FEDERAL DEPOSIT INSURANCE CORPORATION

Washington, D.C. 20429

FORM 10-Q

Mark One

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

For the quarterly period ended March 31, 2023

or

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

For the transition period from to

PREFERRED BANK

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

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

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

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

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

Number of shares of common stock of the Registrant outstanding as of May 8, 2023 was 14,432,122 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 Annual Report, and should also note that these statements are made as of the date of this Annual 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 this Annual Report as well as from historical performance, include but are not limited to:

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

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

As a result of the rapid rise in interest rates in 2022, 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 would increase our marginal interest expense and 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 and other risk factors are more fully described in this report and in our 2022 Annual Report on Form 10-K as filed with the Federal Deposit Insurance Corporation ("FDIC") on March 15, 2023 under the heading "Item 1A. RISK FACTORS – Risk Factors That May Affect Future Results." We do not undertake, and we specifically disclaim any obligation to update any forward looking statements to reflect the occurrence of events or circumstances after the date of such statements except as required by law.

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

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

	March 31, 2023 (Unaudited)	December 31, 2022
Assets		
Cash and due from banks	$ 865,691	$ 747,526
Federal funds sold	20,000	20,000
Cash and cash equivalents	885,691	767,526
Securities held-to-maturity, at amortized cost (fair value of $20,563 and as of March 31, 2023 and $20,517 as of December 31, 2022)	22,155	22,459
Securities available-for-sale, at fair value	367,492	428,295
Loans and leases	5,057,728	5,074,793
Less: allowance for credit losses on loans	(68,929)	(68,472)
Less: unamortized deferred loan fees, net	(10,286)	(9,939)
Net loans and leases	4,978,513	4,996,382
Other real estate owned and repossessed assets	18,628	21,990
Bank furniture and fixtures, net	8,784	8,999
Customers’ liability on acceptances	107	1,731
Bank-owned life insurance	10,425	10,357
Accrued interest receivable	26,532	23,593
Investment in affordable housing partnerships	59,009	61,173
Federal Home Loan Bank ("FHLB") stock, at cost	15,000	15,000
Net deferred tax assets	43,713	43,218
Operating lease right-of-use assets	22,188	21,718
Other assets	3,300	2,917
Total assets	$ 6,461,537	$ 6,425,358
Liabilities and Shareholders’ Equity		
Liabilities:		
Deposits:		
Demand	$ 1,050,992	$ 1,192,091
Interest-bearing demand	1,751,439	2,295,212
Savings	33,861	39,527
Time certificates of $250,000 or more	1,329,720	1,138,727
Other time certificates	1,241,754	891,440
Total deposits	5,407,766	5,556,997
Acceptances outstanding	107	1,731
Advances from Federal Home Loan Bank ("FHLB")	150,000	-
Subordinated debt issuance, net of unamortized costs and premium of $1,945 and $2,005 at March 31, 2023 and December 31, 2022, respectively	148,055	147,995
Accrued interest payable	4,529	2,608
Commitments to fund investment in affordable housing partnerships	26,709	27,490
Operating lease liability	21,076	20,949
Other liabilities	46,754	37,162
Total liabilities	5,804,996	5,794,932
Commitments and Contingencies – Notes 6, 11 and 14		
Shareholders’ equity:		
Preferred Stock, no par value. Authorized 25,000,000 shares; no issued or outstanding shares at March 31, 2023 and December 31, 2022, resepectively	-	-
Common stock, no par value. Authorized 100,000,000 shares; outstanding 14,432,122 and 14,358,145 shares at March 31, 2023 and December 31, 2022, resepectively	210,882	210,882
Treasury stock, at cost; 1,733,751 and 1,679,353 shares at March 31, 2023 and December 31,2022, resepectively	(112,549)	(108,482)
Additional paid-in capital	82,875	81,559
Retained earnings	505,207	475,072
Accumulated other comprehensive loss	(29,874)	(28,605)
Total shareholders’ equity	656,541	630,426
Total liabilities and shareholders’ equity	$ 6,461,537	$ 6,425,358

See accompanying notes to the unaudited consolidated interim financial statements.

