FEDERAL DEPOSIT INSURANCE CORPORATION

Washington, D.C. 20429

FORM 10-Q

Mark One

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2025

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

PREFERRED BANK

(Exact name of registrant as specified in its charter)

California **(State or other jurisdiction of incorporation or organization)**	**33539** **(FDIC Certificate Number)**	**95-4340119** **(I.R.S. Employer Identification No.)**
601 S. Figueroa Street, 48th Floor, Los Angeles, California **(Address of Principal Executive Offices)**		**90017** **(Zip Code)**

Registrant's telephone number, including area code: (213) 891-1188

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, no Par Value	PFBC	NASDAQ Stock Market LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," "smaller reporting company," an "emerging growth company" in Rule 12b-2 of the Exchange Act.

☐Large Accelerated filer ☒Accelerated filer ☐Non-accelerated filer ☐Smaller reporting company ☐Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes ☐ No ☐

Number of shares of common stock of the Registrant outstanding as of May 9, 2025, was 12,426,230 shares.

PREFERRED BANK

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Forward-Looking Statements

Certain matters discussed in this Quarterly Report on Form 10-Q (this “Report”) may constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and as such, may involve risks and uncertainties. We claim the protection of the safe harbor contained in the Private Securities Litigation Reform Act of 1995. These forward-looking statements relate to, among other things, the Bank’s financial condition, results of operations, plans, objectives, expectations of the environment in which we operate and projections of future performance or business. Such statements can generally be identified by the use of forward-looking language, such as “is expected to,” “will likely result,” “anticipated,” “projected”, “estimate,” “forecast,” “intends to,” or may include other similar words, phrases, or future or conditional verbs such as “aims”, “believes,” “plans,” “continue,” “remain,” “may,” “might,” “will,” “would,” “should,” “could,” “can,” or similar language. Forward-looking statements by us are based on estimates, beliefs, projections and assumptions of management and are not guarantees of future performance. Our actual results, performance, or achievements may differ significantly from the results, performance, or achievements expected or implied in such forward-looking statements. When considering these statements, you should not place undue reliance on these statements, as they are subject to certain risks and uncertainties, as well as any cautionary statements made within this Quarterly Report, and should also note that these statements are made as of the date of this Quarterly Report and based only on information known to us at that time.

Factors causing risk and uncertainty, which could cause future results to be materially different from forward-looking statements contained in our 2024 Annual Report as well as from historical performance, include but are not limited to:

- Regulatory decisions regarding the Bank, and impact of future regulatory and governmental agency decisions including Basel III capital standards;
- Adequacy of allowance for credit loss estimates in comparison to actual future losses;
- Necessity of additional capital in the future, and possible unavailability of that capital on acceptable terms;
- Economic and market conditions that may adversely affect the Bank and our industry;
- Disruptions to the financial markets as a result of the current or anticipated impact of military conflict, including escalating military tension between Russia and Ukraine, terrorism or other geopolitical events;
- Possible loss of members of senior management or other key employees upon whom the Bank heavily relies;
- Changes in the interest rate environment, and levels of short- and long-term interest rates, may negatively affect the Bank’s financial performance;
- Changes in governmental or bank-established interest rates or monetary policies, including the replacement of the LIBOR index on our loans which are tied to that index;
- Strong competition from other financial service entities;
- Possibility that the Bank’s underwriting practices may prove to be ineffective;
- Changes in the commercial and residential real estate markets that could adversely affect the collateral value supporting our loans and increase charge-offs;
- Adverse economic conditions in Asia which could negatively impact the Bank’s business;
- Catastrophic events, acts of war or terrorism, or natural disasters, such as earthquakes, drought, pandemic diseases (such as the COVID-19 pandemic), climate change or extreme weather events, any of which may affect services we use, may affect our customers, employees or third parties with which we conduct business, or could negatively impact the Bank’s business;
- Geographic concentration of our operations;
- The economic impact of Federal budgetary policies;
- Failure to attract deposits, inhibiting growth;
- Interruption or break in the communication, information, operating, and financial control systems upon which the Bank relies;
- Changes in federal and state laws or the regulatory environment including regulatory reform initiatives and policies of the U.S. Department of Treasury, the Board of Governors of the Federal Reserve Board System, the Federal Deposit Insurance Corporation, the Consumer Financial Protection Bureau and the California Department of Financial Protection and Innovation;
- Changes in accounting standards as may be required by the Financial Accounting Standards Board or other regulatory agencies and their impact on critical accounting policies and assumptions;
- Potential changes in the U.S. government’s monetary policies;
- Environmental liability with respect to properties to which the Bank takes title;

- Negative publicity;
- Information technology and cyber security incidents, disruptions or attacks and the possible blocking, theft or loss of Bank or customer access, functionality, data, funding or money

As a result of the rapid rise in interest rates in 2022 and 2023, offset to an extent by a decrease in rates during 2024, resulting reductions in the value of investment securities portfolios throughout the industry, and recent bank failures, our forward-looking statements are subject to the following risks, uncertainties and assumptions specifically related to these circumstances:

- Attraction and retention of uninsured deposits in the short-term may be challenged;
- Deterioration in depositor confidence could result in deposit outflows and strains on our liquidity;
- Failures of additional banks could further erode depositor confidence and deposit withdrawals that could require us to borrow funds or sell securities, which could adversely affect our operating results;
- Replacement of withdrawn deposits with funds borrowed from the Federal Home Loan Bank, Federal Reserve Bank, or other sources likely will increase our marginal interest expense and could reduce our net interest income and reduce our net income and the rate of our quarterly cash dividend;
- Changes in regulations and examination standards in response to the recent bank failures could result in increased compliance costs and possible restrictions on operations and strategic initiatives; and
- FDIC premiums may increase if the Deposit Insurance Fund experiences additional costs in the resolution of the recent and any future bank failures, which could reduce our net income.

These factors are further described in this report and in our 2024 Annual Report on Form 10-K as filed with the Federal Deposit Insurance Corporation ("FDIC") on March 14, 2025 as amended by the Form 10-K/A filed with the FDIC on April 15, 2025, under the heading "Item 1A. RISK FACTORS – Risk Factors That May Affect Future Results." We do not undertake, and we specifically disclaim any obligation to update any forward looking statements to reflect the occurrence of events or circumstances after the date of such statements except as required by law.

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

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

	March 31, 2025 (Unaudited)	December 31, 2024
Assets		
Cash and due from banks	$ 905,183	$ 765,515
Federal funds sold	20,000	20,000
Cash and cash equivalents	925,183	785,515
Securities held-to-maturity, at amortized cost (fair value of $18,395 and as of March 31, 2025 and $18,273 as of December 31, 2024)	19,745	20,021
Securities available-for-sale, at fair value	390,096	348,706
Loans held for sale, at lower of cost or fair value	-	2,214
Loans	5,634,413	5,640,615
Less: allowance for credit losses on loans	(72,274)	(71,477)
Less: unamortized deferred loan fees, net	(9,652)	(9,234)
Net loans	5,552,487	5,559,904
Other real estate owned	13,650	14,991
Bank furniture and fixtures, net	8,276	8,462
Bank-owned life insurance ("BOLI")	10,502	10,433
Accrued interest receivable	31,775	33,561
Investment in affordable housing partnerships	63,612	58,346
Federal Home Loan Bank ("FHLB") stock, at cost	15,000	15,000
Net deferred tax assets	46,280	47,402
Income tax receivable	-	2,195
Operating lease right-of-use assets	20,281	13,182
Other assets	3,205	3,497
Total assets	$ 7,100,092	$ 6,923,429
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits:		
Demand	$ 730,270	$ 704,859
Interest-bearing demand	2,099,987	2,026,965
Savings	32,631	30,150
Time certificates of $250,000 or more	1,531,715	1,477,931
Other time certificates	1,678,132	1,676,943
Total deposits	6,072,735	5,916,848
Subordinated debt issuance, net of unamortized costs and premium of $1,471 and $1,531 at March 31, 2025 and December 31, 2024, respectively	148,529	148,469
Accrued interest payable	14,634	16,517
Commitments to fund investment in affordable housing partnerships	20,956	21,623
Operating lease liability	24,021	16,990
Other liabilities	40,613	39,830
Total liabilities	6,321,488	6,160,277
Commitments and Contingencies – Notes 6, 11 and 14		
Shareholders' equity:		
Preferred Stock, no par value. Authorized 25,000,000 shares; no issued or outstanding shares at March 31, 2025 and December 31, 2024, resepectively	-	-
Common stock, no par value. Authorized 100,000,000 shares; outstanding 13,130,296 and 13,188,776 shares at March 31, 2025 and December 31, 2024, resepectively	210,882	210,882
Treasury stock, at cost; 3,269,480 and 3,113,129 shares at March 31, 2025 and December 31,2024, resepectively	(214,406)	(201,172)
Additional paid-in capital	99,603	95,791
Retained earnings	705,360	685,108
Accumulated other comprehensive loss	(22,835)	(27,457)
Total shareholders' equity	778,604	763,152
Total liabilities and shareholders' equity	$ 7,100,092	$ 6,923,429

See accompanying notes to the unaudited consolidated interim financial statements.

PREFERRED BANK

Consolidated Income Statement and Comprehensive Income
(In thousands, except share and per share data)
(Unaudited)

	Three months ended March 31, 2025	Three months ended March 31, 2024
Interest income:		
Loans and leases	$ 101,491	$ 109,980
Investment securities	12,810	16,257
Federal funds sold	228	283
Total interest income	114,529	126,520
Interest expense:		
Interest-bearing demand	16,590	22,290
Savings	69	75
Time certificates of $250,000 or more	15,640	16,501
Other time certificates	18,247	17,829
Subordinated debt	1,325	1,325
Total interest expense	51,871	58,020
Net interest income before provision for credit losses	62,658	68,500
Provision for credit losses	700	4,400
Net interest income after provision for credit losses	61,958	64,100
Noninterest income:		
Fees and service charges on deposit accounts	716	845
Letter of credit fee income	2,244	1,503
BOLI income	103	105
Net gain on sale of Small Business Administration ("SBA") loans	275	103
Other income	660	509
Total noninterest income	3,998	3,065
Noninterest expense:		
Salaries and employee benefits	14,839	13,900
Net occupancy expense	2,294	1,711
Business development and promotion expense	462	266
Professional services	1,651	1,457
Office supplies and equipment expense	386	473
Other real estate owned related expense, net	1,531	135
Other	2,206	2,086
Total noninterest expense	23,369	20,028
Income before income taxes	42,587	47,137
Income tax expense	12,563	13,671
Net income	$ 30,024	$ 33,466
Unrealized net gain (loss) on securities available-for-sale	5,744	(1,418)
Less: reclassification adjustments included in net income	-	-
Income tax (expense) benefit related to items of other comprehensive income	(1,122)	398
Other comprehensive income (loss)	4,622	(1,020)
Comprehensive income	$ 34,646	$ 32,446
Net income per share		
Basic	$ 2.27	$ 2.48
Diluted	$ 2.23	$ 2.44
Weighted-average common shares outstanding		
Basic	13,226,582	13,508,878
Diluted	13,453,176	13,736,986

See accompanying notes to the unaudited consolidated interim financial statements.

PREFERRED BANK
Consolidated Statements of Changes in Shareholders' Equity
(In thousands, except for share and per-share amounts)
(Unaudited)

	Preferred Stock	Common Stock Shares	Common Stock Stock	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance as of January 1, 2025	**$ -**	**13,188,776**	**$ 210,882**	**$ (201,172)**	**$ 95,791**	**$ 685,108**	**$ (27,457)**	**$ 763,152**
Issuance of shares upon vesting of share-based awards	-	97,871	-	-	-	-	-	-
Cash dividend declared ($0.75 per share)	-	-	-	-	-	(9,772)	-	(9,772)
Stock-based compensation	-	-	-	-	3,817	-	-	3,817
Stock surrendered due to employee tax liability	-	(42,609)	-	(3,681)	-	-	-	(3,681)
Stock repurchased	-	(113,742)	-	(9,553)	(5)	-	-	(9,558)
Net income	-	-	-	-	-	30,024	-	30,024
Other comprehensive income, net	-	-	-	-	-	-	4,622	4,622
Balance as of March 31, 2025	**$ -**	**13,130,296**	**$ 210,882**	**$ (214,406)**	**$ 99,603**	**$ 705,360**	**$ (22,835)**	**$ 778,604**
Balance as of January 1, 2024	**$ -**	**13,583,285**	**$ 210,882**	**$ (163,175)**	**$ 86,827**	**$ 592,325**	**$ (31,754)**	**$ 695,105**
Issuance of shares upon vesting of share-based awards	-	115,650	-	-	-	-	-	-
Cash dividend declared ($0.70 per share)	-	-	-	-	-	(9,374)	-	(9,374)
Stock-based compensation	-	-	-	-	3,405	-	-	3,405
Stock surrendered due to employee tax liability	-	(49,212)	-	(3,595)	-	-	-	(3,595)
Stock purchased	-	(256,986)	-	(18,234)	(195)	-	-	(18,429)
Net income	-	-	-	-	-	33,466	-	33,466
Other comprehensive loss, net	-	-	-	-	-	-	(1,020)	(1,020)
Balance as of March 31, 2024	**$ -**	**13,392,737**	**$ 210,882**	**$ (185,004)**	**$ 90,037**	**$ 616,417**	**$ (32,774)**	**$ 699,558**

See accompanying notes to the unaudited consolidated interim financial statements.

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

	Three months ended March 31, 2025	Three months ended March 31, 2024
Cash flows from operating activities:		
Net income	$ 30,024	$ 33,466
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	700	4,400
Amortization of deferred loan fees, net	(865)	(1,135)
Amortization of investment securities discounts and premiums, net	73	144
Amortization of investment in affordable housing partnerships	3,515	2,422
Amortization of subordinated debt issuance costs	59	60
Loans originated for sale	(1,288)	(1,301)
Gain on sale of SBA loans	(275)	(103)
Proceeds from sale of loans held for sale ("LHFS")	3,777	1,159
Depreciation and amortization	517	573
Share-based compensation expense	3,817	3,405
Income from bank owned life insurance, net	(69)	(70)
Write-down of other real estate owned	1,341	-
Changes in other assets and liabilities:		
Income tax receivable	2,281	2,391
Accrued interest receivable and other assets	(5,107)	(4,015)
Accrued interest payable and other liabilities	6,081	1,716
Net cash provided by operating activities	44,581	43,112
Cash flows from investing activities:		
Proceeds from principal paydowns, maturities and redemptions of securities held-to-maturity	250	240
Proceeds from principal paydowns, maturities and redemptions of securities available-for-sale	2,895	4,883
Proceeds from sales and calls of securities available-for-sale	-	1,530
Purchase of securities available-for-sale	(38,587)	(27,517)
Purchase of investments in affordable housing partnerships	(9,448)	(1,177)
Proceeds from sale of loans from LHFS previously classified as portfolio loans	-	9,376
Proceeds from recoveries of written off loans	97	1
Net increase in loans	7,484	(64,661)
Purchase of bank premises and equipment	(331)	(841)
Net cash used in investing activities	(37,640)	(78,166)
Cash flows from financing activities:		
Net increase in deposits	155,887	92,366
Increase in treasury shares	(13,239)	(22,024)
Payment of cash dividends	(9,921)	(9,540)
Net cash provided by financing activities	132,727	60,802
Net increase in cash and cash equivalents	139,668	25,748
Cash and cash equivalents at beginning of period	785,515	910,852
Cash and cash equivalents at end of period	$ 925,183	$ 936,600

See accompanying notes to the unaudited consolidated interim financial statements.

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

	Three months ended March 31, 2025	2024
Supplemental disclosure of cash flow information		
Cash paid during the period for:		
Interest	$ 53,754	$ 58,426
Income taxes	1,686	1,085
Noncash activities:		
Common stock dividends declared but not paid	$ 9,772	$ 9,374
Operating lease liabilities arising from right-of-use assets	8,086	1,421
Transfer of loans held for investment to loans held for sale	-	9,376
New commitments to fund affordable housing partnership Investment	8,781	-

See accompanying notes to the unaudited consolidated interim financial statements.

PREFERRED BANK
Notes to Consolidated Interim Financial Statements
(Unaudited)

Note 1 – Business

Preferred Bank (the "Bank") commenced operations in 1991 as a California state-chartered bank and offers a wide range of financial services. As of March 31, 2025, the Bank operates through thirteen full-service branch banking offices in Los Angeles, Orange, and San Francisco Counties in California, two full-service branches in New York (Queens County and Manhattan), one full-service branch in the Houston suburb of Sugar Land, Texas, a loan production office in Sunnyvale in California and a satellite office in New York City. As of March 31, 2025, approximately 89% of the total dollar amount of the Bank's gross loans were secured by real estate located in California and the Northeast Tri-State area (New York, New Jersey and Connecticut). The Bank is a member of the Federal Home Loan Bank system ("FHLB") and the Bank's deposits are insured by the Federal Deposit Insurance Corporation ("FDIC").

Note 2 – Principles of Consolidation and Basis of Presentation

The accompanying unaudited consolidated interim financial statements include the accounts of Preferred Bank and its wholly-owned, inactive subsidiary, PB Investment and Consulting, Inc. (herein referred to as the "Bank", "we", "us" or "our"). All intercompany transactions and accounts have been eliminated in consolidation.

