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 June 30, 2026

or

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

For the transition period from to

PREFERRED BANK
(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

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

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

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

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

Number of shares of common stock of the Registrant outstanding as of August 6, 2026, was 11,853,116 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 2025 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;
- Adverse economic and financial consequences of a prolonged shutdown of federal government operations;
- 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 conflicts, 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, wild fires, drought, pandemic diseases (such as the COVID-19 pandemic), climate change or extreme weather events, any of which may affect services we use, may affect our customers, employees or third parties with which we conduct business, or could negatively impact the Bank’s business;
- Geographic concentration of our operations;
- The economic impact of Federal budgetary policies;
- Failure to attract deposits, inhibiting growth;
- Interruption or break in the communication, information, operating, and financial control systems upon which the Bank relies;
- Changes in federal and state laws or the regulatory environment including regulatory reform initiatives and policies of the U.S. Department of Treasury, the Board of Governors of the Federal Reserve Board System, the Federal Deposit Insurance Corporation, the Consumer Financial Protection Bureau and the California Department of Financial Protection and Innovation;
- Changes in accounting standards as may be required by the Financial Accounting Standards Board or other regulatory agencies and their impact on critical accounting policies and assumptions;
- Potential changes in the U.S. government’s monetary policies;

- Environmental liability with respect to properties to which the Bank takes title;
- Negative publicity;
- Information technology and cyber security incidents, disruptions or attacks and the possible blocking, theft or loss of Bank or customer access, functionality, data, funding or money

As a result of the rapid rise in interest rates in 2022 and 2023, offset to an extent by a decrease in rates during 2024 and 2025, 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 2025 Annual Report on Form 10-K as filed with the Federal Deposit Insurance Corporation ("FDIC") on March 2, 2026, 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)

	June 30, 2026 (Unaudited)	December 31, 2025
Assets		
Cash and due from banks	$ 749,820	$ 807,098
Federal funds sold	40,000	20,000
Cash and cash equivalents	789,820	827,098
Securities held-to-maturity, at amortized cost (fair value of $17,081 and as of June 30, 2026 and $17,861 as of December 31, 2025)	18,154	18,749
Securities available-for-sale, at fair value	525,956	566,186
Loans held for sale, at lower of cost or fair value	8,348	-
Loans	6,239,281	6,054,264
Less: allowance for credit losses on loans	(76,276)	(78,992)
Less: unamortized deferred loan fees, net	(8,288)	(9,030)
Net loans	6,154,717	5,966,242
Other real estate owned ("OREO")	3,010	3,510
Bank furniture and fixtures, net	10,463	8,064
Bank-owned life insurance ("BOLI")	10,853	10,712
Accrued interest receivable	32,818	34,233
Investment in affordable housing partnerships	77,729	69,978
Federal Home Loan Bank ("FHLB") stock, at cost	15,000	15,000
Net deferred tax assets	44,230	41,976
Income tax receivable	7,390	3,884
Operating lease right-of-use assets	28,643	30,531
Other assets	3,490	5,002
Total assets	$ 7,730,621	$ 7,601,165
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits:		
Demand	$ 754,670	$ 699,160
Interest-bearing demand	2,209,390	2,205,914
Savings	31,617	30,376
Time certificates of $250,000 or more	1,822,765	1,754,273
Other time certificates	1,653,766	1,655,723
Total deposits	6,472,208	6,345,446
Advances from Federal Home Loan Bank ("FHLB")	200,000	200,000
Subordinated debt issuance, net of unamortized costs and premium of $1,175 and $1,294 at June 30, 2026 and December 31, 2025, respectively	148,825	148,706
Accrued interest payable	15,311	16,513
Commitments to fund investment in affordable housing partnerships	29,949	23,327
Operating lease liability	33,295	35,107
Other liabilities	37,506	42,589
Total liabilities	6,937,094	6,811,688
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 June 30, 2026 and December 31, 2025, resepectively	-	-
Common stock, no par value. Authorized 100,000,000 shares; outstanding 11,853,101 and 12,177,588 shares at June 30, 2026 and December 31, 2025, resepectively	210,882	210,882
Treasury stock, at cost; 4,691,456 and 4,231,953 shares at June 30, 2026 and December 31,2025, resepectively	(334,591)	(293,406)
Additional paid-in capital	110,913	105,105
Retained earnings	826,365	780,637
Accumulated other comprehensive loss	(20,042)	(13,741)
Total shareholders' equity	793,527	789,477
Total liabilities and shareholders' equity	$ 7,730,621	$ 7,601,165

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 June 30,		Six months ended June 30,	
	2026	**2025**	**2026**	**2025**
Interest income:				
Loans and leases	$ 108,358	$ 105,884	$ 211,740	$ 207,375
Investment securities	13,883	14,326	27,184	27,136
Federal funds sold	205	233	397	461
Total interest income	122,446	120,443	239,321	234,972
Interest expense:				
Interest-bearing demand	15,624	16,171	30,744	32,761
Savings	75	71	129	140
Time certificates of $250,000 or more	17,065	17,092	33,951	32,732
Other time certificates	16,432	17,840	32,919	36,087
FLHB borrowings	1,743	1,070	3,433	1,070
Subordinated debt	1,517	1,325	2,842	2,650
Total interest expense	52,456	53,569	104,018	105,440
Net interest income before provision for credit losses	69,990	66,874	135,303	129,532
Provision for credit losses	1,200	1,600	2,700	2,300
Net interest income after provision for credit losses	68,790	65,274	132,603	127,232
Noninterest income:				
Fees and service charges on deposit accounts	570	635	1,086	1,351
Letter of credit fee income	2,890	2,333	5,627	4,577
BOLI income	107	104	212	207
Net (loss) gain on sale of loans	(874)	172	(850)	447
Net gain on sale or call of investment securities	35	-	94	-
Other income	755	518	1,624	1,178
Total noninterest income	3,483	3,762	7,793	7,760
Noninterest expense:				
Salaries and employee benefits	15,281	14,247	30,741	29,086
Net occupancy expense	2,395	2,271	4,821	4,565
Business development and promotion expense	322	240	525	702
Professional services	2,149	1,507	3,796	3,158
Office supplies and equipment expense	340	419	698	805
Other real estate owned related expense, net	184	1,479	547	3,010
Other	3,044	2,282	6,126	4,488
Total noninterest expense	23,715	22,445	47,254	45,814
Income before income taxes	48,558	46,591	93,142	89,178
Income tax expense	15,018	13,744	28,458	26,307
Net income	$ 33,540	$ 32,847	$ 64,684	$ 62,871
Unrealized net (loss) gain on securities available-for-sale	(3,781)	907	(8,851)	6,651
Less: reclassification adjustments included in net income	35	-	94	-
Income tax benefit (expense) related to items of other comprehensive income	1,128	(268)	2,644	(1,390)
Other comprehensive income	(2,688)	639	(6,301)	5,261
Comprehensive income	$ 30,852	$ 33,486	$ 58,383	$ 68,132
Net income per share				
Basic	$ 2.83	$ 2.61	$ 5.40	$ 4.88
Diluted	$ 2.78	$ 2.57	$ 5.32	$ 4.80
Weighted-average common shares outstanding				
Basic	11,843,821	12,569,107	11,973,867	12,896,028
Diluted	12,049,162	12,774,591	12,163,976	13,100,242

See accompanying notes to the unaudited consolidated interim financial statements.

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

	Preferred Stock	Common Stock Shares	Common Stock Stock	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance as of April 1, 2026	**$ -**	**11,841,866**	**$ 210,882**	**$ (334,490)**	**$ 108,853**	**$ 802,308**	**$ (17,354)**	**$ 770,199**
Issuance of shares upon vesting of share-based awards	-	12,241	-	-	-	-	-	-
Cash dividend declared ($0.80 per share)	-	-	-	-	-	(9,483)	-	(9,483)
Stock-based compensation	-	-	-	-	2,060	-	-	2,060
Stock surrendered due to employee tax liability	-	(1,006)	-	(101)	-	-	-	(101)
Stock repurchased	-	-	-	-	-	-	-	-
Net income	-	-	-	-	-	33,540	-	33,540
Other comprehensive loss	-	-	-	-	-	-	(2,688)	(2,688)
Balance as of June 30, 2026	**$ -**	**11,853,101**	**$ 210,882**	**$ (334,591)**	**$ 110,913**	**$ 826,365**	**$ (20,042)**	**$ 793,527**
Balance as of April 1, 2025	**$ -**	**13,130,296**	**$ 210,882**	**$ (214,406)**	**$ 99,603**	**$ 705,360**	**$ (22,835)**	**$ 778,604**
Issuance of shares upon vesting of share-based awards	-	665	-	-	-	-	-	-
Cash dividend declared ($0.75 per share)	-	-	-	-	-	(9,316)	-	(9,316)
Stock-based compensation	-	-	-	-	2,086	-	-	2,086
Stock surrendered due to employee tax liability	-	(263)	-	(21)	-	-	-	(21)
Stock repurchased	-	(709,967)	-	(56,578)	(601)	-	-	(57,179)
Net income	-	-	-	-	-	32,847	-	32,847
Other comprehensive income	-	-	-	-	-	-	639	639
Balance as of June 30, 2025	**$ -**	**12,420,731**	**$ 210,882**	**$ (271,005)**	**$ 101,088**	**$ 728,891**	**$ (22,196)**	**$ 747,660**

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 Stock	Common Stock Shares	Common Stock Stock	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance as of January 1, 2026	**$ -**	**12,177,588**	**$ 210,882**	**$ (293,406)**	**$ 105,105**	**$ 780,637**	**$ (13,741)**	**$ 789,477**
Issuance of shares upon vesting of share-based awards	-	135,016	-	-	-	-	-	-
Cash dividends declared ($1.60 per share)	-	-	-	-	-	(18,956)	-	(18,956)
Stock-based compensation	-	-	-	-	6,102	-	-	6,102
Stock surrendered due to employee tax liability	-	(57,204)	-	(5,407)	-	-	-	(5,407)
Stock repurchased	-	(402,299)	-	(35,778)	(294)	-	-	(36,072)
Net income	-	-	-	-	-	64,684	-	64,684
Other comprehensive loss	-	-	-	-	-	-	(6,301)	(6,301)
Balance as of June 30, 2026	**$ -**	**11,853,101**	**$ 210,882**	**$ (334,591)**	**$ 110,913**	**$ 826,365**	**$ (20,042)**	**$ 793,527**
Balance as of January 1, 2025	**$ -**	**13,188,776**	**$ 210,882**	**$ (201,172)**	**$ 95,791**	**$ 685,108**	**$ (27,457)**	**$ 763,152**
Issuance of shares upon vesting of share-based awards	-	98,536	-	-	-	-	-	-
Cash dividend declared ($1.50 per share)	-	-	-	-	-	(19,088)	-	(19,088)
Stock-based compensation	-	-	-	-	5,903	-	-	5,903
Stock surrendered due to employee tax liability	-	(42,872)	-	(3,702)	-	-	-	(3,702)
Stock repurchased	-	(823,709)	-	(66,131)	(606)	-	-	(66,737)
Net income	-	-	-	-	-	62,871	-	62,871
Other comprehensive income	-	-	-	-	-	-	5,261	5,261
Balance as of June 30, 2025	**$ -**	**12,420,731**	**$ 210,882**	**$ (271,005)**	**$ 101,088**	**$ 728,891**	**$ (22,196)**	**$ 747,660**

See accompanying notes to the unaudited consolidated interim financial statements.

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

	Six months ended June 30, 2026	Six months ended June 30, 2025
Cash flows from operating activities:		
Net income	$ 64,684	$ 62,871
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	2,700	2,300
Gain on sale and call of securities available for sale	(94)	-
Amortization of deferred loan fees, net	(2,419)	(1,919)
Amortization of investment securities discounts and premiums, net	139	145
Amortization of investment in affordable housing partnerships	7,249	7,344
Amortization of subordinated debt issuance costs	119	119
Loans originated for sale	(1,698)	(3,524)
Loss (gain) on sale of loans	850	(447)
Proceeds from sale of loans held for sale ("LHFS")	1,364	6,186
Depreciation and amortization	766	949
Share-based compensation expense	4,154	5,903
Income from bank owned life insurance, net	(141)	(138)
Write-down of other real estate owned	-	2,641
Changes in other assets and liabilities:		
Income taxes	(3,115)	(7,463)
Accrued interest receivable and other assets	5,315	(5,531)
Accrued interest payable and other liabilities	(5,860)	802
Net cash provided by operating activities	74,013	70,238
Cash flows from investing activities:		
Proceeds from principal paydowns, maturities and redemptions of securities held-to-maturity	544	512
Proceeds from principal paydowns, maturities and redemptions of securities available-for-sale	31,290	16,281
Purchase of securities available-for-sale	-	(238,056)
Purchase of investments in affordable housing partnerships	(8,378)	(14,759)
Proceeds from sale of other real estate owned	2,926	-
Proceeds from sale of loans from LHFS previously classified as portfolio loans	89,622	10,000
Proceeds from recoveries of written off loans	962	193
Net increase in loans	(291,130)	(104,511)
Purchase of bank premises and equipment	(3,165)	(508)
Net cash used in investing activities	(177,329)	(330,848)
Cash flows from financing activities:		
Net increase in deposits	126,762	161,485
Repayment of Federal Home Loan Bank (" FHLB") advances	(400,000)	-
Proceeds from FHLB advannces	400,000	200,000
Increase in treasury shares	(41,479)	(70,439)
Payment of cash dividends	(19,245)	(19,694)
Net cash provided by financing activities	66,038	271,352
Net (decrease) increase in cash and cash equivalents	(37,278)	10,742
Cash and cash equivalents at beginning of period	827,098	785,515
Cash and cash equivalents at end of period	$ 789,820	$ 796,257

See accompanying notes to the unaudited consolidated interim financial statements.

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

	Six months ended June 30, 2026		Six months ended June 30, 2025	
Supplemental disclosure of cash flow information				
Cash paid during the period for:				
Interest	$	105,220	$	106,409
Income taxes		17,146		25,084
Noncash activities:				
Common stock dividends declared but not paid	$	9,483	$	9,316
Real estate acquired in settlement of loans		1,605		1,405
Loans to facilitate the sale of OREO		2,100		-
Operating lease liabilities arising from right-of-use assets		-		8,162
Transfer of loans held for investment to loans held for sale		98,486		28,500
Loans to facilitate the sale of loans held for sale		6,579		-
Accrued compensation reclassified to additional paid-in capital		1,949		-
New commitments to fund affordable housing partnership investment		15,000		23,781

See accompanying notes to the unaudited consolidated interim financial statements.

PREFERRED BANK
Notes to Consolidated Interim Financial Statements
(Unaudited)

Note 1 – Business

Preferred Bank (the "Bank") commenced operations in 1991 as a California state-chartered bank and offers a wide range of financial services. As of June 30, 2026, the Bank operates through thirteen full-service branch banking offices in Los Angeles, Orange, and San Francisco Counties in California, two full-service branches in New York (Queens County and Manhattan), one full-service branch in the Houston suburb of Sugar Land, Texas, and a loan production office in Sunnyvale in California. As of June 30, 2026, approximately 89% of the total dollar amount of the Bank's gross loans were secured by real estate located in California and the Northeast Tri-State area (New York, New Jersey and Connecticut). The Bank is a member of the Federal Home Loan Bank system ("FHLB") and the Bank's deposits are insured by the Federal Deposit Insurance Corporation ("FDIC").

