

PREFERRED BANK

CODE OF PERSONAL AND BUSINESS CONDUCT

Last Revision Adopted on April 10, 2014

I. STATEMENT OF POLICY

It is the policy of Preferred Bank (the "Bank") to conduct its business in accordance with the highest ethical standards in order to maintain the complete confidence and trust of its customers and the public in general. All employees must conduct their personal affairs and manage their business transactions in a manner, which does not result in adverse comments or criticism from the public or in any way damage, the Bank's reputation as a responsible financial services organization. This policy discusses both business and social relationships, which may present legal and ethical concerns and also sets forth a Code of Conduct as a guide to all employees.

II. POLICY

A. COMPLIANCE WITH LAWS AND REGULATIONS

It is the policy of the Bank to fully comply with the spirit and intent of all applicable laws and regulations. The Bank expects its employees to use good judgment and high ethical standards and to refrain from any form of illegal, dishonest or unethical conduct.

1. The Bank's Code of Conduct

It is the responsibility of each employee to be familiar with the Bank's Code of Personal and Business Conduct ("Code"). Supervising officers are expected to make every reasonable effort to ensure that their subordinate staff complies with the provisions of the Code.

Senior Management shall administer the Code, determine matters of interpretation, coordinate periodic changes to the matters of interpretation, and coordinate periodic changes to the Code. The continued implementation of the Code shall be accomplished by audit, examination and personnel procedures.

Employees are encouraged to seek the advice of the appropriate supervisor regarding questions of interpretation and of the applicability of the provisions of the Code to a particular situation.

Employees who violate the provisions of the Code may be subject to termination.

Failure to comply with certain provisions of the Code may violate applicable laws and subject the employee to criminal or civil liability or both.

All officers and employees are expected to be cooperative in their dealings with the Bank's independent and internal auditors, regulators, and legal counsel, and to answer their questions honestly and with candor.

B. CONFLICT OF INTEREST

It is the Bank's policy that employees do not engage in personal conduct, which will conflict with the interest of the Bank. It is important to avoid even the appearance of a conflict of interest, since the appearance can be as damaging to the Bank's reputation as an actual conflict.

1. Acceptance of Gifts

Federal law and the Bank's policy prohibit any employee from soliciting or receiving anything of value for, or in connection with, any transaction or business of the Bank. Accordingly, all gifts and other benefits offered by, or received from, customers, suppliers, contractors or others which may be construed as a "quid pro quo" or a gratuity in connection with a particular transaction, or which are given because of the employee's decisions or activities on behalf of the Bank, must not be accepted under any circumstances. The foregoing applies to both direct and indirect benefits (i.e. gifts to family members).

Specific exceptions to this policy are made if there is no, and there appears to be no, reasonable likelihood of improper influence in the employee's performance of duties on behalf of the Bank. The personal benefit, however, must be one of the following:

- * Normal business courtesies, such as a meal or entertainment, involving no more than ordinary amenities;
- * Non-cash gifts of nominal value (under \$100.00) such as received at holiday time or special occasions, which represent expression of friendship;
- * Gifts based upon kinship, marriage or social relationships entirely beyond and apart from any business relationship;
- * Unsolicited advertising and promotional material of nominal value;
- * Awards given by charitable, educational, civic or religious organizations for meritorious contributions or service;
- * Loans from other banks or financial institutions on customary terms to finance proper and usual activities such as home mortgage loans; or
- * Discounts or rebates on merchandise or services that do not exceed those available to other customers;

Any personal benefit received, other than the exceptions noted above, is to be reported by the employee to the manager who will review the situation and instruct the employee as to the appropriate action. The manager shall keep written records of all such disclosures.

2. Lending Practices

It is the policy of the Bank to maintain prudent lending services to adequately supply the credit needs of its customers. Any rate concessions shall be based solely upon a borrower's creditworthiness and overall business relationship with the Bank.

Employees are not, in any way, to represent or exercise authority on behalf of the Bank, grant direct or indirect accommodations or make credit recommendations with respect to:

- * Immediate family members of the employee;
- * Any individual or organization to which the employee's immediate family is indebted; or
- * Any organization, which the employee or his or her immediate family, are associated or in which a material financial interest is held.

Federal law prohibits any director, officer or employee of the Bank from granting any loan or gratuity to any public bank examiner or assistant bank examiner who examines the Bank or has authority to examine the Bank.

Employees shall fully disclose to the Board of Directors (the "Board") or its designee any conflict of interest presented by any loan or other business transaction arising from any business or personal relationship with a borrower and shall abstain from any involvement with transactions so identified unless specifically approved by the Bank's Board or its designee.

