

# 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 September 30, 2024

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

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

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

| <u>Title of each class</u> | <u>Trading Symbol</u> | <u>Name of each exchange on which registered</u> |
|----------------------------|-----------------------|--------------------------------------------------|
| 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," and "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 November 7, 2024, was 13,188,701 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 2023 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 (including 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, 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 2023 Annual Report on Form 10-K as filed with the Federal Deposit Insurance Corporation (“FDIC”) on March 14, 2024 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)

|                                                                                                                                                                   | <b>September 30,<br/>2024</b> | <b>December 31,<br/>2023</b> |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|------------------------------|
|                                                                                                                                                                   | <b>(Unaudited)</b>            |                              |
| <b>Assets</b>                                                                                                                                                     |                               |                              |
| Cash and due from banks                                                                                                                                           | \$ 782,394                    | \$ 890,852                   |
| Federal funds sold                                                                                                                                                | 22,600                        | 20,000                       |
| Cash and cash equivalents                                                                                                                                         | 804,994                       | 910,852                      |
| Securities held-to-maturity, at amortized cost (fair value of \$19,176 and as of September 30, 2024 and \$19,540 as of December 31, 2023)                         | 20,311                        | 21,171                       |
| Securities available-for-sale, at fair value                                                                                                                      | 337,363                       | 313,842                      |
| Loans held for sale, at lower of cost or fair value                                                                                                               | 225                           | 360                          |
| Loans                                                                                                                                                             | 5,571,579                     | 5,273,498                    |
| Less: allowance for credit losses on loans                                                                                                                        | (76,051)                      | (78,355)                     |
| Less: unamortized deferred loan fees, net                                                                                                                         | (10,414)                      | (11,079)                     |
| Net loans                                                                                                                                                         | 5,485,114                     | 5,184,064                    |
| Other real estate owned and repossessed assets                                                                                                                    | 15,082                        | 16,716                       |
| Bank furniture and fixtures, net                                                                                                                                  | 9,195                         | 9,694                        |
| Customers' liability on acceptances                                                                                                                               | -                             | 315                          |
| Bank-owned life insurance ("BOLI")                                                                                                                                | 10,364                        | 10,632                       |
| Accrued interest receivable                                                                                                                                       | 35,562                        | 33,892                       |
| Investment in affordable housing partnerships                                                                                                                     | 58,009                        | 65,276                       |
| Federal Home Loan Bank ("FHLB") stock, at cost                                                                                                                    | 15,000                        | 15,000                       |
| Net deferred tax assets                                                                                                                                           | 46,209                        | 48,991                       |
| Income tax receivable                                                                                                                                             | 1,013                         | 2,391                        |
| Operating lease right-of-use assets                                                                                                                               | 30,489                        | 22,050                       |
| Other assets                                                                                                                                                      | 3,414                         | 4,030                        |
| Total assets                                                                                                                                                      | <u>\$ 6,872,344</u>           | <u>\$ 6,659,276</u>          |
| <b>Liabilities and Shareholders' Equity</b>                                                                                                                       |                               |                              |
| Liabilities:                                                                                                                                                      |                               |                              |
| Deposits:                                                                                                                                                         |                               |                              |
| Demand                                                                                                                                                            | \$ 682,859                    | \$ 786,995                   |
| Interest-bearing demand                                                                                                                                           | 1,994,288                     | 2,075,156                    |
| Savings                                                                                                                                                           | 29,793                        | 29,167                       |
| Time certificates of \$250,000 or more                                                                                                                            | 1,478,500                     | 1,317,862                    |
| Other time certificates                                                                                                                                           | 1,682,324                     | 1,500,162                    |
| Total deposits                                                                                                                                                    | 5,867,764                     | 5,709,342                    |
| Acceptances outstanding                                                                                                                                           | -                             | 315                          |
| Subordinated debt issuance, net of unamortized costs and premium of \$1,590 and \$1,768 at September 30, 2024 and December 31, 2023, respectively                 | 148,410                       | 148,232                      |
| Accrued interest payable                                                                                                                                          | 16,001                        | 16,124                       |
| Commitments to fund investment in affordable housing partnerships                                                                                                 | 23,617                        | 30,824                       |
| Operating lease liability                                                                                                                                         | 26,730                        | 19,766                       |
| Other liabilities                                                                                                                                                 | 39,705                        | 39,568                       |
| Total liabilities                                                                                                                                                 | 6,122,227                     | 5,964,171                    |
| 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 September 30, 2024 and December 31, 2023, respectively            | -                             | -                            |
| Common stock, no par value. Authorized 100,000,000 shares; outstanding 13,267,852 and 13,583,285 shares at September 30, 2024 and December 31, 2023, respectively | 210,882                       | 210,882                      |
| Treasury stock, at cost; 3,029,978 and 2,597,759 shares at September 30, 2024 and December 31, 2023, respectively                                                 | (194,585)                     | (163,175)                    |
| Additional paid-in capital                                                                                                                                        | 93,631                        | 86,827                       |
| Retained earnings                                                                                                                                                 | 664,808                       | 592,325                      |
| Accumulated other comprehensive loss                                                                                                                              | (24,619)                      | (31,754)                     |
| Total shareholders' equity                                                                                                                                        | 750,117                       | 695,105                      |
| Total liabilities and shareholders' equity                                                                                                                        | <u>\$ 6,872,344</u>           | <u>\$ 6,659,276</u>          |

*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 September 30, |            | Nine months ended September 30, |            |
|-----------------------------------------------------------------------------|----------------------------------|------------|---------------------------------|------------|
|                                                                             | 2024                             | 2023       | 2024                            | 2023       |
| Interest income:                                                            |                                  |            |                                 |            |
| Loans and leases                                                            | \$ 114,112                       | \$ 106,695 | \$ 333,543                      | \$ 304,796 |
| Investment securities                                                       | 15,032                           | 18,556     | 48,841                          | 47,454     |
| Federal funds sold                                                          | 280                              | 278        | 854                             | 774        |
| Total interest income                                                       | 129,424                          | 125,529    | 383,238                         | 353,024    |
| Interest expense:                                                           |                                  |            |                                 |            |
| Interest-bearing demand                                                     | 23,211                           | 20,257     | 69,706                          | 53,701     |
| Savings                                                                     | 84                               | 67         | 238                             | 153        |
| Time certificates of \$250,000 or more                                      | 17,866                           | 14,085     | 51,662                          | 37,600     |
| Other time certificates                                                     | 18,090                           | 15,284     | 54,202                          | 33,798     |
| FLHB borrowings                                                             | -                                | 1,557      | -                               | 3,819      |
| Subordinated debt                                                           | 1,325                            | 1,325      | 3,975                           | 3,975      |
| Total interest expense                                                      | 60,576                           | 52,575     | 179,783                         | 133,046    |
| Net interest income before provision for credit losses                      | 68,848                           | 72,954     | 203,455                         | 219,978    |
| Provision for credit losses                                                 | 3,200                            | 3,500      | 10,100                          | 6,500      |
| Net interest income after provision for credit losses                       | 65,648                           | 69,454     | 193,355                         | 213,478    |
| Noninterest income:                                                         |                                  |            |                                 |            |
| Fees and service charges on deposit accounts                                | 747                              | 939        | 2,411                           | 2,477      |
| Letter of credit fee income                                                 | 1,959                            | 1,412      | 5,211                           | 4,312      |
| BOLI income                                                                 | 108                              | 103        | 318                             | 307        |
| Net gain on sale of Small Business Administration ("SBA") loans             | 91                               | 21         | 547                             | 547        |
| Net loss on sale or call of investment securities                           | -                                | -          | -                               | (4,117)    |
| Other income                                                                | 554                              | 497        | 1,441                           | 1,481      |
| Total noninterest income                                                    | 3,459                            | 2,972      | 9,928                           | 5,007      |
| Noninterest expense:                                                        |                                  |            |                                 |            |
| Salaries and employee benefits                                              | 13,525                           | 13,008     | 40,369                          | 39,256     |
| Net occupancy expense                                                       | 1,883                            | 1,563      | 5,310                           | 4,513      |
| Business development and promotion expense                                  | 241                              | 193        | 910                             | 498        |
| Professional services                                                       | 1,816                            | 1,423      | 5,105                           | 3,915      |
| Office supplies and equipment expense                                       | 435                              | 395        | 1,385                           | 1,197      |
| Other real estate owned related expense, net                                | 1,915                            | 140        | 2,079                           | 3,050      |
| Other                                                                       | 2,274                            | 2,287      | 6,656                           | 6,332      |
| Total noninterest expense                                                   | 22,089                           | 19,009     | 61,814                          | 58,761     |
| Income before income taxes                                                  | 47,018                           | 53,417     | 141,469                         | 159,724    |
| Income tax expense                                                          | 13,635                           | 15,225     | 41,028                          | 45,523     |
| Net income                                                                  | \$ 33,383                        | \$ 38,192  | \$ 100,441                      | \$ 114,201 |
| Income allocated to participating securities                                | -                                | -          | -                               | -          |
| Net income available to common shareholders – basic and diluted             | \$ 33,383                        | \$ 38,192  | \$ 100,441                      | \$ 114,201 |
| Unrealized net gain (loss) on securities available-for-sale                 | 8,948                            | (7,078)    | 9,917                           | (18,707)   |
| Less: reclassification adjustments included in net income                   | -                                | -          | -                               | (4,117)    |
| Income tax (expense) benefit related to items of other comprehensive income | (2,510)                          | 1,985      | (2,782)                         | 4,092      |
| Other comprehensive loss                                                    | 6,438                            | (5,093)    | 7,135                           | (10,498)   |
| Comprehensive income                                                        | \$ 39,821                        | \$ 33,099  | \$ 107,576                      | \$ 103,703 |
| Net income per share                                                        |                                  |            |                                 |            |
| Basic                                                                       | \$ 2.50                          | \$ 2.74    | \$ 7.50                         | \$ 8.01    |
| Diluted                                                                     | \$ 2.46                          | \$ 2.71    | \$ 7.39                         | \$ 7.92    |
| Weighted-average common shares outstanding                                  |                                  |            |                                 |            |
| Basic                                                                       | 13,327,848                       | 13,925,994 | 13,399,487                      | 14,257,005 |
| Diluted                                                                     | 13,544,273                       | 14,105,915 | 13,587,820                      | 14,418,939 |

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<br>Stock | Common Stock<br>Shares | Common Stock<br>Stock | Treasury<br>Stock | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Accumulated Other<br>Comprehensive<br>Income (Loss) | Total<br>Shareholders'<br>Equity |
|-------------------------------------------------------|--------------------|------------------------|-----------------------|-------------------|----------------------------------|----------------------|-----------------------------------------------------|----------------------------------|
| <b>Balance as of July 1, 2024</b>                     | \$ -               | 13,334,752             | \$ 210,882            | \$ (189,215)      | \$ 91,842                        | \$ 640,675           | \$ (31,057)                                         | \$ 723,127                       |
| Issuance of shares upon vesting of share-based awards | -                  | 1,136                  | -                     | -                 | -                                | -                    | -                                                   | -                                |
| Cash dividend declared (\$0.70 per share)             | -                  | -                      | -                     | -                 | -                                | (9,250)              | -                                                   | (9,250)                          |
| Stock-based compensation                              | -                  | -                      | -                     | -                 | 1,845                            | -                    | -                                                   | 1,845                            |
| Restricted stock award forfeitures                    | -                  | -                      | -                     | -                 | -                                | -                    | -                                                   | -                                |
| Stock surrendered due to employee tax liability       | -                  | (417)                  | -                     | -                 | -                                | -                    | -                                                   | -                                |
| Stock repurchased                                     | -                  | (67,619)               | -                     | (5,370)           | (56)                             | -                    | -                                                   | (5,426)                          |
| Net income                                            | -                  | -                      | -                     | -                 | -                                | 33,383               | -                                                   | 33,383                           |
| Other comprehensive income, net                       | -                  | -                      | -                     | -                 | -                                | -                    | 6,438                                               | 6,438                            |
| <b>Balance as of September 30, 2024</b>               | \$ -               | 13,267,852             | \$ 210,882            | \$ (194,585)      | \$ 93,631                        | \$ 664,808           | \$ (24,619)                                         | \$ 750,117                       |
| <b>Balance as of July 1, 2023</b>                     | \$ -               | 14,216,862             | \$ 210,882            | \$ (128,100)      | \$ 84,622                        | \$ 535,373           | \$ (34,010)                                         | \$ 668,767                       |
| Issuance of shares upon vesting of share-based awards | -                  | 12                     | -                     | -                 | -                                | -                    | -                                                   | -                                |
| Cash dividend declared (\$0.55 per share)             | -                  | -                      | -                     | -                 | -                                | (7,538)              | -                                                   | (7,538)                          |
| Stock-based compensation                              | -                  | -                      | -                     | -                 | 1,290                            | -                    | -                                                   | 1,290                            |
| Stock purchased                                       | -                  | (463,628)              | -                     | (24,844)          | (266)                            | -                    | -                                                   | (25,110)                         |
| Net income                                            | -                  | -                      | -                     | -                 | -                                | 38,192               | -                                                   | 38,192                           |
| Other comprehensive loss, net                         | -                  | -                      | -                     | -                 | -                                | -                    | (5,093)                                             | (5,093)                          |
| <b>Balance as of September 30, 2023</b>               | \$ -               | 13,753,246             | \$ 210,882            | \$ (152,944)      | \$ 85,646                        | \$ 566,027           | \$ (39,103)                                         | \$ 670,508                       |

*See accompanying notes to the unaudited consolidated interim financial statements.*

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

|                                                       | Preferred<br>Stock | Common Stock<br>Shares | Common Stock<br>Stock | Treasury<br>Stock | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Accumulated Other<br>Comprehensive<br>Income (Loss) | Total<br>Shareholders'<br>Equity |
|-------------------------------------------------------|--------------------|------------------------|-----------------------|-------------------|----------------------------------|----------------------|-----------------------------------------------------|----------------------------------|
| <b>Balance as of January 1, 2024</b>                  | \$ -               | 13,583,285             | \$ 210,882            | \$ (163,175)      | \$ 86,827                        | \$ 592,325           | \$ (31,754)                                         | \$ 695,105                       |
| Issuance of shares upon vesting of share-based awards | -                  | 116,786                | -                     | -                 | -                                | -                    | -                                                   | -                                |
| Cash dividends declared (\$2.10 per share)            | -                  | -                      | -                     | -                 | -                                | (27,958)             | -                                                   | (27,958)                         |
| Stock-based compensation                              | -                  | -                      | -                     | -                 | 7,100                            | -                    | -                                                   | 7,100                            |
| Stock surrendered due to employee tax liability       | -                  | (49,629)               | -                     | (3,595)           | -                                | -                    | -                                                   | (3,595)                          |
| Stock repurchased                                     | -                  | (382,590)              | -                     | (27,815)          | (296)                            | -                    | -                                                   | (28,111)                         |
| Net income                                            | -                  | -                      | -                     | -                 | -                                | 100,441              | -                                                   | 100,441                          |
| Other comprehensive income, net                       | -                  | -                      | -                     | -                 | -                                | -                    | 7,135                                               | 7,135                            |
| <b>Balance as of September 30, 2024</b>               | \$ -               | 13,267,852             | \$ 210,882            | \$ (194,585)      | \$ 93,631                        | \$ 664,808           | \$ (24,619)                                         | \$ 750,117                       |
| <b>Balance as of January 1, 2023</b>                  | \$ -               | 14,358,145             | \$ 210,882            | \$ (108,482)      | \$ 81,559                        | \$ 475,072           | \$ (28,605)                                         | \$ 630,426                       |
| Issuance of shares upon vesting of share-based awards | -                  | 142,796                | -                     | -                 | -                                | -                    | -                                                   | -                                |
| Cash dividend declared (\$1.65 per share)             | -                  | -                      | -                     | -                 | -                                | (23,246)             | -                                                   | (23,246)                         |
| Stock-based compensation                              | -                  | -                      | -                     | -                 | 4,520                            | -                    | -                                                   | 4,520                            |
| Stock surrendered due to employee tax liability       | -                  | (54,527)               | -                     | (4,075)           | -                                | -                    | -                                                   | (4,075)                          |
| Stock purchased                                       | -                  | (693,168)              | -                     | (40,387)          | (433)                            | -                    | -                                                   | (40,820)                         |
| Net income                                            | -                  | -                      | -                     | -                 | -                                | 114,201              | -                                                   | 114,201                          |
| Other comprehensive loss, net                         | -                  | -                      | -                     | -                 | -                                | -                    | (10,498)                                            | (10,498)                         |
| <b>Balance as of September 30, 2023</b>               | \$ -               | 13,753,246             | \$ 210,882            | \$ (152,944)      | \$ 85,646                        | \$ 566,027           | \$ (39,103)                                         | \$ 670,508                       |

*See accompanying notes to the unaudited consolidated interim financial statements.*

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

|                                                                                               | <b>Nine months ended September 30,</b> |                     |
|-----------------------------------------------------------------------------------------------|----------------------------------------|---------------------|
|                                                                                               | <b>2024</b>                            | <b>2023</b>         |
| <b>Cash flows from operating activities:</b>                                                  |                                        |                     |
| Net income                                                                                    | \$ 100,441                             | \$ 114,201          |
| Adjustments to reconcile net income to net cash provided by operating activities:             |                                        |                     |
| Provision for credit losses                                                                   | 10,100                                 | 6,500               |
| Loss on sale and call of securities available for sale                                        | -                                      | 4,117               |
| Amortization of deferred loan fees, net                                                       | (3,397)                                | (3,216)             |
| Amortization of investment securities discounts and premiums, net                             | 383                                    | (24)                |
| Amortization of investment in affordable housing partnerships                                 | 7,267                                  | 6,494               |
| Amortization of subordinated debt issuance costs                                              | 178                                    | 178                 |
| Loans originated for sale                                                                     | (6,933)                                | (7,726)             |
| Gain on sale of SBA loans                                                                     | (547)                                  | (547)               |
| Proceeds from sale of loans held for sale                                                     | 7,615                                  | 8,274               |
| Depreciation and amortization                                                                 | 1,646                                  | 1,276               |
| Share-based compensation expense                                                              | 7,100                                  | 4,520               |
| Income from bank owned life insurance, net                                                    | 268                                    | (206)               |
| Write-down of other real estate owned                                                         | 1,634                                  | 1,900               |
| Changes in other assets and liabilities:                                                      |                                        |                     |
| Income tax receivable                                                                         | 1,378                                  | -                   |
| Accrued interest receivable and other assets                                                  | (9,455)                                | (9,839)             |
| Accrued interest payable and other liabilities                                                | 7,231                                  | 49,291              |
| Net cash provided by operating activities                                                     | <u>124,909</u>                         | <u>175,193</u>      |
| <b>Cash flows from investing activities:</b>                                                  |                                        |                     |
| Proceeds from principal paydowns, maturities and redemptions of securities held-to-maturity   | 777                                    | 893                 |
| Proceeds from principal paydowns, maturities and redemptions of securities available-for-sale | 16,509                                 | 70,307              |
| Proceeds from sales and calls of securities available for sale                                | 1,530                                  | 53,593              |
| Purchase of securities available-for-sale                                                     | (31,942)                               | (49,805)            |
| Purchase of investments in affordable housing partnerships                                    | (7,208)                                | (6,666)             |
| Proceeds from sale of loans from LHFS previously classified as portfolio loans                | 21,705                                 | -                   |
| Proceeds from recoveries of written off loans                                                 | 5                                      | 1                   |
| Net increase in loans                                                                         | (329,462)                              | (50,057)            |
| Payoff of liens in connection with foreclosure of assets                                      | -                                      | 3,374               |
| Purchase of bank premises and equipment                                                       | (1,147)                                | (1,025)             |
| Net cash (used in) provided by investing activities                                           | <u>(329,233)</u>                       | <u>20,615</u>       |
| <b>Cash flows from financing activities:</b>                                                  |                                        |                     |
| Increase in deposits                                                                          | 158,422                                | 126,274             |
| Increase in treasury shares                                                                   | (31,706)                               | (44,895)            |
| Payment of cash dividends                                                                     | (28,250)                               | (23,605)            |
| Net cash provided by financing activities                                                     | <u>98,466</u>                          | <u>57,774</u>       |
| Net increase in cash and cash equivalents                                                     | (105,858)                              | 253,582             |
| Cash and cash equivalents at beginning of period                                              | <u>910,852</u>                         | <u>767,526</u>      |
| Cash and cash equivalents at end of period                                                    | <u>\$ 804,994</u>                      | <u>\$ 1,021,108</u> |