Note 2 – Principles of Consolidation and Basis of Presentation

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

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

Through its branch network, the Bank provides a broad range of financial services to individuals and companies primarily located in Southern California, the Bay Area of California, the Greater New York City area and the Sugar Land area near Houston, Texas. 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 six months ended June 30, 2026 are not necessarily indicative of results that may be expected for any other interim period or the entire fiscal year ending December 31, 2026. 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, 2025, which was filed with the FDIC on March 2, 2026. 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, 2025 filed with the FDIC on March 2, 2026.

Note 3 – Recent Accounting Pronouncements

Recently Issued Accounting Pronouncements

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

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

ASU 2025-02, *Liabilities (Topic 405): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 122*. In March 2025, the FASB issued ASU 2025-02 which removes certain SEC guidance related to obligations to safeguard crypto-assets. ASU 2025-02 was effective immediately and on a fully retrospective basis to annual periods beginning after December 15, 2024. The Bank does not engage in activities involving crypto-assets; therefore, the Company's adoption of this standard did not have an impact on its consolidated financial statements.

ASU 2025-08, *Financial Instruments—Credit Losses (Topic 326): Purchased Loans*. In November 2025, the FASB issued ASU 2025-08 which amends the guidance in ASC 326 on the accounting for certain purchased loans. Under this standard, entities must account for acquired loans (excluding credit cards) that meet certain criteria at acquisition ("purchased seasoned loans") by recognizing them at their purchase price plus an allowance for expected credit losses (often referred to as the gross-up approach). These amendments align the accounting for purchased seasoned loans with the treatment of financial assets purchased with more-than-insignificant credit deterioration since origination ("PCD assets"). The standard is effective for fiscal years beginning after December 15, 2026, including interim reporting periods within those fiscal years. Early adoption is permitted, and the standard is to be applied prospectively. The Bank is currently evaluating the impact that adoption of this standard will have on its consolidated financial statements.

ASU 2025-11, *Interim Reporting (Topic 270) Narrow-Scope Improvements*. In December 2025, the FASB issued ASU 2025-11 which is intended to improve the guidance in Topic 270, *Interim Reporting*, by improving the navigability of the required interim disclosures and clarifying when that guidance is applicable. The amendments also provide additional guidance on what disclosures should be provided in interim reporting periods. The amendments add to Topic 270 a principle that requires entities to disclose events since the end of the last annual reporting period that have a material impact on the entity. ASU 2025-11 is not intended to change the fundamental nature of interim reporting or expand or reduce current interim disclosure requirements, rather, the objective of the amendments is to provide clarity on the current interim reporting requirements. The amendments in ASU 2025-11 are effective for interim reporting periods within annual reporting periods beginning after December 15, 2027. The Bank expects the adoption of this standard will not have an impact on its consolidated financial statements.

Note 4 – Earnings Per Share

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

The following tables set forth earnings per share calculations:

	Income (Numerator)	Weighted Average Shares (Denominator)	Per Share Amount
Three months ended June 30, 2026			
Net Income	$ 33,540	11,843,821	
Basic EPS – income available to common shareholders	**33,540**	**11,843,821**	**$ 2.83**
Effect of dilutive securities	-	205,341	
Diluted EPS – income available to common shareholders	**$ 33,540**	**12,049,162**	**$ 2.78**
Three months ended June 30, 2025			
Net Income	$ 32,847	12,569,107	
Basic EPS – income available to common shareholders	**32,847**	**12,569,107**	**$ 2.61**
Effect of dilutive securities	-	205,484	
Diluted EPS – income available to common shareholders	**$ 32,847**	**12,774,591**	**$ 2.57**

There were 1,462 and 1,492 shares excluded from the computation of diluted earnings per share for the three months ended June 30, 2026 and 2025, because their impact on diluted earnings per share would have been anti-dilutive.

	Income (Numerator)	Weighted Average Shares (Denominator)	Per Share Amount
Six months ended June 30, 2026			
Net Income	$ 64,684	11,973,867	
Less: Income & dividend allocated to participating securities	-	-	
Basic EPS – income available to common shareholders	**64,684**	**11,973,867**	**$ 5.40**
Effect of dilutive securities	-	190,109	
Diluted EPS – income available to common shareholders	**$ 64,684**	**12,163,976**	**$ 5.32**
Six months ended June 30, 2025			
Net Income	$ 62,871	12,896,028	
Less: Income & dividend allocated to participating securities	-	-	
Basic EPS – income available to common shareholders	**62,871**	**12,896,028**	**$ 4.88**
Effect of dilutive securities	-	204,214	
Diluted EPS – income available to common shareholders	**$ 62,871**	**13,100,242**	**$ 4.80**

There were 689 and 750 shares excluded from the computation of diluted earnings per share for the three months ended June 30, 2026 and 2025, because their impact on diluted earnings per share would have been anti-dilutive.

Note 5 – Share-based Compensation

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

Equity Incentive Plans

The 2014 Plan provided for granting of nonstatutory stock options, incentive stock options, RSAs and RSUs to employees, officers, and directors of the Bank. Stock options granted under the 2014 Plan had an exercise price equal to the fair value of the underlying common stock on the date of grant. Stock options and share awards granted under the 2014 Plan are generally vested in installments between 20-25% each year, became fully vested after four to five years, and expired four to six years from the date of grant. All option and share awards provided for accelerated vesting if there is a change in control (as defined in the 2014 Plan). There were 2,500,000 shares authorized under this plan. The 2014 Plan has expired by its terms, which expiration has no effect on options and awards outstanding under the 2014 Plan. Under the 2014 Plan, there were no options outstanding as of June 30, 2026 and 2025 and no options were exercised during the three and six months ended June 30, 2026 and 2025. During the three months ended June 30, 2026 and 2025, no money was received from option exercises under the 2014 Plan.

In October 2024, the Bank's shareholders approved the 2024 Plan. The 2024 Plan provides for grants of up to 670,000 shares of stock options, stock appreciation rights (SARs), stock awards and restricted stock units (collectively, "awards") to employees, consultants, non-employee directors of our company and its subsidiaries. As of June 30, 2026, share awards granted are generally vested in installments between 20-100% each year and no options were granted.

Restricted Stock Units

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

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

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

The compensation costs of both time-based and performance-based awards are estimated based on awards ultimately expected to vest and recognized on a straight-line basis from the grant date until the vesting date of each grant. The total unrecognized compensation expense for outstanding RSUs as of June 30, 2026 was $11.4 million, and will be recognized over an average of 1.4 years, respectively. There were no outstanding RSAs as of June 30, 2026.

The total fair value of vested RSUs during the three months ended June 30, 2026 and 2025 was $1.2 million and $54,000, respectively. The total fair value of vested RSUs during the six months ended June 30, 2026 and 2025 was $12.8 million and $8.5 million, respectively.

During the three months ended June 30, 2026, the Bank granted 10,993 RSUs and recognized $2.1 million of compensation expense related to RSUs. During the three months ended June 30, 2025, the Bank granted 12,463 RSUs and recognized $1.9 million of compensation expense related to RSUs.

During the six months ended June 30, 2026, the Bank granted 108,556 RSUs and recognized $4.2 million of compensation expense related to RSUs. During the six months ended June 30, 2025, the Bank granted 111,336 RSUs and recognized $3.7 million of compensation expense related to RSUs.

The following is a summary of the activities for the time-based RSUs and the performance-based RSUs that will be settled under the Equity Incentive Plans for the six months ended June 30, 2026. The number of outstanding performance-based RSUs stated below assumes the associated performance targets will be met at the target level:

	Performance-based		Time-based	
	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value
Non-Vested RSUs as of January 1, 2026	71,750	$ 76.54	284,598	$ 77.89
RSUs granted	17,186	87.37	91,370	88.18
Forfeited or expired	-	-	(1,166)	88.48
Vested	(30,625)	74.62	(104,391)	75.29
Non-Vested RSUs as of June 30, 2026	58,311	$ 80.74	270,411	$ 82.32

Note 6 – Off-Balance Sheet Commitments

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

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

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

The following table sets forth the Bank's commitments to fund loans and other financial instruments as of June 30, 2026 and December 31, 2025:

	June 30, 2026	December 31, 2025
	(In thousands)	
Commitments to extend credit	$ 1,212,008	$ 1,213,493
Commercial letters of credit	-	223
Standby letters of credit	481,693	427,592
Total	$ 1,693,701	$ 1,641,308

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 June 30, 2026 and December 31, 2025 and is included in other liabilities on the consolidated statements of financial condition. Provision for credit losses on off-balance sheet commitments is included in provision for credit losses on the consolidated income statement and comprehensive income. There was no provision for credit losses on off-balance sheet commitments for the three and six months ended June 30, 2026 and 2025.

Note 7 – Cash Dividend

On June 16, 2026, the Bank declared a cash dividend of $0.80 per share on 11,853,101 shares outstanding as of July 7, 2026, for distribution to holders of common stock on July 21, 2026. Total cash dividends of $9.5 million and $9.8 million were paid during the three months ended June 30, 2026 and 2025, respectively. Total cash dividends of $19.2 million and $19.7 million were paid during the six months ended June 30, 2026 and 2025, respectively.

Note 8 – Investment Securities

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

The carrying value of our securities classified as held-to-maturity was $18.2 million at June 30, 2026 and $18.7 million at December 31, 2025. The table below shows the amortized cost, gross unrecognized gains and losses and estimated fair value of securities held-to-maturity as of June 30, 2026 and December 31, 2025:

	June 30, 2026			
	Amortized cost	Gross unrecognized gains	Gross unrecognized losses	Estimated fair value
	(In thousands)			
U.S. Agency mortgage-backed securities	$ 18,154	$ -	$ (1,073)	$ 17,081

	December 31, 2025			
	Amortized cost	Gross unrecognized gains	Gross unrecognized losses	Estimated fair value
	(In thousands)			
U.S. Agency mortgage-backed securities	$ 18,749	$ -	$ (888)	$ 17,861

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 June 30, 2026 and December 31, 2025:

	June 30, 2026					
	Less than 12 months		12 months or greater		Total	
	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses
	(In thousands)					
Held to maturity:						
U.S. Agency mortgage-backed securities	$ 9,931	$ (155)	$ 7,150	$ (918)	$ 17,081	$ (1,073)
Total securities available-for-sale	$ 9,931	$ (155)	$ 7,150	$ (918)	$ 17,081	$ (1,073)

	December 31, 2025					
	Less than 12 months		12 months or greater		Total	
	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses
	(In thousands)					
Held to maturity:						
U.S. Agency mortgage-backed securities	$ -	$ -	$ 17,861	$ (888)	$ 17,861	$ (888)
Total securities available-for-sale	$ -	$ -	$ 17,861	$ (888)	$ 17,861	$ (888)

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 June 30, 2026 and December 31, 2025:

	June 30, 2026			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
	(In thousands)			
Asset-backed securities	$ 608	$ -	$ (16)	$ 592
Corporate notes	82,310	397	(2,579)	80,128
U.S. Agency mortgage-backed securities	5,737	-	(141)	5,596
Collateralized mortgage obligations	128,601	-	(16,323)	112,278
Municipal securities	64,217	4	(7,094)	57,127
U.S. Agency principal-only strip securities	149	-	(9)	140
U.S. Treasury notes	272,787	1,099	(3,791)	270,095
Total securities available-for-sale	$ 554,409	$ 1,500	$ (29,953)	$ 525,956

	December 31, 2025			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
	(In thousands)			
Asset-backed securities	$ 2,764	$ -	$ (34)	$ 2,730
Corporate notes	105,827	809	(3,602)	103,034
U.S. Agency mortgage-backed securities	6,275	1	(163)	6,113
Collateralized mortgage obligations	133,587	-	(11,728)	121,859
Municipal securities	64,386	4	(7,860)	56,530
U.S. Agency principal-only strip securities	174	-	(9)	165
U.S. Treasury notes	272,681	4,920	(1,846)	275,755
Total securities available-for-sale	$ 585,694	$ 5,734	$ (25,242)	$ 566,186

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 June 30, 2026 and December 31, 2025:

	June 30, 2026					
	Less than 12 months		12 months or greater		Total	
	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses
	(In thousands)					
Available for sale:						
Asset-backed securities	$ -	$ -	$ 592	$ (16)	$ 592	$ (16)
Corporate notes	11,209	(30)	45,152	(2,549)	56,361	(2,579)
U.S. Agency mortgage-backed securities	152	(1)	5,359	(140)	5,511	(141)
Collateralized mortgage obligations	1	-	112,277	(16,323)	112,278	(16,323)
Municipal securities	5,484	(60)	44,489	(7,034)	49,973	(7,094)
U.S. Agency principal-only strip securities	-	-	140	(9)	140	(9)
U.S. Treasury notes	197,656	(1,853)	13,027	(1,938)	210,683	(3,791)
Total securities available-for-sale	$ 214,502	$ (1,944)	$ 221,036	$ (28,009)	$ 435,538	$ (29,953)

	December 31, 2025					
	Less than 12 months		12 months or greater		Total	
	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses
	(In thousands)					
Available for sale:						
Asset-backed securities	$ 2,100	$ (18)	$ 630	$ (16)	$ 2,730	$ (34)
Corporate notes	6,210	(34)	62,142	(3,568)	68,352	(3,602)
U.S. Agency mortgage-backed securities	156	-	5,851	(163)	6,007	(163)
Collateralized mortgage obligations	1	-	121,857	(11,728)	121,858	(11,728)
Municipal securities	1,014	(1)	48,937	(7,859)	49,951	(7,860)
U.S. Agency principal-only strip securities	-	-	165	(9)	165	(9)
U.S. Treasury notes	-	-	13,116	(1,846)	13,116	(1,846)
Total securities available-for-sale	$ 9,481	$ (53)	$ 252,698	$ (25,189)	$ 262,179	$ (25,242)

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 June 30, 2026, there were a total of 25 investment securities that were in an unrealized loss position for less than 12 months and 89 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), U.S. treasury notes (which are guaranteed by the U.S. government), mortgage-backed securities and collateralized mortgage obligations (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 that 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. There was no deterioration in economic conditions, or in the financial condition of specific issuers within these portfolios, that required the Bank to 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 was recorded. There were no debt securities considered past due at June 30, 2026 and December 31, 2025. There were no purchases of debt securities with credit deterioration during the three months ended June 30, 2026 and 2025.

There were $20.1 million and $25.6 million of cash proceeds from sales, calls or maturities of securities available-for-sale for the three and six months ended June 30, 2026, respectively. There were $10.0 million and $10.0 million of cash proceeds from sales, calls or maturities of securities available-for-sale for the three and six months ended June 30, 2025, respectively. There was $35,000 and $94,000 of net realized losses for sales and calls of securities for the three and six months ended June 30, 2026, respectively. There was no net realized losses for sales and calls of securities for the three and six months ended June 30, 2025.

The amortized cost and estimated fair value of securities at June 30, 2026, by contractual maturity, are shown below. Mortgage-backed securities are classified in accordance with their estimated average life. Expected maturities differ from contractual maturities mainly due to prepayment rates; changes in prepayment rates will affect a security's average life.