The unaudited consolidated interim financial statements of the Bank have been prepared in conformity with generally accepted accounting principles generally accepted in the United States of America ("GAAP"). In the opinion of management, all adjustments, which consist of normally recurring adjustments necessary for a fair statement of the interim period results, have been made.

Through its branch network, the Bank provides a broad range of financial services to individuals and companies primarily located in Southern California, the Bay Area of California and the Greater New York City area. These services include demand, time and savings deposits and real estate, business and consumer lending. While the Bank's chief decision makers monitor the revenue streams of various products and services, operations are managed and financial performance is evaluated on a bank-wide basis. Accordingly, the Bank considers all operations aggregated in one reportable operating segment.

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements as well as reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates. The results of operations for the three months ended March 31, 2025 are not necessarily indicative of results that may be expected for any other interim period or the entire fiscal year ending December 31, 2025. These unaudited condensed consolidated financial statements should be read in conjunction with the audited financial statements and the notes thereto included in the registrant's Annual Report on Form 10-K for the year ended December 31, 2024, which was filed with the FDIC on March 14, 2025, as amended by the Form 10-K/A filed with the FDIC on April 15, 2025. Subsequent events have been evaluated through the date of the issuance of the unaudited Consolidated Financial Statements. No significant subsequent events have occurred through this date requiring adjustment to the financial statements or disclosures.

The accounting and reporting policies of the Bank are based upon GAAP and conform to predominant practices within the banking industry. The Bank has not made any changes in its significant accounting policies from those disclosed in its Annual Report on Form 10-K for the year ended December 31, 2024 filed with the FDIC, as amended by the Form 10-K/A filed with the FDIC on April 15, 2025.

Note 3 – Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements

ASU 2023-09, Income Taxes (Topic 740): *Improvements to Income Tax Disclosures*. In December 2023, the FASB issued ASU 2023-09 to address investor requests for more transparency about income tax information through improvements to income tax disclosures primarily related to the rate reconciliation and income taxes paid information. The ASU also includes certain other amendments to improve the effectiveness of income tax disclosures. The amendments in ASU 2023-09 are effective for fiscal years beginning after December 15, 2024. Early adoption is permitted. The adoption of ASU 2023-09 on January 1, 2025 did not have a significant impact on our financial condition or results of operations.

ASU 2024-02, *Codification Improvements—Amendments to Remove References to the Concepts Statements*. In March 2024, the FASB issued ASU 2024-02 which removes references to the Board's concepts statements from the FASB Accounting Standards Codification (the "Codification" or ASC). The ASU is part of the Board's standing project to make "Codification updates for technical corrections such as conforming amendments, clarifications to guidance, simplifications to wording or the structure of guidance, and other minor improvements. These amendments are effective for public business entities for fiscal years beginning after December 15, 2024. Early application of the amendments in ASU 2024-03 is permitted for all entities, for any fiscal year or interim period for which financial statements have not yet been issued (or made available for issuance). The adoption of ASU 2024-02 on January 1, 2025 did not have a significant impact on our financial condition or results of operations.

Recently Issued Accounting Pronouncements

Following are the recently issued updates to the codification of U.S. Accounting Standards ("ASUs"), which are the most relevant to the Bank.

ASU 2024-03, *Income Statement– Reporting Comprehensive Income-Expense Disaggregation Disclosures*. In November 2024, the FASB issued ASU 2024-03 requires disclosure in the notes to the financial statements of specified information about certain costs and expenses. In January 2025, the FASB issued ASU 2025-01 *Income Statement—Reporting Comprehensive Income– Expense Disaggregation Disclosures– Clarifying the Effective Date* which amends the effective date of ASU 2024-03 to clarify that all public business entities are required to adopt the guidance in annual reporting periods beginning after December 15, 2026, and interim periods within annual reporting periods beginning after December 15, 2027. Early adoption of Update 2024-03 is permitted. The Bank is currently evaluating the impact of ASU 2024-03 on its disclosures.

Note 4 – Earnings Per Share

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

The following tables set forth earnings per share calculations:

	Income (Numerator)		Weighted Average Shares (Denominator)	Per Share Amount	
<u>Three months ended March 31, 2025</u>					
Net Income	$	30,024	13,226,582		
Basic EPS – income available to common shareholders		**30,024**	**13,226,582**	**$**	**2.27**
Effect of dilutive securities		-	226,594		
Diluted EPS – income available to common shareholders	**$**	**30,024**	**13,453,176**	**$**	**2.23**
<u>Three months ended March 31, 2024</u>					
Net Income	$	33,466	13,508,878		
Basic EPS – income available to common shareholders		**33,466**	**13,508,878**	**$**	**2.48**
Effect of dilutive securities		-	228,108		
Diluted EPS – income available to common shareholders	**$**	**33,466**	**13,736,986**	**$**	**2.44**

There were 209 and zero shares excluded from the computation of diluted earnings per share for the three months ended March 31, 2025 and 2024, because their impact on diluted earnings per share would have been anti-dilutive.

Note 5 – Share-based Compensation

The Bank remunerates employees and directors through, among other means, the 2014 Equity Incentive Plan (the "2014 Plan") and the 2024 Equity Incentive Plan (the "2024 Plan") (collectively, the "Equity Inventive Plans"), which are discussed below.

Equity Incentive Plans

The 2014 Plan provided for granting of nonstatutory stock options, incentive stock options, RSAs and RSUs to employees, officers, and directors of the Bank. Stock options granted under the 2014 Plan had an exercise price equal to the fair value of the underlying common stock on the date of grant. Stock options and share awards granted under the 2014 Plan are generally vested in installments between 20-25% each year, became fully vested after four to five years, and expired four to six years from the date of grant. All option and share awards provided for accelerated vesting if there is a change in control (as defined in the 2014 Plan). There were 2,500,000 shares authorized under this plan. The 2014 Plan has expired by its terms, which expiration has no effect on options and awards outstanding under the 2014 Plan. Under the 2014 Plan, there were no options outstanding as of March 31, 2025 and 2024 and no options were exercised during the three months ended March 31, 2025 and 2024. During the three months ended March 31, 2025 and 2024, no money was received from option exercises under the 2014 Plan

In October 2024, the Bank's shareholders approved the 2024 Plan. The 2024 Plan provides for grants of up to 670,000 shares of stock options, stock appreciation rights (SARs), stock awards and restricted stock units (collectively, "awards") to employees, consultants, non-employee directors of our company and its subsidiaries.

Restricted Stock Units

The Bank's Equity Incentive Plans provide for the granting of RSUs to employees, officers, and directors of the Bank.

The RSUs granted to our employees, officers and directors under the Equity Incentive Plans have an immediate-to-four year vesting period and the vested number of shares are distributed at the end of the vesting period. Unlike RSAs, RSUs do not entitle the recipients to receive cash dividends.

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

The compensation costs of both time-based and performance-based awards are estimated based on awards ultimately expected to vest and recognized on a straight-line basis from the grant date until the vesting date of each grant. The total unrecognized compensation expense for outstanding RSUs as of March 31, 2025 were $12.1 million, and will be recognized over an average of 1.5 years, respectively. There were no outstanding RSAs as of March 31, 2025.

The total fair value of vested RSUs during the three months ended March 31, 2025 and 2024 was $8.5 million and $8.4 million, respectively.

During the three months ended March 31, 2025, the Bank granted 98,873 RSUs and recognized $1.8 million of compensation expense related to RSUs. During the three months ended March 31, 2024, the Bank granted 120,426 RSUs and recognized $1.6 million of compensation expense related to RSUs.

The following is a summary of the activities for the time-based RSUs and the performance-based RSUs that will be settled under the Equity Incentive Plans for the three months ended March 31, 2025. The number of outstanding performance-based RSUs stated below assumes the associated performance targets will be met at the target level:

	Performance-based		**Time-based**	
	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value
Non-Vested RSUs as of January 1, 2025	74,843	$ 73.11	273,754	$ 73.86
RSUs granted	15,163	84.81	83,710	86.38
Forfeited or expired	-	-	(860)	76.77
Vested	(26,250)	85.99	(71,621)	83.85
Non-Vested RSUs as of March 31, 2025	63,756	$ 70.58	284,983	$ 75.02

Note 6 – Off-Balance Sheet Commitments

The Bank enters into a variety of financial transactions with its customers in the normal course of business. Many of these products do not necessarily entail present or future funded asset or liability positions but are instead in the nature of executor contracts.

Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some commitments expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Financial instrument transactions are subject to the Bank’s normal credit standards, financial controls and risk-limiting and monitoring procedures. Collateral requirements are based on a case-by-case evaluation of each customer and product. The most significant categories of collateral include real estate properties underlying mortgage loans, liens on equipment and inventory and personal property and cash on deposit with the Bank.

The Bank’s exposure to credit risk under commitments to extend credit, standby letters of credit, and financial guarantees written is limited to the contractual amount of those instruments.

The following table sets forth the Bank's commitments to fund loans and other financial instruments as of March 31, 2025 and December 31, 2024:

	March 31, 2025	December 31, 2024
	(In thousands)	
Commitments to extend credit	$ 1,265,660	$ 1,256,235
Commercial letters of credit	4,648	4,648
Standby letters of credit	478,441	471,560
Total	$ 1,748,749	$ 1,732,443

The majority of loan commitments have terms up to one year and variable rates of interest. Standby letters of credit have terms up to one year. Most standby letters of credit expire unused.

The Bank performs an analysis to estimate the credit losses for off-balance sheet commitments, including letters of credit, acceptances outstanding, and committed loan amounts, on a quarterly basis. The reserve is calculated by applying the historical loss factor for the quarter over the total outstanding letters of credit which is also applied to pass loans for allowance for credit losses on loans provision purposes. Under the current expected credit losses ("CECL") methodology, the look back period over the last 10 years period diluted the more recent loss experience so a rolling 4-year loss rate is applied until the historical loss rate equalizes.

The allowance for credit losses on off-balance sheet commitments was $1.2 million at March 31, 2025 and December 31, 2024 and is included in other liabilities on the statement of financial condition. Provision for credit losses on off-balance sheet commitments is included in provision for credit losses on the income statement. There was no provision for credit losses on off-balance sheet commitments for the three months ended March 31, 2025 and 2024.

Note 7 – Cash Dividend

On March 19, 2025, the Bank declared a cash dividend of $0.75 per share on 13,029,496 shares outstanding as of April 7, 2025, for distribution to holders of common stock on April 21, 2025. Total cash dividends of $9.9 million and $9.5 million were paid during the three months ended March 31, 2025 and 2024, respectively.

Note 8 – Investment Securities

The Bank classifies its debt investment securities in two categories: held-to-maturity or available-for-sale. 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 accumulated other comprehensive income net of applicable taxes until realized. Recognized gains and losses from the sale of available-for-sale securities are determined on a specific-identification basis. These securities are adjusted for the amortization or accretion of premiums or discounts. The Bank does not own any debt securities classified as trading or equity securities.

The carrying value of our securities classified as held-to-maturity was $19.7 million at March 31, 2025 and $20.0 million at December 31, 2024. The table below shows the amortized cost, gross unrecognized gains and losses and estimated fair value of securities held-to-maturity as of March 31, 2025 and December 31, 2024:

	March 31, 2025			
	Amortized cost	Gross unrecognized gains	Gross unrecognized losses	Estimated fair value
	(In thousands)			
Mortgage-backed securities	$ 19,745	$ -	$ (1,350)	$ 18,395

	December 31, 2024			
	Amortized cost	Gross unrecognized gains	Gross unrecognized losses	Estimated fair value
	(In thousands)			
Mortgage-backed securities	$ 20,021	$ -	$ (1,748)	$ 18,273

The following tables summarize unrecognized losses on our held-to-maturity investment securities, aggregated by the length of time the securities have been in a continuous unrecognized loss position, at March 31, 2025 and December 31, 2024:

	March 31, 2025					
	Less than 12 months		12 months or greater		Total	
	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses
	(In thousands)					
Held to maturity:						
U.S. Agency mortgage-backed securities	$ -	$ -	$ 18,395	$ (1,350)	$ 18,395	$ (1,350)
Total securities available-for-sale	$ -	$ -	$ 18,395	$ (1,350)	$ 18,395	$ (1,350)

	December 31, 2024					
	Less than 12 months		12 months or greater		Total	
	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses
	(In thousands)					
Held to maturity:						
U.S. Agency mortgage-backed securities	$ -	$ -	$ 18,273	$ (1,748)	$ 18,273	$ (1,748)
Total securities available-for-sale	$ -	$ -	$ 18,273	$ (1,748)	$ 18,273	$ (1,748)

The tables below show the amortized cost, gross unrealized gains and losses, and estimated fair value of securities classified as available-for-sale as of March 31, 2025 and December 31, 2024:

	March 31, 2025			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
	(In thousands)			
Asset-backed securities	$ 2,808	$ 11	$ (13)	$ 2,806
Corporate notes	126,061	578	(4,397)	122,242
U.S. Agency mortgage-backed securities	7,723	1	(204)	7,520
Collateralized mortgage obligations	142,955	-	(18,045)	124,910
Municipal securities	69,679	2	(10,111)	59,570
U.S. Agency principal-only strip securities	218	-	(14)	204
U.S. Treasury notes	73,069	2,074	(2,299)	72,844
Total securities available-for-sale	$ 422,513	$ 2,666	$ (35,083)	$ 390,096

	December 31, 2024			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
	(In thousands)			
Asset-backed securities	$ 2,822	$ 12	$ (7)	$ 2,827
Corporate notes	126,014	418	(6,068)	120,364
U.S. Agency mortgage-backed securities	8,024	-	(294)	7,730
Collateralized mortgage obligations	145,530	-	(20,246)	125,284
Municipal securities	69,797	3	(9,285)	60,515
U.S. Agency principal-only strip securities	235	-	(18)	217
U.S. Treasury notes	34,445	-	(2,676)	31,769
Total securities available-for-sale	$ 386,867	$ 433	$ (38,594)	$ 348,706

The following tables show the gross unrealized losses and estimated fair value of our available-for-sale investments aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position at March 31, 2025 and December 31, 2024:

	March 31, 2025					
	Less than 12 months		12 months or greater		Total	
	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses
	(In thousands)					
Available for sale:						
Asset-backed securities	$ -	$ -	$ 680	$ (13)	$ 680	$ (13)
Corporate notes	-	-	78,370	(4,397)	78,370	(4,397)
U.S. Agency mortgage-backed securities	1,159	(13)	6,247	(191)	7,406	(204)
Collateralized mortgage obligations	1	-	124,908	(18,045)	124,909	(18,045)
Municipal securities	2,726	(58)	53,052	(10,053)	55,778	(10,111)
U.S. Agency principal-only strip securities	-	-	204	(14)	204	(14)
U.S. Treasury notes	-	-	12,656	(2,299)	12,656	(2,299)
Total securities available-for-sale	$ 3,886	$ (71)	$ 276,117	$ (35,012)	$ 280,003	$ (35,083)

	December 31, 2024					
	Less than 12 months		12 months or greater		Total	
	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses
	(In thousands)					
Available for sale:						
Asset-backed securities	$ -	$ -	$ 702	$ (7)	$ 702	$ (7)
Corporate notes	13,170	(145)	76,853	(5,923)	90,023	(6,068)
U.S. Agency mortgage-backed securities	1,298	(15)	6,392	(279)	7,690	(294)
Collateralized mortgage obligations	1	-	125,282	(20,246)	125,283	(20,246)
Municipal securities	3,286	(49)	53,984	(9,236)	57,270	(9,285)
U.S. Agency principal-only strip securities	-	-	217	(18)	217	(18)
U.S. Treasury notes	19,491	-	12,278	(2,676)	31,769	(2,676)
Total securities available-for-sale	$ 37,246	$ (209)	$ 275,708	$ (38,385)	$ 312,954	$ (38,594)

In accordance with Section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act, the Bank performs a thorough annual review of each of the investment securities in its portfolio (other than US Government and Agency securities) to determine, among other things, the current financial status of the issuer as well as the issuer's ability to repay the debt. This analysis is performed in addition to the quarterly review that is performed on all investment securities which are in an unrealized loss position.

We do not intend to sell these securities until recovery and have determined that it is not more likely than not that we will be required to sell the securities prior to recovery of their amortized cost basis.

At March 31, 2025, there were a total of 17 investment securities that were in an unrealized loss position for less than 12 months and 114 investment securities that were in an unrealized loss position for 12 months or longer. Temporary impairments primarily related to corporate notes (which are all considered investment grade by Moody's, Standard & Poor's, Kroll Bond Rating Agency or Fitch rating agencies), mortgage-backed securities (which are generally guaranteed by the U.S. government and are highly rated by rating agencies and have a long history of no credit losses), and municipal securities are primarily attributable to declining market prices caused by dramatically higher interest rates, which began rising in March 2022, and subsequent to the date that these securities were purchased. None of the securities in the Bank's investment portfolio rely on an insurance wrap as a credit enhancement. Management believes that it is more likely than not that the Bank will receive all amounts due under the contractual terms of these securities. If economic conditions deteriorate, or if the financial condition of specific issuers within these portfolios deteriorates, then the Bank could record an allowance for credit losses for available for-sale ("AFS") debt securities under the ASC 326-30. ASC 326-20 requires the Bank to estimate lifetime credit loss allowance for the HTM debt securities. However, the Bank holds held-to-maturities ("HTM") debt securities that are guaranteed by the U.S. government which are highly rated by rating agencies and have a long history of no credit losses so no expected credit losses will be recorded. There were no debt securities considered past due at March 31, 2025 and December 31, 2024. There were no purchases of debt securities with credit deterioration during the three months ended March 31, 2025 and 2024.