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

	Three months ended March 31, 2023	Three months ended March 31, 2022
Interest income:		
Loans and leases	$ 95,881	$ 52,119
Investment securities	12,979	2,886
Federal funds sold	224	19
Total interest income	109,084	55,024
Interest expense:		
Interest-bearing demand	17,038	1,431
Savings	39	19
Time certificates of $250,000 or more	10,743	1,027
Other time certificates	5,850	1,190
FLHB borrowings	374	-
Subordinated debt	1,325	1,325
Total interest expense	35,369	4,992
Net interest income before provision for credit losses	73,715	50,032
Provision for (reversal of) credit losses	500	(250)
Net interest income after provision for (reversal of) credit losses	73,215	50,282
Noninterest income:		
Fees and service charges on deposit accounts	694	671
Letter of credit fee income	1,324	933
BOLI income	101	99
Net gain on sale of SBA loans	340	-
Net loss on sale or call of investment securities	(4,117)	-
Other income	592	563
Total noninterest income	(1,066)	2,266
Noninterest expense:		
Salaries and employee benefits	13,728	11,640
Net occupancy expense	1,474	1,422
Business development and promotion expense	105	101
Professional services	1,149	1,243
Office supplies and equipment expense	404	489
Other real estate owned related expense, net	72	16
Other	1,968	1,246
Total noninterest expense	18,900	16,157
Income before income taxes	53,249	36,391
Income tax expense	15,176	10,364
Net income	$ 38,073	$ 26,027
Income allocated to participating securities	-	(1)
Net income available to common shareholders – basic and diluted	$ 38,073	$ 26,026
Unrealized net loss on securities available-for-sale	(5,881)	(15,728)
Less: reclassification adjustments included in net income	(4,117)	-
Income tax expense related to items of other comprehensive income	495	4,412
Other comprehensive loss	(1,269)	(11,316)
Comprehensive income	$ 36,804	$ 14,711
Net income per share		
Basic	$ 2.64	$ 1.76
Diluted	$ 2.61	$ 1.74
Weighted-average common shares outstanding		
Basic	14,430,606	14,765,337
Diluted	14,602,149	14,978,667

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	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance as of January 1, 2023	**$ -**	**14,358,145**	**$ 210,882**	**$ (108,482)**	**$ 81,559**	**$ 475,072**	**$ (28,605)**	**$ 630,426**
Issuance of common stock	-	128,375	-	-	-	-	-	-
Cash dividend declared ($0.55 per share)	-	-	-	-	-	(7,938)	-	(7,938)
Restricted stock grant, net	-	-	-	-	1,316	-	-	1,316
Stock surrendered due to employee tax liability	-	(54,398)	-	(4,067)	-	-	-	(4,067)
Net income	-	-	-	-	-	38,073	-	38,073
Change in unrealized loss, net of tax	-	-	-	-	-	-	(1,269)	(1,269)
Balance as of March 31, 2023	**$ -**	**14,432,122**	**$ 210,882**	**$ (112,549)**	**$ 82,875**	**$ 505,207**	**$ (29,874)**	**$ 656,541**
Balance as of January 1, 2022	**$ -**	**14,679,769**	**$ 210,882**	**$ (75,207)**	**$ 73,165**	**$ 372,952**	**$ 4,926**	**$ 586,718**
Issuance of common stock	-	146,947	-	-	-	-	-	-
Cash dividend declared ($0.43 per share)	-	-	-	-	-	(6,369)	-	(6,369)
Restricted stock grant, net	-	-	-	-	1,384	-	-	1,384
Stock surrendered due to employee tax liability	-	(16,081)	-	(1,159)	-	-	-	(1,159)
Net income	-	-	-	-	-	26,027	-	26,027
Change in unrealized loss, net of tax	-	-	-	-	-	-	(11,316)	(11,316)
Balance as of March 31, 2022	**$ -**	**14,810,635**	**$ 210,882**	**$ (76,366)**	**$ 74,549**	**$ 392,610**	**$ (6,390)**	**$ 595,285**

See accompanying notes to the unaudited consolidated interim financial statements.