	Available-for-Sale		Held-to-maturity	
	Amortized Cost	Estimated fair value	Amortized Cost	Estimated fair value
	(In thousands)		*(In thousands)*	
Due in one year or less	$ 1	$ 1	$ -	$ -
Due after one year through five years	50,803	48,039	10,371	10,208
Due after five years through ten years	327,287	324,773	5,224	4,654
Due after ten years	176,318	153,143	2,559	2,219
Total	$ 554,409	$ 525,956	$ 18,154	$ 17,081

Note 9 – Loans and Allowance for Credit Losses on Loans

The Bank's loan portfolio includes originated loans as well as purchased loans. The loans portfolio as of June 30, 2026 and December 31, 2025 are summarized as follows:

	June 30, 2026	December 31, 2025
	(In thousands)	
Real estate mortgage	$ 3,906,358	$ 3,811,898
Real estate construction	649,026	670,567
Commercial & industrial	1,664,336	1,553,847
SBA	8,444	8,053
Trade finance	10,964	9,657
Consumer & other	153	242
Gross loans	6,239,281	6,054,264
Less:		
Allowance for credit losses on loans	(76,276)	(78,992)
Deferred loan and fees, net	(8,288)	(9,030)
Total loans, net	$ 6,154,717	$ 5,966,242

Additionally, the Bank has loans held for sale of $8.3 million at June 30, 2026. Of this amount, $7.9 million was part of $137.5 million in loans related to one relationship that migrated to nonaccrual status during the first quarter of 2026 due to the principals of the relationship being involved in several complicated lawsuits with other banks which caused sluggish cash flow and unacceptable payment patterns. During the three and six months ended June 30, 2026, the Bank sold $68.4 million and $77.8 million of these nonaccrual loans, resulting in a loss on sale of $950,000 and $950,000, respectively. Loans held for sale also included $434,000 of SBA loans at June 30, 2026. There were no loans held for sale at December 31, 2025. Gains on the sale of SBA loans were $76,000 and $100,000 for the three and six months ended June 30, 2026, respectively. Gains on the sale of SBA loans were $172,000 and $447,000 for the three and six months ended June 30, 2025, respectively.

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 originates 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 $98.2 million of non-accrual loans at June 30, 2026 compared to $38.9 million at December 31, 2025. Included in non-accrual loans at June 30, 2026 was $90.3 million of non-accrual loans held for investment and $7.9 million of non-accrual loans held for sale. During the first quarter of 2026, $137.5 million of real estate loans migrated to nonaccrual status due to the principals of the relationship being involved in several complicated lawsuits with other banks which caused sluggish cash flow and unacceptable payment patterns. During the three and six months ended June 30, 2026, the Bank sold $68.4 million and $77.8 million, respectively, of this exposure and recognized a loss on sale of $950,000 and $950,000, respectively. At December 31, 2025, non-accrual loans were comprised solely of loans held for investment.

Non-accrual loans had interest due, but not recognized, of approximately $3.8 million and $1.7 million at June 30, 2026 and December 31, 2025, respectively. The Bank had $692,000 and no loans that were past due 90 or more days and still accruing interest as of June 30, 2026 and December 31, 2025, respectively.

The following tables show the Bank's past due and non-accrual loans held for investment by class as of June 30, 2026 and December 31, 2025:

June 30, 2026:	Accruing Loans 30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total	Non-accrual Loans	Total Loans
Loan Class					(In thousands)			
Real estate mortgage								
Residential	$ -	$ 2,709	$ 692	$ 3,401	$ 731,261	$ 734,662	$ 2,659	$ 737,321
Commercial	10,054	80,478	-	90,532	2,997,009	3,087,541	81,496	3,169,037
Total real estate mortgage	10,054	83,187	692	93,933	3,728,270	3,822,203	84,155	3,906,358
Real estate construction								
Residential	7,607	-	-	7,607	276,612	284,219	-	284,219
Commercial	-	-	-	-	364,807	364,807	-	364,807
Total real estate construction	7,607	-	-	7,607	641,419	649,026	-	649,026
Commercial and Industrial	1,051	7,000	-	8,051	1,650,335	1,658,386	5,950	1,664,336
SBA	-	10	-	10	8,281	8,291	153	8,444
Trade Finance	-	-	-	-	10,964	10,964	-	10,964
Consumer & other	-	-	-	-	153	153	-	153
Total loans held for investment	$ 18,712	$ 90,197	$ 692	$ 109,601	$ 6,039,422	$ 6,149,023	$ 90,258	$ 6,239,281

December 31, 2025:	Accruing Loans 30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total	Non-accrual Loans	Total Loans
Loan Class					(In thousands)			
Real estate mortgage								
Residential	$ 2,032	$ 3,417	$ 4,490	$ 9,939	$ 771,689	$ 781,628	$ 1,508	$ 783,136
Commercial	122,331	62,161	7,870	192,362	2,806,044	2,998,406	30,356	3,028,762
Total real estate mortgage	124,363	65,578	12,360	202,301	3,577,733	3,780,034	31,864	3,811,898
Real estate construction								
Residential	-	-	-	-	282,808	282,808	-	282,808
Commercial	-	-	-	-	387,759	387,759	-	387,759
Total real estate construction	-	-	-	-	670,567	670,567	-	670,567
Commercial and Industrial	1,431	4,500	-	5,931	1,540,851	1,546,782	7,065	1,553,847
SBA	110	-	-	110	7,943	8,053	-	8,053
Trade Finance	-	-	-	-	9,657	9,657	-	9,657
Consumer & other	-	-	-	-	242	242	-	242
Total loans held for investment	$ 125,904	$ 70,078	$ 12,360	$ 208,342	$ 5,806,993	$ 6,015,335	$ 38,929	$ 6,054,264

The following tables presents the Bank's non-accrual loans held for investment with and without an allowance for credit losses and related interest income recognized by class as of June 30, 2026 and December 31, 2025:

	Nonaccrual Loans without ACL	with ACL	Total	Loans 90+ Days Past Due and Accruing Interest	Interest Income Recognized Three months ended 6/30/26	Six months ended 6/30/26
			(in thousands)			
June 30, 2026						
Real estate mortgage:						
Residential	$ 2,659	$ -	$ 2,659	$ 692	$ -	$ 2
Commercial	81,496	-	81,496	-	-	910
Total R/E mortgage	84,155	-	84,155	692	-	912
Commercial & industrial	-	5,950	5,950	-	-	-
SBA	-	153	153	-	-	-
Total	$ 84,155	$ 6,103	$ 90,258	$ 692	$ -	$ 912

	Nonaccrual Loans			Loans 90+ Days Past Due and Accruing Interest	Interest Income Recognized
	without ACL	with ACL	Total		Twelve months ended 12/31/25
			(in thousands)		
December 31, 2025					
Real estate mortgage:					
Residential	$ 1,508	$ -	$ 1,508	$ 4,490	$ 208
Commercial	30,356	-	30,356	7,870	1,718
Total R/E mortgage	31,864	-	31,864	12,360	1,926
Commercial & industrial	-	7,065	7,065	-	189
Total loans held for investment	$ 31,864	$ 7,065	$ 38,929	$ 12,360	$ 2,115

The following tables represents the amortized cost basis of collateral-dependent loans held for investment by class of loans as of June 30, 2026 and December 31, 2025:

	Real Estate	Business Assets	Unsecured	Total
June 30, 2026				
Real estate mortgage:				
Residential	$ 2,659	$ -	$ -	$ 2,659
Commercial	138,248	-	-	138,248
Commercial (1)	5,950	-	-	5,950
SBA	-	153	-	153
TOTAL	$ 146,857	$ 153	$ -	$ 147,010

1) *Collateral-dependent commercial loans include a $6.0 million loan relationship secured by a first deed trust on three commercial lots.*

	Real Estate	Business Assets	Unsecured	Total
December 31, 2025				
Real estate mortgage:				
Residential	$ 5,033	$ -	$ -	$ 5,033
Commercial	207,559	-	-	207,559
Commercial (1)	4,859	-	2,205	7,064
TOTAL	$ 217,451	$ -	$ 2,205	$ 219,656

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

The following tables detail activity in the allowance for credit losses on loans by portfolio segment for the three and six months ended June 30, 2026 and 2025. Allocation of a portion of the allowance to one particular portfolio segment does not indicate that it is no longer available to absorb losses in other portfolio segments.

	Real Estate-Mortgage		Real Estate-Construction		Commercial		Trade	Consumer		
	Residential	Commercial	Residential	Commercial	& Industrial	SBA	Finance	& Other	Unallocated	Total
Three months ended June 30, 2026										
Balance as of April 1, 2026	$ 7,669	$ 38,301	$ 1,361	$ 2,308	$ 25,267	$ 46	$ 58	$ 5	$ 21	$ 75,036
Provision for (reversal of) credit losses	(455)	(2,863)	156	218	3,123	261	91	(2)	671	1,200
Loans charged off	-	-	-	-	-	-	-	-	-	-
Recoveries	-	5	-	-	35	-	-	-	-	40
Net (charge-offs) recoveries	-	5	-	-	35	-	-	-	-	40
Balance at June 30, 2026	$ 7,214	$ 35,443	$ 1,517	$ 2,526	$ 28,425	$ 307	$ 149	$ 3	$ 692	$ 76,276
Six months ended June 30, 2026										
Balance as of January 1, 2026	$ 7,765	$ 38,487	$ 1,481	$ 2,647	$ 28,090	$ 47	$ 59	$ 4	$ 412	$ 78,992
Provision for (reversal of) credit losses	(551)	(65)	36	(121)	2,772	260	90	(1)	280	2,700
Loans charged off	-	(3,833)	-	-	(2,545)	-	-	-	-	(6,378)
Recoveries	-	854	-	-	108	-	-	-	-	962
Net (charge-offs) recoveries	-	(2,979)	-	-	(2,437)	-	-	-	-	(5,416)
Balance at June 30, 2026	$ 7,214	$ 35,443	$ 1,517	$ 2,526	$ 28,425	$ 307	$ 149	$ 3	$ 692	$ 76,276

	Real Estate-Mortgage		Real Estate-Construction		Commercial		Trade	Consumer		
	Residential	Commercial	Residential	Commercial	& Industrial	SBA	Finance	& Other	Unallocated	Total
Three months ended June 30, 2025										
Balance as of April 1, 2025	$ 7,395	$ 35,261	$ 1,651	$ 1,870	$ 25,729	$ 41	$ 4	$ 3	$ 320	$ 72,274
Provision for (reversal of) credit losses	317	(1,065)	(62)	330	1,487	29	83	(2)	483	1,600
Loans charged off	(132)	-	-	-	-	(8)	-	-	-	(140)
Recoveries	-	-	-	-	96	-	-	-	-	96
Net (charge offs) recoveries	(132)	-	-	-	96	(8)	-	-	-	(44)
Balance at June 30, 2025	$ 7,580	$ 34,196	$ 1,589	$ 2,200	$ 27,312	$ 62	$ 87	$ 1	$ 803	$ 73,830
Six months ended June 30, 2025										
Balance as of January 1, 2025	$ 7,227	$ 33,713	$ 1,556	$ 1,624	$ 26,786	$ 36	$ 3	$ 5	$ 527	$ 71,477
Provision for (reversal of) credit losses	485	483	33	576	333	34	84	(4)	276	2,300
Loans charged off	(132)	-	-	-	-	(8)	-	-	-	(140)
Recoveries	-	-	-	-	193	-	-	-	-	193
Net (charge offs) recoveries	(132)	-	-	-	193	(8)	-	-	-	53
Balance at June 30, 2025	$ 7,580	$ 34,196	$ 1,589	$ 2,200	$ 27,312	$ 62	$ 87	$ 1	$ 803	$ 73,830

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 include 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 June 30, 2026. 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 Converted to Term During their Lifetime	
	2026	**2025**	**2024**	**2023**	**2022**	**Prior**	**Total**	**Revolving Loans**		**Total**
Real estate mortgage										
Pass	$ 452,395	$ 882,844	$ 522,029	$ 303,596	$ 609,083	$ 840,786	$ 3,610,733	$ 112,065	$ 20,529	$ 3,743,327
Special mention	-	-	-	9,556	9,500	57,211	76,267	-	-	76,267
Substandard	-	-	1,917	3,819	28,076	52,952	86,764	-	-	86,764
Doubtful	-	-	-	-	-	-	-	-	-	-
Real estate construction										
Pass	40,800	115,949	169,351	226,407	40,938	27,945	621,390	27,636	-	649,026
Special mention	-	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-	-
Commercial & industrial										
Pass	$ 485,638	$ 298,574	$ 93,546	$ 90,927	$ 73,094	$ 96,168	$ 1,137,947	$ 506,807	$ 12,581	1,657,335
Special mention	-	-	-	-	-	1,051	1,051	-	-	1,051
Substandard	-	-	-	-	-	5,950	5,950	-	-	5,950
Doubtful	-	-	-	-		-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-	-
SBA										
Pass	445	1,951	2,964	2,051	870	-	8,281	-	-	8,281
Special mention	-	3	7	-	-	-	10	-	-	10
Substandard	-	-	4	149	-	-	153	-	-	153
Doubtful	-	-	-	-	-	-	-	-	-	-
Trade finance										
Pass	3,044	7,920	-	-	-	-	10,964	-	-	10,964
Special mention	-	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-	-
Consumer & other										
Pass	153	-	-	-	-	-	153	-	-	153
Special mention	-	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-	-
Total	**$ 982,475**	**$ 1,307,241**	**$ 789,818**	**$ 636,505**	**$ 761,561**	**$ 1,082,063**	**$ 5,559,663**	**$ 646,508**	**$ 33,110**	**$ 6,239,281**
Gross charge-offs										
Six months ended										
June 30, 2026:										
Real estate mortgage	$ -	$ -	$ -	$ -	$ -	$ 3,833	$ 3,833	$ -	$ -	$ 3,833
Real estate construction	-	-	-	-	-	-	-	-	-	-
Commercial & industrial	-	-	-	840	-	1,705	2,545	-	-	2,545
SBA	-	-	-	-	-	-	-	-	-	-
Trade finance	-	-	-	-	-	-	-	-	-	-
Consumer & other	-	-	-	-	-	-	-	-	-	-
Total	**$ -**	**$ -**	**$ -**	**$ 840**	**$ -**	**$ 5,538**	**$ 6,378**	**$ -**	**$ -**	**$ 6,378**

The following table presents risk grades and classified loans by recorded investment in class of loan by origination year as of December 31, 2025. 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									
	2025	**2024**	**2023**	**2022**	**2021**	**Prior**	**Total**	**Revolving Loans**	**Revolving Loans Converted to Term During their Lifetime**	**Total**
Real estate mortgage										
Pass	$ 903,317	$ 542,650	$ 342,484	$ 647,803	$ 440,114	$ 555,926	$ 3,432,294	$ 127,397	$ 14,380	$ 3,574,071
Special mention	-	-	9,617	9,500	-	463	19,580	-	-	19,580
Substandard	-	1,927	5,305	47,241	25,091	138,683	218,247	-	-	218,247
Doubtful	-	-	-	-	-	-	-	-	-	-
Real estate construction										
Pass	75,199	163,571	275,187	92,425	44,083	-	650,465	20,102	-	670,567
Special mention	-	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-	-
Commercial & industrial										
Pass	$ 551,036	$ 140,488	$ 109,606	$ 124,052	$ 31,234	$ 80,411	$ 1,036,827	$ 496,502	$ 13,452	1,546,781
Special mention	-	-	-	-	-	-	-	-	-	-
Substandard	-	-	340	-	1,705	4,521	6,566	500	-	7,066
Doubtful	-	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-	-
SBA										
Pass	1,948	3,001	2,110	878	6	-	7,943	-	-	7,943
Special mention	-	-	110	-	-	-	110	-	-	110
Substandard	-	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-	-
Trade finance										
Pass	9,657	-	-	-	-	-	9,657	-	-	9,657
Special mention	-	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-	-
Consumer & other										
Pass	242	-	-	-	-	-	242	-	-	242
Special mention	-	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-	-
Total	**$ 1,541,399**	**$ 851,637**	**$ 744,759**	**$ 921,899**	**$ 542,233**	**$ 780,004**	**$ 5,381,931**	**$ 644,501**	**$ 27,832**	**$ 6,054,264**
Gross charge-offs										
Six months ended										
June 30, 2025:										
Real estate mortgage	$ -	$ -	$ -	$ -	$ -	$ 132	$ 132	$ -	$ -	$ 132
Real estate construction	-	-	-	-	-	-	-	-	-	-
Commercial & industrial	-	-	-	-	-	-	-	-	-	-
SBA	-	8	-	-	-	-	8	-	-	8
Trade finance	-	-	-	-	-	-	-	-	-	-
Consumer & other	-	-	-	-	-	-	-	-	-	-
Total	**$ -**	**$ 8**	**$ -**	**$ -**	**$ -**	**$ 132**	**$ 140**	**$ -**	**$ -**	**$ 140**

During the three months ended June 30, 2026, there were no loans modified for borrowers experiencing financial difficulty.