There were no cash proceeds from sales, calls or maturities of securities available-for-sale for the three months ended March 31, 2025 and 2024. There were no net realized losses for sales and calls of securities for the three months ended March 31, 2025 and 2024.

The amortized cost and estimated fair value of securities at March 31, 2025, by contractual maturity, are shown below. Mortgage-backed securities are classified in accordance with their estimated average life. Expected maturities differ from contractual maturities mainly due to prepayment rates; changes in prepayment rates will affect a security's average life.

	Available-for-Sale		Held-to-maturity	
	Amortized Cost	Estimated fair value	Amortized Cost	Estimated fair value
	(In thousands)		*(In thousands)*	
Due in one year or less	$ 66	$ 65	$ -	$ -
Due after one year through five years	35,020	34,790	10,690	10,476
Due after five years through ten years	185,336	180,867	-	-
Due after ten years	202,091	174,374	9,055	7,919
Total	$ 422,513	$ 390,096	$ 19,745	$ 18,395

Note 9 – Loans and Allowance for Credit Losses on Loans

The Bank's loan portfolio includes originated loans as well as purchased loans. The loans portfolio as of March 31, 2025 and December 31, 2024 are summarized as follows:

	March 31, 2025	December 31, 2024
	(In thousands)	
Real estate mortgage	$ 3,677,418	$ 3,630,840
Real estate construction	575,348	583,765
Commercial & industrial	1,373,748	1,418,445
SBA	7,104	6,833
Trade finance	631	485
Consumer & other	164	247
Gross loans	5,634,413	5,640,615
Less:		
Allowance for credit losses on loans	(72,274)	(71,477)
Deferred loan and fees, net	(9,652)	(9,234)
Total loans, net	$ 5,552,487	$ 5,559,904

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

Credit losses are estimated using the Current Expected Credit Losses ("CECL") methodology. This methodology is dependent largely on the availability of historical loan data based on loan level risk approach using Probability of Default / Loss Given Default ("PD/LGD"). PD is the probability that a borrower will default on its obligation. LGD is the amount of money a bank loses when a loan defaults net of any recovery expressed as a percentage of the outstanding loan amount at the time of default. We selected a software solution to help apply transition matrices to develop the PD/LGD approach. This method assesses historical loss data to estimate expected credit losses over the historical, current, and forecast periods that represents the life of loans under CECL. The considerations to establish a look back period are influenced by data availability, historical economic cycles, changes to lending practices, improvement in credit risk management practices and oversight control over the years. Based on our assessment, we have decided to use a look back period beginning from January 2010. For the forecasted periods, management has considered a more near-term outlook of twelve months to be reasonable and supportable based on management's understanding of the current loan portfolio and management's best judgement to forecast credit losses. Management has also considered a reversion period equal to half of the forecast period or equivalent to six months of the reasonable and supportable forecast. Accrued interest is not considered in computed expected credit losses.

The loan portfolio is segmented into pools with similar characteristics, primarily based on loan product type (collateral driven). The Bank examined the loan portfolio and the current loan segmentations reasonably reflect the homogenous risk characteristics related to each loan pool. The loan portfolio is segmented into seven main categories: commercial, international trade finance, construction, real estate, residential mortgage, cash secured and SBA. Within these categories, we further segment into 17 collective pools with similar risk characteristics. Management has examined the current loan pools and concluded the segmentations reasonably reflect homogenous risk characteristics related to each loan pool. The Bank remains focused on commercial loan products which have comprised the largest loan segmentation. The loan products have not changed over the years before or after the last economic cycle. The existing loan pools are considered appropriate for use to estimate ACL. The Bank has started to originate SBA loans that are partially guaranteed by the SBA.

Loans are individually evaluated for credit losses when they no longer exhibit similar risk characteristics with other loans in the portfolio. We individually review and analyze non-accrual loans, classified loans, and certain other loans as determined necessary. Collateral dependent loans are loans for which the repayment is expected to be provided substantially through the operation or sale of the collateral when the borrower, based on management's assessment, is experiencing financial difficulty as of the reporting date. Collateral dependent loans are typically analyzed by comparing the loan amount to the fair value of collateral less cost to sell, with a prompt charge-off taken for the ‘shortfall’ amount once the value is confirmed. Other methods can be used; i.e. loan sale market price or present value of expected future cash flows discounted at the loan’s effective interest rate.

The Bank also makes adjustments, if warranted, in both quantitative and qualitative modeling to estimate the allowance. Such adjustments are intended to account for conditions that management believes directly impact loss potential in the portfolio that is not currently being captured in the model. To the extent possible, management accounts for the impact of quantitative factors on a pool by pool basis, and qualitative factors on a portfolio basis. Qualitative factors consist of nine factors including recent trends and economic conditions. We apply environmental and general economic factors to our allowance methodology including: credit concentrations; delinquency trends; national and local economic and business conditions; the quality of lending management and staff; lending policies and procedures; loss and recovery trends; nature and volume of the portfolio; changes in the value of underlying collateral for collateral dependent loans; the quality of loan reviews; and other external factors including competition, legal, and regulatory factors. The Bank aggregates the sums of the estimates of probable loss for each category with the specific individually evaluated reserves to arrive at the total estimated allowance for credit losses.

The Bank had $78.9 million of non-accrual loans at March 31, 2025 compared to $36.8 million at December 31, 2024. These loans had interest due, but not recognized, of approximately $1.7 million and $693,000 at March 31, 2025 and December 31, 2024, respectively. The Bank had no loans that were past due 90 or more days and still accruing interest as of March 31, 2025 and $1.1 million that were past due 90 or more days and still accruing interest as of December 31, 2024.

The following tables show the Bank's past due and non-accrual loans by class as of March 31, 2025 and December 31, 2024:

March 31, 2025:	Accruing Loans							
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total	Non-accrual Loans	Total Loans
Loan Class					*(In thousands)*			
Real estate mortgage								
Residential	$ 1,270	$ -	$ -	$ 1,270	$ 774,067	$ 775,337	$ 32,625	$ 807,962
Commercial	46,817	-	-	46,817	2,780,902	2,827,719	41,737	2,869,456
Total real estate mortgage	48,087	-	-	48,087	3,554,969	3,603,056	74,362	3,677,418
Real estate construction								
Residential	-	-	-	-	306,283	306,283	-	306,283
Commercial	-	-	-	-	269,065	269,065	-	269,065
Total real estate construction	-	-	-	-	575,348	575,348	-	575,348
Commercial and Industrial	1,590	-	-	1,590	1,367,638	1,369,228	4,520	1,373,748
SBA	-	-	-	-	7,104	7,104	-	7,104
Trade Finance	-	-	-	-	631	631	-	631
Consumer & other	-	-	-	-	164	164	-	164
Total as of March 31, 2025:	$ 49,677	$ -	$ -	$ 49,677	$ 5,505,854	$ 5,555,531	$ 78,882	$ 5,634,413

December 31, 2024:	Accruing Loans							
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total	Non-accrual Loans	Total Loans
Loan Class					*(In thousands)*			
Real estate mortgage								
Residential	$ 8,028	$ -	$ 1,100	$ 9,128	$ 779,972	$ 789,100	$ 969	$ 790,069
Commercial	2,927	67,947	-	70,874	2,740,425	2,811,299	29,472	2,840,771
Total real estate mortgage	10,955	67,947	1,100	80,002	3,520,397	3,600,399	30,441	3,630,840
Real estate construction								
Residential	-	-	-	-	296,580	296,580	-	296,580
Commercial	-	-	-	-	287,185	287,185	-	287,185
Total real estate construction	-	-	-	-	583,765	583,765	-	583,765
Commercial and Industrial	3,646	-	-	3,646	1,408,489	1,412,135	6,310	1,418,445
SBA	-	-	-	-	6,833	6,833	-	6,833
Trade Finance	-	-	-	-	485	485	-	485
Consumer & other	-	-	-	-	247	247	-	247
Total as of December 31, 2024:	$ 14,601	$ 67,947	$ 1,100	$ 83,648	$ 5,520,216	$ 5,603,864	$ 36,751	$ 5,640,615

The following tables presents the Bank's non-accrual loans with and without an allowance for credit losses and related interest income recognized by class as of March 31, 2025 and December 31, 2024:

	Nonaccrual Loans				Interest Income Recognized
	without ACL	with ACL	Total	Loans 90+ Days Past Due and Accruing Interest	Three months ended 3/31/25
			(in thousands)		
March 31, 2025					
Real estate mortgage:					
Residential	$ 32,625	$ -	$ 32,625	$ -	$ -
Commercial	38,016	3,721	41,737	-	-
Total R/E mortgage	70,641	3,721	74,362	-	-
Commercial & industrial	-	4,520	4,520	-	-
Total	$ 70,641	$ 8,241	$ 78,882	$ -	$ -

	Nonaccrual Loans without ACL	Nonaccrual Loans with ACL	Nonaccrual Loans Total	Loans 90+ Days Past Due and Accruing Interest	Interest Income Recognized Twelve months ended 12/31/24
	(in thousands)				
December 31, 2024					
Real estate mortgage:					
Residential	$ 969	$ -	$ 969	$ 1,100	$ -
Commercial	29,472	-	29,472	-	-
Total R/E mortgage	30,441	-	30,441	1,100	-
Commercial & industrial	-	6,310	6,310	-	367
Total	$ 30,441	$ 6,310	$ 36,751	$ 1,100	$ 367

The following tables represents the amortized cost basis of collateral-dependent loans by class of loans as of March 31, 2025 and December 31, 2024:

	Real Estate	Total
March 31, 2025		
Real estate mortgage:		
Residential	$ 36,150	$ 36,150
Commercial	59,086	59,086
Commercial (1)	4,520	4,520
TOTAL	$ 99,756	$ 99,756

1) *Collateral-dependent commercial loans include a $4.5 million loan relationship secured by a first deed trust on three commercial lots.*

	Real Estate	Total
December 31, 2024		
Real estate mortgage:		
Residential	$ 969	$ 969
Commercial	75,948	75,948
Commercial (1)	6,310	6,310
TOTAL	$ 83,227	$ 83,227

1) *Collateral-dependent commercial loans include a $6.3 million loan relationship secured by a first deed trust on three commercial lots.*

The following tables detail activity in the allowance for credit losses on loans by portfolio segment for the three months ended March 31, 2025 and 2024. Allocation of a portion of the allowance to one particular portfolio segment does not indicate that it is no longer available to absorb losses in other portfolio segments.

	Real Estate-Mortgage		Real Estate-Construction		Commercial		Trade	Consumer		
	Residential	Commercial	Residential	Commercial	& Industrial	SBA	Finance	& Other	Unallocated	Total
Three months ended March 31, 2025										
Balance as of January 1, 2025	$ 7,227	$ 33,713	$ 1,556	$ 1,624	$ 26,786	$ 36	$ 3	$ 5	$ 527	$ 71,477
Provision for (reversal of) credit losses	168	1,548	95	246	(1,154)	5	1	(2)	(207)	700
Loans charged off	-	-	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	97	-	-	-	-	97
Net recoveries	-	-	-	-	97	-	-	-	-	97
Balance at March 31, 2025	$ 7,395	$ 35,261	$ 1,651	$ 1,870	$ 25,729	$ 41	$ 4	$ 3	$ 320	$ 72,274
Three months ended March 31, 2024										
Balance as of January 1, 2025	$ 7,227	$ 33,713	$ 1,556	$ 1,624	$ 26,786	$ 36	$ 3	$ 5	$ 527	$ 71,477
Provision for (reversal of) credit losses	168	1,548	95	246	(1,154)	5	1	(2)	(207)	700
Loans charged off	-	-	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	97	-	-	-	-	97
Net recoveries	-	-	-	-	97	-	-	-	-	97
Balance at March 31, 2025	$ 7,395	$ 35,261	$ 1,651	$ 1,870	$ 25,729	$ 41	$ 4	$ 3	$ 320	$ 72,274

As required by federal regulations, we evaluate the credit risk rating of our loans on a regular basis. In order to monitor the quality of our loan portfolio and quantify the risk therein, we maintain a loan grading system consisting of eight different categories (Grades 1-8). The grading system is used to determine, in part, the allowance for credit losses on loans. The first four grades in the system are considered pass, whereas the fifth grade is a transition grade known as “special mention.” The other three grades (6-8) range from a “substandard” to “doubtful” to a “loss” category. Loans graded as “loss” are charged-off in the period so rated. We use grades 6 and 7 of our loan grading system to identify potential problem assets for individual analysis. The grade on each individual loan rated in the first four grades is reviewed on a regular basis by the loan officer responsible for monitoring the credit whereas the grade for loans rated special mention, substandard, or doubtful are reviewed at least quarterly for appropriateness. Credit Administration reviews a sample of loans assigned a grade in the first four grades and all loans assigned a grade of 5 or above each quarter for appropriateness. Additionally, loan grades are subject to further review by our Chief Credit Officer, Audit Committee (via contracted external loan reviews), Director’s Loan Committee, and our Board of Directors (our “Board”). In reviewing loans and evaluating the adequacy of the allowance, there are several risk characteristics considered. Those most relevant to the major portfolio segments includes vacancy and lease rates on commercial real estate, state of the general housing market, home prices, commercial real estate values, the impact of economic conditions, and employment levels on the various businesses in our market area.

The following table presents risk grades and classified loans by recorded investment in class of loan by origination year as of March 31, 2025. Classified loans include loans in risk grades 6 and 7, which correlate to substandard and doubtful for risk classification purposes.

	Term Loans by Origination Year									
	2025	**2024**	**2023**	**2022**	**2021**	**Prior**	**Total**	**Revolving Loans**	**Revolving Loans Converted to Term During the Year**	**Total**
Real estate mortgage										
Pass	$ 188,024	$ 527,273	$ 415,093	$ 716,857	$ 524,353	$ 695,879	$ 3,067,479	$ 441,716	$ 43,537	$ 3,552,732
Special mention	-	-	-	9,500	-	19,950	29,450	-	-	29,450
Substandard	-	-	-	-	-	27,183	27,183	68,053	-	95,236
Doubtful	-	-	-	-	-	-	-	-	-	-
Real estate construction										
Pass	-	-	-	-	-	-	-	575,348	-	575,348
Special mention	-	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-	-
Commercial & industrial										
Pass	28,365	126,332	91,125	101,862	10,587	87,539	445,810	922,925	493	1,369,228
Special mention	-	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	4,520	4,520	-	-	4,520
Doubtful	-	-	-	-		-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-	-
SBA										
Pass	404	3,359	2,306	923	34	4	7,030	-	74	7,104
Special mention	-	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-	-
Trade finance										
Pass	-	-	-	-	-	-	-	631	-	631
Special mention	-	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-	-
Consumer & other										
Pass	164	-	-	-	-	-	164	-	-	164
Special mention	-	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-	-
Total	**$ 216,957**	**$ 656,964**	**$ 508,524**	**$ 829,142**	**$ 534,974**	**$ 835,075**	**$ 3,581,636**	**$ 2,008,673**	**$ 44,104**	**$ 5,634,413**
Gross charge-offs										
Three months ended March 31, 2025:										
Real estate mortgage	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Real estate construction	-	-	-	-	-	-	-	-	-	-
Commercial & industrial	-	-	-	-	-	-	-	-	-	-
SBA	-	-	-	-	-	-	-	-	-	-
Trade finance	-	-	-	-	-	-	-	-	-	-
Consumer & other	-	-	-	-	-	-	-	-	-	-
Total	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**

The following table presents risk grades and classified loans by recorded investment in class of loan by origination year as of December 31, 2024. Classified loans include loans in risk grades 6 and 7, which correlate to substandard and doubtful for risk classification purpose.