*See accompanying notes to the unaudited consolidated interim financial statements.*

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

|                                                              | Nine months ended September 30, |            |
|--------------------------------------------------------------|---------------------------------|------------|
|                                                              | 2024                            | 2023       |
| Supplemental disclosure of cash flow information             |                                 |            |
| Cash paid during the period for:                             |                                 |            |
| Interest                                                     | \$ 179,906                      | \$ 123,148 |
| Income taxes                                                 | 32,448                          | 2,910      |
| Noncash activities:                                          |                                 |            |
| Common stock dividends declared but not paid                 | \$ 9,287                        | \$ 7,538   |
| Operating lease liabilities arising from right-of-use assets | 9,926                           | 1,057      |
| Transfer of loans held for investment to loans held for sale | 21,705                          | -          |

*See accompanying notes to the unaudited consolidated interim financial statements.*

**PREFERRED BANK**  
**Notes to Consolidated Interim Financial Statements**  
**(Unaudited)**

**1. Business**

Preferred Bank commenced operations in 1991 as a California state-chartered bank and offers a wide range of financial services. As of September 30, 2024, the Bank operates through twelve full-service branch banking offices in Los Angeles, Orange, and San Francisco Counties in California, one full-service branch in Queens County, New York, 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 Manhattan. As of September 30, 2024, approximately 88% 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").

**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 and nine months ended September 30, 2024 are not necessarily indicative of results that may be expected for any other interim period or the entire fiscal year ending December 31, 2024. 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, 2023, which was filed with the FDIC on March 14, 2024. 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, 2023 filed with the FDIC.

**3. Recent Accounting Pronouncements**

***Recently Adopted Accounting Pronouncements***

ASU 2023-02, *Investments—Equity Method and Joint Ventures (Topic 323) Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method*. In March 2023, the FASB issued ASU 2023-02 which expands use of the proportional amortization method of accounting to equity investments in tax credit programs beyond those in low-income-

housing tax credit (“LIHTC”) programs. The ASU allows entities to elect the proportional amortization method, on a tax-credit-program-by-tax-credit-program basis, for all equity investments in tax credit programs meeting the eligibility criteria. ASU 2023-02 is effective for reporting periods beginning after December 15, 2023, for public business entities. Early adoption is permitted. The adoption of ASU 2023-02 on January 1, 2024 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 2023-07, Segment Reporting (Topic 280): *Improvements to Reportable Segment Disclosures*. In November 2023, the FASB issued ASU 2023-07, which requires additional interim and annual disclosures about a reportable segment's expenses, even for companies with only one reportable segment. The amendments in ASU 2023-07 are effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. The adoption of this standard is not expected to have a material effect on the Bank’s operating results or financial condition.

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 Bank does not expect the adoption of ASU 2023-09 to 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 Bank does not expect the adoption of ASU 2024-02 to have a significant impact on our financial condition or results of operations.

## **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<br>(Numerator) | Weighted<br>Average Shares<br>(Denominator) | Per<br>Share<br>Amount |
|---------------------------------------------------------------|-----------------------|---------------------------------------------|------------------------|
| <b><u>Three months ended September 30, 2024</u></b>           |                       |                                             |                        |
| Net Income                                                    | \$ 33,383             | 13,327,848                                  |                        |
| Less: Income & dividend allocated to participating securities | -                     | -                                           |                        |
| <b>Basic EPS – income available to common shareholders</b>    | <b>33,383</b>         | <b>13,327,848</b>                           | <b>\$ 2.50</b>         |
| Effect of dilutive securities                                 | -                     | 216,425                                     |                        |
| <b>Diluted EPS – income available to common shareholders</b>  | <b>\$ 33,383</b>      | <b>13,544,273</b>                           | <b>\$ 2.46</b>         |
| <b><u>Three months ended September 30, 2023</u></b>           |                       |                                             |                        |
| Net Income                                                    | \$ 38,192             | 13,925,994                                  |                        |
| Less: Income & dividend allocated to participating securities | -                     | -                                           |                        |
| <b>Basic EPS – income available to common shareholders</b>    | <b>38,192</b>         | <b>13,925,994</b>                           | <b>\$ 2.74</b>         |
| Effect of dilutive securities                                 | -                     | 179,921                                     |                        |
| <b>Diluted EPS – income available to common shareholders</b>  | <b>\$ 38,192</b>      | <b>14,105,915</b>                           | <b>\$ 2.71</b>         |

There were no shares excluded from the computation of diluted earnings per share for the three months ended September 30, 2024 and 2023, because their impact on diluted earnings per share would have been anti-dilutive.

|                                                               | Income<br>(Numerator) | Weighted<br>Average Shares<br>(Denominator) | Per<br>Share<br>Amount |
|---------------------------------------------------------------|-----------------------|---------------------------------------------|------------------------|
| <b><u>Nine months ended September 30, 2024</u></b>            |                       |                                             |                        |
| Net Income                                                    | \$ 100,441            | 13,399,487                                  |                        |
| Less: Income & dividend allocated to participating securities | -                     | -                                           |                        |
| <b>Basic EPS – income available to common shareholders</b>    | <b>100,441</b>        | <b>13,399,487</b>                           | <b>\$ 7.50</b>         |
| Effect of dilutive securities                                 | -                     | 188,333                                     |                        |
| <b>Diluted EPS – income available to common shareholders</b>  | <b>\$ 100,441</b>     | <b>13,587,820</b>                           | <b>\$ 7.39</b>         |
| <b><u>Nine months ended September 30, 2023</u></b>            |                       |                                             |                        |
| Net Income                                                    | \$ 114,201            | 14,257,005                                  |                        |
| Less: Income & dividend allocated to participating securities | -                     | -                                           |                        |
| <b>Basic EPS – income available to common shareholders</b>    | <b>114,201</b>        | <b>14,257,005</b>                           | <b>\$ 8.01</b>         |
| Effect of dilutive securities                                 | -                     | 161,934                                     |                        |
| <b>Diluted EPS – income available to common shareholders</b>  | <b>\$ 114,201</b>     | <b>14,418,939</b>                           | <b>\$ 7.92</b>         |

There were zero and 1,451 shares excluded from the computation of diluted earnings per share for the nine months ended September 30, 2024 and 2023, respectively, because their impact on diluted earnings per share would have been anti-dilutive.

## 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”), 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 September 30, 2024 and 2023 and no options were exercised during the three and nine months ended September 30, 2024 and 2023. During the three and nine months ended September 30, 2024 and 2023, no money was received from option exercises under the 2014 Plan.

In October 2024, the Bank's shareholders approved the 2024 Plan. Refer to Note 15 – *Subsequent Events* for additional information.

### Restricted Stock Awards and Units under the 2014 Plan

The 2014 Plan provides for the granting of RSAs and RSUs to employees, officers, and directors of the Bank.

The RSAs and RSUs granted to our employees, officers and directors under the 2014 Plan 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 September 30, 2024 were zero and \$8.6 million, respectively, and will be recognized over an average of zero and 1.2 years, respectively. There were no outstanding RSAs as of September 30, 2024,

The total fair value of vested RSUs during the three months ended September 30, 2024 and 2023 was \$91,000 and \$1,000, respectively. There were no vested RSAs as of September 30, 2024 and 2023. The total fair value of vested RSUs during the nine months ended September 30, 2024 was \$8.6 million and the total fair value of vested RSAs and RSUs during the nine months ended September 30, 2023 was \$10.2 million.

During the three months ended September 30, 2024, the Bank granted no RSAs and 2,586 RSUs and recognized \$1.8 million of compensation expense related to RSUs. During the three months ended September 30, 2023, the Bank granted no RSAs and 2,367 RSUs and recognized \$1.3 million of compensation expense related to all RSAs and RSUs.

During the nine months ended September 30, 2024, the Bank granted no RSAs and 126,822 RSUs and recognized \$5.3 million of compensation expense related to RSUs. During the nine months ended September 30, 2023, the Bank granted 14,000 RSAs and 125,666 RSUs and recognized \$3.9 million of compensation expense related to all RSAs and RSUs.

There were no non-vested RSAs under the 2014 Plan for the three and nine months ended September 30, 2024. The following is a summary of the transactions for non-vested RSUs under the 2014 Plan for the nine months ended September 30, 2024:

|                                          | Performance-based   |                                              | Time-based          |                                              |
|------------------------------------------|---------------------|----------------------------------------------|---------------------|----------------------------------------------|
|                                          | Number<br>of Shares | Weighted Average<br>Grant Date<br>Fair Value | Number<br>of Shares | Weighted Average<br>Grant Date<br>Fair Value |
| Non-Vested RSUs as of January 1, 2024    | 79,000              | \$ 64.08                                     | 254,334             | \$ 65.96                                     |
| RSUs granted                             | 24,756              | 62.63                                        | 102,066             | 73.05                                        |
| Forfeited or expired                     | -                   | -                                            | (2,322)             | 70.19                                        |
| Vested                                   | (31,500)            | 50.47                                        | (85,286)            | 50.90                                        |
| Non-Vested RSUs as of September 30, 2024 | <u>72,256</u>       | <u>\$ 69.52</u>                              | <u>268,792</u>      | <u>\$ 73.39</u>                              |

## 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 September 30, 2024 and December 31, 2023:

|                              | September 30,<br>2024 | December 31,<br>2023 |
|------------------------------|-----------------------|----------------------|
|                              | <i>(In thousands)</i> |                      |
| Commitments to extend credit | \$ 1,292,239          | \$ 1,260,740         |
| Commercial letters of credit | 4,161                 | 5,567                |
| Standby letters of credit    | <u>465,655</u>        | <u>447,588</u>       |
| Total                        | <u>\$ 1,762,055</u>   | <u>\$ 1,713,895</u>  |

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 September 30, 2024 and December 31, 2023 and is included in other liabilities on the statement of financial condition. Provision for credit losses on off-balance sheet commitments is included in other noninterest expense on the income statement. There was no provision for credit losses on off-balance sheet commitments for the three and nine months ended September 30, 2024 and 2023.

## 7. Cash Dividend

On September 19, 2024, the Bank declared a cash dividend of \$0.70 per share on 13,213,813 shares outstanding as of October 7, 2024, for distribution to holders of common stock on October 21, 2024. Total cash dividends of \$9.3 million and \$7.5 million were paid during the three months ended September 30, 2024 and 2023, respectively. Total cash dividends of \$28.3 million and \$23.6 million were paid during the nine months ended September 30, 2024 and 2023, respectively.

## 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 \$20.3 million at September 30, 2024 and \$21.2 million at December 31, 2023. The table below shows the amortized cost, gross unrecognized gains and losses and estimated fair value of securities held-to-maturity as of September 30, 2024 and December 31, 2023:

|                            | September 30, 2024 |                          |                           |                      |
|----------------------------|--------------------|--------------------------|---------------------------|----------------------|
|                            | Amortized cost     | Gross unrecognized gains | Gross unrecognized losses | Estimated fair value |
|                            | (In thousands)     |                          |                           |                      |
| Mortgage-backed securities | \$ 20,311          | \$ -                     | \$ (1,135)                | \$ 19,176            |
|                            | December 31, 2023  |                          |                           |                      |
|                            | Amortized cost     | Gross unrecognized gains | Gross unrecognized losses | Estimated fair value |
|                            | (In thousands)     |                          |                           |                      |
| Mortgage-backed securities | \$ 21,171          | \$ -                     | \$ (1,631)                | \$ 19,540            |

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 September 30, 2024 and December 31, 2023:

|                                        | September 30, 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)       |                   |                      |                   |                      |                   |
| <b>Held to maturity:</b>               |                      |                   |                      |                   |                      |                   |
| U.S. Agency mortgage-backed securities | \$ -                 | \$ -              | \$ 19,175            | \$ (1,135)        | \$ 19,175            | \$ (1,135)        |
| Total securities available-for-sale    | \$ -                 | \$ -              | \$ 19,175            | \$ (1,135)        | \$ 19,175            | \$ (1,135)        |

|                                        | December 31, 2023       |                      |                         |                      |                         |                      |
|----------------------------------------|-------------------------|----------------------|-------------------------|----------------------|-------------------------|----------------------|
|                                        | Less than 12 months     |                      | 12 months or greater    |                      | Total                   |                      |
|                                        | Estimated<br>fair value | Unrealized<br>losses | Estimated<br>fair value | Unrealized<br>losses | Estimated<br>fair value | Unrealized<br>losses |
|                                        | (In thousands)          |                      |                         |                      |                         |                      |
| <b>Held to maturity:</b>               |                         |                      |                         |                      |                         |                      |
| U.S. Agency mortgage-backed securities | \$ -                    | \$ -                 | \$ 19,540               | \$ (1,631)           | \$ 19,540               | \$ (1,631)           |
| Total securities available-for-sale    | \$ -                    | \$ -                 | \$ 19,540               | \$ (1,631)           | \$ 19,540               | \$ (1,631)           |

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 September 30, 2024 and December 31, 2023:

|                                             | September 30, 2024 |                              |                               |                         |
|---------------------------------------------|--------------------|------------------------------|-------------------------------|-------------------------|
|                                             | Amortized<br>cost  | Gross<br>unrealized<br>gains | Gross<br>unrealized<br>losses | Estimated<br>fair value |
|                                             | (In thousands)     |                              |                               |                         |
| Asset-backed securities                     | \$ 2,855           | \$ 7                         | \$ (18)                       | \$ 2,844                |
| Corporate notes                             | 125,967            | 994                          | (7,054)                       | 119,907                 |
| U.S. Agency mortgage-backed securities      | 8,317              | -                            | (249)                         | 8,068                   |
| Collateralized mortgage obligations         | 149,321            | -                            | (18,342)                      | 130,979                 |
| Municipal securities                        | 69,915             | 13                           | (7,368)                       | 62,560                  |
| U.S. Agency principal-only strip securities | 253                | -                            | (14)                          | 239                     |
| SBA securities                              | -                  | -                            | -                             | -                       |
| U.S. Treasury Bill                          | 14,951             | -                            | (2,185)                       | 12,766                  |
| Total securities available-for-sale         | \$ 371,579         | \$ 1,014                     | \$ (35,230)                   | \$ 337,363              |

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|                                             | December 31, 2023 |                              |                               |                         |
|---------------------------------------------|-------------------|------------------------------|-------------------------------|-------------------------|
|                                             | Amortized<br>cost | Gross<br>unrealized<br>gains | Gross<br>unrealized<br>losses | Estimated<br>fair value |
|                                             | (In thousands)    |                              |                               |                         |
| Asset-backed securities                     | \$ 3,000          | \$ -                         | \$ (169)                      | \$ 2,831                |
| Corporate notes                             | 100,799           | 21                           | (10,298)                      | 90,522                  |
| U.S. Agency mortgage-backed securities      | 9,530             | 1                            | (447)                         | 9,084                   |
| Collateralized mortgage obligations         | 157,540           | -                            | (22,616)                      | 134,924                 |
| Municipal securities                        | 71,805            | 25                           | (8,017)                       | 63,813                  |
| U.S. Agency principal-only strip securities | 314               | -                            | (25)                          | 289                     |
| SBA securities                              | 41                | -                            | -                             | 41                      |
| U.S. Treasury Bill                          | 14,946            | -                            | (2,608)                       | 12,338                  |
| Total securities available-for-sale         | \$ 357,975        | \$ 47                        | \$ (44,180)                   | \$ 313,842              |

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 September 30, 2024 and December 31, 2023:

|                                             | September 30, 2024      |                      |                         |                      |                         |                      |
|---------------------------------------------|-------------------------|----------------------|-------------------------|----------------------|-------------------------|----------------------|
|                                             | Less than 12 months     |                      | 12 months or greater    |                      | Total                   |                      |
|                                             | Estimated<br>fair value | Unrealized<br>losses | Estimated<br>fair value | Unrealized<br>losses | Estimated<br>fair value | Unrealized<br>losses |
| (In thousands)                              |                         |                      |                         |                      |                         |                      |
| <b>Available for sale:</b>                  |                         |                      |                         |                      |                         |                      |
| Asset-backed securities                     | \$ -                    | \$ -                 | \$ 725                  | \$ (18)              | \$ 725                  | \$ (18)              |
| Corporate notes                             | 1,860                   | (52)                 | 75,782                  | (7,002)              | 77,642                  | (7,054)              |
| U.S. Agency mortgage-backed securities      | 1,210                   | (10)                 | 6,715                   | (239)                | 7,925                   | (249)                |
| Collateralized mortgage obligations         | -                       | -                    | 130,975                 | (18,342)             | 130,975                 | (18,342)             |
| Municipal securities                        | 787                     | (3)                  | 55,181                  | (7,365)              | 55,968                  | (7,368)              |
| U.S. Agency principal-only strip securities | -                       | -                    | 239                     | (14)                 | 239                     | (14)                 |
| U.S. Treasury Bill                          | -                       | -                    | 12,766                  | (2,185)              | 12,766                  | (2,185)              |
| Total securities available-for-sale         | <u>\$ 3,857</u>         | <u>\$ (65)</u>       | <u>\$ 282,383</u>       | <u>\$ (35,165)</u>   | <u>\$ 286,240</u>       | <u>\$ (35,230)</u>   |

|                                             | December 31, 2023       |                      |                         |                      |                         |                      |
|---------------------------------------------|-------------------------|----------------------|-------------------------|----------------------|-------------------------|----------------------|
|                                             | Less than 12 months     |                      | 12 months or greater    |                      | Total                   |                      |
|                                             | Estimated<br>fair value | Unrealized<br>losses | Estimated<br>fair value | Unrealized<br>losses | Estimated<br>fair value | Unrealized<br>losses |
| (In thousands)                              |                         |                      |                         |                      |                         |                      |
| <b>Available for sale:</b>                  |                         |                      |                         |                      |                         |                      |
| Asset-backed securities                     | \$ -                    | \$ -                 | \$ 2,831                | \$ (169)             | \$ 2,831                | \$ (169)             |
| Corporate notes                             | 8,515                   | (52)                 | 79,464                  | (10,246)             | 87,979                  | (10,298)             |
| U.S. Agency mortgage-backed securities      | 178                     | (3)                  | 8,782                   | (444)                | 8,960                   | (447)                |
| Collateralized mortgage obligations         | 2                       | -                    | 134,919                 | (22,616)             | 134,921                 | (22,616)             |
| Municipal securities                        | 1,095                   | (8)                  | 54,139                  | (8,009)              | 55,234                  | (8,017)              |
| U.S. Agency principal-only strip securities | -                       | -                    | 289                     | (25)                 | 289                     | (25)                 |
| SBA securities                              | -                       | -                    | 41                      | -                    | 41                      | -                    |
| U.S. Treasury Bill                          | -                       | -                    | 12,338                  | (2,608)              | 12,338                  | (2,608)              |
| Total securities available-for-sale         | <u>\$ 9,790</u>         | <u>\$ (63)</u>       | <u>\$ 292,803</u>       | <u>\$ (44,117)</u>   | <u>\$ 302,593</u>       | <u>\$ (44,180)</u>   |

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 September 30, 2024, there were a total of nine investment securities that were in an unrealized loss position for less than 12 months and 115 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 September 30, 2024. There were no purchases of debt securities with credit deterioration during the three and nine months ended September 30, 2024.