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

	Three months ended March 31, 2023	2022
Cash flows from operating activities:		
Net income	$ 38,073	$ 26,027
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for (reversal of) credit losses	500	(250)
Loss on sale and call of securities available for sale	4,117	-
Amortization of deferred loan fees, net	(1,183)	(765)
Amortization of investment securities discounts and premiums, net	(269)	228
Amortization of investment in affordable housing partnerships	2,164	2,072
Amortization of subordinated debt issuance costs	60	60
Loans originated for sale	(4,959)	-
Gain on sale of SBA loans	(340)	-
Proceeds from sale of loans held fo sale	5,299	-
Depreciation and amortization	426	486
Share-based compensation expense	1,316	1,384
Income from bank owned life insurance, net	(68)	(66)
Changes in other assets and liabilities:		
Accrued interest receivable and other assets	(3,792)	(3,125)
Accrued interest payable and other liabilities	11,599	6,138
Net cash provided by operating activities	52,943	32,189
Cash flows from investing activities:		
Proceeds from maturities and redemptions of securities held-to-maturity	274	443
Proceeds from maturities and redemptions of securities available-for-sale	3,061	12,698
Proceeds from sale of securities available for sale	52,160	-
Purchase of securities available-for-sale	-	(7,000)
Purchase of investments in affordable housing partnerships	(781)	-
Proceeds from recoveries of written off loans	1	-
Net decrease (increase) in loans	18,551	(180,323)
Proceeds from sale of other repossessed assets	3,362	-
Purchase of bank premises and equipment	(211)	(142)
Net cash provided by (used in) investing activities	76,417	(174,324)
Cash flows from financing activities:		
(Decrease) increase in deposits	(149,231)	84,158
Borrowings from FHLB	150,000	-
Increase in Treasury shares	(4,067)	(1,159)
Payment of cash dividends	(7,897)	(6,312)
Net cash (used in) provided by financing activities	(11,195)	76,687
Net increase (decrease) in cash and cash equivalents	118,165	(65,448)
Cash and cash equivalents at beginning of period	767,526	1,050,610
Cash and cash equivalents at end of period	$ 885,691	$ 985,162

See accompanying notes to the unaudited consolidated interim financial statements.

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

	Three months ended March 31, 2023	Three months ended March 31, 2022
Supplemental disclosure of cash flow information		
Cash paid during the period for:		
Interest	$ 33,448	$ 3,741
Income taxes	665	555
Noncash activities:		
Common stock dividends declared but not paid	$ 7,938	$ 6,369
Repossessed assets in settlement of loans	-	7,215
Operating lease liabilities arising from right-of-use assets	1,057	-

See accompanying notes to the unaudited consolidated interim financial statements.

PREFERRED BANK
Notes to Consolidated Interim Financial Statements
(Unaudited)

1. Business

Preferred Bank commenced operations in 1991 as a California state-chartered bank and offers a wide range of financial services. As of March 31, 2023, the Bank operates through eleven full-service branch banking offices in Los Angeles, Orange, and San Francisco Counties in California, and one full-service branch in Queens County, New York. In addition, the Bank has a Loan Production Office ("LPO") in the Houston suburb of Sugar Land, Texas, and a satellite office in Manhattan. As of March 31, 2023, approximately 87% 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").

Recent Events

Beginning in March 2023, the banking industry experienced unprecedented turmoil created by the failures of Silicon Valley Bank ("SVB"), Signature Bank ("SBNY") and First Republic Bank and the voluntary dissolution of Silvergate Bank. These failures created a difficult operating environment industry-wide, including high levels of depositor withdrawals nation-wide. While the Bank experienced a $149.2 million or 2.7% reduction in deposit balances from the prior year end, its balance sheet was well positioned at December 31, 2022 to weather the turmoil, including (i) cash on hand as a percentage of deposits at approximately 14%, (ii) a loan to deposit ratio under 92%, and (iii) no short-term borrowings. At March 31, 2023, cash on hand as a percentage of deposits rose to at approximately 16%, and the Bank had a loan to deposit ratio under 95%, and additional temporary excess liquidity provided by $150.0 million of short-term borrowings.

2. Principles of Consolidation and Basis of Presentation

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

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

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

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements as well as reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates. The results of operations for the three months ended March 31, 2023 are not necessarily indicative of results that may be expected for any other interim period or the entire fiscal year ending December 31, 2023. 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, 2022, which was filed with the FDIC on March 15, 2023. 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, 2022 filed with the SEC, except for the accounting for SBA loan sales and servicing, as described below.

***SBA Loan Sales and Servicing*—** The Bank originates and sells Small Business Administration ("SBA") loans under section 7(a) of the Small Business Act ("7(a) loans") and section 504 of the Small Business Investment Act ("504 loans"). A portion of the premium on sale of these loans is recognized as gain on sale of loans at the time of the sale by allocating the carrying amount between the asset sold and the retained interest, which may include servicing assets, based on their relative fair values. The remaining portion of the premium is recorded as a discount on the retained interest and is amortized over the remaining life of the loan as an adjustment to yield. The retained interest, net of any discount, is included in gross loans in the accompanying consolidated statement of financial condition.