	Term Loans by Origination Year									
	2024	**2023**	**2022**	**2021**	**2020**	**Prior**	**Total**	**Revolving Loans**	**Revolving Loans Converted to Term During the Year**	**Total**
Real estate mortgage										
Pass	$ 545,245	$ 409,616	$ 727,417	$ 445,948	$ 187,510	$ 523,091	$ 2,838,827	$ 443,794	$ 196,384	$ 3,479,005
Special mention	-	-	9,500	-	1,632	32,641	43,773	31,146	-	74,919
Substandard	-	-	-	-	756	9,703	10,459	66,457	-	76,916
Doubtful	-	-	-	-	-	-	-	-	-	-
Real estate construction										
Pass	-	-	-	-	-	-	-	583,765	-	583,765
Special mention	-	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-	-
Commercial & industrial										
Pass	129,716	107,152	96,459	26,202	19,334	66,169	445,032	958,233	8,870	1,412,135
Special mention	-	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	6,310	-	6,310	-	-	6,310
Doubtful	-	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-	-
SBA										
Pass	3,217	2,454	993	44	7	-	6,715	-	118	6,833
Special mention	-	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-	-
Trade finance										
Pass	-	-	-	-	-	-	-	485	-	485
Special mention	-	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-	-
Consumer & other										
Pass	247	-	-	-	-	-	247	-	-	247
Special mention	-	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-	-
Total	**$ 678,425**	**$ 519,222**	**$ 834,369**	**$ 472,194**	**$ 215,549**	**$ 631,604**	**$ 3,351,363**	**$ 2,083,880**	**$ 205,372**	**$ 5,640,615**
Gross charge-offs										
Three months ended March 31, 2024:										
Real estate mortgage	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Real estate construction	-	-	-	-	-	-	-	-	-	-
Commercial & industrial	-	-	-	415	1,500	1,530	3,445	-	-	3,445
SBA	-	-	-	-	-	-	-	-	-	-
Trade finance	-	-	-	-	-	-	-	-	-	-
Consumer & other	-	-	-	-	-	-	-	-	-	-
Total	**$ -**	**$ -**	**$ -**	**$ 415**	**$ 1,500**	**$ 1,530**	**$ 3,445**	**$ -**	**$ -**	**$ 3,445**

The following table presents a summary of loans modified with borrowers experiencing financial difficulty by type of modification as of March 31, 2025:

March 31, 2025:	Combination - Term Extension and Interest Rate Reduction		Total	
	Amortized Cost Basis	% of Total Class of	Amortized Cost Basis	% of Total Class of
Loan Type				
Real estate mortgage				
Residential	$ 28,500	3.53%	$ 28,500	3.53%
Total	**$ 28,500**	**0.51%**	**$ 28,500**	**0.51%**

At March 31, 2025, there was one residential real estate loan totaling $28.5 million which was over 90 days past due and on nonaccrual status.

The following table presents a summary of loans modified with borrowers experiencing financial difficulty by type of modification as of December 31, 2024:

December 31, 2024:	Combination - Term Extension and Interest Rate Reduction		Total	
	Amortized Cost Basis	% of Total Class of	Amortized Cost Basis	% of Total Class of
Loan Type				
Real estate mortgage				
Commercial	28,500	1.00%	28,500	1.00%
Total	**$ 28,500**	**0.51%**	**$ 28,500**	**0.51%**

At December 31, 2024, there was one commercial real estate loan totaling $28.5 million which was past due 60-89 days.

There were no loans that were modified with borrowers experiencing financial difficulty during the three months ended March 31, 2025.

During the three months ended March 31, 2024, there was one $1.5 million loan that was modified with borrowers experiencing financial difficulty. The terms of this modification included both a term extension and significant payment delay with $50,000 monthly principal payments plus accrued interest during the loan term.

The following table presents a summary of the performance of loans modified in the last 12 months with borrowers experiencing financial difficulty:

March 31, 2025:	Accruing Loans						Non-accrual Loans	Total Loans
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total		
Loan Class	*(In thousands)*							
Real estate mortgage								
Commercial	$ -	$ -	$ -	$ -	$ -	$ -	$ 28,500	$ 28,500
Total as of March 31, 2025	$ -	$ -	$ -	$ -	$ -	$ -	$ 28,500	$ 28,500

Note 10 – Fair Value Measurements

FASB ASC Topic 825, Financial Instruments requires that an entity disclose the fair value of all financial instruments, as defined, regardless of whether recognized in the financial statements of the reporting entity. For purposes of determining fair value under the Financial Instruments Topic of FASB ASC, the fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The Bank determines fair values of financial instruments based on the following hierarchy:

- Level 1 – Quoted prices in active markets for identical assets or liabilities. Certain financial assets and liabilities for which carrying amount equals fair value are considered to be Level 1.

- Level 2 – Observable prices in active markets for similar assets or liabilities; prices for identical or similar assets or liabilities in markets that are not active; directly observable market inputs for substantially the full term of the asset and liability; market inputs that are not directly observable but are derived from or corroborated by observable market data.

- Level 3 – Unobservable inputs based on the Bank's own judgments about the assumptions that a market participant would use.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments.

(a) *Cash Due from Banks, Federal Funds Sold and Securities Purchased under Resale Agreements*

For cash and short-term instruments whose original or purchased maturity is less than 90 days, the carrying amount was assumed to be a reasonable estimate of fair value.

(b) *Securities held-to-maturity and securities available-for-sale*

For securities held-to maturity and securities available-for-sale, fair values were based on quoted market prices obtained from market quotes, a Level 1 measurement. If a quoted market price was not available, fair value was estimated using quoted market prices for similar securities or if no quotes on similar securities were available, a Level 2 measurement, or a discounted cash flow analysis was used based on a market discount rate and adjusted for prepayments and defaults, a Level 3 measurement.

(c) *Federal Home Loan Bank Stock*

It is not practical to determine the fair value of FHLB stock due to the restrictions placed on its transferability.

(d) *Loans held for sale*

Loans and loans held for sale are not measured at fair value on a recurring basis. Therefore, the following valuation discussion relates to estimating the fair value disclosures under ASC 825, Fair Value Measurements and Disclosures. Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type and further segmented into fixed and adjustable rate interest terms. The fair value estimates take into consideration an exit price concept as contemplated in ASC 825. The fair value is determined using a discounted cash flow analysis approach, using prepayment and charge-off adjusted cash flow projections at a loan level. The projected cash flows were discounted to fair value using discount rates that were estimated using a buildup method reflecting a hypothetical market participant's funding and serving costs, and a charge for variability/liquidity. As these loans reprice frequently at market rates and the credit risk is not considered to be greater than normal, the market value is typically close to the carrying amount of these loans

(e) *Loans*

Loans are not measured at fair value on a recurring basis. Therefore, the following valuation discussion relates to estimating the fair value disclosures under ASC 825, Fair Value Measurements and Disclosures. Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type and further segmented into fixed and adjustable rate interest terms. The fair value estimates take into consideration an exit price concept as contemplated in ASC 825. The fair value is determined using a discounted cash flow analysis approach, using prepayment and charge-off adjusted cash flow projections at a loan level. The projected cash flows were discounted to fair value using discount rates that were estimated using a build-up method reflecting a hypothetical market participant's funding and serving costs, and a charge for variability/liquidity. As these loans reprice frequently at market rates and the credit risk is not considered to be greater than normal, the market value is typically close to the carrying amount of these loans.

Collateral-dependent loans are recorded at fair value on a non-recurring basis using the fair value of the underlying collateral. These loans include all of the Bank's non-accrual loans and certain restructured loans, all of which are reviewed individually for purposes of establishing and maintain an allocated allowance for credit losses, if any. The fair value of each loan's collateral is generally based on estimated market prices from an independently prepared appraisal, which is then adjusted for the cost related to liquidating such collateral; such valuation inputs result in a non-recurring fair value measurement that is categorized as a Level 2 measurement. When adjustments are made to an appraised value to reflect various factors such as the age of the appraisal or known changes in the market or the collateral or if an appraisal value is based on a discount cash flow rather than a market comparable, such valuation inputs are considered unobservable and the fair value measurement is categorized as a Level 3 measurement. In addition, unsecured collateral-dependent loans are measured at fair value based generally on unobservable inputs, such as the strength of a guarantor, discounted cash flow models and management's judgment; the fair value measurement of these loans is also categorized as a Level 3 measurement. Fair values were estimated for portfolios of loans with similar financial characteristics. Each loan category was further segmented into fixed and adjustable rate interest terms and by performing and non-performing categories.

(f) Customers' Liability on Acceptances and Acceptances Outstanding

The carrying amounts of customers' liability on acceptances and acceptances outstanding approximate its fair value due to their short-term nature.

(g) Accrued Interest Receivable and Accrued Interest Payable

The carrying amounts of accrued interest receivable and accrued interest payable approximate its fair value due to their short-term nature.

(h) Deposits

The fair value of demand deposits, saving accounts, and certain money market deposits were assumed to be the amount payable on demand at the reporting date. The fair value of interest-bearing deposits and fixed maturity certificates of deposit was estimated based on discounted cash flow analysis. The discount rate used for fair valuation is based on interest rates currently offered on deposits with similar remaining maturities. This is a Level 2 measurement.

(i) FHLB Borrowings

The fair value of FHLB borrowings was based on discounted cash flow analysis. The discount rate used for fair valuation is based on rates currently offered for borrowings with similar remaining maturities, a Level 2 measurement.

(j) Commitment to Extend Credit and Letters of Credit

The majority of our commitments to extend credit carry market interest rates if converted to loans. Because these commitments are generally unassignable by either the borrower or us, they only have value to the borrower and us. The estimated fair value is not material. The fair value of letters of credit was based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reporting date.

(k) Subordinated Debt Issuance

The fair value of subordinated debt is estimated by discounting the cash flows through the maturity date based on observable market rates which the Bank would pay for new issuances, a Level 2 measurement.

The carrying amounts and estimated fair values of financial instruments as of March 31, 2025 and December 31, 2024 are summarized in the tables below:

	March 31, 2025				
	Fair Value Measurement Using		Carrying Amount		Estimated Fair Value
			(In thousands)		
Assets:					
Cash and cash equivalents	Level 1	$	925,183	$	925,183
Securities held-to-maturity	Level 2		19,745		18,395
Securities available-for-sale (1)	Level 2/3		390,096		390,096
Loans receivable, net	Level 3		5,552,487		5,704,430
Accrued interest receivable (2)	Level 2/3		31,775		31,775
Federal Home Loan Bank stock	Level 2		15,000		N/A
Liabilities:					
Demand deposits and savings:					
Noninterest-bearing	Level 2	$	730,270	$	730,270
Interest-bearing	Level 2		2,132,618		2,132,618
Time deposits	Level 2		3,209,847		3,210,786
Subordinated debt issuance	Level 2		148,529		167,667
Accrued interest payable	Level 2		14,634		14,634

(1) Includes one $4.5 million corporate note measured at fair value on a recurring basis using significant unobservable (Level 3) inputs as of March 31, 2025.
(2) Includes $4.8 million of accrued interest on investment securities and other earning asset accounts using Level 2 fair value measurements and $27.0 million of accrued interest on loans receivable using Level 3 measurements as of March 31, 2025.

	December 31, 2024				
	Fair Value Measurement Using		Carrying Amount		Estimated Fair Value
Assets:			*(In thousands)*		
Cash and cash equivalents	Level1	$	785,515	$	785,515
Securities held-to-maturity	Level 2		20,021		18,273
Securities available-for-sale	Level 2		348,706		348,706
Loans held for sale	Level 1		2,214		2,214
Loans receivable, net	Level 3		5,559,904		5,717,826
Accrued interest receivable (1)	Level 2/3		33,561		33,561
Federal Home Loan Bank stock	Level 2		15,000		N/A
Liabilities:					
Demand deposits and savings:					
Noninterest-bearing	Level 2	$	704,859	$	704,859
Interest-bearing	Level 2		2,057,115		2,057,115
Time deposits	Level 2		3,154,874		3,155,552
Subordinated debt issuance	Level 2		148,469		163,646
Accrued interest payable	Level 2		16,517		16,517

(1) Includes $3.4 million of accrued interest on investment securities using Level 2 fair value measurements and $30.2 million of accrued interest on loans receivable using Level 3 measurements as of December 31, 2024.

The fair value estimates do not reflect any premium or discount that could result from offering the instruments for sale. Potential taxes and other expenses that would be incurred in an actual sale or settlement are not reflected in amounts disclosed. The fair value estimates are dependent upon subjective estimates of market conditions and perceived risks of financial instruments at a point in time and involve significant uncertainties resulting in variability in estimates with changes in assumptions.

The Bank determined the fair values of its financial instruments based on the fair value hierarchy established in ASC 820. ASC 820 defines fair value, establishes a three-level fair value hierarchy based on the quality of inputs used to measure fair value and expands disclosures about fair value measurements.

- *Asset-backed securities* – The Bank measures fair value of asset-backed securities by using quoted market prices for similar securities or dealer quotes, a Level 2 measurement.

- *Corporate notes* – The Bank measures fair value of corporate notes by using quoted market prices for similar securities or dealer quotes, a level 2 measurement except one corporate note with fair value measurement using significant unobservable inputs, a level 3.

- *U.S. Agency mortgage-backed securities* – The Bank measures fair value of mortgage-backed securities by using quoted market prices for similar securities or dealer quotes, a Level 2 measurement.

- *Collateralized mortgage obligations* – The Bank measures fair value of collateralized mortgage obligations by using quoted market prices for similar securities or dealer quotes, a Level 2 measurement.

- *Municipal securities* – The Bank measures fair value of state and municipal securities by using quoted market prices for similar securities or dealer quotes, a Level 2 measurement.

- *U.S. Agency principal-only strip securities* – The Bank measures fair value of principal-only strip securities by using quoted market prices for similar securities or dealer quotes, a Level 2 measurement.

- *SBA securities* – The Bank measures fair value of SBA securities by using quoted market prices for similar securities or dealer quotes, a Level 2 measurement.

- *U.S. Treasury Notes* – The Bank measures fair value of U.S. Treasury Bill by using quoted market prices for similar securities or dealer quotes, a Level 2 measurement.

The following tables present the Bank's hierarchy for its assets and liabilities measured at fair value on a recurring basis at March 31, 2025 and December 31, 2024.

	Fair Value Measurements Using			
Assets	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Balance at March 31, 2025**
	(In thousands)			
Securities, available-for-sale:				
Asset-backed securities	$ -	$ 2,806	$ -	$ 2,806
Corporate notes	-	117,760	4,482	122,242
U.S. Agency mortgage-backed securities	-	7,520	-	7,520
Collateralized mortgage obligations	-	124,910	-	124,910
Municipal securities	-	59,570	-	59,570
U.S. Agency principal-only strips	-	204	-	204
U.S. Treasury Bill	-	72,844	-	72,844
Total	$ -	$ 385,614	$ 4,482	$ 390,096

Assets	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)		Balance at December 31, 2024	
	(In thousands)							
Securities, available-for-sale:								
Asset-backed securities	$	-	$	2,827	$	-	$	2,827
Corporate notes		-		120,364		-		120,364
U.S. Agency mortgage-backed securities		-		7,730		-		7,730
Collateralized mortgage obligations		-		125,284		-		125,284
Municipal securities		-		60,515		-		60,515
U.S. Agency principal-only strips		-		217		-		217
U.S. Treasury Bill		-		31,769		-		31,769
Total	$	-	$	348,706	$	-	$	348,706

There were one corporate note security transferred between Level 2 to Level 3 during the three months ended March 31, 2025. There was one corporate note security that was transferred from Level 2 to Level 3 during the three months ended March 31, 2024.

Collateral-dependent loans – On a non-recurring basis, the Bank measures the fair value of collateral-dependent loans based on fair value of the collateral value which is derived from appraisals that take into consideration prices in observable transactions involving similar assets in similar locations in accordance with Receivables Topic of FASB ASC. Collateral value determined based on recent independent appraisals are considered a level 2 measurement. Collateral values based on unobservable inputs that are supported by little or no market data and less current appraisals are considered a level 3 measurement.

Other real estate owned – Real estate owned is initially recorded at fair value, less estimated costs to sell. The Bank records other real estate owned at fair value on a non-recurring basis. As from time to time, nonrecurring fair value adjustments to other real estate owned are recorded based on current appraisal value of the property, a Level 2 measurement, or management's judgment and estimation based on reported appraisal value, a Level 3 measurement. There was $13.7 million and $15.0 million of other real estate owned measured at estimated fair value on a non-recurring basis at March 31, 2025 and December 31, 2024, respectively. There were $1.3 million in losses resulting from the measurement of other real estate owned measured on a non-recurring basis for the three months ending March 31, 2025. There were no losses resulting from the measurement of other real estate owned measured on a non-recurring basis for the three months ending March 31, 2024, respectively.

The following table presents the Bank's hierarchy for its assets measured at estimated fair value on a nonrecurring basis at March 31, 2025 and December 31, 2024, and the total losses resulting from these fair value adjustments:

	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)		Balance at March 31, 2025		Three Months Ended March 31, 2025 Total Losses	
	(Dollars in thousands)									
Collateral-dependent loans:										
Commercial real estate	$	-	$	-	$	3,601	$	3,601	$	121
Commercial and industrial		-		-		387		387		4,133
Real estate owned		-		-		13,650		13,650		1,341
Total	$	-	$	-	$	14,037	$	14,037	$	5,474

	Fair Value Measurements Using				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2024	Year Ended December 31, 2024 Total Losses
	(Dollars in thousands)				
Collateral-dependent loans:					
Commercial and industrial	$ -	$ -	$ 1,807	$ 1,807	$ 5,481
Real estate owned	-	-	14,991	14,991	1,634
Total	$ -	$ -	$ 16,798	$ 16,798	$ 7,115

The following table represents quantitative information regarding the significant unobservable inputs used in significant Level 3 assets measured at fair value on a non-recurring basis at March 31, 2025 and December 31, 2024:

	At March 31, 2025			
	Fair Value	Valuation Technique	Unobservable Input	Range
	(Dollars in thousands)			
Collateral-dependent loans:				
Commercial real estate	$ 3,601	Market comparable	Adjustment to appraisal value / purchase agreement for selling costs	5%
Commercial and industrial	$ 387			
Real estate owned	$ 13,650	Market comparable	Adjustment to appraisal for selling costs	5%

	At December 31, 2024			
	Fair Value	Valuation Technique	Unobservable Input	Range
	(Dollars in thousands)			
Collateral-dependent loans:				
Commercial and industrial	$ 1,807	Market comparable	Adjustment to purchase agreement for selling costs	5%
Real estate owned	$ 14,991	Market comparable	Adjustment to appraisal for selling costs	5%

Note 11 – Affordable Housing Partnerships

In order to provide financing for properties for low-to-moderate income renters in our assessment areas, provide Community Reinvestment Act ("CRA") credit for the Bank and to lower our effective tax rate, the Bank has invested in limited partnerships that are formed to develop and operate high-quality affordable housing for lower income tenants within the United States. These partnerships must meet the regulatory requirements for affordable housing for a minimum 15-year compliance period to fully utilize the tax credits. The Bank is not the primary beneficiary and therefore does not consolidate these partnerships. If the partnerships cease to qualify for tax credits during the compliance period, the credits may be denied for any period in which the projects are not in compliance, and credits previously taken may be partially subject to recapture with interest.