There were zero and \$8.4 million cash proceeds from sales, calls or maturities of securities available-for-sale for the three and nine months ended September 30, 2024, respectively. Cash proceeds from sales, calls or maturities of securities available-for-sale totaled \$5.0 million and \$116.3 million for the three and nine months ended September 30, 2023, respectively. There were no net realized losses for sales and calls of securities for the three and nine months ended September 30, 2024. There were zero and \$4.1 million in net realized losses for sales and calls of securities for the three and nine months ended September 30, 2024 and 2023, respectively. The loss in 2023 related to the sale of a corporate note related to a failed financial institution. Partially offsetting this loss was a gain on the sale of a U.S. Treasury security for \$45,000.

The amortized cost and estimated fair value of securities at September 30, 2024, 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.

|                                        | <b>Available-for-Sale</b> |                                 | <b>Held-to-maturity</b>   |                                 |
|----------------------------------------|---------------------------|---------------------------------|---------------------------|---------------------------------|
|                                        | <b>Amortized<br/>Cost</b> | <b>Estimated<br/>fair value</b> | <b>Amortized<br/>Cost</b> | <b>Estimated<br/>fair value</b> |
|                                        | <i>(In thousands)</i>     |                                 | <i>(In thousands)</i>     |                                 |
| Due in one year or less                | \$ 6                      | \$ 6                            | \$ -                      | \$ -                            |
| Due after one year through five years  | 34,229                    | 33,835                          | -                         | -                               |
| Due after five years through ten years | 126,623                   | 118,534                         | 10,791                    | 10,710                          |
| Due after ten years                    | 210,721                   | 184,988                         | 9,520                     | 8,466                           |
| Total                                  | <u>\$ 371,579</u>         | <u>\$ 337,363</u>               | <u>\$ 20,311</u>          | <u>\$ 19,176</u>                |

## 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 September 30, 2024 and December 31, 2023 are summarized as follows:

|                                      | <b>September 30,<br/>2024</b> | <b>December 31,<br/>2023</b> |
|--------------------------------------|-------------------------------|------------------------------|
|                                      | <i>(In thousands)</i>         |                              |
| Real estate mortgage                 | \$ 3,635,959                  | \$ 3,448,819                 |
| Real estate construction             | 564,522                       | 425,976                      |
| Commercial & industrial              | 1,364,950                     | 1,393,830                    |
| SBA                                  | 5,424                         | 3,469                        |
| Trade finance                        | 600                           | 1,041                        |
| Consumer & other                     | 124                           | 363                          |
| Gross loans                          | <u>5,571,579</u>              | <u>5,273,498</u>             |
| Less:                                |                               |                              |
| Allowance for credit losses on loans | (76,051)                      | (78,355)                     |
| Deferred loan and fees, net          | <u>(10,414)</u>               | <u>(11,079)</u>              |
| Total loans, net                     | <u>\$ 5,485,114</u>           | <u>\$ 5,184,064</u>          |

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 \$19.4 million of non-accrual loans at September 30, 2024 compared to \$28.7 million at December 31, 2023. These loans had interest due, but not recognized, of approximately \$1.8 million and \$1.2 million at September 30, 2024 and December 31, 2023, respectively. The Bank had no loans that were past due 90 or more days and still accruing interest loan as of September 30, 2024 and December 31, 2023.

The following tables show the Bank's past due and non-accrual loans by class as of September 30, 2024 and December 31, 2023:

| September 30, 2024:             | Accruing Loans         |                        |                      |                   |              |              | Non-accrual<br>Loans | Total<br>Loans |
|---------------------------------|------------------------|------------------------|----------------------|-------------------|--------------|--------------|----------------------|----------------|
|                                 | 30-59 Days<br>Past Due | 60-89 Days<br>Past Due | 90+ Days<br>Past Due | Total<br>Past Due | Current      | Total        |                      |                |
| Loan Class                      | (In thousands)         |                        |                      |                   |              |              |                      |                |
| Real estate mortgage            |                        |                        |                      |                   |              |              |                      |                |
| Residential                     | \$ -                   | \$ 3,315               | \$ -                 | \$ 3,315          | \$ 749,159   | \$ 752,474   | \$ 979               | \$ 753,453     |
| Commercial                      | 7,751                  | 111,555                | -                    | 119,306           | 2,756,655    | 2,875,961    | 6,545                | 2,882,506      |
| Total real estate mortgage      | 7,751                  | 114,870                | -                    | 122,621           | 3,505,814    | 3,628,435    | 7,524                | 3,635,959      |
| Real estate construction        |                        |                        |                      |                   |              |              |                      |                |
| Residential                     | -                      | -                      | -                    | -                 | 274,214      | 274,214      | -                    | 274,214        |
| Commercial                      | -                      | -                      | -                    | -                 | 290,308      | 290,308      | -                    | 290,308        |
| Total real estate construction  | -                      | -                      | -                    | -                 | 564,522      | 564,522      | -                    | 564,522        |
| Commercial and Industrial       | 1,216                  | -                      | -                    | 1,216             | 1,351,896    | 1,353,112    | 11,838               | 1,364,950      |
| SBA                             | -                      | -                      | -                    | -                 | 5,424        | 5,424        | -                    | 5,424          |
| Trade Finance                   | -                      | -                      | -                    | -                 | 600          | 600          | -                    | 600            |
| Consumer & other                | -                      | -                      | -                    | -                 | 124          | 124          | -                    | 124            |
| Total as of September 30, 2024: | \$ 8,967               | \$ 114,870             | \$ -                 | \$ 123,837        | \$ 5,428,380 | \$ 5,552,217 | \$ 19,362            | \$ 5,571,579   |

| December 31, 2023:             | Accruing Loans         |                        |                      |                   |         |       | Non-accrual<br>Loans | Total<br>Loans |    |           |    |           |    |        |    |           |
|--------------------------------|------------------------|------------------------|----------------------|-------------------|---------|-------|----------------------|----------------|----|-----------|----|-----------|----|--------|----|-----------|
|                                | 30-59 Days<br>Past Due | 60-89 Days<br>Past Due | 90+ Days<br>Past Due | Total<br>Past Due | Current | Total |                      |                |    |           |    |           |    |        |    |           |
| Loan Class                     | (In thousands)         |                        |                      |                   |         |       |                      |                |    |           |    |           |    |        |    |           |
| Real estate mortgage           |                        |                        |                      |                   |         |       |                      |                |    |           |    |           |    |        |    |           |
| Residential                    | \$                     | 4,037                  | \$                   | 911               | \$      | -     | \$                   | 4,948          | \$ | 675,506   | \$ | 680,454   | \$ | 7,604  | \$ | 688,058   |
| Commercial                     |                        | -                      |                      | -                 |         | -     |                      | -              |    | 2,750,411 |    | 2,750,411 |    | 10,350 |    | 2,760,761 |
| Total real estate mortgage     |                        | 4,037                  |                      | 911               |         | -     |                      | 4,948          |    | 3,425,917 |    | 3,430,865 |    | 17,954 |    | 3,448,819 |
| Real estate construction       |                        |                        |                      |                   |         |       |                      |                |    |           |    |           |    |        |    |           |
| Residential                    |                        | -                      |                      | -                 |         | -     |                      | -              |    | 246,201   |    | 246,201   |    | -      |    | 246,201   |
| Commercial                     |                        | -                      |                      | -                 |         | -     |                      | -              |    | 179,775   |    | 179,775   |    | -      |    | 179,775   |
| Total real estate construction |                        | -                      |                      | -                 |         | -     |                      | -              |    | 425,976   |    | 425,976   |    | -      |    | 425,976   |
| Commercial and Industrial      |                        | -                      |                      | -                 |         | -     |                      | -              |    | 1,383,065 |    | 1,383,065 |    | 10,765 |    | 1,393,830 |
| SBA                            |                        | -                      |                      | -                 |         | -     |                      | -              |    | 3,469     |    | 3,469     |    | -      |    | 3,469     |
| Trade Finance                  |                        | -                      |                      | -                 |         | -     |                      | -              |    | 1,041     |    | 1,041     |    | -      |    | 1,041     |
| Consumer & other               |                        | -                      |                      | -                 |         | -     |                      | -              |    | 363       |    | 363       |    | -      |    | 363       |
| Total as of December 31, 2023: | \$                     | 4,037                  | \$                   | 911               | \$      | -     | \$                   | 4,948          | \$ | 5,239,831 | \$ | 5,244,779 | \$ | 28,719 | \$ | 5,273,498 |

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 September 30, 2024 and December 31, 2023:

|                         | Nonaccrual Loans |             |           |                                                     | Interest Income Recognized    |                              |
|-------------------------|------------------|-------------|-----------|-----------------------------------------------------|-------------------------------|------------------------------|
|                         | without<br>ACL   | with<br>ACL | Total     | Loans 90+ Days<br>Past Due and<br>Accruing Interest | Three months<br>ended 9/30/24 | Nine months<br>ended 9/30/24 |
|                         | (in thousands)   |             |           |                                                     |                               |                              |
| September 30, 2024      |                  |             |           |                                                     |                               |                              |
| Real estate mortgage:   |                  |             |           |                                                     |                               |                              |
| Residential             | \$ 979           | \$ -        | \$ 979    | \$ -                                                | \$ -                          | \$ -                         |
| Commercial              | 6,545            | -           | 6,545     | -                                                   | -                             | 264                          |
| Total R/E mortgage      | 7,524            | -           | 7,524     | -                                                   | -                             | 264                          |
| Commercial & industrial | -                | 11,838      | 11,838    | -                                                   | -                             | 860                          |
| Total                   | \$ 7,524         | \$ 11,838   | \$ 19,362 | \$ -                                                | \$ -                          | \$ 1,124                     |

|                         | Nonaccrual Loans |          |           | Loans 90+ Days    | Interest       |
|-------------------------|------------------|----------|-----------|-------------------|----------------|
|                         | without          | with     |           | Past Due and      | Twelve months  |
|                         | ACL              | ACL      | Total     | Accruing Interest | ended 12/31/23 |
|                         | (in thousands)   |          |           |                   |                |
| December 31, 2023       |                  |          |           |                   |                |
| Real estate mortgage:   |                  |          |           |                   |                |
| Residential             | \$ 7,604         | \$ -     | \$ 7,604  | \$ -              | \$ 316         |
| Commercial              | 10,350           | -        | 10,350    | -                 | 733            |
| Total R/E mortgage      | 17,954           | -        | 17,954    | -                 | 1,049          |
| Commercial & industrial | 7,385            | 3,380    | 10,765    | -                 | 1,062          |
| Total                   | \$ 25,339        | \$ 3,380 | \$ 28,719 | \$ -              | \$ 2,111       |

The following tables represents the amortized cost basis of collateral-dependent loans by class of loans as of September 30, 2024 and December 31, 2023:

|                           | Real<br>Estate    | Business<br>Assets | Total             |
|---------------------------|-------------------|--------------------|-------------------|
| <b>September 30, 2024</b> |                   |                    |                   |
| Real estate mortgage:     |                   |                    |                   |
| Residential               | \$ 2,749          | \$ -               | \$ 2,749          |
| Commercial                | 110,180           | -                  | 110,180           |
| Commercial <sup>(1)</sup> | 10,258            | 1,663              | 11,921            |
| <b>TOTAL</b>              | <b>\$ 123,187</b> | <b>\$ 1,663</b>    | <b>\$ 124,850</b> |

- 1) Collateral-dependent commercial loans include a \$9.4 million loan secured by a first deed trust on three industrial lots and an \$847,000 loan secured by single family residential real estate.

|                           | Real<br>Estate   | Business<br>Assets | Total            |
|---------------------------|------------------|--------------------|------------------|
| <b>December 31, 2023</b>  |                  |                    |                  |
| Real estate mortgage:     |                  |                    |                  |
| Residential               | \$ 7,604         | \$ -               | \$ 7,604         |
| Commercial                | 10,350           | -                  | 10,350           |
| Commercial <sup>(1)</sup> | 6,521            | -                  | 6,521            |
| <b>TOTAL</b>              | <b>\$ 24,475</b> | <b>\$ -</b>        | <b>\$ 24,475</b> |

- 1) Collateral-dependent commercial loans include a \$4.5 million loan secured by a second deed trust on three industrial properties and a \$2.0 million loan secured by a second deed trust on single family residential property.

The following tables detail activity in the allowance for credit losses on loans by portfolio segment for the three and nine months ended September 30, 2024 and 2023. 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<br>& Industrial | SBA   | Trade<br>Finance | Consumer<br>& Other | Unallocated | Total     |
|----------------------------------------------|----------------------|------------|--------------------------|------------|----------------------------|-------|------------------|---------------------|-------------|-----------|
|                                              | Residential          | Commercial | Residential              | Commercial |                            |       |                  |                     |             |           |
| <b>Three months ended September 30, 2024</b> |                      |            |                          |            |                            |       |                  |                     |             |           |
| Balance as of July 1, 2024                   | \$ 6,039             | \$ 32,460  | \$ 1,064                 | \$ 1,037   | \$ 31,739                  | \$ 25 | \$ 9             | \$ 2                | \$ 473      | \$ 72,848 |
| Provision for (reversal of) credit losses    | 747                  | 1,720      | 226                      | 337        | 330                        | 4     | (6)              | -                   | (158)       | 3,200     |
| Loans charged off                            | -                    | -          | -                        | -          | -                          | -     | -                | -                   | -           | -         |
| Recoveries                                   | -                    | -          | -                        | -          | 3                          | -     | -                | -                   | -           | 3         |
| Net (charge offs) recoveries                 | -                    | -          | -                        | -          | 3                          | -     | -                | -                   | -           | 3         |
| Balance at September 30, 2024                | \$ 6,786             | \$ 34,180  | \$ 1,290                 | \$ 1,374   | \$ 32,072                  | \$ 29 | \$ 3             | \$ 2                | \$ 315      | \$ 76,051 |
| <b>Nine months ended September 30, 2024</b>  |                      |            |                          |            |                            |       |                  |                     |             |           |
| Balance as of January 1, 2024                | \$ 6,265             | \$ 34,467  | \$ 1,143                 | \$ 873     | \$ 35,129                  | \$ 16 | \$ 5             | \$ 9                | \$ 448      | \$ 78,355 |
| Provision for (reversal of) credit losses    | 521                  | (287)      | 147                      | 501        | 9,347                      | 13    | (2)              | (7)                 | (133)       | 10,100    |
| Loans charged off                            | -                    | -          | -                        | -          | (12,409)                   | -     | -                | -                   | -           | (12,409)  |
| Recoveries                                   | -                    | -          | -                        | -          | 5                          | -     | -                | -                   | -           | 5         |
| Net (charge offs) recoveries                 | -                    | -          | -                        | -          | (12,404)                   | -     | -                | -                   | -           | (12,404)  |
| Balance at September 30, 2024                | \$ 6,786             | \$ 34,180  | \$ 1,290                 | \$ 1,374   | \$ 32,072                  | \$ 29 | \$ 3             | \$ 2                | \$ 315      | \$ 76,051 |

  

|                                              | Real Estate-Mortgage |            | Real Estate-Construction |            | Commercial<br>& Industrial | SBA   | Trade<br>Finance | Consumer<br>& Other | Unallocated | Total     |
|----------------------------------------------|----------------------|------------|--------------------------|------------|----------------------------|-------|------------------|---------------------|-------------|-----------|
|                                              | Residential          | Commercial | Residential              | Commercial |                            |       |                  |                     |             |           |
| <b>Three months ended September 30, 2023</b> |                      |            |                          |            |                            |       |                  |                     |             |           |
| Balance as of July 1, 2023                   | \$ 4,156             | \$ 32,848  | \$ 888                   | \$ 801     | \$ 31,972                  | \$ 21 | \$ 53            | \$ 8                | \$ 682      | \$ 71,429 |
| (Reversal of) provision for credit losses    | 2,226                | 554        | 208                      | 42         | 1,030                      | (9)   | (22)             | (1)                 | (528)       | 3,500     |
| Loans charged off                            | -                    | -          | -                        | -          | (80)                       | -     | -                | -                   | -           | (80)      |
| Recoveries                                   | -                    | -          | -                        | -          | -                          | -     | -                | -                   | -           | -         |
| Net (charge offs) recoveries                 | -                    | -          | -                        | -          | (80)                       | -     | -                | -                   | -           | (80)      |
| Balance at September 30, 2023                | \$ 6,382             | \$ 33,402  | \$ 1,096                 | \$ 843     | \$ 32,922                  | \$ 12 | \$ 31            | \$ 7                | \$ 154      | \$ 74,849 |
| <b>Nine months ended September 30, 2023</b>  |                      |            |                          |            |                            |       |                  |                     |             |           |
| Balance as of January 1, 2023                | \$ 2,435             | \$ 33,597  | \$ 922                   | \$ 1,086   | \$ 30,068                  | \$ -  | \$ 21            | \$ 13               | \$ 330      | \$ 68,472 |
| (Reversal of) provision for credit losses    | 3,947                | (195)      | 174                      | (243)      | 2,977                      | 12    | 10               | (6)                 | (176)       | 6,500     |
| Loans charged off                            | -                    | -          | -                        | -          | (124)                      | -     | -                | -                   | -           | (124)     |
| Recoveries                                   | -                    | -          | -                        | -          | 1                          | -     | -                | -                   | -           | 1         |
| Net (charge offs) recoveries                 | -                    | -          | -                        | -          | (123)                      | -     | -                | -                   | -           | (123)     |
| Balance at September 30, 2023                | \$ 6,382             | \$ 33,402  | \$ 1,096                 | \$ 843     | \$ 32,922                  | \$ 12 | \$ 31            | \$ 7                | \$ 154      | \$ 74,849 |

