

## As a \$1.4 Billion Asset Business Bank in Los Angeles, California Focusing on the Chinese-American Market, Preferred Bank is Well Capitalized and has Weathered the Economic Downturn of 2009 and 2010 to Become a Profitable Bank Once Again

**Financial  
Regional – Pacific Banks  
(PFBC-NASDAQ)**

**Preferred Bank**

**601 South Figueroa Street  
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Phone: 213-891-1188  
www.preferredbank.com**



**Mr. Li Yu  
Chairman, President and CEO**

**BIO:**

Li Yu has been the President and Chief Executive Officer of Preferred Bank since 1993. From December 1991 to the present, he has served as Chairman of our Board of Directors. From 1987 to 1991, he was involved in several privately held companies of which he was the owner. From 1982 to 1987, he served as Chairman of the Board of California Pacific National Bank, which became a part of

Bank of America. Mr. Yu received a Masters of Business Administration, or MBA, from the University of California, Los Angeles. He was also the past President of the National Association of Chinese American Bankers, and is currently a member of the Board of Visitors of UCLA's Anderson Graduate School of Management.

**Company Profile:**

Preferred Bank is a \$1.4 billion asset commercial bank located in Los Angeles and is one of the largest independent commercial banks in California focusing on the Chinese-American market. The Bank opened in December 1991 in what was at that time the largest initial capitalization of a California Bank. The Bank went public in 2005 through a public offering of shares. The Bank conducts its banking business from its main office in Los Angeles, California, and through nine full-service branch banking offices in Alhambra, Century City, City of Industry, Torrance, Arcadia, Irvine, Diamond Bar, Anaheim and Pico Rivera, California. Preferred Bank offers a broad range of deposit and loan products and services to both commercial and consumer customers. The bank provides personalized deposit services and corporate cash management products as well as real estate finance, commercial loans and trade finance to small and mid-sized businesses, entrepreneurs, real estate developers, professionals and high net worth individuals. Preferred Bank continues to benefit from the significant migration to Southern California of ethnic Chinese from China and other areas of East Asia. While its business is not solely dependent on the Chinese-American market, it

represents an important element of the bank's operating strategy, especially for its branch network and deposit products and services. Preferred Bank believes it is well positioned to compete effectively with the smaller Chinese-American community banks, the larger commercial banks and other major banks operating in Southern California by offering a high degree of personal service and responsiveness, experienced multi-lingual staff and substantial lending limits.

**Interview conducted by:  
Lynn Fosse, Senior Editor  
CEOCFO Magazine**

**CEOCFO:** Mr. Yu, what is the overall philosophy and focus at Preferred Bank?

**Mr. Yu:** Preferred Bank, like many other community banks operating in a big city, is a business bank, which means that we are dealing primarily with small to medium sized businesses and wealthy individual investors. These clients represent our mainstay. In addition, we also serve the smaller depositors or other types of depositors for their banking needs. We have been attracting this type of client consistently.

**CEOCFO:** How do you break down between business and consumer? Would you like to see the mix changing?

**Mr. Yu:** To make it very clear, we do not make consumer loans per se, we do not make home equity loans other than as an accommodation to an existing business client. We do not issue credit cards in any real volume. Whenever we do provide a credit card to a customer, we sell it to a third-

party company for processing. We do not typically originate the traditional mortgage home loans. We concentrate our efforts in business lending such as a commercial mortgages on apartments, shopping centers, and offices. This is the type of real estate loans that we specialize in and this is one of our core competencies. On the non-real estate lending side of our business, we finance small to medium sized businesses with sales up to \$300 million, with credit needs anywhere from one to thirty million dollars; we can provide them with a line of credit, term-loan financing for equipment purchases, and we help them with their company-owned real estate purchasing.