The Bank amortizes investments in affordable housing partnerships in proportion to tax credits and benefits realized. As of March 31, 2025, the Bank had eleven investments, with a carrying value of $63.6 million. Commitments to fund investment in affordable housing partnerships as of March 31, 2025 totaled $21.0 million. As of December 31, 2024, the Bank had ten investments with a carrying value of $58.3 million and a further commitment to fund $21.6 million.

Note 12 – Income Taxes

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

We record net tax assets to the extent we believe these assets will more likely than not be realized. In making such determination, we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent financial performance. A valuation allowance is provided when it is more likely than not that some portion of deferred tax assets will not be realized. As of March 31, 2025 and December 31, 2024, the Bank determined that a valuation allowance for deferred tax assets was not required.

Income tax expense was $12.6 million for the three months ended March 31, 2025 representing an effective tax rate of 29.50%. Income tax expense was $13.7 million for the three months ended March 31, 2024 representing an effective tax rate of 29.00%. Our effective tax rate differs from the statutory rate primarily as a result of state taxes, income from bank owned life-insurance, low income housing tax credits and excess tax benefits from share-based compensation. Our effective tax rate fluctuates slightly from quarter to quarter due to the timing of taxable events throughout the year.

As of March 31, 2025 and December 31, 2024, there were no uncertain tax positions. The Bank does not expect the amount of unrecognized tax benefit to change significantly within the next twelve months.

Note 13 – Long-Term Debt

A summary of outstanding long-term debt at March 31, 2025 and December 31, 2024 follows:

	As of March 31, 2025	As of December 31, 2024	Interest Rate	Maturity Date	Earliest Call Date
		(in thousands)			
Subordinated notes payable ($150,000 face amount)	$ 148,529	$ 148,469	3.375%	June 15, 2031	June 15, 2026

Note 14 – Leases

The Bank is obligated under non-cancellable operating leases for our corporate office/main branch, 15 branch offices, one LPO, one satellite office and one administrative office. Our leases have remaining terms of two months to 11 years, with a weighted average remaining lease term of 7.0 years as of March 31, 2025. The majority of our leases provide for increases in future minimum annual rental payments as defined in the lease agreements. We have one variable lease where the increase in lease liability is tied to the Consumer Price Index capped at 3% and no options to extend were incorporated into our lease liability calculations. At March 31, 2025, the weighted average discount rate used to determine the operating lease liability was 5.0%.

At March 31, 2025, operating lease right-of-use (“ROU”) assets and related liabilities were $20.3 million and $24.0 million, respectively. For the three months ended March 31, 2025, the recorded operating lease expense was $1.3 million. For the three months ended March 31, 2024, the recorded operating lease expense was $698,000. For the three months ended March 31, 2025, cash payments for operating leases were $1.3 million. For the three months ended March 31, 2024, cash payments for operating leases were $1.2 million.

Operating lease ROU assets represent the Bank’s right to use the underlying asset during the lease term and operating lease liabilities represent the Bank’s obligation to make lease payments arising from the lease. ROU assets and operating lease liabilities are recognized at lease commencement based on the present value of the remaining lease payments using the Bank’s incremental borrowing rate at the lease commencement date. Operating lease expense, which is comprised of amortization of the ROU asset and the implicit interest accreted on the operating lease liability, is recognized on a straight-line basis over the lease term and is recorded in occupancy expense in the Consolidated Income Statement. The Bank uses its incremental borrowing rate to present value lease payments in order to recognize a ROU asset and the related lease liability. The Bank calculates its incremental borrowing rate by adding a spread to the FHLB borrowing interest rate at a given period.

The table below shows contractually obligated lease payments under current leases and a reconciliation to the lease liability reported on the consolidated statement of financial condition as of March 31, 2025.

(Dollars in thousands)		
2025	$	3,217
2026		4,656
2027		4,112
2028		3,902
2029		3,132
Thereafter		9,940
Total future lease payments	$	28,959
Discount to present value		(4,938)
Total lease liability	$	24,021

Note 15 – Subsequent Events

Subsequent to March 31, 2025 and through May 9, 2025, the Bank repurchased 704,317 shares of common stock at a weighted average price of $82.67 thereby fulfilling the remaining $65.7 million stock repurchase plan.

ITEM 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

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 since the date of our last periodic report. This discussion and analysis should be read in conjunction with our unaudited interim financial statements and the accompanying notes presented elsewhere herein.

Overview

Preferred Bank is one of the larger independent commercial banks headquartered in California. The Bank is chartered by the State of California, and its deposits are insured by the Federal Deposit Insurance Corporation, or FDIC, to the maximum extent permitted by law. The Bank conducts its banking business from its main office in Los Angeles, California, and through twelve full-service branch banking offices in California (Alhambra, Century City, City of Industry, Torrance, Arcadia, Irvine (2), Diamond Bar, Pico Rivera, Tarzana and San Francisco (2)), two branches in New York (Manhattan and Flushing), a branch office in the Houston, Texas suburb of Sugar Land and a loan production office in Sunnyvale, 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 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. We are generally focused on businesses as opposed to retail customers and thus we have a smaller number of customer relationships for whom we provide a high level of service and personal attention. Although originally founded as a Chinese-American Bank, Preferred Bank now derives most of its customers from the diversified mainstream market but does continue to benefit from the significant migration to California of ethnic Chinese from China and other areas of East Asia.

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

We derive our income primarily from interest received on our loan and investment securities portfolios and our excess cash, and fee income we receive in connection with servicing our loan and deposit customers. Our major operating expenses are the interest we pay on deposits and borrowings, and the salaries and related benefits we pay our management and staff.

The following table presents selected performance indicators and metrics for the periods indicated:

(Dollars in thousands, except per share amounts)	Three months ended March 31, 2025	Three months ended March 31, 2024
Selected Financial Ratios:		
Return on average assets (annualized)	1.76%	2.00%
Return on average shareholders' equity (annualized)	15.62%	19.09%
Net interest margin	3.75%	4.19%
Efficiency ratio	35.06%	27.99%
Net charge-offs to average loans	-0.01%	0.26%

	March 31, 2025	December 31, 2023	March 31, 2024
Selected Asset Quality Ratios:			
Non-performing loans to total loans	1.40%	0.67%	0.34%
Non-performing asset to total assets	1.30%	0.76%	0.52%
Allowance for credit losses to total loans	1.28%	1.27%	1.49%
Allowance for credit losses to non-performing loans	0.92x	1.89x	4.33x
Liquidity and Capital Ratios:			
Tier 1 leverage capital ratio	11.52%	11.33%	10.80%
Common equity tier 1 risk-based capital ratio	11.86%	11.80%	11.50%
Tier 1 risk-based capital ratio	11.86%	11.80%	11.50%
Total risk-based capital ratio	15.15%	15.11%	15.08%

At March 31, 2024, assets totaled $7.10 billion, an increase of $176.7 million, or 2.6% from $6.92 billion at December 31, 2024. Our loan portfolio decreased $6.2 million to $5.63 billion at March 31, 2025, from $5.64 billion at December 31, 2024. At March 31, 2025, deposits totaled $6.07 billion, an increase of $155.9 million, or 2.6% from $5.92 billion at December 31, 2024. We recorded net income per share on a diluted basis of $2.23 for the three months ended March 31, 2025, as compared to net income per share on a diluted basis of $2.44 for the three months ended March 31, 2024. Our net interest income before provision for credit losses for the three month period decreased compared to the same three month period a year ago, primarily due to a $2.8 million interest reversal on nonaccrual loans and increases in the average balances of interest-bearing liabilities outpacing average balances of interest-earning assets. For the first quarter of 2025 and 2024, return on average assets was 1.76% and 2.00%, respectively, while return on average equity was 15.62% for the first quarter of 2025, compared to 19.09% for the first quarter of 2024.

Non-performing assets were $92.5 million and $52.8 million as of March 31, 2025 and December 31, 2024, respectively. The increase in non-performing assets is primarily due to nonaccrual loan activity that included $43.9 million of additions, offset by $1.8 million in paydowns and an OREO valuation allowance of $1.3 million.

Federal Reserve Bank Actions

Beginning in the first quarter of 2022, the Federal Reserve Open Market Committee ("FOMC") initiated a series of actions in response to inflation. In March 2022, the FOMC increased the federal funds rate by 25 bps. This was the first rate hike by the FOMC in more than three years. The FOMC then increased the federal funds rate by another 500 bps over the course of 2022 and early 2023. These increases in the federal funds rate were designed to reduce overall demand which was expected to cause a reduction in prices. However, the Bank's net interest income has benefited significantly from rising interest rates as a large majority of the Bank's interest-earning assets are floating rate and reprice at a faster pace than our interest-bearing liabilities. Conversely, when the federal funds rate starts to come down, the Bank's net interest income will likely decrease. Because inflation is now significantly lower, the FOMC began to reduce the federal funds rate at its September 2024 meeting with a 50 basis point reduction, and an additional 25 basis point reduction in both its November and December 2024 meetings. In preparation for declining interest rates, the Bank has made a concerted effort to begin replacing some of the floating rate loans with a fixed rate or with a loner duration index, as they come up for renewal/maturity. In addition, the Bank has tied a significant amount of money market and interest checking deposit accounts to the fed funds rate so that when the FOMC reduces the fed funds rate, these deposits will reprice immediately. These efforts have had the effect of muting the impact of a decrease in the fed funds rate and the Prime interest rate on the Bank's net interest income.

Economy

Our operating results indicate that our underlying economic fundamentals in our footprint were healthy and we believe that we are well positioned to continue to create significant shareholder value. In response to the high level of inflation in 2022 and 2023, the FOMC raised overnight interest rates by 525 basis points from March 2022 through July 2023. The FOMC paused changes in the benchmark rate beginning with its August 2023 and then reduced rates 100 basis points from September through December 2024. These rapid rate hikes have created volatility in nearly all financial markets and are starting to have an effect on non-financial markets such as real estate. There is still a possibility that these rapid and significant rate hikes will put the economy into a recession in 2025 although odds of that occurrence are not as high as they were just a few months ago. Even with more recent economic stability, we are acutely focused on credit quality and the financial health of our borrowers.

Since February 2025, the Trump administration has announced or imposed a series of tariffs on U.S. trading partners. In February 2025, the Trump administration imposed a 25% tariff on Canada and Mexico for goods not covered by the USMCA, and a 20% tariff on China. On April 2, 2025, President Trump announced a 10% "baseline" reciprocal tariff on all U.S. trading partners effective April 5, 2025, and higher, country-specific reciprocal tariffs on 57 countries. The Trump administration subsequently paused the additional country-specific reciprocal tariffs for all countries except China. As of May 5, 2025, imports from most countries, excluding those from Canada, Mexico, and China, are subject to an additional 10% tariff; imports from China are subject to an additional 145% tariff; and non-USMCA compliant imports from Canada and Mexico are subject to an additional 25% tariff (except for Canadian energy and energy resources and potash, which are subject to a 10% tariff). In response to the U.S. tariff changes, certain foreign countries, such as China, increased their tariffs on certain U.S. imports.

Since these tariffs are so new and the responses are only emerging, it is impossible to determine the impact of these tariffs on the U.S. economy, and the economies of other countries with which many of our customers have ties. Some economists indicate that such tariffs could result in higher inflation rates which could result in higher interest rates, which could negatively impact loan customers even if they are not directly involved in foreign trade.

Critical Accounting Policies

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

Allowance for Credit Losses

The allowance for credit is estimated using the current expected credit losses model. The allowance for credit losses on loans represents our best estimate of expected credit losses inherent in the existing loan portfolio. The allowance for credit losses on loans is increased (decreased) by the provision for (reversal of) credit losses charged to expense and reduced by loans charged off, net of recoveries.

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

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

Loans are individually evaluated for credit losses when they no longer exhibit similar risk characteristics with other loans in the portfolio. We individually review and analyze non-accrual loans, classified loans, and certain other loans as determined necessary. Collateral dependent loans are loans for which the repayment is expected to be provided substantially through the operation or sale of the collateral when the borrower, based on management's assessment, is experiencing financial difficulty as of the reporting date. Collateral dependent loans are typically analyzed by comparing the loan amount to the fair value of collateral less cost to sell, with a prompt charge-off taken for the 'shortfall' amount once the value is confirmed. Other methods can be used including, for example loan sale market price or present value of expected future cash flows discounted at the loan's effective interest rate.

We also make adjustments, if warranted, in our allowance methodology in both quantitative and qualitative modeling to estimate the allowance. Such adjustments are intended to account for conditions that management believes directly impact loss potential in the portfolio that is not currently being captured in the model. To the extent possible, management accounts for the impact of quantitative factors on a pool by pool basis, and qualitative factors on a portfolio basis. Qualitative factors consisted of nine factors including recent trends and economic conditions. We apply environmental and general economic factors to our allowance methodology including: credit concentrations; delinquency trends; national and local economic and business conditions; the quality of lending management and staff; lending policies and procedures; loss and recovery trends; nature and volume of the portfolio; changes in the value of underlying collateral for collateral dependent loans; the quality of loan reviews; and other external factors including competition, legal, and regulatory factors. We aggregate the sums of the estimates of probable loss for each category with the specific individually evaluated reserves to arrive at the total estimated allowance for credit losses.

The allowance adequacy analysis requires a significant amount of judgment and subjectivity by management especially in regards to the qualitative portion of the analysis. We do not provide any assurance that further economic difficulties or other circumstances which would adversely affect our borrowers and their ability to repay outstanding loans will not occur. These difficulties or other circumstances could result in increased losses in our loan portfolio, which could result in actual losses that exceed loss reserves previously established.

Results of Operations

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

	Three months ended March 31,	
	2025	**2024**
(Dollars in thousands, except per share amounts)		
Net income	$ 30,024	$ 33,466
Net income available to common shareholders, basic	30,024	33,466
Net income available to common shareholders per share, basic	2.27	2.48
Net income available to common shareholders, diluted	30,024	33,466
Net income available to common shareholders per share, diluted	2.23	2.44
Return on average assets (annualized)	1.76%	2.00%
Return on average shareholders' equity (annualized)	15.62%	19.09%

	Three months ended March 31, 2025		Increase (Decrease)
	2025	2024	
Statement of Operations Data:			
Interest income	$ 114,529	$ 126,520	$ (11,991)
Interest expense	51,871	58,020	(6,149)
Net interest income	62,658	68,500	(5,842)
Provision for credit losses	700	4,400	(3,700)
Net interest income after provision for credit losses	61,958	64,100	(2,142)
Noninterest income	3,998	3,065	933
Noninterest expense	23,369	20,028	3,341
Income before income taxes	42,587	47,137	(4,550)
Income tax expense	12,563	13,671	(1,108)
Net income	$ 30,024	$ 33,466	$ (3,442)
Net income available to common shareholders per share, basic	$ 2.27	$ 2.48	$ (0.21)
Net income available to common shareholders per share, diluted	$ 2.23	$ 2.44	$ (0.21)

Net Interest Income and Net Interest Margin

Net interest income before provision for credit losses decreased to $62.7 million for the three months ended March 31, 2025 compared to $68.5 million for the same period of 2024. Our net interest margin for the first quarter of 2025 was 3.75%, a decrease of 44 basis points from 4.19% for the same period of 2024 due to the reversal of $2.8 million of interest income associated with the recognition of nonaccrual loans in the first quarter of 2025 and the increases in the Federal Reserve benchmark interest rate has had on the cost of interest-bearing liabilities.

This decrease in net interest income was due to a decrease in interest income of $12.0 million outpacing the decrease in interest expense of $6.1 million. The decrease in interest income is primarily due to interest reversal on nonaccrual loans and decrease in average loan yields between periods from 8.40% to 7.41%, offset by higher average total loans, which increased by $290.6 million to $5.56 billion during the three months end March 31, 2025 from the average of $5.27 billion for the same period in 2024. Interest income for the three months ended March 31, 2025 included a reversal of $2.8 million related to nonaccrual loans.

The average yield on our interest-earning assets decreased by 87 basis points to 6.86% for the three months ended March 31, 2025 from 7.73% for the same period of 2024. The decrease in yield was primarily due to the impact decreases in market interest rates in late 2024 had on our loan portfolio. Interest income, interest expense, net interest income, and the 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. For the three months ended March 31, 2025, average interest-earning assets totaled $6.78 billion, an increase of $194.6 million from the same period in 2024. The increase in average interest-earning assets during the three months ended March 31, 2025 was primary related to growth in the loan portfolio, partially offset by lower average cash balances.