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 September 30, 2024. 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 |                   |                   |                   |                   |                   |                     | Revolving Loans<br>Converted to<br>Term During<br>the Year |                   |      | Total               |
|----------------------------|--------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|---------------------|------------------------------------------------------------|-------------------|------|---------------------|
|                            | 2024                           | 2023              | 2022              | 2021              | 2020              | Prior             | Total               | Revolving<br>Loans                                         |                   |      |                     |
| Real estate mortgage       |                                |                   |                   |                   |                   |                   |                     |                                                            |                   |      |                     |
| Pass                       | \$ 431,248                     | \$ 467,939        | \$ 734,475        | \$ 462,013        | \$ 163,205        | \$ 514,190        | \$ 2,773,070        | \$ 527,663                                                 | \$ 113,919        |      | \$ 3,414,652        |
| Special mention            | -                              | 9,304             | 9,500             | -                 | 28,936            | 27,820            | 75,560              | 32,818                                                     | -                 |      | 108,378             |
| Substandard                | -                              | -                 | -                 | -                 | 2,526             | 70,865            | 73,391              | 39,538                                                     | -                 |      | 112,929             |
| Doubtful                   | -                              | -                 | -                 | -                 | -                 | -                 | -                   | -                                                          | -                 |      | -                   |
| Real estate construction   |                                |                   |                   |                   |                   |                   |                     |                                                            |                   |      |                     |
| Pass                       | -                              | -                 | -                 | -                 | -                 | -                 | -                   | 564,522                                                    | -                 |      | 564,522             |
| Special mention            | -                              | -                 | -                 | -                 | -                 | -                 | -                   | -                                                          | -                 |      | -                   |
| Substandard                | -                              | -                 | -                 | -                 | -                 | -                 | -                   | -                                                          | -                 |      | -                   |
| Doubtful                   | -                              | -                 | -                 | -                 | -                 | -                 | -                   | -                                                          | -                 |      | -                   |
| Commercial & industrial    |                                |                   |                   |                   |                   |                   |                     |                                                            |                   |      |                     |
| Pass                       | 84,462                         | 110,205           | 103,329           | 27,928            | 20,679            | 69,268            | 415,871             | 929,516                                                    | 6,062             |      | 1,351,449           |
| Special mention            | -                              | -                 | -                 | -                 | -                 | -                 | -                   | -                                                          | -                 |      | -                   |
| Substandard                | -                              | -                 | -                 | 395               | 7,288             | 979               | 8,662               | 3,339                                                      | -                 |      | 12,001              |
| Doubtful                   | -                              | -                 | -                 | -                 | -                 | -                 | -                   | -                                                          | -                 |      | -                   |
| Loss                       | -                              | -                 | -                 | -                 | 1,500             | -                 | 1,500               | -                                                          | -                 |      | 1,500               |
| SBA                        |                                |                   |                   |                   |                   |                   |                     |                                                            |                   |      |                     |
| Pass                       | 1,627                          | 2,482             | 996               | 53                | 9                 | -                 | 5,167               | 139                                                        | 118               |      | 5,424               |
| Special mention            | -                              | -                 | -                 | -                 | -                 | -                 | -                   | -                                                          | -                 |      | -                   |
| Substandard                | -                              | -                 | -                 | -                 | -                 | -                 | -                   | -                                                          | -                 |      | -                   |
| Doubtful                   | -                              | -                 | -                 | -                 | -                 | -                 | -                   | -                                                          | -                 |      | -                   |
| Trade finance              |                                |                   |                   |                   |                   |                   |                     |                                                            |                   |      |                     |
| Pass                       | -                              | -                 | -                 | -                 | -                 | -                 | -                   | 600                                                        | -                 |      | 600                 |
| Special mention            | -                              | -                 | -                 | -                 | -                 | -                 | -                   | -                                                          | -                 |      | -                   |
| Substandard                | -                              | -                 | -                 | -                 | -                 | -                 | -                   | -                                                          | -                 |      | -                   |
| Doubtful                   | -                              | -                 | -                 | -                 | -                 | -                 | -                   | -                                                          | -                 |      | -                   |
| Consumer & other           |                                |                   |                   |                   |                   |                   |                     |                                                            |                   |      |                     |
| Pass                       | 124                            | -                 | -                 | -                 | -                 | -                 | 124                 | -                                                          | -                 |      | 124                 |
| Special mention            | -                              | -                 | -                 | -                 | -                 | -                 | -                   | -                                                          | -                 |      | -                   |
| Substandard                | -                              | -                 | -                 | -                 | -                 | -                 | -                   | -                                                          | -                 |      | -                   |
| Doubtful                   | -                              | -                 | -                 | -                 | -                 | -                 | -                   | -                                                          | -                 |      | -                   |
| <b>Total</b>               | <b>\$ 517,461</b>              | <b>\$ 589,930</b> | <b>\$ 848,300</b> | <b>\$ 490,389</b> | <b>\$ 224,143</b> | <b>\$ 683,122</b> | <b>\$ 3,353,345</b> | <b>\$ 2,098,135</b>                                        | <b>\$ 120,099</b> |      | <b>\$ 5,571,579</b> |
| <b>Gross charge-offs</b>   |                                |                   |                   |                   |                   |                   |                     |                                                            |                   |      |                     |
| <i>Nine months ended</i>   |                                |                   |                   |                   |                   |                   |                     |                                                            |                   |      |                     |
| <i>September 30, 2024:</i> |                                |                   |                   |                   |                   |                   |                     |                                                            |                   |      |                     |
| Real estate mortgage       | \$ -                           | \$ -              | \$ -              | \$ -              | \$ -              | \$ -              | \$ -                | \$ -                                                       | \$ -              | \$ - | \$ -                |
| Real estate construction   | -                              | -                 | -                 | -                 | -                 | -                 | -                   | -                                                          | -                 | -    | -                   |
| Commercial & industrial    | -                              | -                 | -                 | 522               | 1,500             | 10,387            | 12,409              | -                                                          | -                 |      | 12,409              |
| SBA                        | -                              | -                 | -                 | -                 | -                 | -                 | -                   | -                                                          | -                 |      | -                   |
| Trade finance              | -                              | -                 | -                 | -                 | -                 | -                 | -                   | -                                                          | -                 |      | -                   |
| Consumer & other           | -                              | -                 | -                 | -                 | -                 | -                 | -                   | -                                                          | -                 |      | -                   |
| <b>Total</b>               | <b>\$ -</b>                    | <b>\$ -</b>       | <b>\$ -</b>       | <b>\$ 522</b>     | <b>\$ 1,500</b>   | <b>\$ 10,387</b>  | <b>\$ 12,409</b>    | <b>\$ -</b>                                                | <b>\$ -</b>       |      | <b>\$ 12,409</b>    |

The following table presents risk grades and classified loans by recorded investment in class of loan by origination year as of December 31, 2023. 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 |                   |                   |                   |                   |                   |                     | Revolving Loans<br>Converted to<br>Term During<br>the Year |                                         |                     |
|----------------------------|--------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|---------------------|------------------------------------------------------------|-----------------------------------------|---------------------|
|                            | 2023                           | 2022              | 2021              | 2020              | 2019              | Prior             | Total               | Revolving<br>Loans                                         | Converted to<br>Term During<br>the Year | Total               |
| Real estate mortgage       |                                |                   |                   |                   |                   |                   |                     |                                                            |                                         |                     |
| Pass                       | \$ 516,295                     | \$ 798,204        | \$ 500,725        | \$ 207,307        | \$ 126,143        | \$ 556,246        | \$ 2,704,920        | \$ 683,777                                                 | \$ -                                    | \$ 3,388,697        |
| Special mention            | -                              | 9,500             | -                 | -                 | 26,969            | 4,787             | 41,256              | -                                                          | -                                       | 41,256              |
| Substandard                | -                              | 9,199             | -                 | 912               | 7,355             | 249               | 17,715              | 1,151                                                      | -                                       | 18,866              |
| Doubtful                   | -                              | -                 | -                 | -                 | -                 | -                 | -                   | -                                                          | -                                       | -                   |
| Real estate construction   |                                |                   |                   |                   |                   |                   |                     |                                                            |                                         |                     |
| Pass                       | -                              | -                 | -                 | -                 | -                 | -                 | -                   | 388,328                                                    | 37,648                                  | 425,976             |
| Special mention            | -                              | -                 | -                 | -                 | -                 | -                 | -                   | -                                                          | -                                       | -                   |
| Substandard                | -                              | -                 | -                 | -                 | -                 | -                 | -                   | -                                                          | -                                       | -                   |
| Doubtful                   | -                              | -                 | -                 | -                 | -                 | -                 | -                   | -                                                          | -                                       | -                   |
| Commercial & industrial    |                                |                   |                   |                   |                   |                   |                     |                                                            |                                         |                     |
| Pass                       | 122,996                        | 143,406           | 33,801            | 34,770            | 50,087            | 40,383            | 425,443             | 945,558                                                    | -                                       | 1,371,001           |
| Special mention            | -                              | -                 | -                 | -                 | -                 | -                 | -                   | -                                                          | -                                       | -                   |
| Substandard                | -                              | -                 | 991               | -                 | 2,021             | 1,236             | 4,248               | 15,581                                                     | -                                       | 19,829              |
| Doubtful                   | -                              | -                 | -                 | -                 | -                 | -                 | -                   | -                                                          | 3,000                                   | 3,000               |
| SBA                        |                                |                   |                   |                   |                   |                   |                     |                                                            |                                         |                     |
| Pass                       | 2,342                          | 1,030             | -                 | -                 | -                 | -                 | 3,372               | -                                                          | -                                       | 3,372               |
| Special mention            | -                              | -                 | -                 | -                 | -                 | -                 | -                   | -                                                          | -                                       | -                   |
| Substandard                | -                              | -                 | 81                | 16                | -                 | -                 | 97                  | -                                                          | -                                       | 97                  |
| Doubtful                   | -                              | -                 | -                 | -                 | -                 | -                 | -                   | -                                                          | -                                       | -                   |
| Trade finance              |                                |                   |                   |                   |                   |                   |                     |                                                            |                                         |                     |
| Pass                       | -                              | -                 | -                 | -                 | -                 | -                 | -                   | 1,041                                                      | -                                       | 1,041               |
| Special mention            | -                              | -                 | -                 | -                 | -                 | -                 | -                   | -                                                          | -                                       | -                   |
| Substandard                | -                              | -                 | -                 | -                 | -                 | -                 | -                   | -                                                          | -                                       | -                   |
| Doubtful                   | -                              | -                 | -                 | -                 | -                 | -                 | -                   | -                                                          | -                                       | -                   |
| Consumer & other           |                                |                   |                   |                   |                   |                   |                     |                                                            |                                         |                     |
| Pass                       | 363                            | -                 | -                 | -                 | -                 | -                 | 363                 | -                                                          | -                                       | 363                 |
| Special mention            | -                              | -                 | -                 | -                 | -                 | -                 | -                   | -                                                          | -                                       | -                   |
| Substandard                | -                              | -                 | -                 | -                 | -                 | -                 | -                   | -                                                          | -                                       | -                   |
| Doubtful                   | -                              | -                 | -                 | -                 | -                 | -                 | -                   | -                                                          | -                                       | -                   |
| <b>Total</b>               | <b>\$ 641,996</b>              | <b>\$ 961,339</b> | <b>\$ 535,598</b> | <b>\$ 243,005</b> | <b>\$ 212,575</b> | <b>\$ 602,901</b> | <b>\$ 3,197,414</b> | <b>\$ 2,035,436</b>                                        | <b>\$ 40,648</b>                        | <b>\$ 5,273,498</b> |
| <b>Gross charge-offs</b>   |                                |                   |                   |                   |                   |                   |                     |                                                            |                                         |                     |
| <i>Nine months ended</i>   |                                |                   |                   |                   |                   |                   |                     |                                                            |                                         |                     |
| <i>September 30, 2023:</i> |                                |                   |                   |                   |                   |                   |                     |                                                            |                                         |                     |
| Real estate mortgage       | \$ -                           | \$ -              | \$ -              | \$ -              | \$ -              | \$ -              | \$ -                | \$ -                                                       | \$ -                                    | \$ -                |
| Real estate construction   | -                              | -                 | -                 | -                 | -                 | -                 | -                   | -                                                          | -                                       | -                   |
| Commercial & industrial    | -                              | -                 | 80                | -                 | -                 | 44                | 124                 | -                                                          | -                                       | 124                 |
| SBA                        | -                              | -                 | -                 | -                 | -                 | -                 | -                   | -                                                          | -                                       | -                   |
| Trade finance              | -                              | -                 | -                 | -                 | -                 | -                 | -                   | -                                                          | -                                       | -                   |
| Consumer & other           | -                              | -                 | -                 | -                 | -                 | -                 | -                   | -                                                          | -                                       | -                   |
| <b>Total</b>               | <b>\$ -</b>                    | <b>\$ -</b>       | <b>\$ 80</b>      | <b>\$ -</b>       | <b>\$ -</b>       | <b>\$ 44</b>      | <b>\$ 124</b>       | <b>\$ -</b>                                                | <b>\$ -</b>                             | <b>\$ 124</b>       |

The following table presents a summary of loans modified with borrowers experiencing financial difficulty by type of modification as of September 30, 2024:

| September 30, 2024:       | Combination -<br>Term Extension and Interest<br>Rate Reduction |                        | Combination -<br>Term Extension and<br>Other-Than-Insignificant<br>Payment Delay |                        | Total                   |                        |
|---------------------------|----------------------------------------------------------------|------------------------|----------------------------------------------------------------------------------|------------------------|-------------------------|------------------------|
|                           | Amortized<br>Cost Basis                                        | % of Total<br>Class of | Amortized<br>Cost Basis                                                          | % of Total<br>Class of | Amortized<br>Cost Basis | % of Total<br>Class of |
|                           | <i>(In thousands)</i>                                          |                        |                                                                                  |                        |                         |                        |
| <b>Loan Type</b>          |                                                                |                        |                                                                                  |                        |                         |                        |
| Real estate mortgage      |                                                                |                        |                                                                                  |                        |                         |                        |
| Commercial                | \$ 28,500                                                      | 0.99%                  | \$ -                                                                             | 0.00%                  | \$ 28,500               | 0.99%                  |
| Commercial and industrial | 1,500                                                          | 0.11%                  | 1,216                                                                            | 0.09%                  | 2,716                   | 0.20%                  |
| <b>Total</b>              | <b>\$ 30,000</b>                                               | <b>0.54%</b>           | <b>\$ 1,216</b>                                                                  | <b>0.02%</b>           | <b>\$ 31,216</b>        | <b>0.56%</b>           |

At September 30, 2024, there were three loans that were modified with borrowers experiencing financial difficulty – one loan with a three-year extension with 0.5% reduction in interest rate from the original terms, one loan with term extension and significant payment delay with \$50,000 monthly principal payments plus accrued interest during the loan term, and another loan with both a term extension and reduction in interest rate of 75 basis points.

At December 31, 2023, there was one loan that was modified with borrowers experiencing financial difficulty. The modification was involved with a three-year extension with 0.5% reduction in interest rate from the original terms.

During the three months ended September 30, 2024, there was one commercial real estate loan, totaling \$28.5 million, that was modified with borrowers experiencing financial difficulty. During the nine months ended September 30, 2024, there was one \$1.5 million commercial and industrial loan and one \$28.5 million commercial real estate loan that was modified with borrowers experiencing financial difficulty. The terms of the \$1.2 million commercial and industrial loan modification included both a term extension and significant payment delay with \$50,000 monthly principal payments plus accrued interest during the loan term. The terms of the commercial real estate loan modification included both a term extension and reduction in interest rate of 75 basis points.

During the three and nine months ended September 30, 2023, zero and one loan, respectively, was modified with borrowers experiencing financial difficulty totaling \$3.0 million. This loan was in nonaccrual status as of September 30, 2023. The terms of this modification included term extensions, and 0.5% interest rate reduction.

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

| September 30, 2024:                   | Accruing Loans         |                        |                      |                   |                  |                  | Non-accrual<br>Loans | Total<br>Loans   |
|---------------------------------------|------------------------|------------------------|----------------------|-------------------|------------------|------------------|----------------------|------------------|
|                                       | 30-59 Days<br>Past Due | 60-89 Days<br>Past Due | 90+ Days<br>Past Due | Total<br>Past Due | Current          | Total            |                      |                  |
| Loan Class                            | (In thousands)         |                        |                      |                   |                  |                  |                      |                  |
| Real estate mortgage                  |                        |                        |                      |                   |                  |                  |                      |                  |
| Commercial                            | \$ -                   | \$ -                   | \$ -                 | \$ -              | \$ 28,500        | \$ 28,500        | \$ -                 | \$ 28,500        |
| Total real estate mortgage            | -                      | -                      | -                    | -                 | 28,500           | 28,500           | -                    | 28,500           |
| Commercial and Industrial             | 1,216                  | -                      | -                    | 1,216             | -                | 1,216            | 1,500                | 2,716            |
| <b>Total as of September 30, 2024</b> | <b>\$ 1,216</b>        | <b>\$ -</b>            | <b>\$ -</b>          | <b>\$ 1,216</b>   | <b>\$ 28,500</b> | <b>\$ 29,716</b> | <b>\$ 1,500</b>      | <b>\$ 31,216</b> |

## 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 does 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 does 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.