It is illegal for any issuer to extend or maintain credit in the form of a personal loan to directors or executive officers of that issuer. In addition, it becomes unlawful for those officers to even solicit, directly or indirectly, these types of loans. This is extended to solicitation and credit acquired at subsidiary companies as well.

3. Political Activities

a. Federal Campaigns

Under no circumstances shall any funds or property of the Bank be used to assist the candidacy of any person seeking federal elective office. Since the donation of the time of an employee during working hours or the use of the Bank's facilities could be construed to be an indirect contribution to a candidate, no employee during working hours shall campaign for, or otherwise work on behalf of, any candidate for federal elected office, or utilize any facilities of the Bank for such purposes.

b. State and Local Campaigns

Since it may be permissible under state law for corporations to support or assist candidates for state or local elected office or to expend funds in connection with ballot measures, the Bank may, from time to time, contribute funds or property on behalf of such candidacies or measures. Any such contributions shall only be made in accordance with corporate policies. No employee shall, during working hours, campaign for, or otherwise work on behalf of, or at any time utilize any facilities of the Bank for, any candidate for state, federal or local office or any ballot measure.

c. Personal Involvement

The Bank encourages its employees, as responsible citizens, to support candidates and ballot measures of their choice at all levels of government. The Bank's policy with respect to political activities is not meant to discourage individual political activities during an employee's off-duty hours.

d. Lobbying Activities

No Bank employee shall undertake activities designed to influence the decisions or actions of government officials in a manner that would require the employee or the Bank to register as a lobbyist or employer of a lobbyist.

4. Outside Activities

a. Outside Employment

Full-time employees should not pursue a second full-time occupation. The employee may pursue a part-time position, provided it does not:

- * Give unfavorable publicity to the Bank, its customers or employees;
- * Interfere directly with the employee's Bank hours, or necessitate such long hours as to affect the employee's productivity;

- * Involve working with direct competitors of the Bank or a direct customer who sells products or services to the Bank; or
- * Violate State or Federal Regulations.

Employees should make certain that organizations or associations, in which, they take part do not practice discrimination in membership or activities.

b. Outside Organization

Employees are encouraged to take an active part in civic and professional organizations, which enhance the customer base or contribute to personal development. When such activities are necessary during bank hours, the Department Manager should be consulted in advance.

5. Personal Finances

Personal finances should be managed in a manner consistent with employment in a financial institution. Employees may not normally sign on customer accounts, hold power of attorney, act as deputy or co-renter of customers' safe deposit boxes, or otherwise represent customers. Exception to this policy requires prior approval by a senior officer

6. Personal Investment Activity

While the Bank does not intend to unreasonably limit employees in their personal investment activities, it is Bank policy that no employee enter into investment transactions which would create, or give the appearance of creating, a conflict of interest between the employee and the Bank or between the Bank or any customer. While it is not possible to enumerate all of the possible conflicts, the following specific situations should be avoided when making investment decisions:

- * Investment in securities of a customer, supplier, borrower or competitor, since it may be construed as affecting the employee's judgment exercised on behalf of the Bank;
- * Investments in a company involving the possible use of non-public information concerning that company which may be found to be a violation of law;
- * Employees should not allow a customer to arrange investments for the account of the employee or their immediate family, nor should the employee become involved in investments sponsored by a customer under circumstances which might create either a conflict of interest or the appearance of such a conflict; and
- * Investment activity paralleling or anticipating investment action by the Bank must be avoided.

7. Giving Advice to Customers

Employees may occasionally be asked by customers to comment upon the legality of a particular transaction. Since the Bank cannot practice law or give legal or tax advice, employees must exercise care in discussing transactions with customers and nothing should be said that might be interpreted as the giving of legal or tax advice.

8. Insider Transactions

1. All business transactions or affiliations between the Bank and any of its directors and/or their related interests shall be entered into only under the following conditions:

- * The terms, conditions and means of compensation shall be reasonably similar to other similar business transactions previously entered into by the Bank, or which may be entered into, with persons who are not directors of the Bank or their related interests.
- * All material business transactions between the Bank's directors and/or their related interests and the Bank shall require full disclosure of the director's interest in the transaction to the Board, and the prior approval of a majority of the entire Board with the interested director abstaining from participating either, directly or indirectly, in the voting and discussion on the proposed business transaction.
- * The minutes of any Board meeting at which a business transaction between the Bank and a director or his related interest is approved or denied shall include the nature and source of all information used to establish the reasonableness and comparable nature of the terms, conditions and means of compensation, with copies thereof attached as appropriate.
- * A director shall abstain from the discussion or approval of any loan to a customer who has been referred to the Bank by said director as long as the loan customer is also a customer or client of said director.