The following table presents a summary of the amortized cost basis as of June 30, 2026 for loans modified with borrowers experiencing financial difficulty during the six months ended June 30, 2026 by type of modification:

	Other-Than-Insignificant Payment Delay		Total	
June 30, 2026:	Amortized Cost Basis	% of Total Class of	Amortized Cost Basis	% of Total Class of
Six months ended June 30, 2026				
Loan Type				
SBA	40	0.47%	40	0.47%
Total	**$ 40**	**0.001%**	**$ 40**	**0.001%**

During the six months ended June 30, 2026, one SBA loan totaling $40,000 was modified for borrowers experiencing financial difficulty. The modification consisted of six months principal and interest deferrals.

There was one SBA loan totaling $40,000 that was modified for a borrower experiencing financial difficulty in the previous twelve-month period which defaulted during the three and six months ended June 30, 2026. This loan was on nonaccrual status and totaled $40,000 at June 30, 2026.

The following table presents the payment status as of June 30, 2026 for loans that were modified for borrowers experiencing financial difficulty during the preceding 12-month period:

	Accruing Loans							
June 30, 2026:	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total	Non-accrual Loans	Total Loans
Loan Class				*(In thousands)*				
Real estate mortgage								
Commercial	$ -	$ -	$ -	$ -	$ 3,622	$ 3,622	$ -	$ 3,622
Total real estate mortgage	-	-	-	-	3,622	3,622	-	3,622
SBA	-	-	-	-	-	-	40	40
Total as of June 30, 2026	$ -	$ -	$ -	$ -	$ 3,622	$ 3,622	$ 40	$ 3,662

There were no loans that were modified with borrowers experiencing financial difficulty during the three and six months ended June 30, 2025.

There were no loans modified with borrowers experiencing financial difficulty in the previous twelve-month period, at June 30, 2025.

Note 10 – Fair Value Measurements

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

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

- Level 1 – Quoted prices in active markets for identical assets or liabilities. Certain financial assets and liabilities for which carrying amount equals fair value are considered to be Level 1.
- Level 2 – Observable prices in active markets for similar assets or liabilities; prices for identical or similar assets or liabilities in markets that are not active; directly observable market inputs for substantially the full term of the asset and liability; market inputs that are not directly observable but are derived from or corroborated by observable market data.

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

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

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

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

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

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

(c) *Federal Home Loan Bank Stock*

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

(d) *Loans held for sale*

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

(e) *Loans*

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

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

(f) *Customers' Liability on Acceptances and Acceptances Outstanding*

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

(g) *Accrued Interest Receivable and Accrued Interest Payable*

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

(h) *Deposits*

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

(i) *FHLB Borrowings*

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

(j) *Commitment to Extend Credit and Letters of Credit*

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

(k) *Subordinated Debt Issuance*

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

The carrying amounts and estimated fair values of financial instruments as of June 30, 2026 and December 31, 2025 are summarized in the tables below:

	June 30, 2026		
	Fair Value Measurement Using	Carrying Amount	Estimated Fair Value
		(In thousands)	
Assets:			
Cash and cash equivalents	Level 1	$ 789,820	$ 789,820
Securities held-to-maturity	Level 2	18,154	17,081
Securities available-for-sale (1)	Level 2/3	525,956	525,956
Loans held for sale	Level 2	8,348	8,348
Loans receivable, net	Level 3	6,154,717	6,208,694
Accrued interest receivable (2)	Level 2/3	32,818	32,818
Federal Home Loan Bank stock	Level 2	15,000	N/A
Liabilities:			
Demand deposits and savings:			
Noninterest-bearing	Level 2	$ 754,670	$ 754,670
Interest-bearing	Level 2	2,241,007	2,241,007
Time deposits	Level 2	3,476,531	3,475,222
FHLB borrowings	Level 2	200,000	199,942
Subordinated debt issuance	Level 2	148,825	164,749
Accrued interest payable	Level 2	15,311	15,311

(1) Includes one $4.6 million corporate note measured at fair value on a recurring basis using significant unobservable (Level 3) inputs as of June 30, 2026.

(2) Includes $4.1 million of accrued interest on investment securities and other earning asset accounts using Level 2 fair value measurements and $28.7 million of accrued interest on loans receivable using Level 3 measurements as of June 30, 2026.

	December 31, 2025		
	Fair Value Measurement Using	Carrying Amount	Estimated Fair Value
Assets:		(In thousands)	
Cash and cash equivalents	Level1	$ 827,098	$ 827,098
Securities held-to-maturity	Level 2	18,749	17,861
Securities available-for-sale (1)	Level 2	566,186	566,186
Loans receivable, net	Level 3	5,966,242	6,042,688
Accrued interest receivable (2)	Level 2/3	34,233	34,233
Federal Home Loan Bank stock	Level 2	15,000	N/A
Liabilities:			
Demand deposits and savings:			
Noninterest-bearing	Level 2	$ 699,160	$ 699,160
Interest-bearing	Level 2	2,236,290	2,236,290
Time deposits	Level 2	3,409,996	3,415,119
FHLB borrowings	Level 2	200,000	200,140
Subordinated debt issuance	Level 2	148,706	167,551
Accrued interest payable	Level 2	16,513	16,513

(1) Includes one $4.5 million corporate note measured at fair value on a recurring basis using significant unobservable (Level 3) inputs as of December 31, 2025.

(2) Includes $4.5 million of accrued interest on investment securities and other earning asset accounts using Level 2 fair value measurements and $29.7 million of accrued interest on loans receivable using Level 3 measurements as of December 31, 2025.

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

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

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

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

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

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

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

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

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

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

The following tables present the Bank's hierarchy for its assets and liabilities measured at fair value on a recurring basis at June 30, 2026 and December 31, 2025.

	Fair Value Measurements Using			
Assets	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Balance at June 30, 2026**
June 30, 2026		*(In thousands)*		
Securities, available-for-sale:				
Asset-backed securities	$ -	$ 592	$ -	$ 592
Corporate notes	-	75,574	4,554	80,128
U.S. Agency mortgage-backed securities	-	5,596	-	5,596
Collateralized mortgage obligations	-	112,278	-	112,278
Municipal securities	-	57,127	-	57,127
U.S. Agency principal-only strips	-	140	-	140
U.S. Treasury Bill	-	270,095	-	270,095
Total	$ -	$ 521,402	$ 4,554	$ 525,956

Assets	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2025
December 31, 2025	*(In thousands)*			
Securities, available-for-sale:				
Asset-backed securities	$ -	$ 2,730	$ -	$ 2,730
Corporate notes	-	98,508	4,526	103,034
U.S. Agency mortgage-backed securities	-	6,113	-	6,113
Collateralized mortgage obligations	-	121,859	-	121,859
Municipal securities	-	56,530	-	56,530
U.S. Agency principal-only strips	-	165	-	165
U.S. Treasury Bill	-	275,755	-	275,755
Total	$ -	$ 561,660	$ 4,526	$ 566,186

There were no securities transferred between Level 2 to Level 3 during the three and six months ended June 30, 2026. There was zero and one corporate note security that was transferred from Level 2 to Level 3 during the three and six months ended June 30, 2025.

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 values based on recent independent appraisals are considered a level 2 measurement. Collateral values based on unobservable inputs that are supported by little or no market data and less current appraisals are considered a level 3 measurement.

Other real estate owned – Real estate owned is initially recorded at fair value, less estimated costs to sell. The Bank records other real estate owned at fair value on a non-recurring basis. From time to time, nonrecurring fair value adjustments to other real estate owned are recorded based on the current appraised 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 no losses resulting from the measurement of other real estate owned measured on a non-recurring basis for the three and six months ending June 30, 2026. There were $1.3 million and $2.6 million of losses resulting from the measurement of other real estate owned measured on a non-recurring basis for the three and six months ending June 30, 2025.

The following table presents the Bank's hierarchy for its assets measured at estimated fair value on a nonrecurring basis at June 30, 2026 and December 31, 2025, and the total losses resulting from these fair value adjustments:

	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2026	Three Months Ended June 30, 2026 Total Losses	Six Months Ended June 30, 2026 Total Losses
	(Dollars in thousands)					
Collateral-dependent loans:						
Commercial and industrial	$ -	$ -	$ 2,596	$ 2,596	$ 929	$ 929
Total	$ -	$ -	$ 5,606	$ 5,606	$ 929	$ 929

	Fair Value Measurements Using				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2025	Year Ended December 31, 2025 Total Losses
	(Dollars in thousands)				
Collateral-dependent loans:					
Commercial real estate	$ -	$ -	$ 4,038	$ 4,038	$ (3,833)
Commercial and industrial	-	-	2,094	2,094	2,078
Real estate owned	-	-	3,510	3,510	(4,778)
Total	$ -	$ -	$ 9,642	$ 9,642	$ (6,533)

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 June 30, 2026 and December 31, 2025:

	At June 30, 2026			
	Fair Value	Valuation Technique	Unobservable Input	Range
	(Dollars in thousands)			
Collateral-dependent loans:				
Commercial and industrial	$ 2,596	Market comparable	Adjustment to appraisal for selling costs Adjustment to appraisal values	5% (3.8)% - 8.5%

	At December 31, 2025			
	Fair Value	Valuation Technique	Unobservable Input	Range
	(Dollars in thousands)			
Collateral-dependent loans:				
Commercial real estate	$ 4,038	Market comparable	Adjustment to appraisal for selling costs	5%
Commercial and industrial	$ 2,094	Market comparable	Adjustment to appraisal for selling costs Adjustment to appraisal values	5% (3.8)% - 8.5%
Real estate owned	$ 3,510	Market comparable	Adjustment to appraisal for selling costs	5%

Note 11 – Affordable Housing Partnerships

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

The Bank amortizes investments in affordable housing partnerships in proportion to tax credits and benefits realized. As of June 30, 2026, the Bank had fourteen investments, with a carrying value of $77.7 million. Commitments to fund investment in affordable housing partnerships as of June 30, 2026 totaled $29.9 million. As of December 31, 2025, the Bank had thirteen investments with a carrying value of $70.0 million and a further commitment to fund $23.3 million.

Note 12 – Income Taxes

We account for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements.

Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enacted date.

We record net tax assets to the extent we believe these assets will more likely than not be realized. In making such determination, we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent financial performance. A valuation allowance is provided when it is more likely than not that some portion of deferred tax assets will not be realized. As of June 30, 2026 and December 31, 2025, the Bank determined that a valuation allowance for deferred tax assets was not required.

Income tax expense was $15.0 million and $13.7 million for the three months ended June 30, 2026 and 2025, respectively, representing an effective tax rate of 30.93% and 29.50%, respectively. Income tax expense was $28.5 million and $26.3 million for the six months ended June 30, 2026 and 2025, respectively, representing an effective tax rate of 30.55% and 29.50%, respectively. 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 June 30, 2026 and December 31, 2025, there were no uncertain tax positions.

Note 13 – Borrowings

FHLB Advances. FHLB advances are payable at their respective maturity dates and are collateralized by commercial or residential real estate loans or by certain marketable investment securities. The FHLB maintains the right to "put" or terminate these advances at its discretion on specified dates, requiring the bank to repay the advance or refinance at then-prevailing market rates. At June 30, 2026, FHLB advances totaled $200.0 million, consisting entirely of fixed-rate putable term advances with a weighted average interest rate of 3.56% maturing in May 2029. At December 31, 2025, advances totaled $200.0 million with a weighted average interest rate of 3.50% maturing in May 2028.

FRB Borrowings. The Bank had an approved short-term borrowings line available through the discount window at the Federal Reserve Bank of San Francisco (FRBSF). The Bank had no borrowings through the discount window outstanding as of June 30, 2026 and December 31, 2025.

Subordinated Notes. A summary of outstanding long-term debt at June 30, 2026 and December 31, 2025 follows:

	As of June 30, 2026	As of December 31, 2025	Interest Rate	Maturity Date	Earliest Call Date
		(in thousands)			
Subordinated notes payable ($150,000 face amount)	$ 148,825	$ 148,706	6.447%	June 15, 2031	June 15, 2026

The subordinated notes bore 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 began to bear interest at a floating rate per annum equal to a benchmark rate, which is 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 on a quarterly basis beginning on June 15, 2026 at par and, in other certain limited circumstances.

Note 14 – Leases

The Bank is obligated under non-cancellable operating leases for our corporate office/main branch, 15 branch offices, one LPO, one satellite office and one administrative office. Our leases have remaining terms of five months to approximately 10 years, with a weighted average remaining lease term of 7.5 years as of June 30, 2026. 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 June 30, 2026, the weighted average discount rate used to determine the operating lease liability was 5.1%.

At June 30, 2026, operating lease right-of-use ("ROU") assets and related liabilities were $28.6 million and $33.3 million, respectively. For the three and six months ended June 30, 2026, the Bank recorded operating lease expense of $1.4 million and $2.9 million, respectively. For the three and six months ended June 30, 2025, the Bank recorded operating lease expense of $703,000 and $1.4 million, respectively. For the three and six months ended June 30, 2026, cash payments for operating leases were $1.5 million and $2.7 million, respectively. For the three and six months ended June 30, 2025, cash payments for operating leases were $1.3 million and $2.6 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 June 30, 2026.

(Dollars in thousands)		
2026	$	3,069
2027		5,770
2028		5,814
2029		5,105
2030		4,881
Thereafter		15,775
Total future lease payments	$	40,414
Discount to present value		(7,119)
Total lease liability	$	33,295

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

The following discussion provides information about our results of operations, financial condition, liquidity, and capital resources. This information is intended to facilitate the understanding and assessment of significant changes and trends related to our financial condition and the results of operations since the date of our last periodic report. This discussion and analysis should be read in conjunction with our unaudited interim financial statements and the accompanying notes presented elsewhere herein.