Loans measured for impairment based on the fair value of the underlying collateral are considered recorded at fair value on a non-recurring basis. Impaired loans include all of the Bank's non-accrual loans and certain restructured loans, all of which are reviewed individually for the amount of impairment, if any. The fair value of each loan's collateral is generally based on estimated market prices from an independently prepared appraisal, which is then adjusted for the cost related to liquidating such collateral;

such valuation inputs result in a 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 impaired loans are measured at fair value based generally on unobservable inputs, such as the strength of a guarantor, discounted cash flow models and management's judgment; the fair value measurement of these loans is also categorized as a Level 3 measurement. Fair values were estimated for portfolios of loans with similar financial characteristics. Each loan category was further segmented into fixed and adjustable rate interest terms and by performing and non-performing categories.

(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 September 30, 2024 and December 31, 2023 are summarized in the tables below:

| September 30, 2024                |                                    |                    |                         |
|-----------------------------------|------------------------------------|--------------------|-------------------------|
|                                   | Fair Value<br>Measurement<br>Using | Carrying<br>Amount | Estimated<br>Fair Value |
| <i>(In thousands)</i>             |                                    |                    |                         |
| <b>Assets:</b>                    |                                    |                    |                         |
| Cash and cash equivalents         | Level 1                            | \$ 804,994         | \$ 804,994              |
| Securities held-to-maturity       | Level 2                            | 20,311             | 19,176                  |
| Securities available-for-sale (1) | Level 2/3                          | 337,363            | 337,363                 |
| Loans held for sale               | Level 2                            | 225                | 225                     |
| Loans receivable, net             | Level 3                            | 5,485,114          | 5,706,474               |
| Accrued interest receivable (2)   | Level 2/3                          | 35,562             | 35,562                  |
| Federal Home Loan Bank stock      | Level 2                            | 15,000             | N/A                     |
| <b>Liabilities:</b>               |                                    |                    |                         |
| Demand deposits and savings:      |                                    |                    |                         |
| Noninterest-bearing               | Level 2                            | \$ 682,859         | \$ 682,859              |
| Interest-bearing                  | Level 2                            | 2,024,081          | 2,024,081               |
| Time deposits                     | Level 2                            | 3,160,824          | 3,166,216               |
| Subordinated debt issuance        | Level 2                            | 148,410            | 173,902                 |
| Accrued interest payable          | Level 2                            | 16,001             | 16,001                  |

(1) Includes one \$7.1 million corporate note measured at fair value on a recurring basis using significant unobservable (Level 3) inputs as of September 30, 2024.

(2) Includes \$3.7 million of accrued interest on investment securities and other earning asset accounts using Level 2 fair value measurements and \$73 thousand of accrued interest on one corporate note and \$31.8 million of accrued interest on loans receivable using Level 3 measurements as of September 30, 2024.

| December 31, 2023                   |                                    |                    |                         |
|-------------------------------------|------------------------------------|--------------------|-------------------------|
|                                     | Fair Value<br>Measurement<br>Using | Carrying<br>Amount | Estimated<br>Fair Value |
| <i>(In thousands)</i>               |                                    |                    |                         |
| <b>Assets:</b>                      |                                    |                    |                         |
| Cash and cash equivalents           | Level 1                            | \$ 910,852         | \$ 910,852              |
| Securities held-to-maturity         | Level 2                            | 21,171             | 19,540                  |
| Securities available-for-sale       | Level 2                            | 313,842            | 313,842                 |
| Loans receivable, net               | Level 3                            | 5,184,064          | 5,352,530               |
| Loans held for sale                 | Level 2                            | 360                | 360                     |
| Customers' liability on acceptances | Level 2                            | 315                | 315                     |
| Accrued interest receivable (1)     | Level 2/3                          | 33,892             | 33,892                  |
| Federal Home Loan Bank stock        | Level 2                            | 15,000             | N/A                     |
| <b>Liabilities:</b>                 |                                    |                    |                         |
| Demand deposits and savings:        |                                    |                    |                         |
| Noninterest-bearing                 | Level 2                            | \$ 786,995         | \$ 786,995              |
| Interest-bearing                    | Level 2                            | 2,104,323          | 2,104,323               |
| Time deposits                       | Level 2                            | 2,818,024          | 2,813,824               |
| Subordinated debt issuance          | Level 2                            | 148,232            | 173,349                 |
| Acceptances outstanding             | Level 2                            | 315                | 315                     |
| Accrued interest payable            | Level 2                            | 16,124             | 16,124                  |

(1) Includes \$3.2 million of accrued interest on investment securities using Level 2 fair value measurements and \$30.7 million of accrued interest on loans receivable using Level 3 measurements as of December 31, 2023.

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 Bill* – 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 September 30, 2024 and December 31, 2023.

| Assets                                 | Fair Value Measurements Using |             |              | Balance at<br>September 30, 2024 |
|----------------------------------------|-------------------------------|-------------|--------------|----------------------------------|
|                                        | Quoted Prices in              |             |              |                                  |
|                                        | Active Markets                | Significant | Significant  |                                  |
|                                        | for Identical                 | Observable  | Unobservable |                                  |
|                                        | Assets                        | Inputs      | Inputs       |                                  |
|                                        | (Level 1)                     | (Level 2)   | (Level 3)    |                                  |
| (In thousands)                         |                               |             |              |                                  |
| Securities, available-for-sale:        |                               |             |              |                                  |
| Asset-backed securities                | \$ -                          | \$ 2,844    | \$ -         | \$ 2,844                         |
| Corporate notes                        | -                             | 112,774     | 7,133        | 119,907                          |
| U.S. Agency mortgage-backed securities | -                             | 8,068       | -            | 8,068                            |
| Collateralized mortgage obligations    | -                             | 130,979     | -            | 130,979                          |
| Municipal securities                   | -                             | 62,560      | -            | 62,560                           |
| U.S. Agency principal-only strips      | -                             | 239         | -            | 239                              |
| SBA Securities                         | -                             | -           | -            | -                                |
| U.S. Treasury Bill                     | -                             | 12,766      | -            | 12,766                           |
| Total                                  | \$ -                          | \$ 330,230  | \$ 7,133     | \$ 337,363                       |

| Assets                                 | Fair Value Measurements Using |             |              | Balance at<br>December 31, 2023 |
|----------------------------------------|-------------------------------|-------------|--------------|---------------------------------|
|                                        | Quoted Prices in              |             |              |                                 |
|                                        | Active Markets                | Significant | Significant  |                                 |
|                                        | for Identical                 | Observable  | Unobservable |                                 |
|                                        | Assets                        | Inputs      | Inputs       |                                 |
|                                        | (Level 1)                     | (Level 2)   | (Level 3)    |                                 |
| <i>(In thousands)</i>                  |                               |             |              |                                 |
| <b>Securities, available-for-sale:</b> |                               |             |              |                                 |
| Asset-backed securities                | \$ -                          | \$ 2,831    | \$ -         | \$ 2,831                        |
| Corporate notes                        | -                             | 90,522      | -            | 90,522                          |
| U.S. Agency mortgage-backed securities | -                             | 9,084       | -            | 9,084                           |
| Collateralized mortgage obligations    | -                             | 134,924     | -            | 134,924                         |
| Municipal securities                   | -                             | 63,813      | -            | 63,813                          |
| U.S. Agency principal-only strips      | -                             | 289         | -            | 289                             |
| SBA Securities                         | -                             | 41          | -            | 41                              |
| U.S. Treasury Bill                     | -                             | 12,338      | -            | 12,338                          |
| Total                                  | \$ -                          | \$ 313,842  | \$ -         | \$ 313,842                      |

There was one corporate note security that was transferred from Level 2 to Level 3 during the first quarter of 2024. There were no transfers during the three months ended September 30, 2024. There were no transfers between Level 2 to Level 3 during the three and nine months ended September 30, 2023.

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 and repossessed assets – Real estate and repossessed assets acquired in the settlement of loans is initially recorded at fair value, less estimated costs to sell. The Bank records other real estate owned at fair value on a non-recurring basis. 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 were \$15.1 million and \$16.7 million of other real estate owned and repossessed assets measured at estimated fair value on a non-recurring basis at September 30, 2024 and December 31, 2023, respectively. There were \$1.6 million in losses resulting from the measurement of other real estate owned measured on a non-recurring basis for the three and nine months ending September 30, 2024. There were zero and \$1.9 million of losses resulting from the measurement of other real estate owned or repossessed assets measured on a non-recurring basis for the three and nine months ending September 30, 2023, respectively.

The following table presents the Bank's hierarchy for its assets measured at estimated fair value on a nonrecurring basis at September 30, 2024 and December 31, 2023, and the total losses resulting from these fair value adjustments:

|                               | Fair Value Measurements Using |             |              | Balance at<br>September 30, 2024 | Three Months<br>Ended<br>September 30, 2024<br>Total Losses | Nine Months<br>Ended<br>September 30, 2024<br>Total Losses |
|-------------------------------|-------------------------------|-------------|--------------|----------------------------------|-------------------------------------------------------------|------------------------------------------------------------|
|                               | Quoted Prices                 | Significant | Significant  |                                  |                                                             |                                                            |
|                               | Active Markets                | Observable  | Unobservable |                                  |                                                             |                                                            |
|                               | for Identical                 | Inputs      | Inputs       |                                  |                                                             |                                                            |
|                               | Assets                        | (Level 2)   | (Level 3)    |                                  |                                                             |                                                            |
| (Level 1)                     |                               |             |              |                                  |                                                             |                                                            |
| <i>(Dollars in thousands)</i> |                               |             |              |                                  |                                                             |                                                            |
| Real estate owned             | \$ -                          | \$ -        | \$ 14,991    | \$ 14,991                        | \$ (1,634)                                                  | \$ (1,634)                                                 |
| Total                         | \$ -                          | \$ -        | \$ 14,991    | \$ 14,991                        | \$ (1,634)                                                  | \$ (1,634)                                                 |

| Fair Value Measurements Using |                                                                         |                                                  |                                                    |                                 |                                                    |
|-------------------------------|-------------------------------------------------------------------------|--------------------------------------------------|----------------------------------------------------|---------------------------------|----------------------------------------------------|
|                               | Quoted Prices<br>Active Markets<br>for Identical<br>Assets<br>(Level 1) | Significant<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Balance at<br>December 31, 2023 | Year<br>Ended<br>December 31, 2023<br>Total Losses |
|                               | <i>(Dollars in thousands)</i>                                           |                                                  |                                                    |                                 |                                                    |
| Real estate owned             | \$ -                                                                    | \$ -                                             | \$ 16,625                                          | \$ 16,625                       | \$ 1,900                                           |
| Total                         | \$ -                                                                    | \$ -                                             | \$ 16,625                                          | \$ 16,625                       | \$ 1,900                                           |

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 September 30, 2024 and December 31, 2023:

#### At September 30, 2024

|                   | Fair Value                    | Valuation Technique | Unobservable Input      | Range |
|-------------------|-------------------------------|---------------------|-------------------------|-------|
|                   | <i>(Dollars in thousands)</i> |                     |                         |       |
| Real estate owned | \$ 14,991                     | Market comparable   | Adjustment to appraisal | 4%    |

#### At December 31, 2023

|                   | Fair Value                    | Valuation Technique | Unobservable Input      | Range |
|-------------------|-------------------------------|---------------------|-------------------------|-------|
|                   | <i>(Dollars in thousands)</i> |                     |                         |       |
| Real estate owned | \$ 16,625                     | Market comparable   | Adjustment to appraisal | 5%    |

## 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 September 30, 2024, the Bank had ten investments, with a carrying value of \$58.0 million. Commitments to fund investment in affordable housing partnerships as of September 30, 2024 totaled \$23.6 million. As of December 31, 2023, the Bank had ten investments with a carrying value of \$65.3 million and a further commitment to fund \$30.8 million.

## 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 September 30, 2024 and December 31, 2023, the Bank determined that a valuation allowance for deferred tax assets was not required.

Income tax expense was \$13.6 million and \$41.0 million for the three and nine months ended September 30, 2024 representing an effective tax rate of 29.00% in both periods. Income tax expense was \$15.2 million and \$45.5 million for the three and nine months ended September 30, 2023 representing an effective tax rate of 28.50% in both periods. 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 September 30, 2024 and December 31, 2023, 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.

### 13. Long-Term Debt

A summary of outstanding long-term debt at September 30, 2024 and December 31, 2023 follows:

|                                                       | As of<br>September 30, 2024 | As of<br>December 31, 2023 | Interest<br>Rate | Maturity<br>Date | Earliest<br>Call Date |
|-------------------------------------------------------|-----------------------------|----------------------------|------------------|------------------|-----------------------|
|                                                       | <i>(in thousands)</i>       |                            |                  |                  |                       |
| Subordinated notes payable<br>(\$150,000 face amount) | \$ 148,410                  | \$ 148,232                 | 3.375%           | June 15, 2031    | June 15, 2026         |

### 14. Leases

The Bank is obligated under non-cancellable operating leases for our corporate office/main branch, thirteen branch offices, one administrative office, one loan production office and one satellite office. Our leases have remaining terms of less than one year to 10 years, with a weighted average remaining lease term of 8.1 years as of September 30, 2024. 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 September 30, 2024, operating lease right-of-use (“ROU”) assets and related liabilities were \$30.5 million and \$26.7 million, respectively. For the three and nine months ended September 30, 2024, the recorded operating lease expense was \$748,000 and \$2.1 million, respectively. For the three and nine months ended September 30, 2023, the recorded operating lease expense was \$674,000 and \$2.0 million, respectively. For the three and nine months ended September 30, 2024, cash payments for operating leases were \$1.3 million and \$3.7 million, respectively. For the three and nine months ended September 30, 2023, cash payments for operating leases were \$1.1 million and \$3.3 million, respectively.

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 September 30, 2024.

|                               |    |               |
|-------------------------------|----|---------------|
| <i>(Dollars in thousands)</i> |    |               |
| 2024                          | \$ | 1,282         |
| 2025                          |    | 4,275         |
| 2026                          |    | 4,399         |
| 2027                          |    | 4,214         |
| 2028                          |    | 4,040         |
| Thereafter                    |    | 14,541        |
| Total future lease payments   | \$ | 32,751        |
| Discount to present value     |    | (6,021)       |
| Total lease liability         | \$ | <u>26,730</u> |

## 15. Subsequent Events

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.

In October 2024, the Bank entered into a lease agreement for a new branch in Manhattan, New York. The lease is for an initial period of five years.

## **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)), one branch in Flushing, New York, 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:

| <i>(Dollars in thousands, except per share amounts)</i> | Three months ended<br>September 30, |        | Nine months ended<br>September 30, |        |
|---------------------------------------------------------|-------------------------------------|--------|------------------------------------|--------|
|                                                         | 2024                                | 2023   | 2024                               | 2023   |
| <b>Selected Financial Ratios:</b>                       |                                     |        |                                    |        |
| Return on average assets (annualized)                   | 1.95%                               | 2.25%  | 1.97%                              | 2.33%  |
| Return on average shareholders' equity (annualized)     | 17.77%                              | 22.35% | 18.57%                             | 22.83% |
| Net interest margin                                     | 4.10%                               | 4.39%  | 4.08%                              | 4.58%  |
| Efficiency ratio                                        | 30.55%                              | 25.04% | 28.97%                             | 26.12% |
| Net charge-offs to average loans                        | 0.00%                               | 0.01%  | 0.31%                              | 0.00%  |
| <b>Selected Asset Quality Ratios:</b>                   |                                     |        |                                    |        |
| Non-performing loans to total loans                     |                                     | 0.35%  | 0.54%                              | 0.38%  |
| Non-performing asset to total assets                    |                                     | 0.50%  | 0.68%                              | 0.54%  |
| Allowance for credit losses to total loans              |                                     | 1.36%  | 1.49%                              | 1.46%  |
| Allowance for credit losses to non-performing loans     |                                     | 3.93x  | 2.73x                              | 3.86x  |
| <b>Liquidity and Capital Ratios:</b>                    |                                     |        |                                    |        |
| Tier 1 leverage capital ratio                           |                                     | 11.28% | 10.85%                             | 10.46% |
| Common equity tier 1 risk-based capital ratio           |                                     | 11.66% | 11.57%                             | 11.63% |
| Tier 1 risk-based capital ratio                         |                                     | 11.66% | 11.57%                             | 11.63% |
| Total risk-based capital ratio                          |                                     | 15.06% | 15.18%                             | 15.32% |

At September 30, 2024, assets totaled \$6.87 billion, an increase of \$213.1 million, or 3.2% from \$6.66 billion at December 31, 2023. Our loan portfolio increased \$298.1 million to \$5.57 billion at September 30, 2024, from \$5.27 billion at December 31, 2023. At September 30, 2024, deposits totaled \$5.87 billion, an increase of \$158.4 million, or 2.8% from \$5.71 billion at December 31, 2023. We recorded net income per share on a diluted basis of \$2.46 for the three months ended September 30, 2024, as compared to net income per share on a diluted basis of \$2.71 for the three months ended September 30, 2023. We recorded net income per share on a diluted basis of \$7.39 for the nine months ended September 30, 2024, as compared to net income per share on a diluted basis of \$7.92 for the nine months ended September 30, 2023. Our net interest income before provision for credit losses for the three and nine month periods decreased compared to the same three and nine month periods a year ago, primarily due to increases in the cost of interest-bearing liabilities outpacing yields on interest-earning assets. For the third quarter of 2024 and 2023, return on average assets was 1.95% and 2.25%, respectively, while return on average equity was 17.77% for the third quarter of 2024, compared to 22.35% for the third quarter of 2023. For the nine months ended September 30, 2024, return on average assets was 1.97%, compared to 2.33% from the same period in 2023, while return on average equity was 18.57%, compared to 22.83% for the same period in 2023.

Non-performing assets were \$34.4 million and \$45.4 million as of September 30, 2024 and December 31, 2023, respectively. The decrease in non-performing assets is primarily due to nonaccrual loan activity that included \$36.9 million of additions, offset by \$18.0 million of loans that cured back to accrual, \$21.8 million in note sales, \$9.2 million in paydowns and \$2.9 million in charge-offs and the OREO valuation allowance of \$1.6 million, offset by \$42.5 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. 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, as they come up for renewal/maturity. This may mute 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 50 basis points at its September 2024 meeting. 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.

## **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.

In the first quarter of 2024, the commercial and industrial segmentation was bifurcated with shared national credit ("SNC") loans separated to become a separate loan segmentation. Bifurcating shared national credit loans allows the Bank to monitor SNC's more in detail compared to other commercial and industrial loans. As a result, the Bank has defined criteria and enhanced the framework around its leveraged lending. This includes establishing controls for proper identification and developing limits to ensure leveraged credits are appropriately identified, measured, monitored, and controlled. Presently, credit exposure related to SNC remained manageable based on historical trends.