At March 31, 2025, 65% of our loans carried interest rates that adjust with changes in the Prime Rate, which has the potential to re-price daily, and 21% carried interest rates tied to the Secured Overnight Financing Rate ("SOFR") indices and other indices which re-price periodically. The remaining 14% of our loans were either fixed rate or had an interest rate tied to the certificate of deposit ("CD") it was collateralized by. Approximately 68% of our adjustable-rate loan portfolio had an interest rate floor at various levels, which will provide us with some protection in the future if interest rates decrease from the current levels. In addition, approximately 71% of our loans tied to the Prime rate had interest rate floors. Approximately 12% 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.

The average cost of interest-bearing liabilities decreased 63 basis points to 3.90% for the three months ended March 31, 2025 from 4.53% for the same period in 2024. The decrease in the cost of interest-bearing liabilities during the three months ended March 31, 2025 was primarily due to the overall impact of decreasing market interest rates and its effect on the cost of existing and new depositors. For the three months ended March 31, 2025, average interest-bearing deposits totaled $5.24 billion, an increase of $239.4 million from the same period of 2024. The increase in average interest-bearing deposits during the three months ended March 31, 2025 was primarily due to growth in time deposits, offset by a decrease in interest-bearing demand accounts.

The following tables present, 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 while non-accrued interest thereon is excluded from the computation of yields earned.

	Three months ended March 31,					
	2025			2024		
	Average Balance	Interest Income or Expense	Average Yield or Cost	Average Balance	Interest Income or Expense	Average Yield or Cost
ASSETS			(Dollars in thousands)			
Interest-earning assets:						
Loans [1,2]	$ 5,556,521	$ 101,491	7.41%	$ 5,265,940	$ 109,980	8.40%
Investment securities [3]	402,754	4,093	4.12%	348,961	3,430	3.95%
Federal funds sold	20,222	228	4.57%	20,390	283	5.58%
Other earning assets	800,941	8,816	4.46%	950,562	12,928	5.47%
Total interest-earning assets	6,780,438	114,628	6.86%	6,585,853	126,621	7.73%
Deferred loan fees, net	(9,189)			(10,694)		
Allowance for credit losses on loans	(71,550)			(78,349)		
Noninterest earning assets:						
Cash and due from banks	11,513			11,244		
Bank furniture and fixtures	8,439			10,084		
Right of use assets	15,201			22,003		
Other assets	170,397			177,877		
Total assets	$ 6,905,249			$ 6,718,018		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Interest-bearing liabilities:						
Deposits:						
Interest-bearing demand/savings	$ 2,079,477	$ 16,659	3.25%	$ 2,151,974	$ 22,365	4.18%
TCD $250K or more	1,482,324	15,640	4.28%	1,341,298	16,501	4.95%
Other time certificates	1,682,442	18,247	4.40%	1,511,562	17,829	4.74%
Total interest-bearing deposits	5,244,243	50,546	3.91%	5,004,834	56,695	4.56%
Subordinated debt	148,492	1,325	3.62%	148,255	1,325	3.59%
Total interest-bearing liabilities	5,392,735	51,871	3.90%	5,153,089	58,020	4.53%
Non-interest bearing liabilities:						
Demand deposits	641,920			756,654		
Lease Liability	18,963			19,500		
Other liabilities	72,292			83,779		
Total liabilities	6,125,910			6,013,022		
Shareholders' equity	779,339			704,996		
Total liabilities and shareholders' equity	$ 6,905,249			$ 6,718,018		
Net interest income		$ 62,757			$ 68,601	
Net interest spread			2.96%			3.20%
Net interest margin			3.75%			4.19%

(1) Includes average non-accrual loans and loans held for sale.

(2) Includes net loan fee income of $865,000 and $1.1 million for the quarter ended March 31, 2025 and 2024, respectively.

(3) Yields on securities have been adjusted to a tax-equivalent basis.

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 tables show 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, 2025 compared to three months ended March 31, 2024		
	Net Change	Rate	Volume
		(In thousands)	
Interest income:			
Loans and leases	$ (8,489)	$ (14,325)	$ 5,836
Investment securities[1]	663	120	543
Federal funds sold	(55)	(53)	(2)
Other earning assets	(4,112)	(2,253)	(1,859)
Total interest income	(11,993)	(16,511)	4,518
Interest expense:			
Interest-bearing demand	(2,461)	(3,148)	687
Money market	(3,239)	(1,902)	(1,337)
Savings	(6)	(12)	6
Time certificates of deposits	(443)	(3,994)	3,551
Advances from FHLB	-	-	-
Subordinated debt	-	(1)	1
Total interest expense	(6,149)	(9,057)	2,908
Net interest income	$ (5,844)	$ (7,454)	$ 1,610

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

Provision for Credit Losses

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

The Bank recorded a $700,000 provision for credit losses for the three months ended March 31, 2025 compared to $4.4 million for the same period of 2024. Management considered various conditions to determine the appropriate provision for credit losses. The provision for credit losses during the three months ended March 31, 2025 reflects various events that occurred during the quarter, including trends in loan performance and growth, criticized activity, changing economic conditions, and changes in government leadership and policy. These events culminated in total net recoveries of $97,000 for the three months ended March 31, 2025, compared to net charge-offs of $3.4 million for the same period of 2024. Net recoveries during the three months ended March 31, 2025 related to two commercial relationships. Net charge-offs during the three months ended March 31, 2024 related to two commercial and industrial relationships.

The provision for credit losses is based on the Bank's determination of the allowance for credit losses under a current expected credit losses methodology. We also apply qualitative factors in calculating allowance levels by loan type, which are revised quarterly and take into consideration reasonable and supportable economic forecasts, the mix of the loan portfolio, concentration levels and trends, local and national economic conditions, changes in capabilities, experience of lending management and staff, and other external factors such as industry conditions, competition and regulatory requirements.

Non-performing loans increased $41.0 million to $78.9 million at March 31, 2025, compared to $37.9 million as of December 31, 2024. The increase was from additions of $43.9 million, offset by $1.8 million in paydowns of nonaccrual loans. The $43.9 million in additions of nonaccrual loans in the current quarter were due to reasons specific to those borrowers/loans. The ratio of allowance for credit losses on loans to total loans was 1.28% and 1.27% at March 31, 2025 and December 31, 2024, respectively. The change in ratio of allowance for credit losses on loans to total loans between periods is primarily attributable to the factors applied in the economic forecasts of the Bank's CECL model, such as charge-offs and loan growth.

Management believes that through the application of the allowance methodology's quantitative and qualitative components, that the provision and overall level of allowance for credit losses on loans is adequate for current expected credit losses inherent in the portfolio as of March 31, 2025. For details on the non-performing loans, please see the table under Non-Performing Assets below.

Additionally, a separate reserve is maintained related to off-balance sheet items such as commitments to extend credits, or letters of credit. See the "Contractual Obligations" section below for further discussion of off-balance sheet items.

Noninterest Income

We earn noninterest income primarily through fees related to:

- Services provided to deposit customers;
- Services provided in connection with trade finance; and
- Services provided to current loan customers.

In addition, we earn income from the sale of SBA loans, increases in the cash surrender value of bank owned life insurance policies ("BOLI") and from time to time, may earn rental income from OREO property, and record gains on the sale of non-SBA loans and investment securities.

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

	Three months ended March 31, 2025	Three months ended March 31, 2024	Increase (Decrease)
	(In thousands)		
Fees and service charges on deposit accounts	$ 716	$ 845	$ (129)
Letter of credit fee income	2,244	1,503	741
BOLI income	103	105	(2)
Net gain on sale of SBA loans	275	103	172
Other income	660	509	151
Total noninterest income	$ 3,998	$ 3,065	$ 933

Noninterest income for the three months ended March 31, 2025 was $4.0 million, compared to $3.1 million for the corresponding period in 2024. The $933,000 increase was primarily attributable to a $741,000 increase in letter of credit fee income, partially offset by a $129,000 decrease in fees and charges on deposit accounts. Additionally, there was a $172,000 increase in net gain on sale of SBA loans. Gains on sales of SBA loans were $275,000 compared to $103,000 in the same period last year from higher SBA sale volume between periods.

Noninterest Expense

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

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

	Three months ended March 31, 2025		Three months ended March 31, 2024		Increase (Decrease)
			(In thousands)		
Salaries and employee benefits	$	14,839	$ 13,900	$	939
Net occupancy expense		2,294	1,711		583
Business development and promotion expense		462	266		196
Professional services		1,651	1,457		194
Office supplies and equipment expense		386	473		(87)
OREO related expense		1,531	135		1,396
Other expense		2,206	2,086		120
Total noninterest expense	$	23,369	$ 20,028	$	3,341

Total noninterest expense was $23.4 million for the three months ended March 31, 2025 compared to $20.0 million for the corresponding period in 2024. The $3.3 million increase was primarily the result of a $1.4 million increase in OREO related expense due primarily to a $1.3 million valuation write-down, a $939,000 increase in salaries and benefits mainly due to new hires, merit increases and an increase in incentive compensation, and a $583,000 increase in net occupancy expense due to the new Manhattan branch as well as higher rent and facilities costs overall.

Provision for Income Taxes

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

We record net tax assets to the extent we believe these assets will more likely than not be realized. In making such determination, we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent financial operations. A valuation allowance is provided when it is more likely than not that some portion of deferred tax assets will not be realized. As of March 31, 2025 and December 31, 2024, the Bank determined that a valuation allowance for deferred tax assets was not required.

We recorded net tax expense of $12.6 million and $13.7 million for the three months ended March 31, 2025 and 2024, respectively, resulting in an effective tax rate of 29.50% and 29.00%, respectively.

As of March 31, 2025 and December 31, 2024, the total amount related to uncertain tax positions was zero, net of federal tax benefit. The Bank does not expect the amount of unrecognized tax benefit to change significantly within the next twelve months.

Financial Condition

Total assets as of March 31, 2025 were $7.10 billion compared to $6.92 billion as of December 31, 2024. Earning assets as of March 31, 2025 totaled $6.97 billion compared to $6.80 billion as of December 31, 2024. Total deposits were $6.07 billion as of March 31, 2025 compared to $5.92 billion as of December 31, 2024.

Loans

The largest component of our assets and largest source of interest income is our loan portfolio. The following table sets forth the amount of our loans outstanding at the end of each of the periods indicated, and the percentages the overall loan segment represented. The Bank had no foreign loans.

	March 31, 2025	December 31, 2024	March 31, 2024
		(In thousands)	
Loans (by portfolio and class):			
Real estate – mortgage:			
Real estate—residential	$ 807,962	$ 790,069	$ 724,101
Real estate—commercial	2,869,456	2,840,771	2,777,608
Total real estate – mortgage	3,677,418	3,630,840	3,501,709
Real estate – construction:			
Real estate construction — residential	306,283	296,580	236,596
Real estate construction — commercial	269,065	287,185	213,727
Total real estate construction loans	575,348	583,765	450,323
Commercial & industrial	1,373,748	1,418,445	1,368,353
SBA	7,104	6,833	3,914
Trade finance	631	485	1,176
Consumer & other	164	247	379
Total gross loans and leases	5,634,413	5,640,615	5,325,854
Less: allowance for credit losses on loans	(72,274)	(71,477)	(79,311)
Less: deferred loan fees, net	(9,652)	(9,234)	(10,460)
Total net loans	$ 5,552,487	$ 5,559,904	$ 5,236,083

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

Total gross loans decreased by $6.2 million, or 0.1%, to $5.63 billion as of March 31, 2025 from $5.64 billion as of December 31, 2024. Real estate mortgage loans, which include real estate loans collateralized by various types of commercial and residential real estate, increased $46.6 million from $3.63 billion as of December 31, 2024 to $3.68 billion at March 31, 2025. Real estate construction loans which are loans made to borrowers and developers for the purpose of constructing residential or commercial properties, decreased $8.4 million from $583.8 million at December 31, 2024 to $575.3 million at March 31, 2025. Commercial and industrial loans decreased $44.7 million from $1.42 billion at December 31, 2024 to $1.37 billion at March 31, 2025, and trade finance loans, which are primarily working capital revolving and term loans for business operations, increased $146,000 from $485,000 at December 31, 2024 to $631,000 at March 31, 2025.

SBA loans increased $271,000 from $6.8 million at December 31, 2024 to $7.1 million at March 31, 2025. At March 31, 2025, SBA loans consisted of $7.1 million in traditional SBA loans and $38,000 in loans originated under the SBA's PPP Program. At December 31, 2024, SBA loans consisted of $6.8 million in traditional SBA loans and $50,000 of SBA PPP loans. The net increase between periods is primarily due to originations of non-PPP SBA loans, offset by forgiveness/paydowns of SBA PPP loans.

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

There were no loans held for sale at March 31, 2025, compared to $2.2 million at December 31, 2024.

Management's primary focus from a lending perspective is to closely monitor the Bank's existing trade finance loans due to the tariffs which have taken effect and could negatively impact these customers. In addition, management will continue to monitor loan relationships due to higher interest rates that took effect in 2022 and into 2023, offset to an extent by a decrease in rates during the later part of 2024, as this has a negative effect on debt service coverage ratios for the Bank's borrowers. In addition, office property valuations are declining in major urban areas which could spill over into other commercial real estate sectors and could affect some of the Bank's borrowers. While management is focused on monitoring credit quality as noted above, we believe there will be greater opportunities for new loans once tariff agreements are in place and borrowers have more clarity so loan growth will continue to remain a management goal.

Non-Performing Assets

Non-performing assets are composed of loans on non-accrual status, including loans that were modified with borrowers experiencing financial difficulty that are on non-accrual status, and Other Real Estate Owned ("OREO") and Repossessed Assets. Generally, loans are placed on non-accrual status when they become 90 days or more past due or at such earlier time as management determines timely recognition of interest to be in doubt, unless they are both fully secured and in process of collection. Accrual of interest is discontinued on a loan when management believes, after considering economic and business conditions and collection efforts that the borrower's financial condition is such that collection of principal and contractually due interest is not likely. When, in our judgment, the borrower's ability to make required interest and principal payments has resumed and collectability is no longer in doubt, the loan could be returned to accrual status. OREO consists of real property acquired through foreclosure or similar means that the Bank intends to offer for sale.

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

	As of March 31, 2025	As of December 31, 2024	As of March 31, 2024
		(Dollars in thousands)	
Non-accrual loans	$ 78,882	$ 36,751	$ 18,314
Accruing loans and leases past due 90 days or more	-	1,100	-
Total non-performing loans (NPLs)	78,882	37,851	18,314
OREO and other repossessed assets	13,650	14,991	16,716
Total non-performing assets (NPAs)	$ 92,532	$ 52,842	$ 35,030
Selected ratios:			
NPLs to total gross loans	1.40%	0.67%	0.34%
NPAs to total assets	1.30%	0.76%	0.52%

Total non-performing assets were $78.9 million and $37.9 million at March 31, 2025 and December 31, 2024, respectively, and $18.3 million as of March 31, 2024. As of March 31, 2025, total non-accrual loans were $78.9 million compared to $36.8 million as of December 31, 2024 and $18.3 million as of March 31, 2024. See "Notes to Consolidated Interim Financial Statements (Unaudited) Note 9 — *Loans and Allowance for Credit Losses on Loans*" for further details regarding non-accrual and past due loans by loan class.

The following table summarizes the migration of non-performing assets from January 1, 2025 to March 31, 2025:

	Loans 90+ Days Past Due & Still Accruing	Non Accrual Loans	OREO and Repossessed Assets
		(In thousands)	
Balance, December 31, 2024	$ 1,100	$ 36,751	$ 14,991
Loans Cured	(1,100)	-	-
Sales/Payoffs	-	(1,811)	-
Migration to non-accrual	-	43,942	-
Valuation write-down	-	-	(1,341)
Balance, March 31, 2025	$ -	$ 78,882	$ 13,650

The $42.1 million increase in nonaccrual loans during the three months ended March 31, 2025 was primarily related to $43.9 million of additions, offset by $1.8 million in note sales and paydowns. Of the $78.9 million in nonaccrual loans, $65.6

million of the increase was the result of two loans totaling $65.6 million. One of the loans is a multi-family loan which is well-secured and the other loan is secured by now vacant, entitled land in a prime area of Orange County. These two loans were evaluated for credit losses based on the fair value of the underlying collateral and no allowance for credit losses was needed as of March 31, 2025.

There were no loans over 90 days past due and still accruing at March 31, 2025, compared to $1.1 million at December 31, 2024.

OREO, comprised of residential real estate, totaled $13.7 million and $15.0 million at March 31, 2025 and December 31, 2024, respectively. There was a $1.3 million write-down on the value of OREO during the three months ended March 31, 2025. There was no OREO activity during the three months ended March 31, 2024.

OREO is initially recorded at the fair value of the property based on appraisal, less estimated selling costs. Any cost in excess of the fair value at the time of acquisition is accounted for as a loan charge-off and deducted from the allowance for credit losses on loans. A valuation allowance is established for any subsequent declines in value through a charge to earnings. At March 31, 2025 and December 31, 2024, the valuation allowance related to OREO and repossessed assets totaled $6.3 million and $5.0 million, respectively. Operating expenses of such properties, net of related income, and gains and losses on their disposition are included in noninterest income or expense, as appropriate.