Servicing assets are recognized when SBA loans are sold with servicing retained, with the related gain on sale of loans recognized in the accompanying consolidated income statement. Servicing assets are initially recorded at fair value based on the present value of the contractually specified servicing fee, net of servicing costs, over the estimated life of the loan, using a discount rate. Servicing assets are subsequently measured using the amortization method which requires servicing rights to be amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans. Management periodically evaluates servicing assets for impairment based upon the fair value of the rights as compared to carrying amount. Impairment is recognized through a valuation allowance, to the extent that fair value is less than the carrying amount.

During the three months ended March 31, 2023 the Bank sold $5.0 million of SBA loans and recognized a gain of $340,000, which included a $123,000 servicing asset. There was no similar sale activity in 2022 as this is a new business line for the Bank.

At March 31, 2023 and December 31, 2022, there were no loans held for sale.

Loan Modifications to Borrowers Experiencing Financial Difficulty— Prior to the adoption of ASU 2022-02, the Bank accounted for a modification to the contractual terms of a loan that resulted in granting a concession to a borrower experiencing financial difficulties as a troubled debt restructuring ("TDR"). Effective January 1, 2023, the Bank adopted ASU 2022-02, which eliminated TDR accounting prospectively for all restructurings occurring on or after January 1, 2023. Loans that were considered a TDR prior to the adoption of ASU 2022-02 will continue to be accounted for under the superseded TDR accounting guidance until the loan is paid off, liquidated, or subsequently modified. Since adoption of ASU 2022-02 on January 21, 2023, we have evaluated all loan modifications under ASC 310-20 to determine whether a modification made to a borrower results in a new loan or is a continuation of the existing loan.

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 2023-02, *Investments—Equity Method and Joint Ventures (Topic 323) Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method*. In March 2023, the FASB issued ASU 2023-02 which expands use of the proportional amortization method of accounting to equity investments in tax credit programs beyond those in low-income-housing tax credit ("LIHTC") programs. The ASU allows entities to elect the proportional amortization method, on a tax-credit-program-by-tax-credit-program basis, for all equity investments in tax credit programs meeting the eligibility criteria. ASU 2023-02 is effective for reporting periods beginning after December 15, 2023, for public business entities. Early adoption is permitted. The Bank does not expect the adoption of ASU 2023-03 to have a significant impact on our financial condition or results of operations.

ASU 2020-04, *Reference Rate Reform (Topic 848), Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. In January 2021, the FASB clarified the scope of that guidance with the issuance of ASU 2021-01, "Reference Rate Reform: Scope." This ASU provides optional guidance for a limited period of time to ease the burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. This guidance applies to companies meeting certain criteria that have contracts, hedging relationships and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. This standard is effective for us immediately and may be applied prospectively to contract modifications made and hedging relationships entered into or evaluated on or before December 31, 2022. The adoption of this ASU did not have an impact on the Bank's financial statements. The Bank considers SOFR to be its likely preferred reference as an alternative to LIBOR. New originations by the Bank are being made using SOFR in addition to Prime Rate. The Bank may also consider the use of other alternative reference rates based on marketplace demands and the needs of its customers.

ASU 2022-02, *Financial Instruments—Credit Losses (Topic 326) Troubled Debt Restructurings and Vintage Disclosures*. In March 2022, the FASB issued ASU 2022-02 to address areas identified by the FASB as part of its post-implementation review of the credit losses standard (ASU 2016-13) that introduced the CECL model. The amendments eliminate the accounting guidance for troubled debt restructurings by creditors that have adopted the CECL model and enhance the disclosure requirements for loan refinancings and restructurings made with borrowers experiencing financial difficulty. In addition, the amendments require a public business entity to disclose current-period gross write-offs for financing receivables and net investment in leases by year of origination in the vintage disclosures. ASU 2022-02 is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Early adoption is permitted if an entity has adopted ASU 2016-13. The adoption of ASU 2022-02 on January 1, 2023 did not have a material effect on the Bank's consolidated financial statements.