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<br>September 30, |           | Nine months ended<br>September 30, |            |
|----------------------------------------------------------------|-------------------------------------|-----------|------------------------------------|------------|
|                                                                | 2024                                | 2023      | 2024                               | 2023       |
| <i>(Dollars in thousands, except per share amounts)</i>        |                                     |           |                                    |            |
| Net income                                                     | \$ 33,383                           | \$ 38,192 | \$ 100,441                         | \$ 114,201 |
| Net income available to common shareholders, basic             | 33,383                              | 38,192    | 100,441                            | 114,201    |
| Net income available to common shareholders per share, basic   | 2.50                                | 2.74      | 7.50                               | 8.01       |
| Net income available to common shareholders, diluted           | 33,383                              | 38,192    | 100,441                            | 114,201    |
| Net income available to common shareholders per share, diluted | 2.46                                | 2.71      | 7.39                               | 7.92       |
| Return on average assets (annualized)                          | 1.95%                               | 2.25%     | 1.97%                              | 2.33%      |
| Return on average shareholders' equity (annualized)            | 17.77%                              | 22.35%    | 18.57%                             | 22.83%     |

|                                                                | Three months ended<br>September 30, |            |                        | Nine months ended<br>September 30, |            |                        |
|----------------------------------------------------------------|-------------------------------------|------------|------------------------|------------------------------------|------------|------------------------|
|                                                                | 2024                                | 2023       | Increase<br>(Decrease) | 2024                               | 2023       | Increase<br>(Decrease) |
| <b>Statement of Operations Data:</b>                           |                                     |            |                        |                                    |            |                        |
| Interest income                                                | \$ 129,424                          | \$ 125,529 | \$ 3,895               | \$ 383,238                         | \$ 353,024 | \$ 30,214              |
| Interest expense                                               | 60,576                              | 52,575     | 8,001                  | 179,783                            | 133,046    | 46,737                 |
| Net interest income                                            | 68,848                              | 72,954     | (4,106)                | 203,455                            | 219,978    | (16,523)               |
| Provision for credit losses                                    | 3,200                               | 3,500      | (300)                  | 10,100                             | 6,500      | 3,600                  |
| Net interest income after provision for credit losses          | 65,648                              | 69,454     | (3,806)                | 193,355                            | 213,478    | (20,123)               |
| Noninterest income                                             | 3,459                               | 2,972      | 487                    | 9,928                              | 5,007      | 4,921                  |
| Noninterest expense                                            | 22,089                              | 19,009     | 3,080                  | 61,814                             | 58,761     | 3,053                  |
| Income before income taxes                                     | 47,018                              | 53,417     | (6,399)                | 141,469                            | 159,724    | (18,255)               |
| Income tax expense                                             | 13,635                              | 15,225     | (1,590)                | 41,028                             | 45,523     | (4,495)                |
| Net income                                                     | \$ 33,383                           | \$ 38,192  | \$ (4,809)             | \$ 100,441                         | \$ 114,201 | \$ (13,760)            |
| Net income available to common shareholders per share, basic   | \$ 2.50                             | \$ 2.74    | \$ (0.24)              | \$ 7.50                            | \$ 8.01    | \$ (0.51)              |
| Net income available to common shareholders per share, diluted | \$ 2.46                             | \$ 2.71    | \$ (0.25)              | \$ 7.39                            | \$ 7.92    | \$ (0.53)              |

### ***Net Interest Income and Net Interest Margin***

Net interest income before provision for credit losses decreased to \$68.8 million for the three months ended September 30, 2024 compared to \$73.0 million for the same period of 2023. Our net interest margin for the third quarter of 2024 was 4.10%, a decrease of 29 basis points from 4.39% for the same period of 2023 due to the impact increases in the Federal Reserve benchmark interest rate has had on the cost of interest-bearing liabilities.

Net interest income before provision for credit losses decreased to \$203.5 million for the nine months ended September 30, 2024 compared to \$220.0 million for the same period of 2023. Our net interest margin for the nine months of 2024 was 4.08%, a decrease of 50 basis points from 4.58% for the same period of 2023 due to the impact increases in the Federal Reserve benchmark interest rate has had on the cost of interest-bearing liabilities.

For the three months ended September 30, 2024, the average yield on interest-earning assets was 7.71%, an increase of 16 basis points from 7.55% for the same period of 2023. For the nine months ended September 30, 2024, the average yield on interest-earning assets was 7.68%, an increase of 34 basis points from 7.34% for the same period of 2023. The increases in yield during the three month period was primarily due to the increases in market interest rates during 2022 and into 2023. 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 September 30, 2024, average interest-earning assets totaled \$6.68 billion, an increase of \$87.2 million from the comparable 2023 period. For the nine months ended September 30, 2024, average interest-earning assets totaled \$6.67 billion, an increase of \$229.6 million from the comparable 2023 period. The increase in average interest-earning assets during the three-month and nine-month periods was primarily related to growth in the loan portfolio, partially offset by lower average balances of investment securities and cash balances.

As of September 30, 2024, 60% of our loan portfolio was tied to the Prime Rate, which has the potential to re-price daily, and 24% was tied to the Secured Overnight Financing Rate, or SOFR, and other indices which re-price periodically, respectively. The remaining 16% of the portfolio was either fixed rate or had an interest rate tied to the certificate of deposit on which it was collateralized. Approximately 75% 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 97% of our loans tied to the Prime rate had interest rate floors. Approximately 13% 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 increased 46 basis points to 4.57% for the three months ended September 30, 2024 from 4.11% for the same period of 2023. The average cost of interest-bearing liabilities increased 90 basis points to 4.57% for the nine months ended September 30, 2024 from 3.67% for the same period of 2023. The increase in the cost of interest-bearing liabilities during the three-month period was primarily due to the overall impact of increasing market interest rates and its effect on the cost of existing and new deposit accounts. For the three months ended September 30, 2024, average interest-bearing deposits totaled \$5.12 billion, an increase of \$324.0 million from the comparable 2023 period. For the nine months ended September 30, 2024, average interest-bearing deposits totaled \$5.11 billion, an increase of \$508.7 million from the comparable 2023 period. The increase in average interest-bearing deposits during the three-month and nine month periods was primarily due to growth in time deposits, and interest-bearing demand and savings accounts based on higher market deposit rates. Average FHLB advances were zero for the three months ended September 30, 2024, compared to \$120.7 million for the same period in 2023 when the steps taken in the aftermath of the 2023 bank failures led to an outsized increase in the Bank's overall

cost of funds as the Bank took out \$150 million in a short term FHLB advance to increase liquidity in an abundance of caution, which it otherwise would not have done. The cost of this advance was higher than the deposit rates we would have paid during this period. The short-term FHLB advance matured in September of 2023. Average FHLB advances were zero for the nine months ended September 30, 2024, compared to \$101.1 million for the same period in 2023. It should be noted however that the Bank's average cost of interest-bearing liabilities actually decreased in the third quarter of 2024 compared to the quarter ended June 30, 2024 by 3 basis points

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 September 30, |                            |                       |                     |                            |                       |
|---------------------------------------------|----------------------------------|----------------------------|-----------------------|---------------------|----------------------------|-----------------------|
|                                             | 2024                             |                            |                       | 2023                |                            |                       |
|                                             | Average Balance                  | Interest Income or Expense | Average Yield or Cost | Average Balance     | Interest Income or Expense | Average Yield or Cost |
| <b>ASSETS</b>                               |                                  |                            |                       |                     |                            |                       |
| <i>(Dollars in thousands)</i>               |                                  |                            |                       |                     |                            |                       |
| Interest-earning assets:                    |                                  |                            |                       |                     |                            |                       |
| Loans <sup>(1,2)</sup>                      | \$ 5,459,842                     | \$ 114,112                 | 8.31%                 | \$ 5,086,302        | \$ 106,695                 | 8.32%                 |
| Investment securities <sup>(3)</sup>        | 356,590                          | 3,610                      | 4.03%                 | 368,968             | 3,422                      | 3.68%                 |
| Federal funds sold                          | 20,164                           | 280                        | 5.52%                 | 20,111              | 278                        | 5.48%                 |
| Other earning assets                        | 848,170                          | 11,521                     | 5.40%                 | 1,122,176           | 15,235                     | 5.39%                 |
| Total interest-earning assets               | 6,684,766                        | 129,523                    | 7.71%                 | 6,597,557           | 125,630                    | 7.55%                 |
| Deferred loan fees, net                     | (10,248)                         |                            |                       | (10,071)            |                            |                       |
| Allowance for credit losses on loans        | (72,899)                         |                            |                       | (71,503)            |                            |                       |
| Noninterest earning assets:                 |                                  |                            |                       |                     |                            |                       |
| Cash and due from banks                     | 10,826                           |                            |                       | 12,101              |                            |                       |
| Bank furniture and fixtures                 | 9,419                            |                            |                       | 8,814               |                            |                       |
| Right of use assets                         | 22,496                           |                            |                       | 21,491              |                            |                       |
| Other assets                                | 173,619                          |                            |                       | 161,470             |                            |                       |
| Total assets                                | <u>\$ 6,817,979</u>              |                            |                       | <u>\$ 6,719,859</u> |                            |                       |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b> |                                  |                            |                       |                     |                            |                       |
| Interest-bearing liabilities:               |                                  |                            |                       |                     |                            |                       |
| Deposits:                                   |                                  |                            |                       |                     |                            |                       |
| Interest-bearing demand/savings             | \$ 2,249,260                     | \$ 23,295                  | 4.12%                 | \$ 2,119,373        | \$ 20,324                  | 3.80%                 |
| TCD \$250K or more                          | 1,412,073                        | 17,866                     | 5.03%                 | 1,251,397           | 14,085                     | 4.47%                 |
| Other time certificates                     | 1,462,912                        | 18,090                     | 4.92%                 | 1,429,457           | 15,284                     | 4.24%                 |
| Total interest-bearing deposits             | 5,124,245                        | 59,251                     | 4.60%                 | 4,800,227           | 49,693                     | 4.11%                 |
| Advances from FHLB                          | -                                | -                          | 0.00%                 | 120,652             | 1,557                      | 5.12%                 |
| Subordinated debt                           | 148,372                          | 1,325                      | 3.55%                 | 148,135             | 1,325                      | 3.55%                 |
| Total interest-bearing liabilities          | 5,272,617                        | 60,576                     | 4.57%                 | 5,069,014           | 52,575                     | 4.11%                 |
| Non-interest bearing liabilities:           |                                  |                            |                       |                     |                            |                       |
| Demand deposits                             | 703,982                          |                            |                       | 854,123             |                            |                       |
| Lease Liability                             | 18,882                           |                            |                       | 19,759              |                            |                       |
| Other liabilities                           | 75,276                           |                            |                       | 98,943              |                            |                       |
| Total liabilities                           | 6,070,757                        |                            |                       | 6,041,839           |                            |                       |
| Shareholders' equity                        | 747,222                          |                            |                       | 678,020             |                            |                       |
| Total liabilities and shareholders' equity  | <u>\$ 6,817,979</u>              |                            |                       | <u>\$ 6,719,859</u> |                            |                       |
| Net interest income                         |                                  | <u>\$ 68,947</u>           |                       |                     | <u>\$ 73,055</u>           |                       |
| Net interest spread                         |                                  |                            | 3.14%                 |                     |                            | 3.44%                 |
| Net interest margin                         |                                  |                            | 4.10%                 |                     |                            | 4.39%                 |

<sup>(1)</sup> Includes average non-accrual loans and loans held for sale.

<sup>(2)</sup> Includes net loan fee income of \$991,000 and \$1.3 million for the quarter ended September 30, 2024 and 2023, respectively.

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

|                                             | Nine months ended September 30, |                                  |                             |                     |                                  |                             |
|---------------------------------------------|---------------------------------|----------------------------------|-----------------------------|---------------------|----------------------------------|-----------------------------|
|                                             | 2024                            |                                  |                             | 2023                |                                  |                             |
|                                             | Average<br>Balance              | Interest<br>Income or<br>Expense | Average<br>Yield or<br>Cost | Average<br>Balance  | Interest<br>Income or<br>Expense | Average<br>Yield or<br>Cost |
| <b>ASSETS</b>                               |                                 |                                  |                             |                     |                                  |                             |
| <i>(Dollars in thousands)</i>               |                                 |                                  |                             |                     |                                  |                             |
| Interest-earning assets:                    |                                 |                                  |                             |                     |                                  |                             |
| Loans <sup>(1,2)</sup>                      | \$ 5,350,465                    | \$ 333,543                       | 8.33%                       | \$ 5,048,452        | \$ 304,796                       | 8.07%                       |
| Investment securities <sup>(3)</sup>        | 352,982                         | 10,691                           | 4.05%                       | 402,971             | 11,125                           | 3.69%                       |
| Federal funds sold                          | 20,472                          | 854                              | 5.57%                       | 20,111              | 774                              | 5.14%                       |
| Other earning assets                        | 942,520                         | 38,448                           | 5.45%                       | 965,355             | 36,633                           | 5.07%                       |
| Total interest-earning assets               | 6,666,439                       | 383,536                          | 7.68%                       | 6,436,889           | 353,328                          | 7.34%                       |
| Deferred loan fees, net                     | (10,466)                        |                                  |                             | (10,142)            |                                  |                             |
| Allowance for loan losses                   | (76,775)                        |                                  |                             | (69,653)            |                                  |                             |
| Noninterest earning assets:                 |                                 |                                  |                             |                     |                                  |                             |
| Cash and due from banks                     | 10,693                          |                                  |                             | 11,912              |                                  |                             |
| Bank furniture and fixtures                 | 9,762                           |                                  |                             | 8,931               |                                  |                             |
| Right of use assets                         | 22,462                          |                                  |                             | 21,780              |                                  |                             |
| Other assets                                | 177,893                         |                                  |                             | 161,238             |                                  |                             |
| Total assets                                | <u>\$ 6,800,008</u>             |                                  |                             | <u>\$ 6,560,955</u> |                                  |                             |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b> |                                 |                                  |                             |                     |                                  |                             |
| Interest-bearing liabilities:               |                                 |                                  |                             |                     |                                  |                             |
| Deposits:                                   |                                 |                                  |                             |                     |                                  |                             |
| Interest-bearing demand/ savings            | \$ 2,240,038                    | \$ 69,944                        | 4.17%                       | \$ 2,097,613        | \$ 53,854                        | 3.43%                       |
| TCD \$250K or more                          | 1,377,621                       | 51,662                           | 5.01%                       | 1,258,870           | 37,600                           | 3.99%                       |
| Other time certificates                     | 1,493,096                       | 54,202                           | 4.85%                       | 1,245,556           | 33,798                           | 3.63%                       |
| Total interest-bearing deposits             | 5,110,755                       | 175,808                          | 4.59%                       | 4,602,039           | 125,252                          | 3.64%                       |
| Advances from FHLB                          | -                               | -                                | 0.00%                       | 101,099             | 3,819                            | 5.05%                       |
| Subordinated debt                           | 148,313                         | 3,975                            | 3.58%                       | 148,076             | 3,975                            | 3.59%                       |
| Total interest-bearing liabilities          | 5,259,068                       | 179,783                          | 4.57%                       | 4,851,214           | 133,046                          | 3.67%                       |
| Non-interest bearing liabilities:           |                                 |                                  |                             |                     |                                  |                             |
| Demand deposits                             | 719,800                         |                                  |                             | 937,184             |                                  |                             |
| Lease Liability                             | 19,401                          |                                  |                             | 20,482              |                                  |                             |
| Other liabilities                           | 79,179                          |                                  |                             | 83,213              |                                  |                             |
| Total liabilities                           | <u>6,077,448</u>                |                                  |                             | <u>5,892,093</u>    |                                  |                             |
| Shareholders' equity                        | 722,560                         |                                  |                             | 668,862             |                                  |                             |
| Total liabilities and shareholders' equity  | <u>\$ 6,800,008</u>             |                                  |                             | <u>\$ 6,560,955</u> |                                  |                             |
| Net interest income                         |                                 | <u>\$ 203,753</u>                |                             |                     | <u>\$ 220,282</u>                |                             |
| Net interest spread                         |                                 |                                  | 3.12%                       |                     |                                  | 3.67%                       |
| Net interest margin                         |                                 |                                  | 4.08%                       |                     |                                  | 4.58%                       |

<sup>(1)</sup> Includes average non-accrual loans and loans held for sale.

<sup>(2)</sup> Includes net loan fee income of \$3.4 million and \$3.2 million for the nine months ended September 30, 2024 and 2023, respectively.

<sup>(3)</sup> 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 September 30, 2024 compared  
to three months ended September 30, 2023**

|                                      | <b>Net Change</b> | <b>Rate</b>           | <b>Volume</b> |
|--------------------------------------|-------------------|-----------------------|---------------|
|                                      |                   | <i>(In thousands)</i> |               |
| Interest income:                     |                   |                       |               |
| Loans and leases                     | \$ 7,417          | \$ (391)              | \$ 7,808      |
| Investment securities <sup>(1)</sup> | 188               | 305                   | (117)         |
| Federal funds sold                   | 2                 | 1                     | 1             |
| Other earning assets                 | (3,714)           | 8                     | (3,722)       |
| Total interest income                | 3,893             | (77)                  | 3,970         |
| Interest expense:                    |                   |                       |               |
| Interest-bearing demand              | 2,788             | 701                   | 2,087         |
| Money market                         | 166               | 825                   | (659)         |
| Savings                              | 17                | 23                    | (6)           |
| Time certificates of deposits        | 6,587             | 4,300                 | 2,287         |
| Advances from FHLB                   | (1,557)           | (778)                 | (779)         |
| Subordinated debt                    | -                 | (1)                   | 1             |
| Total interest expense               | 8,001             | 5,070                 | 2,931         |
| Net interest income                  | \$ (4,108)        | \$ (5,147)            | \$ 1,039      |

<sup>(1)</sup> Amounts have been adjusted to a tax-equivalent basis

**Nine months ended September 30, 2024 compared  
to nine months ended September 30, 2023**

|                                      | <b>Net Change</b> | <b>Rate</b>           | <b>Volume</b> |
|--------------------------------------|-------------------|-----------------------|---------------|
|                                      |                   | <i>(In thousands)</i> |               |
| Interest income:                     |                   |                       |               |
| Loans and leases                     | \$ 28,747         | \$ 10,129             | \$ 18,618     |
| Investment securities <sup>(1)</sup> | (434)             | 1,022                 | (1,456)       |
| Federal funds sold                   | 80                | 66                    | 14            |
| Other earning assets                 | 1,815             | 2,697                 | (882)         |
| Total interest income                | 30,208            | 13,914                | 16,294        |
| Interest expense:                    |                   |                       |               |
| Interest-bearing demand              | 12,177            | 4,557                 | 7,620         |
| Money market                         | 3,828             | 6,558                 | (2,730)       |
| Savings                              | 85                | 113                   | (28)          |
| Time certificates of deposits        | 34,466            | 23,118                | 11,348        |
| Advances from FHLB                   | (3,819)           | (1,909)               | (1,910)       |
| Subordinated debt                    | -                 | (6)                   | 6             |
| Total interest expense               | 46,737            | 32,431                | 14,306        |
| Net interest income                  | \$ (16,529)       | \$ (18,517)           | \$ 1,988      |

<sup>(1)</sup> 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 \$3.2 million and \$3.5 million provision for credit losses for the three months ended September 30, 2024 and 2023, respectively. This provision for credit losses was primarily due to growth in the loan portfolio, coupled with the

Bank's economic forecast. There were \$3,000 of net recoveries for the three months ended September 30, 2024, compared to net charge-offs of \$80,000 for the same period in 2023.