Overview

Preferred Bank is one of the larger independent commercial banks headquartered in California. The Bank is chartered by the State of California, and its deposits are insured by the Federal Deposit Insurance Corporation, or FDIC, to the maximum extent permitted by law. The Bank conducts its banking business from its main office in Los Angeles, California, and through twelve full-service branch banking offices in California (Alhambra, Century City, City of Industry, Torrance, Arcadia, Irvine (2), Diamond Bar, Pico Rivera, Tarzana and San Francisco (2)), two branches in New York (Manhattan and Flushing), a branch office in the Houston, Texas suburb of Sugar Land and a loan production office in Sunnyvale, California. Preferred Bank offers a broad range of deposit and loan products and services to both commercial and consumer customers. The Bank provides personalized and corporate 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 Bank serving the Chinese-American community of Southern California. Preferred Bank now derives most of its customers from the diversified mainstream market but does continue to benefit from the 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:

	Three months ended June 30,		Six months ended June 30,	
(Dollars in thousands, except per share amounts)	**2026**	**2025**	**2026**	**2025**
Selected Financial Ratios:				
Return on average assets (annualized)	1.75%	1.85%	1.71%	1.81%
Return on average shareholders' equity (annualized)	17.05%	17.55%	16.47%	16.58%
Net interest margin	3.73%	3.85%	3.65%	3.80%
Efficiency ratio	32.28%	31.78%	33.02%	33.37%
Net charge-offs to average loans	0.00%	0.00%	0.18%	0.00%

	June 30, 2026	December 31, 2025	June 30, 2025
Selected Asset Quality Ratios:			
Non-performing loans to total loans - held for investment	1.46%	0.85%	0.91%
Non-performing loans to total loans - all loans	1.58%	0.85%	0.91%
Non-performing assets to total assets	1.32%	0.72%	0.91%
Allowance for credit losses to total loans	1.22%	1.30%	1.29%
Allowance for credit losses to non-performing loans	0.84x	1.54x	1.41x
Liquidity and Capital Ratios:			
Tier 1 leverage capital ratio	10.55%	10.54%	10.73%
Common equity tier 1 risk-based capital ratio	11.06%	11.26%	11.18%
Tier 1 risk-based capital ratio	11.06%	11.26%	11.18%
Total risk-based capital ratio	13.74%	14.47%	14.43%

At June 30, 2026, assets totaled $7.73 billion, an increase of $129.5 million, or 1.7% from $7.60 billion at December 31, 2025. Our total loans (both held for investment and held for sale) increased $193.4 million to $6.25 billion at June 30, 2026, from $6.05 billion at December 31, 2025. At June 30, 2026, deposits totaled $6.47 billion, an increase of $126.8 million, or 2.0% from $6.35 billion at December 31, 2025. We recorded net income per share on a diluted basis of $2.78 for the three months ended June 30, 2026, as compared to net income per share on a diluted basis of $2.57 for the three months ended June 30, 2025. We recorded net income per share on a diluted basis of $5.32 for the six months ended June 30, 2026, as compared to net income per share on a diluted basis of $4.80 for the six months ended June 30, 2025. Our net interest income before provision for credit losses for the three and six month periods increased compared to the same three and six month periods a year ago, primarily due to increases in the average balances of interest-earning assets outpacing average balances of interest-bearing liabilities, offset by the decrease in yield on interest-earning assets outpacing the decrease in cost of interest-bearing liabilities. For the second quarter of 2026 and 2025, return on average assets was 1.75% and 1.85%, respectively, while return on average equity was 17.05% for the second quarter of 2026, compared to 17.55% for the second quarter of 2025. For the six months ended June 30, 2026 and 2025, return on average assets was 1.71% and 1.81%, respectively, while return on average equity was 16.47% for the second quarter of 2026, compared to 16.58% for the same period in 2025.

Non-performing assets were $101.9 million and $54.8 million as of June 30, 2026 and December 31, 2025, respectively. The increase in non-performing assets is primarily due to a $59.2 million increase in nonaccrual loans that included $140.7 million of net additions, offset by $78.9 million in note sales and paydowns/payoffs and $2.5 million in charge-offs.

During the first quarter of 2026, the Bank placed $137.5 million in loans related to one relationship on nonaccrual status. The Bank has made good progress towards resolving these loans as well as other nonaccrual loans. During the first quarter of 2026, the Bank sold a $9.4 million loan at par, as well as a $2.0 million charge-off on C&I loans within the same relationship that were previously in current status. During the second quarter of 2026, the Bank sold two of these loans totaling $48.5 million, also at par, and a third loan totaling $20.0 million resulting in a loss on sale of $950,000. The Bank is continuing to resolve the remaining $51.8 million of these credits by either selling the notes or through the foreclosure process.

Federal Reserve Bank Actions

Despite a perceived cooling in the labor market, strong consumer spending helped drive GDP growth during the third quarter of 2025. Despite the uncertainty with regard to tariffs potential inflationary pressure, the overall economic outlook is viewed positively, supported by expectations of future rate cuts. The Federal Reserve Open Market Committee (“FOMC”) announced a 25 basis point reduction in its September 2025 meeting and additional 25 basis point decreases in its October and December 2025 meetings. In preparation for anticipated declining interest rates, beginning in 2024 and throughout 2025, the Bank has made a concerted effort to begin replacing some of the floating rate loans with a fixed rate or with a longer duration index, as they come up for renewal/maturity. In addition, the Bank has tied a significant amount of money market and interest checking deposit accounts to the fed funds rate so that when the FOMC reduces the fed funds rate, these deposits will reprice immediately. These efforts have had the effect of muting the impact of a decrease in the fed funds rate and the Prime interest rate on the Bank’s net interest income.

Economy

Our operating results indicate that our underlying economic fundamentals in our footprint were healthy and we believe that we are well positioned to continue to create significant shareholder value.

During 2025 and into early 2026, U.S. tariff policy underwent significant changes that impacted key trading relationships and broader international trade dynamics. In early 2025, pursuant to executive actions under the International Emergency Economic Powers Act, additional tariffs were imposed on imports from Canada and Mexico, generally at 25%, with certain energy and USMCA-compliant products subject to lower or delayed duties, and on imports from China at increased duty rates relative to historical levels, reflecting the Administration’s focus on addressing supply chain vulnerabilities and perceived national security and border concerns. These measures marked a meaningful shift from prior tariff levels and triggered retaliatory responses and ongoing negotiations with affected partners. In early 2026, the U.S. Supreme Court ruled that these tariffs exceeded the Administration's legal authority under the International Emergency Economic Powers Act of 1977, and the Administration responded by imposing a replacement tariff regime under different legal authority, along with additional tariff proposals targeting a broader group of trading partners. Litigation over these actions is ongoing, and the current tariffs are set to expire in the near term absent further action by Congress or the Administration. Outside of these principal relationships, the United States has maintained or adjusted tariff measures with other trading partners as part of its broader trade agenda, and trade agreements and negotiations in other regions (including reciprocal tariff arrangements and targeted tariff reductions or adjustments) have continued to evolve in response to shifting economic conditions and geopolitical considerations.

While these tariffs have been in effect for several months it is still unclear the impact they will have on the U.S. economy. One thing is clear however; the tariffs have worked to make inflation an even greater problem than in 2025 or 2024. In addition, the tariff rates and the countries that the U.S. has levied them upon, keep changing and the underlying legal authority for current tariffs remains subject to court challenge. Any refund of previously collected tariffs or imposition of new or replacement tariffs could also affect our customers and the broader economy in ways that are not yet clear.

Separately, the ongoing conflict in the Middle East has disrupted global energy markets and shipping routes, contributing to elevated oil prices, broader economic uncertainty and higher inflation. We continue to monitor the conflict's effect on global trade and economic activity, and the potential impact on our customers' businesses and creditworthiness.

Critical Accounting Policies

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

Allowance for Credit Losses

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

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

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

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

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

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

Results of Operations

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

(Dollars in thousands, except per share amounts)	**Three months ended June 30, 2026**	**Three months ended June 30, 2025**	**Six months ended June 30, 2026**	**Six months ended June 30, 2025**
Net income	$ 33,540	$ 32,847	$ 64,684	$ 62,871
Net income available to common shareholders, basic	33,540	32,847	64,684	62,871
Net income available to common shareholders per share, basic	2.83	2.61	5.40	4.88
Net income available to common shareholders, diluted	33,540	32,847	64,684	62,871
Net income available to common shareholders per share, diluted	2.78	2.57	5.32	4.80
Return on average assets (annualized)	1.75%	1.85%	1.71%	1.81%
Return on average shareholders' equity (annualized)	17.05%	17.55%	16.47%	16.58%

	Three months ended June 30, 2026	Three months ended June 30, 2025	Increase (Decrease)	Six months ended June 30, 2026	Six months ended June 30, 2025	Increase (Decrease)
Statement of Operations Data:						
Interest income	$ 122,446	$ 120,443	$ 2,003	$ 239,321	$ 234,972	$ 4,349
Interest expense	52,456	53,569	(1,113)	104,018	105,440	(1,422)
Net interest income	69,990	66,874	3,116	135,303	129,532	5,771
Provision for credit losses	1,200	1,600	(400)	2,700	2,300	400
Net interest income after provision for credit losses	68,790	65,274	3,516	132,603	127,232	5,371
Noninterest income	3,483	3,762	(279)	7,793	7,760	33
Noninterest expense	23,715	22,445	1,270	47,254	45,814	1,440
Income before income taxes	48,558	46,591	1,967	93,142	89,178	3,964
Income tax expense	15,018	13,744	1,274	28,458	26,307	2,151
Net income	$ 33,540	$ 32,847	$ 693	$ 64,684	$ 62,871	$ 1,813
Net income available to common shareholders per share, basic	$ 2.83	$ 2.61	$ 0.22	$ 5.40	$ 4.88	$ 0.52
Net income available to common shareholders per share, diluted	$ 2.78	$ 2.57	$ 0.21	$ 5.32	$ 4.80	$ 0.52

Net Interest Income and Net Interest Margin

Net interest income before provision for credit losses increased to $70.0 million for the three months ended June 30, 2026 compared to $66.9 million for the same period of 2025. Our net interest income was positively impacted by the growth in average interest-earning assets outpacing interest-bearing liabilities, partially offset by the decline in interest-earning asset yields in excess of interest-bearing liability costs and a declining rate environment which resulted in yield compression. Our net interest margin for the second quarter of 2026 was 3.73%, a decrease of 12 basis points from 3.85% for the same period of 2025 due to the decrease in yield on interest-earning assets outpacing the decrease in interest-bearing liabilities, offset by an increase in average interest-earning asset balances outpacing the increase in interest-bearing liability balances. Our net interest income during the three months ended June 30, 2026 was positively impacted by $2.9 million of net interest recoveries due to nonaccrual loans sold for par and nonaccrual loans which were paid off. This net recovery of interest income positively impacted the net interest margin.

Net interest income before provision for credit losses increased to $135.3 million for the six months ended June 30, 2026 compared to $129.5 million for the same period of 2025. Our net interest income for the six-month period was positively impacted by the growth in average interest-earning assets outpacing interest-bearing liabilities, partially offset by the decline in interest-earning asset yields in excess of interest-bearing liability costs and a declining rate environment which resulted in yield compression. Our net interest margin for the six months ended June 30, 2026 was 3.65%, a decrease of 15 basis points from 3.80% for the same period of 2025 due to the decrease in yield on interest-earning assets outpacing the decrease in interest-bearing liabilities, offset by an increase in average interest-earning asset balances outpacing the increase in interest-bearing liability balances. Our net interest income for the six months ended June 30, 2026 was also negatively impacted by the reversal of $3.4 million of interest income that was reversed out due to the placement of the large loan relationship onto nonaccrual status during the first quarter of 2026, partially offset by the $2.9 million of net interest recoveries due to nonaccrual loans sold for par and nonaccrual loans which were paid off during the second quarter of 2026. This net reversal of interest income negatively impacted the net interest margin.

The $3.1 million increase in net interest income before provision for credit losses during the three months ended June 30, 2026 was due to a $2.0 million increase in interest income and a $1.1 million decrease in interest expense. The $2.0 million increase in interest income is primarily due to the aforementioned $2.9 million in interest recoveries and higher average loan balances of $406.1 million, partially offset by a 34 basis points decrease in average loan yields between periods from 7.54% to 7.20%. Average loans increased to $6.04 billion during the three months ended June 30, 2026 from $5.63 billion for the same period in 2025.

The $5.8 million increase in net interest income before provision for credit losses during the six months ended June 30, 2026 was due to a $4.3 million increase in interest income and a $1.4 million decrease in interest expense. The $4.3 million increase in interest income is primarily due to higher average loan balances of $450.3 million, partially offset by a 41 basis points decrease in average loan yields between periods from 7.47% to 7.06%. Average loans increased to $6.04 billion during the six months ended June 30, 2026 from $5.59 billion for the same period in 2025.

The average yield on our interest-earning assets decreased by 40 basis points to 6.52% for the three months ended June 30, 2026 from 6.92% for the same period of 2025. The decrease in yield was primarily due to the impact decreases in market interest rates during 2024 and into 2025 had on our loan portfolio. Interest income, interest expense, net interest income, and the net interest margin are all influenced by the distribution of assets and liabilities and the income earned and costs incurred on such assets and liabilities. For the three months ended June 30, 2026, average interest-earning assets totaled

$7.53 billion, an increase of $548.5 million from the same period in 2025. The increase in average interest-earning assets during the three months ended June 30, 2026 was primarily related to growth in average loans, investment securities, and cash balances.

The average yield on our interest-earning assets decreased by 44 basis points to 6.45% for the six months ended June 30, 2026 from 6.89% for the same period of 2025. The decrease in yield was primarily due to the impact decreases in market interest rates during 2024 and into 2025 had on our loan portfolio as well as the large loan relationship that was placed on nonaccrual status during the first quarter of 2026. For the six months ended June 30, 2026, average interest-earning assets totaled $7.49 billion, an increase of $602.4 million from the same period in 2025. The increase in average interest-earning assets during the six months ended June 30, 2026 was primary related to growth in average loans, investment securities and cash balances.

At June 30, 2026, 55% of our loans carried interest rates that adjust with changes in the Prime Rate, which has the potential to re-price daily, and 27% carried interest rates tied to the Secured Overnight Financing Rate (“SOFR”) indices and other indices which re-price periodically. The remaining 18% of our loans were either fixed rate or had an interest rate tied to the certificate of deposit (“CD”) that was collateralized the loan. Approximately 78% of our floating rate loans had an interest rate floor, which will provide us with some protection in the future if interest rates decrease from the current levels. In addition, approximately 96% of our loans tied to the Prime rate had interest rate floors. Approximately 11% of our loan portfolio had interest rate ceilings at various rates limiting the amount of interest rate increases that can be passed on to the borrower.

The average cost of interest-bearing liabilities decreased 36 basis points to 3.47% for the three months ended June 30, 2026 from 3.83% for the same period in 2025. The decreases in the cost of interest-bearing liabilities during the three months ended June 30, 2026 was primarily due to the overall impact of decreasing market interest rates and its effect on the cost of existing and new depositors. For the three months ended June 30, 2026, average interest-bearing deposits totaled $5.71 billion, an increase of $366.8 million from the same period of 2025. The increases in average interest-bearing deposits during the three months ended June 30, 2026 was primarily due to growth in both interest-bearing demand accounts and time deposits.

The average cost of interest-bearing liabilities decreased 38 basis points to 3.48% for the six months ended June 30, 2026 from 3.86% for the same period in 2025. The decreases in the cost of interest-bearing liabilities during the six months ended June 30, 2026 was primarily due to the overall impact of decreasing market interest rates and its effect on the cost of existing and new depositors. For the six months ended June 30, 2026, average interest-bearing deposits totaled $5.68 billion, an increase of $383.5 million from the same period of 2025. The increases in average interest-bearing deposits during the six months ended June 30, 2026 was primarily due to growth in time deposits, coupled with an increase in interest-bearing demand accounts.