2. Overdrafts

Directors and executive officers of the Bank are prohibited, by federal law, from having overdrafts with the bank of which they are a director or an executive officer. The only exception to this strict rule applies if the director or executive officer has a written, prearranged automatic transfer established or has a written preauthorized interest-bearing extension of credit that specifies a method of repayment. Inadvertent overdrafts of \$1,000 or less are exempt from this ruling if they are paid within five (5) business days and the director or officer is charged the same fee as any other customer. The Bank may not waive overdraft fees for its directors and/or executive officers.

C. CONFIDENTIALITY

1. Customer Information

Safeguarding the confidential financial information including physical, electronic and environmental controls concerning the Bank's customers (both consumer & non-consumer) and suppliers is essential in maintaining the public trust. It is the policy of the Bank that such confidential information acquired by an employee through his or her employment must be held in the strictest confidence. Such information is to be held for Bank purposes only and not as a basis for personal gain by the employee. Aside from routine credit personnel inquiries, information regarding a customer may be released to private persons, organizations or governmental bodies that request it generally only with the consent of the customer involved or upon receipt of legal process, such as a subpoena or court order. Confidential customer information should never be discussed with anyone outside the Bank, and only with those within the Bank who have a legitimate business need to know.

Supplier information will be considered to be confidential to avoid any real or perceived competitive advantage with respect to supplier. One of the Company's most valuable assets is information. Employees should maintain the confidentiality of information (whether or not it is considered proprietary) entrusted to them not only by the Company, but also by its suppliers. Confidential information includes all non-public information that, if disclosed, might be of use to our competitors or harmful to the Company or its suppliers. Examples of confidential information include trade secrets, new product or marketing plans, customer lists, research and development ideas, manufacturing processes, or acquisition or divestiture prospects.

Employees should take steps to safeguard confidential information by keeping such information secure, limiting access to such information to those employees who have a "need to know" in order to do their job, and avoiding discussion of confidential information in public areas such as in elevators, on planes and on mobile phones.

2. Disclosure of Bank's Information

Employees should be aware that all matters and information pertaining to the Bank are of a confidential nature and are the property of the Bank. Financial or other information regarding the Bank is not to be released to any outside person or organization unless it has been published in reports to shareholders, or otherwise made available to the public through authorized news releases.

An employee may not disclose or use, directly or indirectly, any confidential information regarding the Bank or its customers. An employee may not remove any correspondence or documents from Bank premises.

3. Material Inside Information

The use or disclosure of "material inside information" subjects employees, the Bank and third parties to whom the information is communicated, to severe penalties under federal and state securities laws. Any employee possessing such material inside information must not trade in or recommend the purchase or sale of the securities involved until the information is actually disseminated to the public. For further details regarding insider transactions, please see the Bank's Insider Trading Policy.

Lending personnel must not disclose confidential information on existing or proposed loan customers to investment personnel.

4. Antitrust

Employees must take special care to avoid discussions with employees of competing financial institutions regarding rates of interest on accounts, or interest rates and other charges on loans, that the Bank is offering or is considering offering. This admonition extends to discussions concerning other discretionary activities or plans, but does not apply to information, which has been publicized by the Bank.

The Bank discourages discussions about the Bank's business plans because such discussions could be construed in certain circumstances to be agreements or conspiracies to fix or establish prices or otherwise restrain completion in violation of state and federal antitrust laws. Such discussions may also contravene the Bank's policy against disclosure of confidential information and other policies.

D. WHISTLEBLOWER POLICY

1. It is the Policy of the Bank

- a. To encourage the reporting by its officers and employees of improper action taken by Bank officers or employees; and
- b. To protect Bank officers and employees who have reported improper actions in accordance with this policy.

The Audit Committee encourages that employees of the Bank, who have concerns about questionable accounting entries, internal accounting controls, auditing matters, and/or other serious internal control issues, convey such concerns confidentially and anonymously to Richard Belliston or any other member of the Bank's audit committee.

Richard Belliston,
Chairman, Audit Committee
Cellular: (949) 939-0253
Email: jrichbell@aol.com

2. Definitions

- a. Abuse of Authority – means intentional misuse of power or position by a Bank officer or employee for an improper purpose.
- b. Emergency – means a circumstance that if not immediately changed may cause harm or injury to persons or property.
- c. Good Faith – means action taken after a reasonable investigation of facts available to the employee, after due consideration, and with an honestly held belief that there was improper conduct.
- d. Gross Waste – means a significant or recurring intentional misuse of Bank funds, and does not include unintentional errors.
- e. Improper Action – means any action by a Bank officer or employee:
 1. That is undertaken in the performance of an officer's or employee's official duties, whether or not the action is within the scope of an officer's or employee's employment; **and**
 2. That:
 - Is a violation of any federal, state or local law or rule;
 - Is an abuse of authority with substantial adverse impact to the Bank, customer(s), or public interest;
 - Is a substantial and specific danger to the public health or safety; or
 - Is a gross waste of Bank funds or property.