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 March 31, 2023			
Net Income	$ 38,073	14,430,606	
Less: Income & dividend allocated to participating securities	-	-	
Basic EPS – income available to common shareholders	**38,073**	**14,430,606**	**$ 2.64**
Effect of dilutive securities	-	171,543	
Diluted EPS – income available to common shareholders	**$ 38,073**	**14,602,149**	**$ 2.61**
Three months ended March 31, 2022			
Net Income	$ 26,027	14,765,337	
Less: Income & dividend allocated to participating securities	(1)	-	
Basic EPS – income available to common shareholders	**26,026**	**14,765,337**	**$ 1.76**
Effect of dilutive securities	-	213,330	
Diluted EPS – income available to common shareholders	**$ 26,026**	**14,978,667**	**$ 1.74**

There were zero and 137 anti-dilutive shares excluded from the computation of diluted earnings per share for the three months ended March 31, 2023 and 2022, respectively.

5. Share-based Compensation

The Bank remunerates employees and directors through, among other means, the 2014 Equity Incentive Plan (the "2014 Plan"), which is discussed below.

When stock options are exercised under the 2014 Plan, the Bank's policy is to issue new shares of stock. Under the 2014 Plan, there were no options outstanding as of March 31, 2023 and 2022 and no options were exercised during the three months ended March 31, 2023 and 2022. During the three months ended March 31, 2023 and 2022, no money was received from option exercises under the 2014 Plan.

2014 Equity Incentive Plan

The 2014 Plan provides 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 have 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 expected to vest in installments between 20-25% each year, become fully vested after four to five years, and expire four to six years from the date of grant. All option and share awards provide for accelerated vesting if there is a change in control (as defined in the 2014 Plan). There are 2,500,000 shares authorized under this plan. As of March 31, 2023, there have been no stock options granted under the 2014 Plan.

Restricted Stock Awards and Units

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

The RSAs and RSUs granted to our employees, officers and directors under the 2014 Plan have an immediate-to-four year vesting period and the vested number of shares are distributed at the end of the vesting period. Unlike RSAs, RSUs do not entitle the recipients to receive cash dividends.

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

The compensation costs of both time-based and performance-based awards are estimated based on awards ultimately expected to vest and recognized on a straight-line basis from the grant date until the vesting date of each grant. The total unrecognized compensation expense for outstanding RSAs and RSUs as of March 31, 2023 were zero and $9.8 million, respectively, and will be recognized over an average of zero and 1.7 years, respectively.

The total fair value of vested RSAs and RSUs during the three months ended March 31, 2023 and 2022 was $9.6 million and $1.3 million, respectively.

During the three months ended March 31, 2023, the Bank granted no RSAs and 120,932 RSUs and recognized $1.3 million of compensation expense related to all RSAs and RSUs. During the three months ended March 31, 2022, the Bank granted 17,010 RSAs and 94,294 RSUs and recognized $1.4 million of compensation expense related to all RSAs and RSUs.

There were no non-vested RSAs under the 2014 Plan for the three months ended March 31, 2023. The following is a summary of the transactions for non-vested RSUs under the 2014 Plan for the three months ended March 31, 2023:

	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, 2023	85,501	$ 60.12	251,992	$ 60.95
RSUs granted	23,148	74.62	97,784	74.42
Forfeited or expired	-	-	(1,125)	69.32
Vested	(36,750)	61.00	(91,625)	60.94
Non-Vested RSUs as of March 31, 2023	71,899	$ 64.34	257,026	$ 66.65

6. Off-Balance Sheet Risks

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

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

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

The following table sets forth the Bank's commitments to fund loans and other financial instruments as of March 31, 2023 and December 31, 2022:

	March 31, 2023	December 31, 2022
	(In thousands)	
Commitments to extend credit	$ 1,297,102	$ 1,250,073
Commercial letters of credit	6,165	5,475
Standby letters of credit	421,818	395,190
Total	$ 1,725,085	$ 1,650,738

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

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

The allowance for credit losses on off-balance sheet commitments was $1.2 million at March 31, 2023 and December 31, 2022 and is included in other liabilities on the statement of financial condition. Provision for credit losses on off-balance sheet commitments is included in other noninterest expense on the income statement. There was no provision for credit losses on off-balance sheet commitments for the three months ended March 31, 2023 and 2022.