The following tables present, for the periods indicated, the information regarding the distribution of average assets, liabilities and shareholders’ equity, as well as the net interest income from average interest-earning assets and the resulting yields expressed in percentages. Non-accrual loans are included in the calculation of average loans while non-accrued interest thereon is excluded from the computation of yields earned.

	Three months ended June 30,					
	2026			2025		
	Average Balance	Interest Income or Expense	Average Yield or Cost	Average Balance	Interest Income or Expense	Average Yield or Cost
ASSETS			*(Dollars in thousands)*			
Interest-earning assets:						
Loans [1,2]	$ 6,038,330	$ 108,358	7.20%	$ 5,632,204	$ 105,884	7.54%
Investment securities [3]	558,696	5,611	4.03%	503,861	5,195	4.14%
Federal funds sold	21,538	205	3.82%	20,511	233	4.56%
Other earning assets	914,217	8,364	3.67%	827,696	9,230	4.47%
Total interest-earning assets	7,532,781	122,538	6.52%	6,984,272	120,542	6.92%
Deferred loan fees, net	(8,139)			(10,005)		
Allowance for credit losses on loans	(75,675)			(72,328)		
Noninterest earning assets:						
Cash and due from banks	11,141			12,590		
Bank furniture and fixtures	9,694			8,215		
Right of use assets	29,211			19,917		
Other assets	169,706			178,386		
Total assets	$ 7,668,719			$ 7,121,047		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Interest-bearing liabilities:						
Deposits:						
Interest-bearing demand/savings	$ 2,211,240	$ 15,699	2.85%	$ 2,023,981	$ 16,242	3.22%
TCD $250K or more	1,812,356	17,065	3.78%	1,644,322	17,092	4.17%
Other time certificates	1,688,501	16,432	3.90%	1,677,005	17,840	4.27%
Total interest-bearing deposits	5,712,097	49,196	3.45%	5,345,308	51,174	3.84%
Advances from FHLB	200,000	1,743	3.50%	120,879	1,070	3.55%
Subordinated debt	148,789	1,517	4.09%	148,550	1,325	3.58%
Total interest-bearing liabilities	6,060,886	52,456	3.47%	5,614,737	53,569	3.83%
Non-interest bearing liabilities:						
Demand deposits	708,101			660,178		
Lease Liability	33,946			23,657		
Other liabilities	76,672			71,940		
Total liabilities	6,879,605			6,370,512		
Shareholders' equity	789,114			750,535		
Total liabilities and shareholders' equity	$ 7,668,719			$ 7,121,047		
Net interest income		$ 70,082			$ 66,973	
Net interest spread			3.05%			3.10%
Net interest margin			3.73%			3.85%

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

(2) *Includes net loan fee income of $1.2 million and $1.1 million for the quarter ended June 30, 2026 and 2025, respectively.*

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

	Six months ended June 30,					
	2026			2025		
	Average Balance	Interest Income or Expense	Average Yield or Cost	Average Balance	Interest Income or Expense	Average Yield or Cost
ASSETS			*(Dollars in thousands)*			
Interest-earning assets:						
Loans [1,2]	$ 6,044,861	$ 211,740	7.06%	$ 5,594,572	$ 207,375	7.47%
Investment securities [3]	569,413	11,324	4.01%	453,588	9,289	4.13%
Federal funds sold	21,025	397	3.81%	20,367	461	4.56%
Other earning assets	849,971	16,045	3.81%	814,393	18,045	4.47%
Total interest-earning assets	7,485,270	239,506	6.45%	6,882,920	235,170	6.89%
Deferred loan fees, net	(8,236)			(9,599)		
Allowance for loan losses	(77,321)			(71,941)		
Noninterest earning assets:						
Cash and due from banks	10,704			11,846		
Bank furniture and fixtures	9,105			8,326		
Right of use assets	29,700			17,572		
Other assets	167,280			174,620		
Total assets	$ 7,616,502			$ 7,013,744		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Interest-bearing liabilities:						
Deposits:						
Interest-bearing demand/ savings	$ 2,202,071	$ 30,873	2.83%	$ 2,051,576	$ 32,901	3.23%
TCD $250K or more	1,792,830	33,951	3.82%	1,563,771	32,732	4.22%
Other time certificates	1,683,696	32,919	3.94%	1,679,708	36,087	4.33%
Total interest-bearing deposits	5,678,597	97,743	3.47%	5,295,055	101,720	3.87%
Short-term borrowings	1	0	4.17%	-	-	0.00%
Advances from FHLB	200,000	3,433	3.46%	60,773	1,070	3.55%
Subordinated debt	148,759	2,842	3.85%	148,521	2,650	3.60%
Total interest-bearing liabilities	6,027,357	104,018	3.48%	5,504,349	105,440	3.86%
Non-interest bearing liabilities:						
Demand deposits	687,526			651,099		
Lease Liability	34,413			21,323		
Other liabilities	75,200			72,116		
Total liabilities	6,824,496			6,248,887		
Shareholders' equity	792,006			764,857		
Total liabilities and shareholders' equity	$ 7,616,502			$ 7,013,744		
Net interest income		$ 135,488			$ 129,730	
Net interest spread			2.97%			3.03%
Net interest margin			3.65%			3.80%

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

(2) Includes net loan fee income of $2.4 million and $1.9 million for the six months ended June 30, 2026 and 2025, respectively.

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

In addition to the distribution, yields and costs of assets and liabilities, net income is also affected by changes in the volume of and rates on assets and liabilities. The following tables show the change in interest income and interest expense and the amount of change attributable to variances in volume, rates and the combination of volume and rates based on the relative changes of volume and rates.

	Three months ended June 30, 2026 compared to three months ended June 30, 2025		
	Net Change	Rate	Volume
		(In thousands)	
Interest income:			
Loans and leases	$ 2,474	$ (4,948)	$ 7,422
Investment securities[1]	416	(137)	553
Federal funds sold	(28)	(39)	11
Other earning assets	(866)	(1,767)	901
Total interest income	1,996	(6,891)	8,887
Interest expense:			
Interest-bearing demand	181	(1,192)	1,373
Money market	(728)	(810)	82
Savings	4	9	(5)
Time certificates of deposits	(1,435)	(3,218)	1,783
Advances from FHLB	673	(17)	690
Subordinated debt	192	190	2
Total interest expense	(1,113)	(5,038)	3,925
Net interest income	$ 3,109	$ (1,853)	$ 4,962

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

	Six months ended June 30, 2026 compared to six months ended June 30, 2025		
	Net Change	Rate	Volume
		(In thousands)	
Interest income:			
Loans and leases	$ 4,365	$ (11,781)	$ 16,146
Investment securities[1]	2,035	(276)	2,311
Federal funds sold	(64)	(78)	14
Other earning assets	(2,000)	(2,762)	762
Total interest income	4,336	(14,897)	19,233
Interest expense:			
Interest-bearing demand	(680)	(2,672)	1,992
Money market	(1,337)	(1,710)	373
Savings	(11)	-	(11)
Time certificates of deposits	(1,949)	(6,552)	4,603
Advances from FHLB	2,363	(27)	2,390
Subordinated debt	192	188	4
Total interest expense	(1,422)	(10,773)	9,351
Net interest income	$ 5,758	$ (4,124)	$ 9,882

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

Provision for Credit Losses

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

The Bank recorded a $1.2 million provision for credit losses for the three months ended June 30, 2026 compared to $1.6 million for the same period of 2025. Management considered various conditions to determine the appropriate provision for credit losses. The provision for credit losses during the three months ended June 30, 2026 reflects various events that occurred during the quarter, including trends in loan performance and growth, criticized activity, changing economic conditions, and changes in government leadership and policy. These events culminated in total net recoveries of $40,000 for the three months ended June 30, 2026, compared to net charge-offs of $44,000 for the same period of 2025. Net recoveries during the three months ended June 30, 2026 primarily related to one commercial real estate loan recovery of $5,000 and four commercial and industrial loan recoveries totaling $35,000.

The Bank recorded a $2.7 million provision for credit losses for the six months ended June 30, 2026 compared to $2.3 million for the same period of 2025. Net charge-offs were $5.4 million for the six months ended June 30, 2026, compared to net recoveries of $53,000 for the same period of 2025. Net charge-offs during the six months ended June 30, 2026 primarily related to one commercial real estate loan charge-off of $3.8 million and three commercial and industrial loan charge-offs totaling $2.5 million.

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

Non-performing loans increased $47.6 million to $98.9 million at June 30, 2026, compared to $51.3 million as of December 31, 2025. The increase was from net additions of $140.7 million, offset by $78.9 million in note sales and paydowns of nonaccrual loans and $2.5 million of charge offs. The $140.7 million in net additions of non-performing loans during the six months ended June 30, 2026 were primarily due to the nonaccrual loans related to one relationship that was placed on nonaccrual status during the first quarter of 2026. The ratio of allowance for credit losses on loans to total loans was 1.22% and 1.30% at June 30, 2026 and December 31, 2025, 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 the unemployment rate, GDP and other macro-economic measurements.

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 June 30, 2026. For details on the non-performing loans, please see the table under Non-Performing Assets below.

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

Noninterest Income

We earn noninterest income primarily through fees related to:

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

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

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

	Three months ended June 30, 2026	Three months ended June 30, 2025	Increase (Decrease)
	(In thousands)		
Fees and service charges on deposit accounts	$ 570	$ 635	$ (65)
Letter of credit fee income	2,890	2,333	557
BOLI income	107	104	3
Net (loss) gain on sale of loans	(874)	172	(1,046)
Net gain on sale or call of investment securities	35	-	35
Other income	755	518	237
Total noninterest income	$ 3,483	$ 3,762	$ (279)

Noninterest income for the three months ended June 30, 2026 was $3.5 million, compared to $3.8 million for the corresponding period in 2025. The $279,000 decrease was primarily attributable to a $1.0 million decrease in net gain on sale of loans, partially offset by a $557,000 increase in letter of credit fee income and a $237,000 increase in other income.

The $874,000 net loss on sale of loans during the three months ended June 30, 2026 was primarily attributable to a $950,000 loss on sale of a $19,950,000 nonaccrual loan during the quarter. This loan was part of the $137.5 million in loans related to one relationship that were placed on nonaccrual status in the first quarter of 2026. This loss was partially offset by gains on sales of SBA loans during the quarter. Gains on sales of SBA loans were $76,000 compared to a gain of $172,000 in the same period last year from lower SBA sale volume between periods.

The $237,000 increase in other income was primarily attributable to higher other loan fees, rental income on other real estate owned and other income.

	Six months ended June 30, 2026	Six months ended June 30, 2025	Increase (Decrease)
	(In thousands)		
Fees and service charges on deposit accounts	$ 1,086	$ 1,351	$ (265)
Letter of credit fee income	5,627	4,577	1,050
BOLI income	212	207	5
Net (loss) gain on sale of loans	(850)	447	(1,297)
Net gain on sale or call of investment securities	94	-	94
Other income	1,624	1,178	446
Total noninterest income	$ 7,793	$ 7,760	$ 33

Noninterest income for the six months ended June 30, 2026 was $7.8 million, compared to $7.8 million for the corresponding period in 2025. The $33,000 increase was primarily attributable to a $1.1 million increase in letter of credit fee income and a $446,000 increase in other income, partially offset by a $1.3 million decrease in net gain on sale of loans and a $265,000 decrease in fees and services charges on deposit accounts.

The $850,000 net loss on sale of loans during the six months ended June 30, 2026 was primarily attributable to a $950,000 loss on sale of a $19,950,000 nonaccrual loan during the six-month period. This loans was part of the $137.5 million in loans related to one relationship that were placed on nonaccrual status in the first quarter of 2026. This loss was partially offset by gains on sales of SBA loans during the first six months of 2026. Gains on sales of SBA loans were $100,000 compared to a gain of $447,000 in the same period last year from lower SBA sale volume between periods.

The $446,000 increase in other income was primarily attributable to higher other loan fees, rental income on other real estate owned and other income.

Noninterest Expense

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

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

	Three months ended June 30, 2026	Three months ended June 30, 2025	Increase (Decrease)
	(In thousands)		
Salaries and employee benefits	$ 15,281	$ 14,247	$ 1,034
Net occupancy expense	2,395	2,271	124
Business development and promotion expense	322	240	82
Professional services	2,149	1,507	642
Office supplies and equipment expense	340	419	(79)
OREO related expense-net	184	1,479	(1,295)
Other expense	3,044	2,282	762
Total noninterest expense	$ 23,715	$ 22,445	$ 1,270

Total noninterest expense was $23.7 million for the three months ended June 30, 2026 compared to $22.4 million for the corresponding period in 2025. The $1.3 million increase was primarily the result of a $1.0 million increase in salaries and employee benefits mainly due to new hires, merit increases and an increase in incentive compensation; a $124,000 increase in net occupancy expense due to higher rent and facilities costs overall, a $642,000 increase in professional services due to legal costs associated with nonaccrual loan matters; and a $762,000 increase in other expense mainly due to higher FDIC assessments and miscellaneous expenses. These increases in expenses were partially offset by $1.3 million of lower OREO related expense as the comparable 2025 period included a $1.3 million valuation write-down.

	Six months ended June 30, 2026	Six months ended June 30, 2025	Increase (Decrease)
	(In thousands)		
Salaries and employee benefits	$ 30,741	$ 29,086	$ 1,655
Net occupancy expense	4,821	4,565	256
Business development and promotion expense	525	702	(177)
Professional services	3,796	3,158	638
Office supplies and equipment expense	698	805	(107)
OREO related expense-net	547	3,010	(2,463)
Other expense	6,126	4,488	1,638
Total noninterest expense	$ 47,254	$ 45,814	$ 1,440

Total noninterest expense was $47.3 million for the six months ended June 30, 2026 compared to $45.8 million for the corresponding period in 2025. The $1.4 million increase was primarily the result of a $1.7 million increase in salaries and employee benefits mainly due to new hires, merit increases and an increase in incentive compensation; a $256,000 increase in net occupancy expense due to higher rent and facilities costs overall, a $638,000 increase in professional services due to legal costs associated with nonaccrual loan matters; and a $1.6 million increase in other expense mainly due to higher FDIC assessments and miscellaneous expenses. These increases in expenses were partially offset by $2.5 million of lower OREO related expense as the comparable 2025 period included a $2.6 million valuation write-down; and a $177,000 decrease in business development and promotion expenses.

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 June 30, 2026 and December 31, 2025, the Bank determined that a valuation allowance for deferred tax assets was not required.

We recorded net tax expense of $15.0 million and $13.7 million for the three months ended June 30, 2026 and 2025, respectively, resulting in an effective tax rate of 30.93% and 29.50%, respectively. We recorded net tax expense of $28.5 million and $26.3 million for the six months ended June 30, 2026 and 2025, respectively, resulting in an effective tax rate of 30.55% and 29.50%, respectively.

On June 27, 2025, California Senate Bill 132 was signed into law, requiring that banks and financial companies transition from an equally weighted three-factor apportionment formula to a single-sales-factor apportionment formula, effective for tax years beginning in 2025. This change did not have a material effect on the Bank’s consolidated financial statement.