Improper action does not include personnel actions including, but not limited to, employee grievances, complaints, appointments, promotions, transfers, assignments, reassignments, reinstatements, restorations, reemployments, performance evaluations, reductions in pay, dismissals, suspensions, demotions, reprimands, or any other personnel action taken under authority of state or federal law.

- f. Retaliatory Action – means any adverse change in a Bank employee's employment status or in the terms and conditions of an employee's employment based on the good faith reporting by that employee of improper action, including, but not limited to:
 1. The denial of adequate personnel to perform duties;
 2. Frequent replacement of members of the staff;
 3. Unnecessary and undesirable changes in the location of an office;
 4. The refusal to assign meaningful work;
 5. The issuance of letters of reprimand or evaluations of poor performance;
 6. A demotion;
 7. A reduction in pay;
 8. The denial of a promotion;
 9. A suspension without pay;

10. A dismissal;
11. A transfer;
12. Purposeless changes in working hours or workdays; or
13. Any type of unfair immigration-related practices.

g. Rule – means any order, directive, regulation, or law, the violation of which subjects a person to a penalty or administrative sanction.

3. Improper Action Reporting Procedures

Bank employees who obtain knowledge of facts demonstrating improper actions should raise the issue with Richard Belliston or any other member of the Bank's audit committee.

Bank employees who fail to make a good faith attempt to follow this policy in reporting improper action shall not receive the protections provided under this policy. Employees who make false reports may be subject to disciplinary actions including, but not limited to, termination of employment.

4. Investigation Procedures

The audit committee will take prompt action in properly investigating any report of improper action. The Audit Committee will keep the identity of the reporting employee confidential except when the Committee unanimously determines that it is necessary to otherwise disclose such information either in the course of the investigation or afterwards. Nevertheless, the Audit Committee will normally keep the reporting employee's identity confidential and in accordance to the NLRB's guidance. An employee reporting the improper action will be advised of the results of the investigation upon completion, with the exception of personnel actions taken as a result of the investigation that must be kept confidential.

If warranted, appropriate agencies responsible for the enforcement of federal, state and local law may be contacted to assist with the investigation of improper action.

5. Retaliatory Action Procedures

Bank officers and employees are prohibited from taking retaliatory action against a Bank employee because he or she has in good faith reported an improper action in accordance with this policy. Specifically, an officer or employee shall not directly or indirectly use or attempt to use his or her official authority or influence to harass, intimidate, threaten, coerce, command, influence or attempt to intimidate, threaten, coerce, command or influence, another officer or employee, as applicable, in an effort to interfere or prevent the disclosure of information concerning improper action.

For purposes of this section of the policy, use of "official authority or influence" includes taking, directing others to take, recommending, processing or approving any personnel action, such as an appointment, promotion, transfer, assignment, reassignment, reinstatement, reemployment, evaluation or disciplinary action.

The Bank officers and employees are prohibited from retaliating or discriminating against employees who are victims of specified serious crimes (including felony domestic violence, sexual assault, felony elder abuse and other "serious felonies") and take time off work to attend related court proceedings.

An employee, who believes he or she has been retaliated against for reporting a violation, can seek relief by contacting Richard Belliston, any member of the Bank's audit committee, or by filing a complaint with the Secretary of Labor.

Nothing in this policy prohibits the Bank from initiating proper disciplinary procedures against an officer or employee, as applicable, who is untruthful or who does not act in good faith when disclosing information concerning improper action.

E. MISCELLANEOUS GUIDELINES FOR CONDUCT

1. Bookkeeping and Record keeping

The Bank and its senior financial officers are committed to providing investors with full, fair, accurate, timely and understandable disclosure in the periodic reports that it is required to file. To this end, the Bank shall:

- a. Comply with generally accepted accounting principles;
- b. Maintain a system of internal accounting controls that will provide reasonable assurances to management that all transactions are properly recorded;
- c. Maintain books and records that accurately and fairly reflect the Bank's transactions;
- d. Prohibit the establishment of any financial changes undisclosed or unrecorded funds or assets;
- e. Maintain a system of internal controls that will provide reasonable assurances to management that material information about the Bank is made known to management, particularly during the periods in which the Bank's periodic reports are being prepared; and
- f. Present information in a clear and orderly manner and avoid the use of legal and financial verbiage in the Bank's periodic reports.
- g. Any material change in financial condition or operations must be quickly and urgently disclosed by the issuer in easy to understand terms, as they are necessary to public interest and investor protection.
- h. The CFO and financial officers certify that they have reviewed the findings of annual or quarterly reports, and find the statements within to be accurate and free of any material errors. Those officers (CEO, CFO and President), must also certify that they understand their responsibility for creating and monitoring internal controls within their organization.