The Bank recorded a \$10.1 million and \$6.5 million provision for credit losses for the nine months ended September 30, 2024 and 2023, respectively. This provision for credit losses was primarily due to growth in loan portfolio, coupled with economic forecast. There were \$12.4 million of net charge-offs for the nine months ended September 30, 2024, compared to \$123,000 in net charge-offs for the same period in 2023. The \$12.4 million in net charge-offs during the nine months ended September 30, 2024 related to five commercial relationships. The \$123,000 in net charge-offs during the nine months ended September 30, 2023 related to two commercial loans.

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 decreased \$9.4 million to \$19.4 million at September 30, 2024, compared to \$28.7 million as of December 31, 2023. The decrease was from \$31.0 million in note sales and paydowns of nonaccrual loans, \$18.0 million of loans that cured back to accrual status and \$2.9 million of charge-offs, offset by additions of \$42.5 million. The \$42.5 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 1.36% and 1.49% at September 30, 2024 and December 31, 2023, respectively. The 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 September 30, 2024. 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:

|                                              | <b>Three months ended</b> |                 |                   |
|----------------------------------------------|---------------------------|-----------------|-------------------|
|                                              | <b>September 30,</b>      |                 | <b>Increase</b>   |
|                                              | <b>2024</b>               | <b>2023</b>     | <b>(Decrease)</b> |
|                                              | <i>(In thousands)</i>     |                 |                   |
| Fees and service charges on deposit accounts | \$ 747                    | \$ 939          | \$ (192)          |
| Letter of credit fee income                  | 1,959                     | 1,412           | 547               |
| BOLI income                                  | 108                       | 103             | 5                 |
| Net gain on sale of SBA loans                | 91                        | 21              | 70                |
| Other income                                 | 554                       | 497             | 57                |
| Total noninterest income                     | <u>\$ 3,459</u>           | <u>\$ 2,972</u> | <u>\$ 487</u>     |

Noninterest income for the three months ended September 30, 2024 was \$3.5 million, compared to \$3.0 million for the corresponding period in 2023. The \$487,000 increase was primarily attributable to a \$547,000 increase in letter of credit fee income, offset by a \$192,000 decrease in fees and charges on deposit accounts. Additionally, there was a \$70,000 increase in net gain on sale of SBA loans. Gains on sales of SBA loans were \$91,000 compared to \$21,000 in the same period last year from higher SBA sale volume between periods.

|                                                   | <b>Nine months ended</b> |                 |                   |
|---------------------------------------------------|--------------------------|-----------------|-------------------|
|                                                   | <b>September 30,</b>     |                 | <b>Increase</b>   |
|                                                   | <b>2024</b>              | <b>2023</b>     | <b>(Decrease)</b> |
|                                                   | <i>(In thousands)</i>    |                 |                   |
| Fees and service charges on deposit accounts      | \$ 2,411                 | \$ 2,477        | \$ (66)           |
| Letter of credit fee income                       | 5,211                    | 4,312           | 899               |
| BOLI income                                       | 318                      | 307             | 11                |
| Net gain on sale of SBA loans                     | 547                      | 547             | -                 |
| Net loss on sale or call of investment securities | -                        | (4,117)         | 4,117             |
| Other income                                      | 1,441                    | 1,481           | (40)              |
| Total noninterest income                          | <u>\$ 9,928</u>          | <u>\$ 5,007</u> | <u>\$ 4,921</u>   |

Noninterest income for the nine months ended September 30, 2024 was \$9.9 million, compared to \$5.0 million for the corresponding period in 2023. The \$4.9 million increase was primarily attributable to a \$899,000 increase in letter of credit fee income and a \$4.1 million change in net loss on sale or call of investment securities. The \$4.1 million loss in the comparable 2023 period primarily related to a \$4.2 million loss on sale of corporate note, which was sold in the days following the issuer's failure during the first quarter of 2023.

### ***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:

|                                            | <b>Three months ended<br/>September 30,</b> |                  | <b>Increase<br/>(Decrease)</b> |
|--------------------------------------------|---------------------------------------------|------------------|--------------------------------|
|                                            | <b>2024</b>                                 | <b>2023</b>      |                                |
|                                            | <i>(In thousands)</i>                       |                  |                                |
| Salaries and employee benefits             | \$ 13,525                                   | \$ 13,008        | \$ 517                         |
| Net occupancy expense                      | 1,883                                       | 1,563            | 320                            |
| Business development and promotion expense | 241                                         | 193              | 48                             |
| Professional services                      | 1,816                                       | 1,423            | 393                            |
| Office supplies and equipment expense      | 435                                         | 395              | 40                             |
| OREO related expense                       | 1,915                                       | 140              | 1,775                          |
| Other expense                              | 2,274                                       | 2,287            | (13)                           |
| Total noninterest expense                  | <u>\$ 22,089</u>                            | <u>\$ 19,009</u> | <u>\$ 3,080</u>                |

Total noninterest expense was \$22.1 million for the three months ended September 30, 2024 compared to \$19.0 million for the corresponding period in 2023. The \$3.1 million decrease was primarily the result of a \$1.8 million increase in OREO related expense due primarily to a \$1.6 million valuation write-down, a \$393,000 increase in professional services (mainly due to legal fees), a \$517,000 increase in salaries and benefits mainly due to new hires, merit increases and an increase in incentive compensation, and a \$320,000 increase in net occupancy expense due to the new Irvine branch and the Sunnyvale LPO as well as higher rent and facilities costs overall.

|                                            | <b>Nine months ended<br/>September 30,</b> |                  | <b>Increase<br/>(Decrease)</b> |
|--------------------------------------------|--------------------------------------------|------------------|--------------------------------|
|                                            | <b>2024</b>                                | <b>2023</b>      |                                |
|                                            | <i>(In thousands)</i>                      |                  |                                |
| Salaries and employee benefits             | \$ 40,369                                  | \$ 39,256        | \$ 1,113                       |
| Net occupancy expense                      | 5,310                                      | 4,513            | 797                            |
| Business development and promotion expense | 910                                        | 498              | 412                            |
| Professional services                      | 5,105                                      | 3,915            | 1,190                          |
| Office supplies and equipment expense      | 1,385                                      | 1,197            | 188                            |
| OREO related expense                       | 2,079                                      | 3,050            | (971)                          |
| Other expense                              | 6,656                                      | 6,332            | 324                            |
| Total noninterest expense                  | <u>\$ 61,814</u>                           | <u>\$ 58,761</u> | <u>\$ 3,053</u>                |

Total noninterest expense was \$61.8 million for the nine months ended September 30, 2024 compared to \$58.8 million for the corresponding period in 2023. The \$3.1 million increase was primarily the result of a \$1.0 million decrease in OREO related expense, offset by a \$1.2 million increase in professional services (mainly due to legal fees), a \$1.1 million increase in salaries and benefits mainly due to new hires, merit increases and an increase in incentive compensation, a \$797,000 increase in net occupancy expense due to the new Irvine branch. Silicon Valley LPO and higher rent and facilities costs overall, and a \$412,000 increase in business development and promotion expense due to an increase in donations to local non-profit firms.

### ***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 September 30, 2024 and December 31, 2023, the Bank determined that a valuation allowance for deferred tax assets was not required.

We recorded net tax expense of \$13.6 million and \$15.2 million for the three months ended September 30, 2024 and 2023, respectively, resulting in an effective tax rate of 29.00% and 28.50%, respectively. We recorded net tax expense of \$41.0 million and \$45.5 million for the nine months ended September 30, 2024 and 2023, respectively, resulting in an effective tax rate of 29.00% and 28.50%, respectively.

As of September 30, 2024 and December 31, 2023, 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 September 30, 2024 were \$6.87 billion compared to \$6.66 billion as of December 31, 2023. Earning assets as of September 30, 2024 totaled \$6.74 billion compared to \$6.52 billion as of December 31, 2023. Total deposits were \$5.87 billion as of September 30, 2024 compared to \$5.71 billion as of December 31, 2023.

### ***Loans***

The largest component of assets and our greatest source of interest income is our loan portfolio. The following table sets forth the amount and type of our loans outstanding at the end of each of the periods indicated.

|                                            | <b><u>September 30, 2024</u></b> | <b><u>December 31, 2023</u></b> | <b><u>September 30, 2023</u></b> |
|--------------------------------------------|----------------------------------|---------------------------------|----------------------------------|
|                                            |                                  | <i>(In thousands)</i>           |                                  |
| Loans (by portfolio and class):            |                                  |                                 |                                  |
| Real estate – mortgage:                    |                                  |                                 |                                  |
| Real estate—residential                    | \$ 753,453                       | \$ 688,058                      | \$ 663,021                       |
| Real estate—commercial                     | 2,882,506                        | 2,760,761                       | 2,688,148                        |
| Total real estate – mortgage               | <u>3,635,959</u>                 | <u>3,448,819</u>                | <u>3,351,169</u>                 |
| Real estate – construction:                |                                  |                                 |                                  |
| Real estate construction — residential     | 274,214                          | 246,201                         | 226,482                          |
| Real estate construction — commercial      | 290,308                          | 179,775                         | 164,666                          |
| Total real estate construction loans       | <u>564,522</u>                   | <u>425,976</u>                  | <u>391,148</u>                   |
| Commercial & industrial                    | 1,364,950                        | 1,393,830                       | 1,377,675                        |
| SBA                                        | 5,424                            | 3,469                           | 2,424                            |
| Trade finance                              | 600                              | 1,041                           | 5,541                            |
| Consumer & other                           | 124                              | 363                             | 285                              |
| Total gross loans and leases               | <u>5,571,579</u>                 | <u>5,273,498</u>                | <u>5,128,242</u>                 |
| Less: allowance for credit losses on loans | (76,051)                         | (78,355)                        | (74,849)                         |
| Less: deferred loan fees, net              | (10,414)                         | (11,079)                        | (10,240)                         |
| Total net loans                            | <u>\$ 5,485,114</u>              | <u>\$ 5,184,064</u>             | <u>\$ 5,043,153</u>              |

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 increased by \$298.1 million, or 5.7%, to \$5.57 billion as of September 30, 2024 from \$5.27 billion as of December 31, 2023. Real estate mortgage loans, which include real estate loans collateralized by various types of commercial

and residential real estate, increased \$187.1 million from \$3.45 billion as of December 31, 2023 to \$3.64 billion at September 30, 2024. Real estate construction loans which are loans made to borrowers and developers for the purpose of constructing residential or commercial properties, increased \$138.5 million from \$426.0 million at December 31, 2023 to \$564.5 million at September 30, 2024. Commercial and industrial loans decreased \$28.9 million from \$1.39 billion at December 31, 2023 to \$1.36 billion at September 30, 2024, and trade finance loans, which are primarily working capital revolving and term loans for business operations, decreased \$441,000 from \$1.0 million at December 31, 2023 to \$600,000 at September 30, 2024.

SBA loans increased \$2.0 million from \$3.5 million at December 31, 2023 to \$5.4 million at September 30, 2024. At September 30, 2024, SBA loans consisted of \$5.4 million in traditional SBA loans and \$62,000 in loans originated under the SBA's PPP Program. At December 31, 2023, SBA loans consisted of \$3.4 million in traditional SBA loans and \$97,000 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.

Management's focus from a lending perspective is to continue monitoring the Bank's existing loan relationships due to the increase in interest rates in 2022 and into 2023, 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 due to the recent rate cuts and 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                         | As of                    | As of                     |
|----------------------------------------------------|-------------------------------|--------------------------|---------------------------|
|                                                    | <u>September 30, 2024</u>     | <u>December 31, 2023</u> | <u>September 30, 2023</u> |
|                                                    | <i>(Dollars in thousands)</i> |                          |                           |
| Non-accrual loans                                  | \$ 19,362                     | \$ 28,719                | \$ 19,387                 |
| Accruing loans and leases past due 90 days or more | -                             | -                        | -                         |
| Total non-performing loans (NPLs)                  | 19,362                        | 28,719                   | 19,387                    |
| OREO and other repossessed assets                  | 15,082                        | 16,716                   | 16,716                    |
| Total non-performing assets (NPAs)                 | <u>\$ 34,444</u>              | <u>\$ 45,435</u>         | <u>\$ 36,103</u>          |
| Selected ratios:                                   |                               |                          |                           |
| NPLs to total gross loans                          | 0.35%                         | 0.54%                    | 0.38%                     |
| NPAs to total assets                               | 0.50%                         | 0.68%                    | 0.54%                     |

Total non-performing assets were \$34.4 million and \$45.4 million at September 30, 2024 and December 31, 2023, respectively, and \$36.1 million as of September 30, 2023. As of September 30, 2024, total non-accrual loans were \$19.4 million compared to \$28.7 million as of December 31, 2023 and \$19.4 million as of September 30, 2023. 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, 2024 to September 30, 2024:

|                             | <b>Loans 90+ Days<br/>Past Due &amp; Still<br/>Accruing</b> | <b>Non Accrual<br/>Loans</b> | <b>OREO and<br/>Reposessed<br/>Assets</b> |
|-----------------------------|-------------------------------------------------------------|------------------------------|-------------------------------------------|
|                             | <i>(In thousands)</i>                                       |                              |                                           |
| Balance, December 31, 2023  | \$ -                                                        | \$ 28,719                    | \$ 16,716                                 |
| Loans Cured                 | -                                                           | (18,000)                     | -                                         |
| Sales/Payoffs               | -                                                           | (30,987)                     | -                                         |
| Migration to non-accrual    | -                                                           | 42,499                       | -                                         |
| (Charge-offs) recoveries    | -                                                           | (2,869)                      | -                                         |
| Valuation write-down        | -                                                           | -                            | (1,634)                                   |
| Balance, September 30, 2024 | <u>\$ -</u>                                                 | <u>\$ 19,362</u>             | <u>\$ 15,082</u>                          |

The \$9.4 million decrease in nonaccrual loans during the nine months ended September 30, 2024 was primarily related to \$31.0 million in note sales and paydowns, \$18.0 million in loans curing back to accrual status and \$2.9 million in charge-offs, offset by \$42.5 million of additions.

There were no loans over 90 days past due and still accruing at September 30, 2024 and December 31, 2023.

OREO and reposessed assets totaled \$15.1 million and \$16.7 million at September 30, 2024 and December 31, 2023, respectively. At September 30, 2024 OREO and reposessed assets included residential real estate of \$15.0 million and other reposessed assets of \$91,000. At December 31, 2023, OREO and reposessed assets included residential real estate of \$16.6 million and other reposessed assets of \$91,000. There was a \$1.6 million write-down on the value of OREO during the nine months ended September 30, 2024. During the nine months ended September 30, 2023, the Bank sold \$3.4 million in other reposessed assets and recorded a \$1.9 million write-down on the value of its residential real estate asset.

OREO and reposessed assets are 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 September 30, 2024 and December 31, 2023, the valuation allowance related to OREO and reposessed assets totaled \$5.0 million and \$3.3 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<br>September 30, |              | Nine months ended<br>September 30, |              | Year ended<br>December 31, 2023 |
|--------------------------------------------------------------|-------------------------------------|--------------|------------------------------------|--------------|---------------------------------|
|                                                              | 2024                                | 2023         | 2024                               | 2023         |                                 |
|                                                              | <i>(Dollars in thousands)</i>       |              | <i>(Dollars in thousands)</i>      |              |                                 |
| Allowance for credit losses:                                 |                                     |              |                                    |              |                                 |
| Balance at beginning of period                               | \$ 72,848                           | \$ 71,429    | \$ 78,355                          | \$ 68,472    | \$ 68,472                       |
| Actual charge-offs:                                          |                                     |              |                                    |              |                                 |
| Commercial & Industrial                                      | -                                   | 80           | 12,409                             | 124          | 124                             |
| Total charge-offs                                            | -                                   | 80           | 12,409                             | 124          | 124                             |
| Less recoveries:                                             |                                     |              |                                    |              |                                 |
| Commercial & Industrial                                      | 3                                   | -            | 5                                  | 1            | 7                               |
| Total recoveries                                             | 3                                   | -            | 5                                  | 1            | 7                               |
| Net loans charged-off (recovered)                            | (3)                                 | 80           | 12,404                             | 123          | 117                             |
| Provision for credit losses                                  | 3,200                               | 3,500        | 10,100                             | 6,500        | 10,000                          |
| Balance at end of period                                     | \$ 76,051                           | \$ 74,849    | \$ 76,051                          | \$ 74,849    | \$ 78,355                       |
| Total gross loans at end of period                           | \$ 5,571,579                        | \$ 5,128,242 | \$ 5,571,579                       | \$ 5,128,242 | \$ 5,273,498                    |
| Average total loans                                          | 5,458,613                           | 5,086,241    | 5,347,918                          | 5,047,971    | 5,067,870                       |
| Non-performing loans                                         | 19,362                              | 19,387       | 19,362                             | 19,387       | 28,719                          |
| Selected ratios:                                             |                                     |              |                                    |              |                                 |
| Net charge-offs (recoveries) to average loans <sup>(1)</sup> | 0.00%                               | 0.01%        | 0.31%                              | 0.00%        | 0.00%                           |
| Provision for credit losses to average loans <sup>(1)</sup>  | 0.23%                               | 0.27%        | 0.25%                              | 0.17%        | 0.20%                           |
| Allowances for credit losses to loans at end of period       | 1.36%                               | 1.46%        | 1.36%                              | 1.46%        | 1.49%                           |
| Allowance for credit losses to non-performing loans          | 3.93x                               | 3.86x        | 3.93x                              | 3.86x        | 2.73x                           |