On July 4, 2025, the One Big Beautiful Bill Act (“OBBBA”) was enacted in the U.S. The OBBBA includes significant provisions, such as the permanent extension of certain expiring provisions of the Tax Cuts and Jobs Act, the restoration of favorable tax treatment for certain business provisions, and accelerated phase outs to the Inflation Reduction Act energy tax credits. This change did not have a material effect on the Bank’s consolidated financial statements.

As of June 30, 2026 and December 31, 2025, the total amount related to uncertain tax positions was zero, net of federal tax benefit.

Financial Condition

Total assets as of June 30, 2026 were $7.73 billion compared to $7.60 billion as of December 31, 2025. Earning assets as of June 30, 2026 totaled $7.59 billion compared to $7.47 billion as of December 31, 2025. Total deposits were $6.47 billion as of June 30, 2026 compared to $6.35 billion as of December 31, 2025.

Loans

The largest component of our assets and largest source of interest income is our loan portfolio. The following table sets forth the amount of our loans (both held for investment and held for sale) outstanding at the end of each of the periods indicated. The Bank had no foreign loans.

	June 30, 2026	December 31, 2025	June 30, 2025
		(In thousands)	
Loans (by portfolio and class):			
Real estate – mortgage:			
Real estate—residential	$ 737,321	$ 783,136	$ 767,620
Real estate—commercial	3,169,037	3,028,762	2,868,308
Total real estate – mortgage	3,906,358	3,811,898	3,635,928
Real estate – construction:			
Real estate construction — residential	284,219	282,808	291,343
Real estate construction — commercial	364,807	387,759	303,354
Total real estate construction loans	649,026	670,567	594,697
Commercial & industrial	1,664,336	1,553,847	1,487,885
SBA	8,444	8,053	7,741
Trade finance	10,964	9,657	13,303
Consumer & other	153	242	56
Total gross loans and leases	6,239,281	6,054,264	5,739,610
Less: allowance for credit losses on loans	(76,276)	(78,992)	(73,830)
Less: deferred loan fees, net	(8,288)	(9,030)	(11,940)
Total loans held for investment	6,154,717	5,966,242	5,653,840
Loans held for sale:			
Real estate – mortgage:			
Real estate—commercial	8,348	-	-
Total loans held for sale	8,348	-	-
Total loans	$ 6,163,065	$ 5,966,242	$ 5,653,840

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 (both held for investment and held for sale) increased by $193.4 million, or 3.2%, to $6.25 billion as of June 30, 2026 from $6.05 billion as of December 31, 2025. Real estate mortgage loans, which include real estate loans collateralized by various types of commercial and residential real estate, increased $102.8 million from $3.81 billion as of December 31, 2025 to $3.91 billion at June 30, 2026. Real estate construction loans which are loans made to borrowers and developers for the purpose of constructing residential or commercial properties, decreased $21.5 million from $670.6 million at December 31, 2025 to $649.0 million at June 30, 2026. Commercial and industrial loans increased $110.5 million from $1.55 billion at December 31, 2025 to $1.66 billion at June 30, 2026, and trade finance loans, which are primarily working capital revolving and term loans for business operations, increased $1.3 million from $9.7 million at December 31, 2025 to $11.0 million at June 30, 2026.

SBA loans remained relatively flat as of June 30, 2026 compared to December 31, 2025, representing a modest increase of $391,000. In comparison, as of December 31, 2025, the portfolio was comprised of $8.0 million in traditional SBA loans and $6,000 in SBA Paycheck Protection Program (PPP) loans. The net increase in the SBA portfolio was primarily driven by new originations of traditional SBA loans, which were largely offset by the continued paydown and forgiveness of the remaining PPP portfolio.

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

There were $8.3 million of loans held for sale ("HFS") at June 30, 2026, compared to none at December 31, 2025. The HFS balance at June 30, 2026 consisted of one commercial real estate loans totaling $7.9 million that were part of the $137.5 million in loans related to one relationship that was placed on nonaccrual status during the first quarter of 2026 (Refer to *Non-Performing Asset* below for additional discussion). During the six months ended June 30, 2026, four loans totaling $77.8 million from this same $137.5 million loan relationship were sold, resulting in a loss of $950,000.

Management is currently closely monitoring the Bank's loan portfolio from three perspectives. First, the impact of actual or anticipated tariffs on clients that import goods from heavily tariffed countries or export goods to countries that impose higher tariffs on U.S. goods. Second, the impact of the ongoing conflict in the Middle East and its effect on energy prices and to an extent, all inflation. Third, the potential impact on commercial real estate values attributable to the volatility in office property valuations in major urban areas.

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"). 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 loans held for sale:

	As of June 30, 2026	As of December 31, 2025	As of June 30, 2025
		(Dollars in thousands)	
Non-accrual loans:			
Loans held for investment	$ 90,258	$ 38,929	$ 51,197
Loans held for sale	7,915	-	-
Total non-accrual loans	98,173	38,929	51,197
Accruing loans and leases past due 90 days or more	692	12,360	1,089
Total non-performing loans (NPLs)	98,865	51,289	52,286
Other real estate owned	3,010	3,510	13,755
Total non-performing assets (NPAs)	$ 101,875	$ 54,799	$ 66,041
Selected ratios:			
Nonaccrual loans to gross loans:			
Loan held for investment	1.45%	0.64%	0.89%
All loans	1.57%	0.64%	0.89%
NPLs to total gross loans:			
Loan held for investment	1.46%	0.85%	0.91%
All loans	1.58%	0.85%	0.91%
NPAs to total assets	1.32%	0.72%	0.91%

Total non-performing assets were $101.9 million and $54.8 million at June 30, 2026 and December 31, 2025, respectively, and $66.0 million as of June 30, 2025. As of June 30, 2026, total non-accrual loans were $98.2 million compared to $38.9 million as of December 31, 2025 and $51.2 million as of June 30, 2025. 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, 2026 to June 30, 2026:

	Loans 90+ Days Past Due & Still Accruing		Non Accrual Loans Held for Investment		Non Accrual Loans Held for Sale		OREO	
				(In thousands)				
Balance, January 1, 2026	$	12,360	$	38,929	$	-	$	3,510
Additions		692		1,430		-		-
Transfers to OREO		-		-		-		1,604
Charge-offs		(3,833)		(2,544)		-		-
Loans Cured		-		(3,835)		-		-
Sales/Payoffs		(3,525)		(1,062)		(77,807)		(2,104)
Migration to non-accrual		(5,002)		57,340		85,722		-
Balance, June 30, 2026	$	692	$	90,258	$	7,915	$	3,010

The $59.2 million increase in nonaccrual loans during the six months ended June 30, 2026 was primarily related to $143.1 million of additions, offset by $78.9 million in note sales and paydowns and $2.5 million in charge-offs. Of the $143.1 million in additions, were the aforementioned $137.5 million of real estate loans that migrated to nonaccrual status. These loans were placed on nonaccrual in the first quarter of 2026 due to the principals of the relationship being involved in several complicated lawsuits with other banks which caused sluggish cash flow and unacceptable payment patterns. The Bank has made good progress towards resolving these loans as well as other nonaccrual loans. During the first six months of 2026, the Bank sold $77.8 million of loans in this relationship, resulting in a loss on sale of $950,000. The Bank is continuing to work to resolve these credits by either selling the notes or through the foreclosure process.

There were $692,000 and $12.4 million of loans over 90 days past due and still accruing at June 30, 2026 and December 31, 2025, respectively.

OREO totaled $3.0 million and $3.5 million at June 30, 2026 and December 31, 2025, respectively. At June 30, 2026, OREO consisted of two residential real estate properties of $1.4 million and $1.6 million individually. During the first quarter of 2026, the Bank foreclosed on one single family residential loan totaling $1.6 million and sold one mixed-use property totaling $2.1 million, resulting in a recognized loan recovery of $821,000. At December 31, 2025, OREO consisted of one residential real estate property of $1.4 million and one mixed-use property of $2.1 million. There were no write-downs on the value of OREO during the three and six months ended June 30, 2026. There was $1.3 million and $2.6 million of write-downs on the value of OREO during the three and six months ended June 30, 2025.

OREO is initially recorded at the fair value of the property based on appraisal, less estimated selling costs. Any cost in excess of the fair value at the time of acquisition is accounted for as a loan charge-off and deducted from the allowance for credit losses on loans. A valuation allowance is established for any subsequent declines in value through a charge to earnings. There was no valuation allowance related to OREO at June 30, 2026 and December 31, 2025. 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 the Bank to estimate the lifetime credit loss allowance for the HTM debt securities. The Bank holds 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 real estate values in our markets as well as natural disasters, civil unrest, terrorism and pandemic diseases can have a 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 June 30, 2026	Three months ended June 30, 2025	Six months ended June 30, 2026	Six months ended June 30, 2025	Year ended December 31, 2025
	(Dollars in thousands)		*(Dollars in thousands)*		
Allowance for credit losses:					
Balance at beginning of period	$ 75,036	$ 72,274	$ 78,992	$ 71,477	$ 71,477
Actual charge-offs:					
Commercial & Industrial	-	-	2,545	-	-
Real estate mortgage	-	132	3,833	132	1,749
SBA	-	8	-	8	8
Total charge-offs	-	140	6,378	140	1,757
Less recoveries:					
Commercial & Industrial	35	96	108	193	164
Real estate mortgage	5	-	854	-	-
SBA	-	-	-	-	8
Total recoveries	40	96	962	193	172
Net loans (recovered) charged-off	(40)	44	5,416	(53)	1,585
Provision for credit losses	1,200	1,600	2,700	2,300	9,100
Balance at end of period	$ 76,276	$ 73,830	$ 76,276	$ 73,830	$ 78,992
Total gross loans held for investment at end of period	$ 6,239,281	$ 5,739,610	$ 6,239,281	$ 5,739,610	$ 6,054,264
Average total gross loans held for investment	6,021,420	5,623,010	6,029,287	5,589,198	5,721,077
Average total gross loans including loans held for sale[(1)]	6,038,330	5,632,204	6,044,861	5,594,572	5,723,854
Non-performing loans	98,865	52,286	98,865	52,286	51,289
Selected ratios:					
Net charge-offs (recoveries) to average loans [(1) (2)]	0.00%	0.00%	0.18%	0.00%	0.03%
Provision for credit losses to average loans [(3)]	0.08%	0.11%	0.09%	0.08%	0.16%
Allowances for credit losses to loans at end of period	1.22%	1.29%	1.22%	1.29%	1.30%
Allowance for credit losses to non-accrual loans	0.85x	1.44x	0.85x	1.44x	2.03x
Allowance for credit losses to non-performing loans	0.84x	1.41x	0.84x	1.41x	1.54x

(1) *Includes average loans held for sale balance of $16.9 million and $9.1 million for the three months ended June 30, 2026 and 2025, $15.6 million and $5.4 million for the six months ended June 30, 2026 and 2025, and $2.8 million for year ended December 31, 2025.*
(2) *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*
(3) *Ratio represents the provision for credit losses as a percentage of average total gross loans held for investment.*

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

	Three months ended June 30, 2026			Three months ended June 30, 2025		
	Net (Charge-offs) Recoveries	Avg. Loans	Net (Charge-offs) Recoveries Ratio	Net (Charge-offs) Recoveries	Avg. Loans	Net (Charge-offs) Recoveries Ratio
			(Dollars in thousands)			
Commercial & industrial	$ 35	$ 1,527,114	0.01%	$ 96	$ 1,371,411	0.03%
Trade finance	-	10,186	0.00%	-	4,471	0.00%
Real estate construction	-	649,745	0.00%	-	581,948	0.00%
Real estate mortgage	5	3,823,013	0.00%	(132)	3,655,139	-0.01%
SBA	-	8,190	0.00%	(8)	7,565	-0.42%
Consumer & other	-	3,172	0.00%	-	2,476	0.00%
Net recoveries (charge-offs)	**$ 40**	**$ 6,021,420**	0.00%	**$ (44)**	**$ 5,623,010**	0.00%

Net (charge-offs) recoveries to average loans were 0.00% and (0.00)% for the three months ended June 30, 2026 and 2025, respectively. There were minimal recoveries and charge-offs between periods. Net recoveries during the three months ended June 30, 2026 primarily related to one commercial real estate loan recovery of $5,000 and four commercial and industrial loan recoveries totaling $35,000. Net charge-offs during the three months ended June 30, 2025 related to one real estate loan and one commercial relationship.

	Six months ended June 30,					
	2026			2025		
	Net (Charge-offs) Recoveries	Avg. Loans	Net (Charge-offs) Recoveries Ratio	Net (Charge-offs) Recoveries	Avg. Loans	Net (Charge-offs) Recoveries Ratio
			(Dollars in thousands)			
Commercial & industrial	$ (2,437)	$ 1,524,972	-0.32%	$ 193	$ 1,356,961	0.03%
Trade finance	-	9,954	0.00%	-	2,415	0.00%
Real estate construction	-	639,733	0.00%	-	578,606	0.00%
Real estate mortgage	(2,979)	3,843,712	-0.16%	(132)	3,641,390	-0.01%
SBA	-	8,129	0.00%	(8)	7,303	-0.22%
Consumer & other	-	2,787	0.00%	-	2,523	0.00%
Net charge-offs	**$ (5,416)**	**$ 6,029,287**	-0.18%	**$ 53**	**$ 5,589,198**	0.00%

Net (charge-offs) recoveries to average loans were (0.18)% and 0.00% for the six months ended June 30, 2026 and 2025, respectively. The change in the net charge-offs ratio between periods was primarily due to one commercial real estate loan charge-off of $3.8 million and three commercial and industrial loan charge-offs totaling $2.5 million offset by recoveries of $1.0 million in primarily commercial real estate recoveries during the six months ended June 30, 2026, compared to $53,000 in net recoveries related to commercial and industrial relationships for the similar 2025 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 June 30, 2026 and December 31, 2025. There was no provision for credit losses on undisbursed loan commitment for the three and six months ended June 30, 2026 and 2025.

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

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

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

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

Bank's qualitative assessment of available-for-sale securities that the decline in fair value below a security's amortized cost can be attributed to credit loss, the Bank records the amount of credit loss through a charge to provision for (reversal of) credit losses in current period earnings. If the Bank determines the security's unrealized loss, or a portion thereof, is not related to credit, the Bank records the non-credit related loss, net of tax, through a debit to accumulated other comprehensive income.

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

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

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

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

At June 30, 2026 and December 31, 2025, the Bank owned four mortgage-backed securities considered held-to-maturity with a carrying value of $18.2 million and $18.7 million, respectively.

At June 30, 2026, investment securities classified as available-for-sale with a carrying value of $98.9 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 June 30, 2026 and December 31, 2025:

	June 30, 2026			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
	(In thousands)			
Asset-backed securities	$ 608	$ -	$ (16)	$ 592
Corporate notes	82,310	397	(2,579)	80,128
U.S. Agency mortgage-backed securities	5,737	-	(141)	5,596
Collateralized mortgage obligations	128,601	-	(16,323)	112,278
Municipal securities	64,217	4	(7,094)	57,127
U.S. Agency principal-only strip securities	149	-	(9)	140
U.S. Treasury notes	272,787	1,099	(3,791)	270,095
Total securities available-for-sale	$ 554,409	$ 1,500	$ (29,953)	$ 525,956

	December 31, 2025			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
	(In thousands)			
Asset-backed securities	$ 2,764	$ -	$ (34)	$ 2,730
Corporate notes	105,827	809	(3,602)	103,034
U.S. Agency mortgage-backed securities	6,275	1	(163)	6,113
Collateralized mortgage obligations	133,587	-	(11,728)	121,859
Municipal securities	64,386	4	(7,860)	56,530
U.S. Agency principal-only strip securities	174	-	(9)	165
U.S. Treasury notes	272,681	4,920	(1,846)	275,755
Total securities available-for-sale	$ 585,694	$ 5,734	$ (25,242)	$ 566,186

As of June 30, 2026, available-for-sale securities decreased by $40.2 million or 7.1% to $526.0 million, compared to $566.2 million as of December 31, 2025. The decrease was primarily due to $8.9 million in fair value decreases, $5.6 million in principal reductions and $25.6 million in called and matured securities. As of June 30, 2026, available-for-sale securities had a net unrealized loss of $28.5 million compared to a net unrealized loss of $19.5 million as of December 31, 2025. The increase in net unrealized losses was primarily attributable to decreases in the value of collateralized mortgage obligations and treasury securities due to higher market interest rates.