2. Competitors

Employees are required to observe fair and ethical conduct in dealing with the Bank's competitors. The making of disparaging remarks regarding the Bank's competitors is considered to be inappropriate and unethical. The Bank's strategy is to emphasize the quality and competence of its employees and services. Employees are prohibited from involving the Bank in arrangements with its competitors, which provide for the setting or controlling of rates, prices or marketing policies.

3. Corporate Opportunity

No employee shall acquire, or derive personal gain or profit from any business opportunity or investment, which comes to his/her attention as a result of his/her employment with the Bank.

4. Personal Use of Bank's or Customer's Property

No employee shall appropriate or permit any other employee to appropriate for his/her personal use any funds or property belonging to the Bank except as specifically authorized by other Bank policies. Misappropriation of customer's funds or property is theft and, in addition to subjecting an employee to possible criminal penalties, will result in the employee's dismissal.

All Bank assets including facilities, furnishings, equipment, technology, and supplies may not be removed from the facilities, unless there is proper authorization to do so. Furthermore, assets shall not be used for personal gain.

Any assets created or developed, whether directly or indirectly, while employed by Preferred Bank are the sole property of the Bank and may not be used for any purpose other than the Bank's business. These assets will remain the property of the Bank even if the employee who created or developed them leaves the employment of the Bank.

5. "Questionable" Payments to Others

No funds or property of the Bank shall be used for any unlawful or unethical purpose, nor shall any employee attempt to purchase or obtain any privileges or special benefits through the payment of bribes, kickbacks or any other form of payoffs.

F. REPORTING AND EFFECTS OF VIOLATION

1. Directors and officers shall report, in person or in writing, any known or suspected violations of laws, governmental regulations or this Code to the Bank's legal counsel.
2. Employees who are not directors or officers shall report such violations to the Bank's Compliance Officer, or shall follow the procedures in the Bank's Whistleblower Policy.
3. The Bank will not allow any retaliation against a director, officer or employee who acts in good faith in reporting any such violation.
4. The Bank's legal counsel will investigate any reported violations and will oversee an appropriate response, including, but not limited to, corrective action and preventative measures.
5. Directors, officers and employees that violate any laws, governmental regulations or this Code will face appropriate, case specific disciplinary action, which may include demotion or discharge.

G. WAIVERS

1. Directors and Executive Officers

The provisions of this Code may be waived for directors or executive officers only by a resolution of the Bank's Nominating and Corporate Governance Committee.

2. Other Employees

The provisions of this Code may be waived for employees who are not directors or executive officers by the Bank's Chief Financial Officer.

3. Compliance with Law

- a. Any waiver of this Code granted to a director or executive officer will be publicly disclosed as required by the securities exchange or association on which the Bank's securities are listed for trading.
- b. Any change in or waiver of this Code for senior financial officers will be publicly disclosed as required by the Securities Exchange Commission or the Federal Deposit Insurance Corporation.

H. MONITORING AND TRAINING

The Bank will include the Code of Personal and Business Conduct as part of the Bank's periodic audit process to identify weakness and to recommend corrective actions to ensure compliance with the Bank's policy. Reports of any findings shall be provided to the Compliance Officer and Compliance Committee. The updated policy shall be reviewed and approved by the Board of Directors.

All employees (including part-time and temporary employees) will receive training at the time of employment by the Human Resources Department and will sign a statement certifying they have read, understood and are in full compliance with the Bank's Code of Personal and Business Conduct. In addition, employees will be asked to review the Bank's Code of Personal and Business Conduct on a periodic basis to assure understanding and full compliance, including any updates to the policy.

Violations of the policy will be reviewed on a case-by-case basis. Penalties for violating the Code of Personal and Business Conduct will be commensurate with the violation, up to and including termination of employment.

PREFERRED BANK

CODE OF PERSONAL AND BUSINESS CONDUCT
Acknowledgement Form

I have received and read the Preferred Bank Code of Personal and Business Conduct and agree to abide by its provisions at all times. I am aware that I need to report any circumstance and/or activity of a business, personal or family nature, which would conflict with the interest of the Bank.

Employee Name: _____

Employee Signature: _____

Date: _____