7. Cash Dividend

On March 21, 2023, the Bank declared a cash dividend of $0.55 per share on 14,432,122 shares outstanding as of April 7, 2023, for distribution to holders of common stock on April 21, 2022. Total cash dividends of $7.9 million were paid during the three months ended March 31, 2023. Total cash dividends of $6.3 million were paid during the three months ended March 31, 2022.

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 $22.2 million at March 31, 2023 and $22.5 million at December 31, 2022. The table below shows the amortized cost, gross unrecognized gains and losses and estimated fair value of securities held-to-maturity as of March 31, 2023 and December 31, 2022:

	March 31, 2023			
	Amortized cost	Gross unrecognized gains	Gross unrecognized losses	Estimated fair value
	(In thousands)			
Mortgage-backed securities	$ 22,155	$ -	$ (1,592)	$ 20,563

	December 31, 2022			
	Amortized cost	Gross unrecognized gains	Gross unrecognized losses	Estimated fair value
	(In thousands)			
Mortgage-backed securities	$ 22,459	$ -	$ (1,942)	$ 20,517

The following tables summarize unrecognized losses on our held-to-maturity investment securities, aggregated by the length of time the securities have been in a continuous unrecognized loss position, at March 31, 2023 and December 31, 2022:

	March 31, 2023					
	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	10,178	(173)	10,385	(1,419)	20,563	(1,592)
Total securities available-for-sale	$ 10,178	$ (173)	$ 10,385	$ (1,419)	$ 20,563	$ (1,592)

	December 31, 2022					
	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	10,834	(422)	9,683	(1,520)	20,517	(1,942)
Total securities available-for-sale	$ 10,834	$ (422)	$ 9,683	$ (1,520)	$ 20,517	$ (1,942)

The tables below show the amortized cost, gross unrealized gains and losses, and estimated fair value of securities classified as available-for-sale as of March 31, 2023 and December 31, 2022:

	March 31, 2023			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
	(In thousands)			
Asset-backed securities	$ 3,082	$ -	$ (178)	$ 2,904
Corporate notes	139,030	-	(15,600)	123,430
U.S. Agency mortgage-backed securities	10,941	2	(394)	10,549
Collateralized mortgage obligations	168,388	-	(14,263)	154,125
Municipal securities	72,173	43	(8,575)	63,641
U.S. Agency principal-only strip securities	390	-	(30)	360
SBA securities	68	-	(1)	67
U.S. Treasury Bill	14,940	-	(2,524)	12,416
Total securities available-for-sale	$ 409,012	$ 45	$ (41,565)	$ 367,492

	December 31, 2022			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
	(In thousands)			
Asset-backed securities	$ 3,172	$ -	$ (165)	$ 3,007
Corporate notes	144,091	-	(11,108)	132,983
U.S. Agency mortgage-backed securities	11,396	-	(533)	10,863
Collateralized mortgage obligations	170,872	-	(14,560)	156,312
Municipal securities	74,986	32	(10,487)	64,531
U.S. Agency principal-only strip securities	418	-	(36)	382
SBA securities	86	-	(1)	85
U.S. Treasury Bill	63,030	14	(2,912)	60,132
Total securities available-for-sale	$ 468,051	$ 46	$ (39,802)	$ 428,295

The following tables show the gross unrealized losses and estimated fair value of our available-for-sale investments aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position at March 31, 2023 and December 31, 2022:

	March 31, 2023					
	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	$ 1,971	$ (134)	$ 933	$ (44)	$ 2,904	$ (178)
Corporate notes	29,250	(2,630)	94,180	(12,970)	123,430	(15,600)
U.S. Agency mortgage-backed securities	2,357	(10)	7,939	(384)	10,296	(394)
Collateralized mortgage obligations	49	(1)	154,065	(14,262)	154,114	(14,263)
Municipal securities	5,359	(232)	51,229	(8,343)	56,588	(8,575)
U.S. Agency principal-only strip securities	-	-	360	(30)	360	(30)
SBA securities	-	-	67	(1)	67	(1)
U.S. Treasury Bill	-	-	12,416	(2,524)	12,416	(2,524)
Total securities available-for-sale	$ 38,986	$ (3,007)	$ 321,189	$ (38,558)	$ 360,175	$ (41,565)