The following table shows the maturities of available-for-sale investment securities at June 30, 2026, and the weighted average yields of such securities. The table does not consider the impact of prepayments on the maturities:

	June 30, 2026									
	Within One Year		After One Year but within Five Years		After Five Years but within Ten Years		After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
	(Dollars in thousands)									
Asset-backed securities	$ -	0.00%	$ -	0.00%	$ -	0.00%	$ 592	4.73%	$ 592	4.73%
Corporate notes	-	0.00%	27,096	4.09%	53,032	5.22%	-	0.00%	80,128	4.84%
U. S. Agency mortgage-backed securities	1	2.91%	143	1.16%	1,808	4.84%	3,644	4.22%	5,596	4.34%
Collateralized mortgage obligations	-	0.00%	-	0.00%	-	0.00%	112,278	3.08%	112,278	3.08%
Municipal securities	-	0.00%	7,773	3.98%	12,725	4.01%	36,629	2.47%	57,127	2.96%
U.S. Agency principal-only strips	-	0.00%	-	0.00%	140	2.13%	-	0.00%	140	2.13%
U.S. Treasury notes	-	0.00%	13,027	0.93%	257,068	4.37%	-	0.00%	270,095	4.18%
Total securities available for sale	$ 1	2.91%	$ 48,039	3.13%	$ 324,773	4.50%	$ 153,143	2.96%	$ 525,956	3.88%

The carrying value of our held-to-maturity investment securities was $18.2 million at June 30, 2026 and $18.7 million at December 31, 2025. 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 June 30, 2026 and December 31, 2025:

	June 30, 2026			
	Amortized cost	Gross unrecognized gains	Gross unrecognized losses	Estimated fair value
	(In thousands)			
U.S. Agency mortgage-backed securities	$ 18,154	$ -	$ (1,073)	$ 17,081

	December 31, 2025			
	Amortized cost	Gross unrecognized gains	Gross unrecognized losses	Estimated fair value
	(In thousands)			
U.S. Agency mortgage-backed securities	$ 18,749	$ -	$ (888)	$ 17,861

The following table shows the maturities of held-to-maturity investment securities at June 30, 2026, and the weighted average yields of such securities. The table does not consider the impact of prepayments on the maturities:

	June 30, 2026									
	Within One Year		After One Year but within Five Years		After Five Years but within Ten Years		After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
	(Dollars in thousands)									
Mortgage-backed securities	-	0.00%	10,371	3.88%	5,224	1.36%	2,559	2.63%	18,154	2.98%
Total securities held to maturity	$ -	0.00%	$ 10,371	3.88%	$ 5,224	1.36%	$ 2,559	2.63%	$ 18,154	2.98%

Deposits

Total deposits at June 30, 2026 were $6.47 billion, an increase of $126.8 million or 2.0% from the balance of $6.35 billion as of December 31, 2025. This increase was due to business development efforts by the Bank's staff to gain new relationships as well as existing depositor relationships increasing their deposit balances at the Bank. Noninterest-bearing demand deposits increased by $55.5 million or 7.9%. The ratio of noninterest-bearing deposits to total deposits increased to 11.7% at June 30, 2026 from 11.0% at December 31, 2025. Interest-bearing demand and savings deposits increased by $4.7 million or 0.2%, and time deposits increased $66.5 million or 2.0%. At June 30, 2026, interest bearing demand and savings accounts comprised $2.24 billion or 34.6% of total deposits, compared to $2.24 billion or 35.2% of total deposits at December 31, 2025.

As of June 30, 2026, total uninsured deposits represented approximately 50.2% 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. At June 30, 2026 and December 31, 2025, reciprocal time and interest-bearing checking deposits totaled $627.5 million and $564.5 million, respectively.

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

	June 30, 2026		December 31, 2025	
	Amount	% of Total Deposits	Amount	% of Total Deposits
	(Dollars in thousands)			
Noninterest-bearing deposits	$ 754,670	11.66%	$ 699,160	11.02%
Interest-bearing deposits:				
Interest-bearing demand	2,209,390	34.14%	2,205,914	34.76%
Savings	31,617	0.49%	30,376	0.48%
Time certificates of $250,000 or more	1,822,765	28.16%	1,754,273	27.65%
Other time certificates	1,653,766	25.55%	1,655,723	26.09%
Total deposits	$ 6,472,208	100.00%	$ 6,345,446	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. At June 30, 2026 and December 31, 2025, total time deposits included brokered time deposits of $917.5 million and $910.2 million, respectively.

Borrowings

At June 30, 2026, there were $200.0 million in fixed-rate putable term advances outstanding from Federal Home Loan Bank of San Francisco ("FHLB") with a weighted average rate of 3.56% and remaining maturity of 2.9 years. At December 31, 2025, there were $200.0 million in fixed-rate term advances outstanding from Federal Home Loan Bank of San Francisco ("FHLB") with a weighted average rate of 3.46% and remaining maturity of 2.8 years. During the three months ended June 30, 2026, $200.0 million of advances were called by the FHLB and replaced with new advances aggregating $200.0 million. During the six months ended June 30, 2026, $400.0 million of advances were called by the FHLB and replaced with new advances aggregating $400.0 million.

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 bore 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 began to bear interest at a floating rate per annum equal to a benchmark rate, which is 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 5.06% and 5.26% as of June 30, 2026 and December 31, 2025, respectively.

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 was the second tranche of that repurchase plan, which called for the repurchase of up to $50 million of the $100 million remaining under the repurchase plan. On March 18, 2025, the Bank disclosed that it had received regulatory approval to repurchase $65.7 million of common stock, marking the final tranche remaining under the repurchase plan set to expire in May of 2025. The Bank completed this final tranche in May 2025.

On June 23, 2025, the Bank received regulatory approval for a new $125 million stock repurchase plan that was approved by shareholders in May 2025. The Board of Directors approved the first tranche of repurchases, which consisted of $50 million in repurchases. 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 six months ended June 30, 2026, the Bank repurchased zero and 402,299 shares of common stock at a weighted average price of zero and $88.98, respectively under these repurchase authorizations. During the three and six months ended June 30, 2025, the Bank repurchased 709,967 and 823,709 shares of common stock at a weighted average price of $79.69 and $80.28, respectively under these repurchase authorizations.

Our goal is to exceed the Basel III minimum regulatory capital requirements for well-capitalized institutions. At June 30, 2026 and December 31, 2025, 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 June 30, 2026 and December 31, 2025:

	At June 30, 2026	At December 31, 2025
Leverage Ratio		
Preferred Bank	10.55%	10.54%
Minimum requirement for “Well-Capitalized” institution	5.00%	5.00%
Common Equity Tier 1 Risk-Based Capital Ratio		
Preferred Bank	11.06%	11.26%
Minimum requirement for “Well-Capitalized” institution	6.50%	6.50%
Tier 1 Risk-Based Capital Ratio		
Preferred Bank	11.06%	11.26%
Minimum requirement for “Well-Capitalized” institution	8.00%	8.00%
Total Risk-Based Capital Ratio		
Preferred Bank	13.74%	14.47%
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 June 30, 2026:

	Amount of Commitment Expiring per Period				
Other Commitments	**Total Amounts Committed**	**Less Than 1 Year**	**1-3 Years**	**3-5 Years**	**After 5 Years**
			(In thousands)		
Commitments to extend credit	$ 1,212,008	$ 463,244	$ 561,377	$ 178,218	$ 9,169
Commercial letters of credit	-	-	-	-	-
Standby letters of credit	481,693	247,421	84,053	25,321	124,898
Commitments to fund investments in affordable housing partnerships	29,949	9,724	14,914	3,224	2,087
Lease commitments	40,414	5,987	11,508	9,161	13,758
Future contract commitments	6,181	1,370	3,086	1,725	-
Total	$ 1,770,245	$ 727,746	$ 674,938	$ 217,649	$ 149,912

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 96.5% at June 30, 2026, compared to 95.4% at December 31, 2025. 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 June 30, 2026, there was $200.0 million in outstanding FHLB advances, and we could borrow up to an additional $780.2 million with collateral of specifically identified loans and securities. In addition, we have pledged securities with a fair value of $83.3 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 $222.6 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 June 30, 2026, 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 June 30, 2026, the Bank held $15.0 million in FHLB stock. For the three and six months ended June 30, 2026, dividends from the FHLB totaled $189,000 and $942,000, representing an average yield of 5.05% and 12.66%, respectively. For the three and six months ended June 30, 2025, dividends from the FHLB totaled $327,000 and $651,000, representing an average yield of 8.74% and 8.75%, 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 30% at June 30, 2026 and 31% at December 31, 2025. We also calculate and have certain thresholds for the Bank's on-balance sheet liquidity ratio. We believe that in the event the level of liquid assets (our primary liquidity) does not meet our liquidity needs, other available sources of liquid assets (our secondary liquidity), including the sales of securities under agreements to repurchase, sales of unpledged investment securities or loans, utilizing the discount window borrowings from the Federal Reserve Bank as well as borrowing from the FHLB could be employed to meet those funding needs. We have a Contingency Funding Plan which is reviewed annually by the Board of Directors which sets forth actions to be taken in the event that our liquidity ratios fall below Board-established guidelines. We also perform quarterly liquidity stress tests to model various adverse scenarios contained in our Contingency Funding Plan. Although we believe that our funding resources will be adequate to meet our obligations, we cannot be certain of this adequacy if economic deterioration or other negative events occur that could impair our ability to meet our funding obligations.

Quantitative and Qualitative Disclosures about Market Risk

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

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

Exposure to interest rate risk is monitored continuously by senior management and is reviewed by the Investment Committee at least quarterly. Interest rate risk exposure is measured using interest rate sensitivity analysis to determine changes in net portfolio value and net interest income under alternative in the event of hypothetical changes in interest rates. If potential changes to net portfolio value and net interest income resulting from the analysis of hypothetical interest rate changes are not within Board-approved limits, the Board may direct management to adjust the asset and liability mix to bring interest rate risk within Board-approved limits. Adverse interest rate risk exposures are managed through the shortening or lengthening of the duration of assets and liabilities. This analysis of hypothetical interest rate changes is performed on a quarterly basis by a third party vendor utilizing detailed data that we provide to them.

Market Value of Portfolio Equity

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

The following table presents forecasted changes in net portfolio value using a base market rate and the estimated change to the base scenario given an immediate and sustained upward movement in interest rates of 100, 200, and 300 basis points and an immediate and sustained downward movement in interest rates of 100, 200, 300 and 400 basis points as of June 30, 2026.

Market Value of Portfolio Equity

Interest Rate Scenario	Market Value	Percentage Chage from Basis	Percentage of Total Assets	Percentage of Portfolio Equity Book Value
		(Dollars in thousands)		
Up 300 basis points	$ 1,130,458	(1.6) %	14.6 %	142.5 %
Up 200 basis points	$ 1,142,123	(0.6)	14.8	143.9
Up 100 basis points	$ 1,147,824	(0.1)	14.8	144.6
Base	$ 1,149,339	-	14.9	144.8
Down 100 basis points	$ 1,131,422	(1.6)	14.6	142.6
Down 200 basis points	$ 1,122,854	(2.3)	14.5	141.5
Down 300 basis points	$ 1,108,765	(3.5)	14.3	139.7
Down 400 basis points	$ 1,055,236	(8.2)	13.7	133.0

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 June 30, 2026, 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 June 30, 2026

Interest Rate Scenario	Adjusted Net Interest Income	Percentage Change from Basis	Net Interest Margin Percent	Net Interest Margin Change (in basis points)
		(Dollars in thousands)		
Up 300 basis points	$ 317,642	17.4 %	4.16 %	61
Up 200 basis points	$ 303,058	12.0	3.97	42
Up 100 basis points	$ 287,281	6.2	3.77	22
Base	$ 270,632	-	3.55	-
Down 100 basis points	$ 250,976	(7.3)	3.30	(25)
Down 200 basis points	$ 261,767	(3.3)	3.44	(11)
Down 300 basis points	$ 278,828	3.0	3.66	11
Down 400 basis points	$ 296,784	9.7	3.90	35

Inflation

The majority of our assets and liabilities are monetary items held by us, the dollar value of which may be affected by inflation, which had declined through much of 2024 only to rise dramatically during the fourth quarter of 2024 and into the start of 2025. 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, 2025 that was filed on March 2, 2026.

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

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

On June 23, 2025, the Bank received regulatory approval for a new $125 million stock repurchase plan that was approved by shareholders in May 2025. The Board of Directors approved the first tranche of repurchases, which consisted of $50 million in repurchases. The first tranche was completed in March 2026. On March 17, 2026, the Board of Directors approved what will be the second tranche of that repurchase plan, which will call for the repurchase of up to the remaining $75 million 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 June 30, 2026, there were no repurchase of shares of common stock under the Bank's repurchase plans.

As of June 30, 2026, approximately $66.3 million remained available for repurchase under the current tranche authorized by the repurchase plan. We cannot provide any assurance as to whether or not we will continue to repurchase common stock under our repurchase plan.

	Purchase of Equity Securities by the Issuer			
	Total Number of Shares	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Total Number of Shares (or Approximate Dollar Value) that May Yet be Purchased Under the Plan
April 1, 2026 to April 30, 2026	-	$ -	-	66,323,773
May 1, 2026 to May 31, 2026	-	$ -	-	66,323,773
June 1, 2026 to June 30, 2026	-	$ -	-	66,323,773
Total	-	$ -	-	

ITEM 5. Other Information

Rule 10b5-1 Trading Arrangements

During the quarter ended June 30, 2026, 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 June 30, 2026, the Bank did not adopt or terminate any Rule 10b5-1 trading arrangement.

ITEM 6. Exhibits

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

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

SIGNATURES

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

Dated: August 7, 2026

PREFERRED BANK
(Registrant)

By: /s/ Edward J. Czajka

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

Exhibit 31.1

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

I, Li Yu, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: August 7, 2026

/s/ Li Yu

Li Yu
Chairman and Chief Executive Officer

Exhibit 31.2

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

I, Edward J. Czajka, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: August 7, 2026

/s/ Edward J. Czajka

Edward J. Czajka
Executive Vice President and Chief Financial Officer

Exhibit 32.1

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

In connection with the Quarterly Report of Preferred Bank (the "Bank") on Form 10-Q for the three months period ended June 30, 2026 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: August 7, 2026

/s/ Li Yu

Li Yu
Chairman and Chief Executive Officer

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

Exhibit 32.2

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

In connection with the Quarterly Report of Preferred Bank (the “Bank”) on Form 10-Q for the three months period ended June 30, 2026 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: August 7, 2026

/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.