the amended and restated articles of incorporation. In accordance with California law, prior to the closing of this offering, holders of our common stock were entitled to cumulate their votes in the election of directors. However, after consummation of this offering, holders of our common stock will no longer be entitled to cumulate votes in the election of directors. Holders of our common stock are entitled to receive ratably any dividends that may be declared by the board of directors out of funds legally available and are entitled to receive, pro rata, all of our assets available for distribution to such holders upon liquidation. Holders of our common stock have no preemptive, subscription or redemption rights.

Preferred Stock

Pursuant to our amended and restated articles of incorporation, our board of directors is authorized to issue "blank check" preferred stock, which may be issued from time to time in one or more series upon authorization by our board of directors. The board of directors, without further approval of the shareholders, is authorized to fix the dividend rights and terms, conversion rights, voting rights, redemption rights and terms, liquidation preferences and any other rights, preferences, privileges and restrictions applicable to each series of the preferred stock. The issuance of preferred stock, while providing flexibility in connection with possible acquisitions and other corporate purposes, could, among other things, adversely affect the voting power of the holders of our common stock and, under certain circumstances, make it more difficult for a third-party to gain control of us, discourage bids for our common stock at a premium or otherwise adversely affect the market price of our common stock.

Anti-Takeover Provisions of Our Articles of Incorporation and Bylaws

Blank Check Preferred Stock. Pursuant to our amended and restated articles of incorporation, our board of directors is authorized to issue "blank check" preferred stock, discussed in greater detail above.

Classified Board. Pursuant to our amended and restated bylaws, our board of directors will be divided into two classes of service with staggered two-year terms. This means that only one class of directors will be elected at each annual meeting of shareholders, with the other class continuing for the remainder of its specified term.



Inability of Shareholders to Act by Written Consent. California law provides that, unless prohibited by the articles of incorporation, shareholder action can be taken in lieu of a meeting if a consent in writing, setting forth the action so taken, is signed by the holders of outstanding shares having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted, except that unanimous written consent will be required for election of directors to non-vacant positions. Our amended and restated articles of incorporation and amended and restated bylaws prohibit our shareholders from taking action by written consent in lieu of a meeting as to any matter.

Requirements for Advance Notification of Shareholder Nomination and Proposals. Our amended and restated bylaws require any shareholder who wishes to take any action at a meeting of our shareholders, including proposed nominations of persons for election to our board of directors, to give written notice thereof. At an annual or special meeting, shareholders may only consider proposals or nominations specified in the notice of meeting or brought before the meeting by or at the direction of our board of directors or by a shareholder who was a shareholder of record on the record date for the meeting, who is entitled to vote at the meeting and who has given to our secretary timely written notice, in proper form, of the shareholder's intention to bring that business before the meeting. Although our amended and restated bylaws do not give the board of directors the power to approve or disapprove shareholder nominations of candidates or proposals regarding other business to be conducted at a special or annual meeting, our amended and restated bylaws may have the effect of precluding the conduct of particular types of business at a meeting if the proper procedures are not followed or may discourage or deter a potential acquirer from conducting a solicitation of proxies to elect its own slate of directors or otherwise attempting to obtain control of us.

Super Majority Voting by Shareholders. Our amended and restated articles of incorporation require the approval of two-thirds of the outstanding shares entitled to vote to approve a merger, sale of control or sale of the substantially all of our assets if such transaction was not previously approved by our board of directors or a majority of the disinterested members of our board.

Amending Articles of Incorporation and Bylaws. Our amended and restated articles of incorporation require the affirmative vote of two-thirds of the outstanding shares entitled to vote in order to amend or repeal certain anti-takeover provisions of our amended and restated bylaws or amended and restated articles of incorporation.

Special Meetings of Shareholders. Our amended and restated bylaws provide that special meetings of shareholders can only be called by our chairman of the board, our chief executive officer, our president, our board of directors or the holders of shares of our common stock entitled to cast not less than 10% of the votes at the meeting.