Allowance for Credit Losses

See “Notes to Consolidated Interim Financial Statements Note 9 — Loans and Allowance for Credit Losses on Loans” for further details regarding allowance for credit losses on loans. The allowance for credit losses on loans is maintained at a level which, in management’s judgment, is adequate to absorb current expected credit losses in the loan portfolio. Management estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, or term as well as for changes in environmental conditions, such as changes in unemployment rates, property values, or other relevant factors.

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

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

Although we believe that our allowance for credit losses is adequate and believe that we have considered all risks, there can be no assurance that our allowance will be adequate to absorb future losses. Factors such as a prolonged and deepened recession, a worsening banking crisis, higher unemployment rates than we have already anticipated, deterioration of California real estate values as well as natural disasters, civil unrest, terrorism and pandemic diseases can have a significantly negative impact on the performance of our loan portfolio and the occurrence of any single one of these factors may lead to additional future losses which can negatively impact our earnings, capital and liquidity.

The table below summarizes loans, average loans, non-performing loans and changes in the allowance for credit losses on loans arising from loan losses and additions to the allowance from provisions charged to operating expense:

Allowance for Credit Losses & Loss Histories

	Three months ended March 31, 2025	Three months ended March 31, 2024	Year ended December 31, 2024
	(Dollars in thousands)		
Allowance for credit losses:			
Balance at beginning of period	$ 71,477	$ 78,355	$ 78,355
Actual charge-offs:			
Commercial & Industrial	-	3,445	19,028
Total charge-offs	-	3,445	19,028
Less recoveries:			
Commercial & Industrial	97	1	50
Total recoveries	97	1	50
Net loans charged-off (recovered)	(97)	3,444	18,978
Provision for credit losses	700	4,400	12,100
Balance at end of period	$ 72,274	$ 79,311	$ 71,477
Total gross loans at end of period	$ 5,634,413	$ 5,325,854	$ 5,640,615
Average total loans	5,555,010	5,263,562	5,398,916
Non-performing loans	78,882	18,314	37,851
Selected ratios:			
Net charge-offs (recoveries) to average loans (1)	-0.01%	0.26%	0.35%
Provision for credit losses to average loans (1)	0.05%	0.34%	0.22%
Allowances for credit losses to loans at end of period	1.28%	1.49%	1.27%
Allowance for credit losses to non-performing loans	0.92x	4.33x	1.89x

(1) Net charge-offs to average loans and provisions for allowance for credit losses to average loans for the periods presented are calculated on an annualized basis.

The table below summarizes net (charge-offs) recoveries, average loans, and the ratio of net (charge-offs) recoveries to average assets:

	Three months ended March 31,					
	2025			2024		
	Net (Charge-offs) Recoveries	Avg. Loans	Net (Charge-offs) Recoveries Ratio	Net (Charge-offs) Recoveries	Avg. Loans	Net (Charge-offs) Recoveries Ratio
	(Dollars in thousands)					
Commercial & industrial	$ 97	$ 1,342,350	0.03%	$ (3,444)	$ 1,345,952	-1.03%
Trade finance	-	335	0.00%	-	1,191	0.00%
Real estate construction	-	575,228	0.00%	-	440,997	0.00%
Real estate mortgage	-	3,626,951	0.00%	-	3,468,365	0.00%
SBA	-	7,039	0.00%	-	3,580	0.00%
Consumer & other	-	3,107	0.00%	-	3,477	0.00%
Net recoveries (charge-offs)	**$ 97**	**$ 5,555,010**	0.01%	**$ (3,444)**	**$ 5,263,562**	-0.26%

Net recoveries (charge-offs) to average loans were 0.01% and (0.26)% for the three months ended March 31, 2025 and 2024, respectively. The change in the net charge-off ratio between periods was due to $97,000 in net recoveries related to two commercial and industrial relationships during the three months ended March 31, 2025, compared to $3.4 million in net charge-offs for two commercial and industrial relationship for the similar 2024 period.

Allowance for Credit Losses Related to Undisbursed Loan Commitments

We maintain an allowance for credit losses for undisbursed loan commitments. Management estimates the amount by applying the loss factors used in our allowance for credit losses on loans using the current expected credit losses methodology to our estimate of the expected usage of undisbursed commitments for each loan type. Provisions for credit losses for undisbursed loan commitments are recorded in other expense. The allowance for credit losses on undisbursed loan commitments totaled $1.2 million at March 31, 2025 and December 31, 2024. There was no provision for credit losses on undisbursed loan commitment for the three months ended March 31, 2025 and 2024.

Investment Securities Available-for-Sale and Held-to-Maturity and Trading

The Bank classifies its debt and equity securities in two categories: held-to-maturity or available-for-sale. Securities that could be sold in response to changes in interest rates, increased loan demand, liquidity needs, capital requirements, or other similar factors are classified as securities available-for-sale. These securities are carried at fair value. Unrealized holding gains or losses, net of the related tax effect, on available-for-sale securities are excluded from income and are reported as a separate component of shareholders' equity as other comprehensive income or loss net of applicable taxes until realized. Realized gains and losses from the sale of available-for-sale securities are determined on a specific-identification basis. Securities classified as held-to-maturity are those that the Bank has the intent and ability to hold until maturity. These securities are carried at amortized cost, adjusted for the amortization or accretion of premiums or discounts.

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

Management performs a quarterly qualitative evaluation for available-for-sale securities in an unrealized loss position to determine if the impairment of an investment's value (fair value being below amortized cost) is related to credit or all other factors (such as due to changes in interest rates, illiquidity in the market, changes in general market conditions, etc.). In determining whether a security's decline in fair value is credit related, management considers a number of factors including, but not limited to: (i) the extent to which the fair value of the investment is less than its amortized cost; (ii) the financial condition and near-term prospects of the issuer; (iii) downgrades in credit ratings; (iv) payment structure of the security, (v) the ability of the issuer of the security to make scheduled principal and interest payments and (vi) general market conditions which reflect prospects for the economy as a whole, including interest rates and sector credit spreads. If it is determined through the Bank's qualitative assessment of available-for-sale securities that the decline in fair value below a security's amortized cost can be attributed to credit loss, the Bank records the amount of credit loss through a charge to provision for (reversal of) credit losses in current period earnings. If the Bank determines the security's unrealized loss, or a portion thereof, is not related to credit, the Bank records the non-credit related loss, net of tax, through a debit to accumulated other comprehensive income.

The Bank has made a policy election to exclude accrued interest from the amortized cost basis of available-for-sale securities and report accrued interest in accrued interest receivables in the consolidated balance sheets. Available-for-sale securities are placed on non-accrual status when we no longer expect to receive all contractual amounts due, which is generally at 90 days past due. Accrued interest receivable is reversed against interest income when a security is placed on non-accrual status. Accordingly, we do not recognize an allowance for credit loss against accrued interest receivable.

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

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

Our portfolio of investment securities consists primarily of investment grade corporate notes, U.S. Agency mortgage-backed securities ("MBS"), municipal bonds, collateralized mortgage obligations ("CMOs") and U.S. Government agency securities, U.S. Treasury notes, and small business administration ("SBA") securities. We invest in securities to generate interest income and to maintain a liquid source of funding for our lending and other operations, including withdrawals of deposits. We do not engage in active trading in our investment securities portfolio. While management has the intent and ability to hold all securities until maturity, we have realized and from time to time and again may realize gains (or losses) from sales of selected securities primarily in response to changes in interest rates or to re-position the portfolio.

At March 31, 2025 and December 31, 2024, the Bank owned four mortgage-backed securities considered held-to-maturity with a carrying value of $19.7 million and $20.0 million, respectively.

At March 31, 2025, investment securities classified as available-for-sale with a carrying value of $71.0 million were pledged to secure public deposits.

The table below shows the amortized cost, gross unrealized gains and losses, estimated fair value of securities available-for-sale as of March 31, 2025 and December 31, 2024:

	March 31, 2025			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
	(In thousands)			
Asset-backed securities	$ 2,808	$ 11	$ (13)	$ 2,806
Corporate notes	126,061	578	(4,397)	122,242
U.S. Agency mortgage-backed securities	7,723	1	(204)	7,520
Collateralized mortgage obligations	142,955	-	(18,045)	124,910
Municipal securities	69,679	2	(10,111)	59,570
U.S. Agency principal-only strip securities	218	-	(14)	204
U.S. Treasury notes	73,069	2,074	(2,299)	72,844
Total securities available-for-sale	$ 422,513	$ 2,666	$ (35,083)	$ 390,096

	December 31, 2024			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
	(In thousands)			
Asset-backed securities	$ 2,822	$ 12	$ (7)	$ 2,827
Corporate notes	126,014	418	(6,068)	120,364
U.S. Agency mortgage-backed securities	8,024	-	(294)	7,730
Collateralized mortgage obligations	145,530	-	(20,246)	125,284
Municipal securities	69,797	3	(9,285)	60,515
U.S. Agency principal-only strip securities	235	-	(18)	217
U.S. Treasury notes	34,445	-	(2,676)	31,769
Total securities available-for-sale	$ 386,867	$ 433	$ (38,594)	$ 348,706

As of March 31, 2025, available-for-sale securities increased by $41.4 million or 11.9% to $390.1 million, compared to $348.7 million as of December 31, 2024. The increase was primarily due to $38.6 million in purchases of treasury notes and $5.7 million in fair value increases, offset by $2.9 million in principal reductions. As of March 31, 2025, available-for-sale securities had a net unrealized loss of $32.4 million compared to a net unrealized loss of $38.2 million as of December 31, 2024. The decrease in net unrealized losses was primarily attributable to increases in the value of corporate notes, collateralized mortgage obligations, and treasury securities, offset by an increase in net unrealized losses of municipal securities.

The carrying value of our held-to-maturity investment securities was $19.7 million at March 31, 2025 and $20.0 million at December 31, 2024. The decrease between periods was due to principal paydowns and premium amortization during the quarter.

The table below shows the amortized cost, unrecognized gross gains and losses, and estimated fair value of securities held-to-maturity as of March 31, 2025 and December 31, 2024:

	March 31, 2025			
	Amortized cost	Gross unrecognized gains	Gross unrecognized losses	Estimated fair value
	(In thousands)			
Mortgage-backed securities	$ 19,745	$ -	$ (1,350)	$ 18,395

	December 31, 2024			
	Amortized cost	Gross unrecognized gains	Gross unrecognized losses	Estimated fair value
	(In thousands)			
Mortgage-backed securities	$ 20,021	$ -	$ (1,748)	$ 18,273

Deposits

Total deposits at March 31, 2025 were $6.07 billion, an increase of $155.9 million or 2.6% from the balance of $5.92 billion as of December 31, 2024. This increase was partly due to depositor responses to increases in market rates as depositors want a greater return on their deposits and that changes the mix of noninterest-bearing and interest-bearing deposits. Noninterest-bearing demand deposits increased by $25.4 million or 3.6%. The ratio of noninterest-bearing deposits to total deposits increased to 12.0% at March 31, 2025 from 11.9% at December 31, 2024. Interest-bearing demand and savings deposits increased by $75.5 million or 3.7%, and time deposits increased $55.0 million or 1.7%. At March 31, 2025, interest bearing demand and savings accounts comprised $2.13 billion or 35.1% of total deposits, compared to $2.06 billion or 34.8% of total deposits at December 31, 2024. The increase in interest-bearing demand, saving accounts and time deposits was due to new depositor relationships and existing depositors increasing their balances.

As of March 31, 2025, total uninsured deposits represented approximately 46.6% of total deposits and accrued interest. Since mid-March 2023, the Bank has been diligently working with our larger deposit clients to enroll them in the IntraFi/ICS reciprocal deposit program and another deposit program to ensure that all of their deposits are FDIC insured.

The following table shows the composition of deposits at the dates indicated:

	March 31, 2025		December 31, 2024	
	Amount	% of Total Deposits	Amount	% of Total Deposits
	(Dollars in thousands)			
Noninterest-bearing deposits	$ 730,270	12.03%	$ 704,859	11.91%
Interest-bearing deposits:				
Interest-bearing demand	2,099,987	34.58%	2,026,965	34.26%
Savings	32,631	0.54%	30,150	0.51%
Time certificates of $250,000 or more	1,531,715	25.22%	1,477,931	24.98%
Other time certificates	1,678,132	27.63%	1,676,943	28.34%
Total deposits	$ 6,072,735	100.00%	$ 5,916,848	100.00%

Our time certificates of deposit are the largest single component of our deposits. We market and receive time certificates of deposit from our existing and new high net worth customers, especially from the Chinese communities within our branch network. While we do not attempt to be a market leader in offered interest rates, we attempt to offer competitive rates on these time certificates of deposit within a range offered by other competing banks.

Borrowings

At March 31, 2025 and December 31, 2024, there were no advances outstanding from Federal Home Loan Bank of San Francisco ("FHLB").

Subordinated Debentures

On June 16, 2021, the Bank completed a public offering of $150.0 million in aggregate principal amount of 3.375% fixed-to-floating rate subordinated notes due June 15, 2031. A majority of the proceeds from the placement of the notes were used to repay the subordinated notes due 2026. The subordinated notes mature on June 15, 2031 and bear interest at a fixed rate per annum of 3.375%, payable semi-annually in arrears until June 15, 2026. On that date, the subordinated notes will bear interest at a floating rate per annum equal to a benchmark rate, which is expected to the Three-Month Term SOFR, plus 278 basis points, payable quarterly in arrears; provided, however, in the event that the then-current benchmark rate is less than zero, then the benchmark rate will be deemed zero. The Bank may, at its option, redeem the subordinated notes in whole or in part beginning on June 15, 2026 at par and, in other certain limited circumstances. The subordinated notes have been structured to qualify as Tier 2 capital for regulatory purposes. Debt issuance costs incurred in conjunction with the offering were $2.4 million.

Capital Resources

Current risk-based regulatory capital standards generally require banks to maintain a ratio of "core" or "Tier 1" capital (consisting principally of common equity) to risk-weighted assets of at least 8.0%, a ratio of only common equity Tier 1 capital to risk-weighted assets of at least 6.5%, a ratio of Tier 1 capital to adjusted total assets (leverage ratio) of at least 5.0% and a ratio of total capital (which includes Tier 1 capital plus certain forms of subordinated debt, a portion of the allowance for credit losses on loans and preferred stock) to risk-weighted assets of at least 10.0%. Risk-weighted assets are calculated by multiplying the balance in each category of assets by a risk factor, which ranges from zero for cash assets and certain government obligations to 100% for some types of loans and adding the products together. The Bank elected to permanently opt-out of excluding accumulated other comprehensive income from common equity tier 1 capital.

A new capital conservation buffer of 2.50% became effective starting January 1, 2019 and must be met to avoid limitations on the ability of the Bank to pay dividends, repurchase shares or pay discretionary bonuses. The Bank's capital conservation buffer was 5.86% and 5.80% as of March 31, 2025 and December 31, 2024, respectively.

In December 2018, the Federal Reserve announced that a banking organization that experiences a reduction in retained earnings due to the CECL adoption as of the beginning of the fiscal year in which CECL is adopted may elect to phase in the regulatory capital impact of adopting CECL. Transitional amounts are calculated for the following items: retained earnings, temporary difference deferred tax assets and credit loss allowances eligible for inclusion in regulatory capital. When calculating regulatory capital ratios, 25% of the transitional amounts are phased in during the first year. An additional 25% of the transitional amounts are phased in over each of the next two years and at the beginning of the fourth year, the day-one effects of CECL are completely reflected in regulatory capital. We did not elect to phase in the regulatory capital impact of adopting CECL.

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

On June 9, 2023, the Bank received approval from the California Department of Financial Protection and Innovation for the repurchase of up to $150 million in the Bank's common stock or 5% of total outstanding shares, whichever is less, in the open market. The timing, price and volume of the share repurchases will be determined by Bank management based on its evaluation of market conditions and other relevant factors. This repurchase was approved by shareholders at the Bank's Annual Shareholders

Meeting on May 16, 2023. On June 12, 2023, the Board of Directors approved what was to be the first tranche of that repurchase plan, which called for the repurchase of up to $50 million of the total $150 million repurchase. The first tranche was completed in October 2023. On January 9, 2024, the Board of Directors approved what will be the second tranche of that repurchase plan, which will call for the repurchase of up to $50 million of the $100 million remaining under the repurchase plan. The share repurchase program may be suspended, terminated or modified at any time by the Bank for any reason, including market conditions, the cost of repurchasing shares, the availability of alternative investment opportunities, liquidity, and other factors deemed appropriate. During the three months ended March 31, 2025, the Bank repurchased 113,742 shares of common stock at a weighted average price of $83.99. During the three months ended March 31, 2024, the Bank repurchased 256,986 shares of common stock at a weighted average price of $70.95.