*(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 September 30,    |                   |                     |                   |                |                     |               |
|-------------------------------------|-------------------|---------------------|-------------------|----------------|---------------------|---------------|
| 2024                                |                   |                     | 2023              |                |                     |               |
|                                     | Net (Charge-offs) |                     | Net (Charge-offs) |                | Net (Charge-offs)   |               |
|                                     | Recoveries        | Avg. Loans          | Recoveries        | Avg. Loans     | Recoveries          | Ratio         |
| <i>(Dollars in thousands)</i>       |                   |                     |                   |                |                     |               |
| Commercial & industrial             | \$ 3              | \$ 1,339,406        | 0.00%             | \$ (80)        | \$ 1,337,274        | -0.02%        |
| Trade finance                       | -                 | 1,224               | 0.00%             | -              | 7,424               | 0.00%         |
| Real estate construction            | -                 | 520,604             | 0.00%             | -              | 363,292             | 0.00%         |
| Real estate mortgage                | -                 | 3,589,755           | 0.00%             | -              | 3,373,348           | 0.00%         |
| SBA                                 | -                 | 5,376               | 0.00%             | -              | 3,302               | 0.00%         |
| Consumer & other                    | -                 | 2,248               | 0.00%             | -              | 1,601               | 0.00%         |
| <b>Net recoveries (charge-offs)</b> | <b>\$ 3</b>       | <b>\$ 5,458,613</b> | <b>0.00%</b>      | <b>\$ (80)</b> | <b>\$ 5,086,241</b> | <b>-0.01%</b> |

Net recoveries (charge-offs) to average loans were 0.00% and (0.01)% for the three months ended September 30, 2024 and 2023, respectively. The change in the net charge-off ratio between periods was due to \$3,000 in net recoveries related to one commercial and industrial relationships during the three months ended September 30, 2024, compared to \$80,000 in net charge-offs for one commercial and industrial for the similar 2023 period.

| Nine months ended September 30, |                    |                     |                   |                 |                     |              |
|---------------------------------|--------------------|---------------------|-------------------|-----------------|---------------------|--------------|
| 2024                            |                    |                     | 2023              |                 |                     |              |
|                                 | Net (Charge-offs)  |                     | Net (Charge-offs) |                 | Net (Charge-offs)   |              |
|                                 | Recoveries         | Avg. Loans          | Recovery Ratio    | Recoveries      | Avg. Loans          | Ratio        |
| <i>(Dollars in thousands)</i>   |                    |                     |                   |                 |                     |              |
| Commercial & industrial         | \$ (12,404)        | \$ 1,334,794        | -1.24%            | \$ (123)        | \$ 1,299,761        | -0.01%       |
| Trade finance                   | -                  | 1,373               | 0.00%             | -               | 6,562               | 0.00%        |
| Real estate construction        | -                  | 475,597             | 0.00%             | -               | 350,643             | 0.00%        |
| Real estate mortgage            | -                  | 3,529,125           | 0.00%             | -               | 3,382,864           | 0.00%        |
| SBA                             | -                  | 4,380               | 0.00%             | -               | 4,486               | 0.00%        |
| Consumer & other                | -                  | 2,649               | 0.00%             | -               | 3,655               | 0.00%        |
| <b>Net charge-offs</b>          | <b>\$ (12,404)</b> | <b>\$ 5,347,918</b> | <b>-0.31%</b>     | <b>\$ (123)</b> | <b>\$ 5,047,971</b> | <b>0.00%</b> |

Net charge-offs to average loans were 0.31% and 0.00% for the nine months ended September 30, 2024 and 2023, respectively. The change in the net charge-off ratio between periods was due to \$12.4 million in net charge-offs related to five commercial and industrial relationships during the nine months ended September 30, 2024, compared to \$123,000 in net charge-offs related to two commercial and industrial relationship for the similar 2023 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 September 30, 2024 and December 31, 2023. There was no provision for credit losses on undisbursed loan commitment for the three and nine months ended September 30, 2024 and 2023.

#### ***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 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 have 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 bills, 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 September 30, 2024 and December 31, 2023, the Bank owned four mortgage-backed securities considered held-to-maturity with a carrying value of \$20.3 million and \$21.2 million, respectively.

At September 30, 2024, investment securities classified as available-for-sale with a carrying value of \$60.3 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 September 30, 2024 and December 31, 2023:

|                                             | September 30, 2024 |                              |                               |                         |
|---------------------------------------------|--------------------|------------------------------|-------------------------------|-------------------------|
|                                             | Amortized<br>cost  | Gross<br>unrealized<br>gains | Gross<br>unrealized<br>losses | Estimated<br>fair value |
|                                             | (In thousands)     |                              |                               |                         |
| Asset-backed securities                     | \$ 2,855           | \$ 7                         | \$ (18)                       | \$ 2,844                |
| Corporate notes                             | 125,967            | 994                          | (7,054)                       | 119,907                 |
| U.S. Agency mortgage-backed securities      | 8,317              | -                            | (249)                         | 8,068                   |
| Collateralized mortgage obligations         | 149,321            | -                            | (18,342)                      | 130,979                 |
| Municipal securities                        | 69,915             | 13                           | (7,368)                       | 62,560                  |
| U.S. Agency principal-only strip securities | 253                | -                            | (14)                          | 239                     |
| SBA securities                              | -                  | -                            | -                             | -                       |
| U.S. Treasury Bill                          | 14,951             | -                            | (2,185)                       | 12,766                  |
| Total securities available-for-sale         | <u>\$ 371,579</u>  | <u>\$ 1,014</u>              | <u>\$ (35,230)</u>            | <u>\$ 337,363</u>       |

|                                             | December 31, 2023 |                              |                               |                         |
|---------------------------------------------|-------------------|------------------------------|-------------------------------|-------------------------|
|                                             | Amortized<br>cost | Gross<br>unrealized<br>gains | Gross<br>unrealized<br>losses | Estimated<br>fair value |
|                                             | (In thousands)    |                              |                               |                         |
| Asset-backed securities                     | \$ 3,000          | \$ -                         | \$ (169)                      | \$ 2,831                |
| Corporate notes                             | 100,799           | 21                           | (10,298)                      | 90,522                  |
| U.S. Agency mortgage-backed securities      | 9,530             | 1                            | (447)                         | 9,084                   |
| Collateralized mortgage obligations         | 157,540           | -                            | (22,616)                      | 134,924                 |
| Municipal securities                        | 71,805            | 25                           | (8,017)                       | 63,813                  |
| U.S. Agency principal-only strip securities | 314               | -                            | (25)                          | 289                     |
| SBA securities                              | 41                | -                            | -                             | 41                      |
| U.S. Treasury Bill                          | 14,946            | -                            | (2,608)                       | 12,338                  |
| Total securities available-for-sale         | <u>\$ 357,975</u> | <u>\$ 47</u>                 | <u>\$ (44,180)</u>            | <u>\$ 313,842</u>       |

As of September 30, 2024, available-for-sale securities increased by \$23.5 million or 7.5% to \$337.4 million, compared to \$313.8 million as of December 31, 2023. The increase was primarily due to \$31.9 million in purchases of corporate notes and \$9.9 million in fair value increases, offset by \$8.4 million in maturities and calls of corporate notes and municipal securities and \$9.6 million in principal reductions. As of September 30, 2024, available-for-sale securities had a net unrealized loss of \$34.2 million compared to a net unrealized loss of \$44.1 million as of December 31, 2023. The decrease in net unrealized losses was primarily attributable to increases in the value of corporate notes, collateralized mortgage obligations, municipal securities and treasury securities.

The carrying value of our held-to-maturity investment securities was \$20.3 million at September 30, 2024 and \$21.2 million at December 31, 2023. 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 September 30, 2024 and December 31, 2023:

|                            | September 30, 2024 |              |              |            |
|----------------------------|--------------------|--------------|--------------|------------|
|                            | Amortized          | Gross        | Gross        | Estimated  |
|                            | cost               | unrecognized | unrecognized | fair value |
|                            |                    | gains        | losses       |            |
|                            | (In thousands)     |              |              |            |
| Mortgage-backed securities | \$ 20,311          | \$ -         | \$ (1,135)   | \$ 19,176  |
|                            | December 31, 2023  |              |              |            |
|                            | Amortized          | Gross        | Gross        | Estimated  |
|                            | cost               | unrecognized | unrecognized | fair value |
|                            |                    | gains        | losses       |            |
|                            | (In thousands)     |              |              |            |
| Mortgage-backed securities | \$ 21,171          | \$ -         | \$ (1,631)   | \$ 19,540  |

### Deposits

Total deposits at September 30, 2024 were \$5.88 billion, an increase of \$158.4 million or 2.8% from the balance of \$5.71 billion as of December 31, 2023. Noninterest-bearing demand deposits decreased by \$104.1 million or 13.2%. This decrease 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. The ratio of noninterest-bearing deposits to total deposits decreased to 11.6% at September 30, 2024 from 13.8% at December 31, 2023. Interest-bearing demand and savings deposits increased by \$80.2 million or 3.8%, and time deposits increased \$342.8 million or 12.2%. At September 30, 2024, interest bearing demand and savings accounts comprised \$2.02 billion or 34.5% of total deposits, compared to \$2.10 billion or 36.9% of total deposits at December 31, 2023. The decrease in interest bearing demand accounts and increases in time deposits was due to changes in deposit mix in noninterest-bearing demand deposits and interest-bearing accounts noted above.

As of September 30, 2024, total uninsured deposits represented approximately 45.3% 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 balance of each major category of deposit at the dates indicated:

|                                        | September 30, 2024     |                     | December 31, 2023 |                     |
|----------------------------------------|------------------------|---------------------|-------------------|---------------------|
|                                        | Amount                 | % of Total Deposits | Amount            | % of Total Deposits |
|                                        | (Dollars in thousands) |                     |                   |                     |
| Noninterest-bearing deposits           | \$ 682,859             | 11.64%              | \$ 786,995        | 13.78%              |
| Interest-bearing deposits:             |                        |                     |                   |                     |
| Interest-bearing demand                | 1,994,288              | 33.99%              | 2,075,156         | 36.35%              |
| Savings                                | 29,793                 | 0.51%               | 29,167            | 0.51%               |
| Time certificates of \$250,000 or more | 1,478,500              | 25.20%              | 1,317,862         | 23.08%              |
| Other time certificates                | 1,682,324              | 28.66%              | 1,500,162         | 26.28%              |
| Total deposits                         | \$ 5,867,764           | 100.00%             | \$ 5,709,342      | 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 September 30, 2024 and December 31, 2023, 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 be 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 5.66% and 5.57% as of September 30, 2024 and December 31, 2023, 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 and nine months ended September 30, 2024, the Bank repurchased 67,619 and 382,590 shares of common stock at a weighted average price of \$78.93 and \$72.62, respectively. During the three and nine months ended September 30, 2023, the Bank repurchased 463,628 and 693,168 shares of common stock at a weighted average price of \$53.59 and \$57.99, respectively.

Our goal is to exceed the Basel III minimum regulatory capital requirements for well-capitalized institutions. At September 30, 2024 and December 31, 2023, 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 September 30, 2024 and 2023:

|                                                        | <u>At September 30, 2024</u> | <u>At December 31, 2023</u> |
|--------------------------------------------------------|------------------------------|-----------------------------|
| <b>Leverage Ratio</b>                                  |                              |                             |
| Preferred Bank                                         | 11.28%                       | 10.85%                      |
| Minimum requirement for "Well-Capitalized" institution | 5.00%                        | 5.00%                       |
| <b>Common Equity Tier 1 Risk-Based Capital Ratio</b>   |                              |                             |
| Preferred Bank                                         | 11.66%                       | 11.57%                      |
| Minimum requirement for "Well-Capitalized" institution | 6.50%                        | 6.50%                       |
| <b>Tier 1 Risk-Based Capital Ratio</b>                 |                              |                             |
| Preferred Bank                                         | 11.66%                       | 11.57%                      |
| Minimum requirement for "Well-Capitalized" institution | 8.00%                        | 8.00%                       |
| <b>Total Risk-Based Capital Ratio</b>                  |                              |                             |
| Preferred Bank                                         | 15.06%                       | 15.18%                      |
| 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 September 30, 2024:

| Other Commitments                                                  | Amount of Commitment Expiring per Period |                     |                   |                   |                   |
|--------------------------------------------------------------------|------------------------------------------|---------------------|-------------------|-------------------|-------------------|
|                                                                    | Total Amounts<br>Committed               | Less Than<br>1 Year | 1-3<br>Years      | 3-5<br>Years      | After<br>5 Years  |
|                                                                    | <i>(In thousands)</i>                    |                     |                   |                   |                   |
| Commitments to extend credit                                       | \$ 1,292,239                             | \$ 544,974          | \$ 587,489        | \$ 119,349        | \$ 40,427         |
| Commercial letters of credit                                       | 4,161                                    | 4,161               | -                 | -                 | -                 |
| Standby letters of credit                                          | 465,655                                  | 134,998             | 202,720           | 32,512            | 95,425            |
| Commitments to fund investments in affordable housing partnerships | 23,617                                   | 16,785              | 4,566             | 1,042             | 1,224             |
| Lease commitments                                                  | 32,751                                   | 4,914               | 8,265             | 7,779             | 11,793            |
| Future contract commitments                                        | 8,395                                    | 1,239               | 2,703             | 3,155             | 1,298             |
| Total                                                              | <u>\$ 1,826,818</u>                      | <u>\$ 707,071</u>   | <u>\$ 805,743</u> | <u>\$ 163,837</u> | <u>\$ 150,167</u> |

## Liquidity

Based on our existing business plan, we believe that our level of liquid assets is sufficient to meet our current and presently anticipated funding needs 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 95.0% at September 30, 2024 compared to 92.4% at December 31, 2023. 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 September 30, 2024, there were no outstanding FHLB advances, and we could borrow up to an additional \$785.3 million with collateral of specifically identified loans and securities. In addition, we have pledged securities with a fair value of \$114.4 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 \$171.8 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 September 30, 2024, 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 September 30, 2024, the Bank held \$15.0 million in FHLB stock. For the three months ended September 30, 2024 and 2023, dividends from the FHLB totaled \$329,000 and \$321,000, respectively, representing an average yield of 8.73% and 8.49%, respectively. For the nine months ended September 30, 2024 and 2023, dividends from the FHLB totaled \$1.0 million and \$854,000, respectively, representing an average yield of 8.93% and 7.62%, 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 33% at September 30, 2024 and 39% at December 31, 2023. 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 re-pricing 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 September 30, 2024.

| <b>Market Value of Portfolio Equity</b> |                     |                                             |                                           |                                                              |
|-----------------------------------------|---------------------|---------------------------------------------|-------------------------------------------|--------------------------------------------------------------|
| <b>Interest Rate Scenario</b>           | <b>Market Value</b> | <b>Percentage<br/>Change<br/>from Basis</b> | <b>Percentage<br/>of Total<br/>Assets</b> | <b>Percentage of<br/>Portfolio<br/>Equity<br/>Book Value</b> |
| <i>(Dollars in thousands)</i>           |                     |                                             |                                           |                                                              |
| Up 300 basis points                     | 1,023,438           | 7.6 %                                       | 14.9 %                                    | 136.4 %                                                      |
| Up 200 basis points                     | 1,006,546           | 5.8                                         | 14.6                                      | 134.2                                                        |
| Up 100 basis points                     | 982,580             | 3.3                                         | 14.3                                      | 131.0                                                        |
| Base                                    | 951,038             | -                                           | 13.8                                      | 126.8                                                        |
| Down 100 basis points                   | 879,621             | (7.5)                                       | 12.8                                      | 117.3                                                        |
| Down 200 basis points                   | 813,307             | (14.5)                                      | 11.8                                      | 108.4                                                        |
| Down 300 basis points                   | 746,394             | (21.5)                                      | 10.9                                      | 99.5                                                         |
| Down 400 basis points                   | 717,141             | (24.6)                                      | 10.4                                      | 95.6                                                         |

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 September 30, 2024, 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 September 30, 2024**

| <b>Interest Rate Scenario</b> | <b>Adjusted Net Interest Income</b> | <b>Percentage Change from Basis</b> | <b>Net Interest Margin Percent</b> | <b>Net Interest Margin Change (in basis points)</b> |
|-------------------------------|-------------------------------------|-------------------------------------|------------------------------------|-----------------------------------------------------|
| <i>(Dollars in thousands)</i> |                                     |                                     |                                    |                                                     |
| Up 300 basis points           | 342,332                             | 20.5 %                              | 4.93 %                             | 82                                                  |
| Up 200 basis points           | 323,048                             | 13.7                                | 4.66                               | 55                                                  |
| Up 100 basis points           | 303,696                             | 6.9                                 | 4.39                               | 28                                                  |
| Base                          | 284,114                             | -                                   | 4.11                               | -                                                   |
| Down 100 basis points         | 256,344                             | (9.8)                               | 3.71                               | (40)                                                |
| Down 200 basis points         | 241,025                             | (15.2)                              | 3.49                               | (62)                                                |
| Down 300 basis points         | 242,079                             | (14.8)                              | 3.51                               | (60)                                                |
| Down 400 basis points         | 252,913                             | (11.0)                              | 3.67                               | (44)                                                |

### ***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 has risen dramatically in recent months. 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

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, 2023 that was filed on March 14, 2024.

### 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. 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 September 30, 2024, the Bank repurchased 67,619 shares of common stock, at an aggregate cost of approximately \$5.3 million under the Bank's repurchase plan.

As of September 30, 2024, approximately \$22.2 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.

| <b>Purchase of Equity Securities by the Issuer</b> |                               |                                     |                                                                             | <b>Total Number of Shares (or Approximate Dollar Value) that May Yet be Purchased Under the Plan</b> |
|----------------------------------------------------|-------------------------------|-------------------------------------|-----------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------|
|                                                    | <b>Total Number of Shares</b> | <b>Average Price Paid per Share</b> | <b>Total Number of Shares Purchased as Part of Publicly Announced Plans</b> |                                                                                                      |
| July 1, 2024 to July 31, 2024                      | -                             | \$ -                                | -                                                                           | 27,554,607                                                                                           |
| August 1, 2024 to August 31, 2024                  | -                             | \$ -                                | -                                                                           | 27,554,607                                                                                           |
| September 1, 2024 to September 30, 2024            | 67,619                        | \$ 78.93                            | 67,619                                                                      | 22,217,523                                                                                           |
| <b>Total</b>                                       | <b>67,619</b>                 | <b>\$ 78.93</b>                     | <b>67,619</b>                                                               |                                                                                                      |

## **ITEM 5. Other Information**

### **Rule 10b5-1 Trading Arrangements**

During the quarter ended September 30, 2024, 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 September 30, 2024, 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.

| <u>Exhibit No.</u> | <u>Description of Exhibits</u>                                                                                   |
|--------------------|------------------------------------------------------------------------------------------------------------------|
| 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: November 8, 2024

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**

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: November 8, 2024

/s/ Li Yu

Li Yu

Chairman and Chief Executive Officer

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: November 8, 2024

\_\_\_\_\_  
/s/ Edward J. Czajka  
Edward J. Czajka  
Executive Vice President and Chief Financial Officer

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 September 30, 2024 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: November 8, 2024

\_\_\_\_\_  
/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.

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 September 30, 2024 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: November 8, 2024

\_\_\_\_\_  
/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.