	December 31, 2022					
	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	$ 1,955	$ (149)	$ 1,052	$ (16)	$ 3,007	$ (165)
Corporate notes	96,082	(4,994)	36,901	(6,114)	132,983	(11,108)
U.S. Agency mortgage-backed securities	4,288	(220)	6,404	(313)	10,692	(533)
Collateralized mortgage obligations	878	(26)	155,424	(14,534)	156,302	(14,560)
Municipal securities	41,661	(3,818)	17,021	(6,669)	58,682	(10,487)
U.S. Agency principal-only strip securities	-	-	382	(36)	382	(36)
SBA securities	-	-	85	(1)	85	(1)
U.S. Treasury Bill	-	-	12,026	(2,912)	12,026	(2,912)
Total securities available-for-sale	$ 144,864	$ (9,207)	$ 229,295	$ (30,595)	$ 374,159	$ (39,802)

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

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

At March 31, 2023, there were a total of 35 investment securities that were in an unrealized loss position for less than 12 months and 100 investment securities that were in an unrealized loss position for 12 months or longer. Temporary impairments primarily related to corporate notes (which are all considered investment grade by Moody's, Standard & Poor's, Kroll Bond Rating Agency or Fitch rating agencies), mortgage-backed securities (which are generally guaranteed by the U.S. government and are highly rated by rating agencies and have a long history of no credit losses), and municipal securities are primarily attributable to declining market prices caused by dramatically rising interest rates, which began in March 2022, and subsequent to the date that these securities were purchased. None of the securities in the Bank's investment portfolio rely on an insurance wrap as a credit enhancement. Management believes that it is more likely than not that the Bank will receive all amounts due under the contractual terms of these securities. If economic conditions deteriorate, or if the financial condition of specific issuers within these portfolios deteriorates, then the Bank could record an allowance for credit losses for 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 HTM debt securities that are guaranteed by the U.S. government which are highly rated by rating agencies and have a long history of no credit losses so no expected credit losses will be recorded. There were no debt securities considered past due at March 31, 2023. There were no purchases of debt securities with credit deterioration during the three months ended March 31, 2023.

Cash proceeds from sales, calls or maturities of securities available-for-sale totaled $56.3 million for the three months ended March 31, 2023. Cash proceeds from sales, calls or maturities of securities available-for-sale totaled $6.0 million for the three months ended March 31, 2022. There was $4.1 million in net realized losses for sales and calls of securities for the three months ended March 31, 2023. The loss related to the sale of a SBNY corporate note. Partially offsetting this loss was a gain on the sale of a U.S. Treasury security for $45,000. There were no realized gains for sales or calls of securities for the three months ended March 31, 2022.

The amortized cost and estimated fair value of securities at March 31, 2023, 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	$ 6,899	$ 6,838	$ -	$ -
Due after one year through five years	49,242	47,072	-	-
Due after five years through ten years	110,696	94,847	11,187	10,967
Due after ten years	242,175	218,735	10,968	9,596
Total	$ 409,012	$ 367,492	$ 22,155	$ 20,563

9. Loans and Allowance for Credit Losses on Loans

The Bank's loan portfolio includes originated loans as well as purchased loans. The loans portfolio as of March 31, 2023 and December 31, 2022 are summarized as follows:

	March 31, 2023	**December 31, 2022**
	(In thousands)	
Real estate mortgage	$ 3,426,588	$ 3,340,018
Real estate construction	317,605	397,505
Commercial & industrial	1,299,325	1,320,830
SBA	7,306	11,339
Trade finance	6,885	4,521
Consumer & other	19	580
Gross loans	5,057,728	5,074,793
Less:		
Allowance for credit losses on loans	(68,929)	(68,472)
Deferred loan and fees, net	(10,286)	(9,939)
Total loans, net	$ 4,978,513	$ 4,996,382

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 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 16 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 majority of the loan portfolio. The loan products have not changed over the years before or after the last economic cycle. The existing loan pools are considered appropriate for use to estimate ACL. The Bank has originated SBA loans that are partially guaranteed by the SBA and a pool loans under the PPP program to provide temporary economic relief to small businesses that are 0% risk weighted as they are fully 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 $271,000 of non-accrual loans at March 31, 2023 compared to $5.5 million at December 31, 2022. These loans had interest due, but not recognized, of approximately $4,000 and $232,000 at March 31, 2023 and December 31, 2022, respectively. The Bank had no loans that were past due 90 or more days and still accruing interest loan as of March 31, 2023 and December 31, 2022.