**CEOCFO:** Why Preferred Bank? What sets you apart from the competitors, particularly other community banks?

**Mr. Yu:** As a community bank and really, what distinguishes us is our high-touch service model. We provide a very high-level one-on-one type of service to our customers and they reward us with their long-term patronage. Our bankers are generally very experienced; most of them have 20-25 years experience. They typically have a long time in the market and in their community and they tend to know their customers very well. It is not uncommon for our officers to provide all of this service at the client's place of business. We are able to solve the needs of small business with a very quick response, whereas most major banks and many community banks have layers of authority that they must go through for decision-making. Therefore, we get a great deal of advantage with our customers, because we are quick in getting the answers and we are generally much more responsive in providing services.

**CEOCFO:** I understand 2011 was a bit of a transitional year for you, would you tell us some of the highlights over the past year?

**Mr. Yu:** We have been one of the most profitable banks in the country from 2000-2007. That changed during

the financial crisis period between 2009 and 2010, but 2011 is a transition year in which we recovered and began making a profit again. With the knowledge that we had turned the corner in terms of credit quality, we began growing the business again in mid 2011. We have been hiring some great business development professionals and we have seen loan and deposit growth for the past three successive quarters.

**CEOCFO:** Has the community fared better in these economic times or is it just that more people are coming to Preferred? Is there a general upturn or are you being singled out for more clients?

**Mr. Yu:** In my case, I would like to believe we are singled out because I know the general market place is not

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growing at the rate that a vibrant economy requires it to grow. Jobless rates are still very high. In our particular case, during the downturn, we kept our organization intact. That is, we did not layoff people during the recession. All of our senior people have been with us, and when we started to turn this around, they were all here and ready to bring in new business. In addition, we are also able to go out and bring back some customers who may have left during the 2009-2010 period. It is for these two reasons that we are seeing organic growth in an economy that is not yet as supportive.

**CEOCFO:** How do you provide the confidence to your client base that they can weather the storm, and they should be going through Preferred Bank? Which is the most important?

**Mr. Yu:** In 2011, they had no doubts about that, because we have a very

high level of capital. If you are familiar with the Basel III Accord, it says that if you have a 5% level of tangible common equity, you are considered well capitalized. We have a 13 percent tangible common equity ratio which is very high among our peers. In addition, we did not take TARP capital and therefore we will not have a 'capital event' in the future like many of our peers will when they have to pay back their TARP capital. For most of our customers whom are fairly savvy and know the financial condition of banks fairly well, they have been very comfortable with our capability to continue to service them, but like everybody else, they like to be cautious. Therefore, we see them turning to us more than before.

**CEOCFO:** Are there services that Preferred Bank is not providing now that you would like to add to the mix?

**Mr. Yu:** At this point in time, we have enough in our business line. All of the cylinders that we are operating on are all moving ahead. With the several product lines, it is all adding numbers on a fairly satisfactory basis. Over the long term, we have to look for other opportunities that are available to us. Historically, some of these things we are just not capable of doing that well. For instance, for us to compete in the home mortgage business, we'd need economies of scale that are just not practical. We probably will be looking at several other lines in the near future which are kind of limited in scope like perhaps SBA lending and specialized financing.

**CEOCFO:** Why should investors pay attention to Preferred Bank today?

**Mr. Yu:** Certainly, I don't want this to be used for advice or anything like that. In our press releases and in the conferences where we make presentations, the keys that we focus on is our high level of capital which can be used to support our future growth and number two, that we have a very liquid balance sheet which means we are able to continue to grow the loan portfolio and number three is that our

staff is actively winning new business and growing loan totals and deposit totals. Traditionally we have had a rather efficient organization and we anticipate getting close to our historical level of efficiency. Inasmuch as we still have some legacy problem credits, our efficiency is not where it should be but that will correct itself over time. Finally, our shares are cur-

rently selling at only about 90% of tangible book value, which we believe represents a great opportunity.

Community banking is a very viable business. Today it is highly pressured sometimes by external reasons, sometimes by uncontrollable reasons. I think generally this industry is recovering, and recovering very well.

Predominantly, we are well capitalized as a group. Therefore, I foresee that our peer groups are undervalued as an investment instrument. We see that as the outside impression by the media, the politicians, and government sort of eases up a little bit, you will see that it will contribute to the economy better.

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