Our goal is to exceed the Basel III minimum regulatory capital requirements for well-capitalized institutions. At March 31, 2025 and December 31, 2024, our capital ratios were above the Basel III minimum requirements for well-capitalized institutions. On a quarterly basis, we perform a stress test on our capital to determine our level of capital in various adverse economic scenarios looking out twenty-four months into the future. Below are the Bank's capital ratios as of March 31, 2025 and December 31, 2024:

	At March 31, 2025	At December 31, 2024
Leverage Ratio		
Preferred Bank	11.52%	11.33%
Minimum requirement for "Well-Capitalized" institution	5.00%	5.00%
Common Equity Tier 1 Risk-Based Capital Ratio		
Preferred Bank	11.86%	11.80%
Minimum requirement for "Well-Capitalized" institution	6.50%	6.50%
Tier 1 Risk-Based Capital Ratio		
Preferred Bank	11.86%	11.80%
Minimum requirement for "Well-Capitalized" institution	8.00%	8.00%
Total Risk-Based Capital Ratio		
Preferred Bank	15.15%	15.11%
Minimum requirement for "Well-Capitalized" institution	10.00%	10.00%

Commitments and Contingencies

In the normal course of business, we enter into off-balance sheet arrangements consisting of commitments to extend credit, to fund commercial letters of credit and standby letters of credit. Commercial letters of credit are originated to facilitate transactions both domestic and foreign while standby letters of credit are originated to issue payments on behalf of the Bank's customers when specific future events occur. Historically, the Bank has rarely issued payment under standby letters of credit, in which the Bank's customer is obligated to reimburse the Bank. The Bank could also liquidate collateral or offset a customer's deposit accounts to satisfy this payment.

Financial instrument transactions are subject to our normal credit standards, financial controls and risk limiting and monitoring procedures. Collateral requirements are based on a case-by-case evaluation of each customer and product.

The following table presents these commitments as of March 31, 2025:

Other Commitments	Amount of Commitment Expiring per Period Total Amounts Committed	Less Than 1 Year	1-3 Years	3-5 Years	After 5 Years
			(In thousands)		
Commitments to extend credit	$ 1,265,660	$ 507,313	$ 595,601	$ 88,917	$ 73,829
Commercial letters of credit	4,648	4,648	-	-	-
Standby letters of credit	478,441	144,670	218,698	19,851	95,222
Commitments to fund investments in affordable housing partnerships	20,956	14,594	4,935	363	1,064
Lease commitments	28,959	4,335	8,620	6,803	9,201
Future contract commitments	7,794	1,275	2,782	3,292	445
Total	$ 1,806,458	$ 676,835	$ 830,636	$ 119,226	$ 179,761

Liquidity

Based on our existing business plan, we believe that our level of liquid assets is sufficient to meet our current and presently anticipated funding needs for at least the next twelve months. We rely on deposits as the principal source of funds and, therefore, must be in a position to service depositors' needs as they arise. We attempt to maintain a loan-to-deposit ratio below approximately 95%. Our loan-to-deposit ratio was 92.8% at March 31, 2025 compared to 95.4% at December 31, 2024. The Bank has typically carried more cash as a percentage of assets than most financial institutions in our peer group. This is in part for the purpose of maintaining a conservative balance sheet, but also it is because due to the fact that the Bank's high level of core earnings render investing in long duration securities which add additional interest rate risk unnecessary.

Borrowings from the FHLB are another source of funding for our loan and investment activities. At March 31, 2025, there were no outstanding FHLB advances, and we could borrow up to an additional $634.8 million with collateral of specifically identified loans and securities. In addition, we have pledged securities with a fair value of $111.4 million at the Federal Reserve Discount Window from which we may borrow on an overnight basis. We have one uncommitted fed funds line with a financial institution for $25.0 million. Finally, we have approximately $216.0 million in unpledged securities that could be pledged to the Federal Reserve and its Bank Term Funding Program. As an additional condition of borrowing from the FHLB, we are required to purchase FHLB stock. As of March 31, 2025, the Bank was required to maintain the minimum stock requirement of $15.0 million of FHLB stock based on the volume of "membership assets" as defined by the FHLB. At March 31, 2025, the Bank held $15.0 million in FHLB stock. For the three months ended March 31, 2025 and 2024, dividends from the FHLB totaled $324,000 and $343,000, respectively, representing an average yield of 8.76% and 9.20%, respectively.

We also attempt to maintain a total liquidity ratio (liquid assets, including cash and due from banks, federal funds sold and investment securities not pledged as collateral expressed as a percentage of total deposits) above approximately 18%. Our total liquidity ratios were 32% at March 31, 2025 and 32% at December 31, 2024. We also calculate and have certain thresholds for the Bank's on-balance sheet liquidity ratio. We believe that in the event the level of liquid assets (our primary liquidity) does not meet our liquidity needs, other available sources of liquid assets (our secondary liquidity), including the sales of securities under agreements to repurchase, sales of unpledged investment securities or loans, utilizing the discount window borrowings from the Federal Reserve Bank as well as borrowing from the FHLB could be employed to meet those funding needs. We have a Contingency Funding Plan which is reviewed annually by the Board of Directors which sets forth actions to be taken in the event that our liquidity ratios fall below Board-established guidelines. We also perform quarterly liquidity stress tests to model various adverse scenarios contained in our Contingency Funding Plan. Although we believe that our funding resources will be adequate to meet our obligations, we cannot be certain of this adequacy if economic deterioration or other negative events occur that could impair our ability to meet our funding obligations.

Quantitative and Qualitative Disclosures about Market Risk

Market risk is the risk of loss in a financial instrument arising from adverse changes in market prices and rates, foreign currency exchange rates, commodity prices and equity prices. Market risk arises primarily from interest rate risk inherent in our lending, securities investing, and deposit taking activities. Interest rate risk arises when rate-sensitive assets and rate-sensitive liabilities mature or reprice during different periods or in differing amounts. Our earnings and capital are sensitive to risk of interest rate fluctuations. To that end, management actively monitors and manages interest rate risk exposure. The Bank does not have any market risk sensitive instruments entered into for trading purposes. We manage interest rate sensitivity by matching the repricing opportunities on earning assets to those on funding liabilities. Management uses various asset/liability strategies to manage the repricing characteristics of assets and liabilities designed to ensure that exposure to interest rate fluctuations is limited and within guidelines of acceptable levels of risk-taking.

Interest rate risk is addressed by our Investment Committee which is comprised of the Chief Executive Officer and members of our Board. The Investment Committee monitors interest rate risk by analyzing the potential impact on the net portfolio of equity value and net interest income from potential changes in interest rates and considers the impact of alternative strategies or changes in balance sheet structure. The Investment Committee manages the balance sheet in part to maintain the potential impact on net portfolio value and net interest income within acceptable ranges despite rate changes in interest rates.

Exposure to interest rate risk is monitored continuously by senior management and is reviewed by the Investment Committee at least quarterly. Interest rate risk exposure is measured using interest rate sensitivity analysis to determine changes in net portfolio value and net interest income under alternative 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. Adverse interest rate risk exposures are managed through the shortening or lengthening of the duration of assets and liabilities. This analysis of hypothetical interest rate changes is performed on a quarterly basis by a third party vendor utilizing detailed data that we provide to them.

Market Value of Portfolio Equity

The Bank measures the impact of market interest rate changes on the net present value of estimated cash flows from assets, liabilities and off-balance sheet items, defined as the market value of portfolio equity, using a simulation model. This simulation model assesses the changes in the market value of interest rate sensitive financial instruments that would occur in response to an instantaneous and sustained increase or decrease in market interest rates.

The following table presents forecasted changes in net portfolio value using a base market rate and the estimated change to the base scenario given an immediate and sustained upward movement in interest rates of 100, 200, and 300 basis points and an immediate and sustained downward movement in interest rates of 100, 200, 300 and 400 basis points as of March 31, 2025.

Market Value of Portfolio Equity

Interest Rate Scenario	Market Value	Percentage Chage from Basis	Percentage of Total Assets	Percentage of Portfolio Equity Book Value
		(Dollars in thousands)		
Up 300 basis points	$ 1,112,518	3.8 %	15.9 %	142.9 %
Up 200 basis points	$ 1,106,044	3.2	15.7	142.1
Up 100 basis points	$ 1,092,584	1.9	15.4	140.3
Base	$ 1,071,827	-	15.1	137.7
Down 100 basis points	$ 1,051,828	(1.9)	14.7	135.1
Down 200 basis points	$ 1,040,921	(2.9)	14.4	133.7
Down 300 basis points	$ 1,022,898	(4.6)	14.0	131.4
Down 400 basis points	$ 958,392	(10.6)	13.0	123.1

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, 2025, we used a simulation model to project changes in net interest income that result from forecasted changes in interest rates. This analysis calculates the difference between net interest forecasted using a rising and a falling interest rate scenario and a net interest income forecast using a base market interest rate derived from the current treasury yield curve. The income simulation model includes various assumptions regarding the re-pricing relationships for each of our products. Many of our assets are floating rate loans, which are assumed to reprice immediately, and to the same extent as the change in market rates according to their contracted index. Some loans and investment vehicles include the opportunity of prepayment (embedded options), and accordingly the simulation model uses national indexes to estimate these prepayments and reinvest their proceeds at current yields. Non-term deposit products reprice more slowly, usually changing less than the change in market rates and at management's discretion.

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

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

Sensitivity of Net Interest Income March 31, 2025

Interest Rate Scenario	Adjusted Net Interest Income	Percentage Change from Basis	Net Interest Margin Percent	Net Interest Margin Change (in basis points)
	(Dollars in thousands)			
Up 300 basis points	$ 336,561	19.6 %	4.77 %	77
Up 200 basis points	$ 318,608	13.2	4.52	52
Up 100 basis points	$ 300,370	6.7	4.27	26
Base	$ 281,504	-	4.00	-
Down 100 basis points	$ 259,694	(7.7)	3.70	(31)
Down 200 basis points	$ 256,322	(8.9)	3.65	(35)
Down 300 basis points	$ 264,779	(5.9)	3.77	(23)
Down 400 basis points	$ 270,607	(3.9)	3.85	(15)

Inflation

The majority of our assets and liabilities are monetary items held by us, the dollar value of which may be affected by inflation, which had declined through much of 2024 only to rise dramatically during the fourth quarter of the year and into the start of 2025. Only a small portion of total assets is in premises and equipment which minimizes any material effect of asset values and depreciation expenses that may result from fluctuating market values due to inflation. Higher inflation rates may increase operating expenses or have other adverse effects on our borrowers, making collection on extensions of credit more difficult for us. Rates of interest paid or charged generally rise if the marketplace believes inflation rates will increase.

Recent Accounting Pronouncements

For information regarding recent accounting pronouncements, refer to Note 3 to the Consolidated Interim Financial Statements, "Recent Accounting Pronouncements."

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

For quantitative and qualitative disclosures regarding market risks in our portfolio, see, "Management's Discussion and Analysis of Financial Condition and Results of Operations—Quantitative and Qualitative Disclosures About Market Risk" above.

ITEM 4. Controls and Procedures

As of the end of the period covered by this Report, the Bank carried out an evaluation, under the supervision and with the participation of management, including the Bank's Chief Executive Officer along with the Bank's Chief Financial Officer, of the effectiveness of the design and operation of the Bank's disclosure controls and procedures pursuant to SEC rules, as such rules are adopted by the FDIC. Based upon that evaluation as of the end of the period covered by this Report, the Bank's Chief Executive Officer and Chief Financial Officer concluded that the Bank's disclosure controls and procedures are effective. There have been no changes in the Bank's internal controls during the period covered by this Report that have materially affected or are reasonably likely to materially affect the Bank's internal controls over financial reporting.

The Bank's disclosure controls and procedures are designed to ensure that information required to be disclosed by the Bank in the reports that are filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. The Bank's disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports that are filed under the Exchange Act is accumulated and communicated to management, including the Bank's Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

We are not involved in any material legal proceedings. From time to time, we are a party to claims and legal proceedings arising in the ordinary course of business. There are no such claims or pending legal proceedings or, to the best of our knowledge, threatened legal proceedings, to which we are a party which may have a material adverse effect upon our financial condition, results of operations and business prospects.

ITEM 1A. Risk Factors

Other than the following risk factor, which updates and replaces in its entirety the risk factor titled " *Adverse economic conditions in Asia could impact our business adversely*," there are no material changes to the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2024 that was filed on March 14, 2025, as amended by the Form 10-K/A filed with the FDIC on April 15, 2025.

Adverse economic conditions in Asia could impact our business adversely.

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

Since February 2025, the Trump administration has announced or imposed a series of tariffs on U.S. trading partners. In February 2025, the Trump administration imposed a 25% tariff on Canada and Mexico for goods not covered by the USMCA, and a 20% tariff on China. On April 2, 2025, President Trump announced a 10% "baseline" reciprocal tariff on all U.S. trading partners effective April 5, 2025, and higher, country-specific reciprocal tariffs on 57 countries. The Trump administration subsequently paused the additional country-specific reciprocal tariffs for all countries except China. As of May 5, 2025, imports from most countries, excluding those from Canada, Mexico, and China, are subject to an additional 10% tariff; imports from China are subject to an additional 145% tariff; and non-USMCA compliant imports from Canada and Mexico are subject to an additional 25% tariff (except for Canadian energy and energy resources and potash, which are subject to a 10% tariff). In response to the U.S. tariff changes, certain foreign countries, such as China, increased their tariffs on certain U.S. imports.

Since these tariffs are so new and the responses are only emerging, it is impossible to determine the impact of these tariffs on the U.S. economy, and the economies of other countries with which many of our customers have ties. Some economists indicate that such tariffs could result in higher inflation rates which could result in higher interest rates, which could negatively impact loan customers even if they are not directly involved in foreign trade.

ITEM 2. Unregistered Sale of Equity Securities and Use of Proceeds

On June 9, 2023, the Bank received approval from the California Department of Financial Protection and Innovation for the repurchase of up to $150 million in the Bank's common stock or 5% of total outstanding shares, whichever is less, in the open market. The timing, price and volume of the share repurchases will be determined by Bank management based on its evaluation of market conditions and other relevant factors. This repurchase was approved by shareholders at the Bank's Annual Shareholders Meeting on May 16, 2023. On June 12, 2023, the Board of Directors approved what was to be the first tranche of that repurchase plan, which called for the repurchase of up to $50 million of the total $150 million repurchase. The first tranche was completed in October 2023. On January 9, 2024, the Board of Directors approved what will be the second tranche of that repurchase plan, which will call for the repurchase of up to $50 million of the $100 million remaining under the repurchase plan. On March 18, 2025, the Bank disclosed that it had received regulatory approval to repurchase $65.7 million of common stock, marking the final tranche remaining under the repurchase plan set to expire in May of 2025. The share repurchase program may be suspended, terminated or modified at any time by the Bank for any reason, including market conditions, the cost of repurchasing shares, the availability of alternative investment opportunities, liquidity, and other factors deemed appropriate.

During the three months ended March 31, 2025, the Bank repurchased 113,742 shares of common stock, at an aggregate cost of approximately $9.6 million under the Bank's repurchase plan.

As of March 31, 2025, approximately $56.1 million remained available for repurchase under the current tranche authorized by the repurchase plan. We cannot provide any assurance as to whether or not we will continue to repurchase common stock under our repurchase plan.

	Purchase of Equity Securities by the Issuer			
	Total Number of Shares	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Total Number of Shares (or Approximate Dollar Value) that May Yet be Purchased Under the Plan
January 1, 2025 to January 31, 2025	-	$ -	-	15,752,323
February 1, 2025 to February 28, 2025	-	$ -	-	15,752,323
March 1, 2025 to March 31, 2025	113,742	$ 83.99	113,742	56,133,187
Total	113,742	$ 83.99	113,742	

ITEM 5. Other Information

Rule 10b5-1 Trading Arrangements

During the quarter ended March 31, 2025, none of our directors or executive officers adopted or terminated a Rule 10b5-1 trading arrangement or non-Rule 10b5-1 trading arrangement (in each case, as defined in item 408 of Regulation S-K) for the purchase or sale of the Bank's securities. During the quarter ended March 31, 2025, the Bank did not adopt or terminate any Rule 10b5-1 trading arrangement.

ITEM 6. Exhibits

The Exhibits listed below are included as part of this Report.

Exhibit No.	Description of Exhibits
31.1	Certification of Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002 filed herewith.
31.2	Certification of Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002 filed herewith.
32.1	Certification of Chief Executive Officer under Section 906 of the Sarbanes-Oxley Act of 2002 furnished herewith.
32.2	Certification of Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002 furnished herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: May 12, 2025

PREFERRED BANK
(Registrant)

By: /s/ Edward J. Czajka

Edward J. Czajka
Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer) – Duly Authorized Officer

Exhibit 31.1

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

I, Li Yu, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Preferred Bank;

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

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

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

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

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

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

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

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

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

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

Date: May 12, 2025

/s/ Li Yu

Li Yu
Chairman and Chief Executive Officer

Exhibit 31.2

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

I, Edward J. Czajka, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Preferred Bank;

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

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

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

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

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

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

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

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

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

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

Date: May 12, 2025

/s/ Edward J. Czajka

Edward J. Czajka
Executive Vice President and Chief Financial Officer

Exhibit 32.1

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

In connection with the Quarterly Report of Preferred Bank (the "Bank") on Form 10-Q for the three months period ended March 31, 2025 as filed with the Federal Deposit Insurance Corporation on the date hereof (the "Report"), I, Li Yu, Chairman and Chief Executive Officer of the Bank, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: May 12, 2025

/s/ Li Yu

Li Yu
Chairman and Chief Executive Officer

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

Exhibit 32.2

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

In connection with the Quarterly Report of Preferred Bank (the "Bank") on Form 10-Q for the three months period ended March 31, 2025 as filed with the Federal Deposit Insurance Corporation on the date hereof (the "Report"), I, Edward J. Czajka, Executive Vice President and Chief Financial Officer of the Bank, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: May 12, 2025

/s/ Edward J. Czajka

Edward J. Czajka
Executive Vice President and Chief Financial Officer

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