Consideration of Non-Monetary Factors in Certain Transactions. Our amended and restated articles of incorporation allow our board of directors to oppose any offer, proposal or attempt by another person or entity to make any tender or other offer to acquire any of our securities, merge or consolidate us into another entity, purchase or otherwise acquire substantially all of our assets or make any transaction which would have the same effect or purpose. In deciding whether to oppose, recommend or remain neutral to these proposals, the board may consider a number of factors, including:

- whether the price is adequate and acceptable based on the current market price of our securities and our historical and present operating results or financial condition;
- whether a more favorable price could be obtained now or in the future from other offerors;
- whether our continued existence as an independent corporation would affect our future value;
- the impact the offer would have on our employees, depositors and customers and the communities we serve;
- the present and historical financial position of the offeror, its reputation in the communities it serves and the social and/or economic effect the reputation and practices of the offeror or its management and affiliates would have on our employees, depositors, customers and the communities we serve;



- an analysis of the value of securities offered in exchange for our securities; and
- any anti-trust or other legal or regulatory issues raised by the offer.

The foregoing provisions of our amended and restated articles of incorporation and amended and restated bylaws may delay, defer or prevent a change in control of us without further action by the shareholders, may discourage bids for our common stock at a premium over the market price and may adversely affect the market price of our common stock. Federal and state laws pertaining to banks also may have an anti-takeover effect. See “Regulation and Supervision.”

Effects of California Interested Party Business Combination Statute

Section 1203 of the California General Corporation Law provides that if an “interested party” of a corporation with shares held of record by 100 or more persons makes a tender offer or a written proposal to the corporation for approval of a merger, exchange or sale-of-assets reorganization or for certain other change in control transactions, a written opinion as to the fairness of the consideration to the shareholders of the corporation must be delivered to the shareholders. The opinion must be provided by a person who is not affiliated with the offeror and who, for compensation, engages in the business of advising others as to the value of properties, businesses, or securities. The term “interested party” means a person who is a party to the transaction and

- directly or indirectly controls the corporation that is the subject of the tender offer or proposal,
- is, or is directly or indirectly controlled by, an officer or director of the subject corporation, or
- is an entity in which a material financial interest is held by any director or executive officer of the subject corporation.

Various provisions described above may have the effect of delaying shareholder actions with respect to certain business combinations and the election of new members to our board of directors. As such, the provisions could have the effect of discouraging open market purchases of our common stock because they may be considered disadvantageous by a shareholder who desires to undertake a business combination with us or elect a new director to our board.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is Computershare.

NASDAQ Listing

Our common stock is listed on the Nasdaq Global Select Market under the symbol “PFBC.”



VALIDITY OF COMMON STOCK

The validity of the shares of common stock offered for sale in this offering will be passed upon for us by Manatt, Phelps & Phillips, LLP, Los Angeles, California.

INDEPENDENT REGISTERED PUBLIC ACCOUNTANT

The consolidated financial statements of Preferred Bank and our subsidiary as of December 31, 2008 and 2007, and for each of the years in the three-year period ended December 31, 2008, and management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2008, have been incorporated by reference herein in reliance upon the reports of KPMG LLP, independent registered public accounting firm, incorporated herein by reference, and upon the authority of said firm as experts in accounting and auditing.

AUTHORIZATION FOR OFFERING

Our common stock is being sold pursuant to a sale permit issued by the California Commissioner. These permits are permissive only, do not constitute a recommendation or endorsement of the securities offered hereby and do not contain standards as to the net worth or other qualifications of purchasers of the common stock. The shares are also exempt from qualification with the California Commissioner of Corporations under the Corporate Securities Law of 1968, as amended, and are exempt from registration with the SEC under the Securities Act of 1933, as amended.



3,472,222 Shares

Preferred Bank

Common Stock

OFFERING CIRCULAR
July 22, 2009