The following tables show the Bank's past due and non-accrual loans by class as of March 31, 2023 and December 31, 2022:

March 31, 2023:	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	$ 7,399	$ 949	$ -	$ 8,348	$ 604,288	$ 612,636	$ 271	$ 612,907
Commercial	1,170	-	-	1,170	2,812,511	2,813,681	-	2,813,681
Total real estate mortgage	8,569	949	-	9,518	3,416,799	3,426,317	271	3,426,588
Real estate construction								
Residential	-	-	-	-	175,286	175,286	-	175,286
Commercial	-	-	-	-	142,319	142,319	-	142,319
Total real estate construction	-	-	-	-	317,605	317,605	-	317,605
Commercial and Industrial	2,095	-	-	2,095	1,297,230	1,299,325	-	1,299,325
SBA	287	-	-	287	7,019	7,306	-	7,306
Trade Finance	-	-	-	-	6,885	6,885	-	6,885
Consumer & other	-	-	-	-	19	19	-	19
Total as of March 31, 2023:	$ 10,951	$ 949	$ -	$ 11,900	$ 5,045,557	$ 5,057,457	$ 271	$ 5,057,728

December 31, 2022:	Accruing Loans 30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total	Non-accrual Loans	Total Loans
Loan Class					(In thousands)			
Real estate mortgage								
Residential	$ 1,292	$ -	$ -	$ 1,292	$ 610,732	$ 612,024	$ 5,480	$ 617,504
Commercial	1,315	-	-	1,315	2,721,199	2,722,514	-	2,722,514
Total real estate mortgage	2,607	-	-	2,607	3,331,931	3,334,538	5,480	3,340,018
Real estate construction								
Residential	-	-	-	-	193,027	193,027	-	193,027
Commercial	-	-	-	-	204,478	204,478	-	204,478
Total real estate construction	-	-	-	-	397,505	397,505	-	397,505
Commercial and Industrial	41	-	-	41	1,320,789	1,320,830	-	1,320,830
SBA	-	-	-	-	11,339	11,339	-	11,339
Trade Finance	-	-	-	-	4,521	4,521	-	4,521
Consumer & other	-	-	-	-	580	580	-	580
Total as of December 31, 2022:	$ 2,648	$ -	$ -	$ 2,648	$ 5,066,665	$ 5,069,313	$ 5,480	$ 5,074,793

The following tables presents the Bank's non-accrual loans with and without an allowance for credit losses and related interest income recognized by class as of March 31, 2023 and December 31, 2022:

	Nonaccrual Loans without ACL	with ACL	Total	Loans 90+ Days Past Due and Accruing Interest	Interest Income Recognized Three months ended 3/31/23
			(in thousands)		
March 31, 2023					
Real estate mortgage:					
Residential	$ 271	$ -	$ 271	$ -	$ 5
Total R/E mortgage	271	-	271	-	5
Total	$ 271	$ -	$ 271	$ -	$ 5

	Nonaccrual Loans			Loans 90+ Days	Interest Income Recognized
	without ACL	with ACL	Total	Past Due and Accruing Interest	Twelve months ended 12/31/22
			(in thousands)		
December 31, 2022					
Real estate mortgage:					
Residential	$ 5,480	$ -	$ 5,480	$ -	$ 109
Total R/E mortgage	5,480	-	5,480	-	109
Total	$ 5,480	$ -	$ 5,480	$ -	$ 109

The following tables represents the amortized cost basis of collateral-dependent loans by class of loans as of March 31, 2023 and December 31, 2022:

	Real Estate	Total
March 31, 2023		
Real estate mortgage:		
Residential	$ 271	$ 271
TOTAL	$ 271	$ 271

	Real Estate	Total
December 31, 2022		
Real estate mortgage:		
Residential	$ 5,480	$ 5,480
TOTAL	$ 5,480	$ 5,480

The following tables detail activity in the allowance for credit losses on loans by portfolio segment for the three months ended March 31, 2023 and 2022. Allocation of a portion of the allowance to one particular portfolio segment does not indicate that it is no longer available to absorb losses in other portfolio segments.

	Real Estate-Mortgage		Real Estate-Construction		Commercial		Trade	Consumer		
	Residential	Commercial	Residential	Commercial	& Industrial	SBA	Finance	& Other	Unallocated	Total
Three months ended March 31, 2023										
Balance as of January 1, 2023	$ 2,435	$ 33,597	$ 922	$ 1,086	$ 30,068	$ -	$ 21	$ 13	$ 330	$ 68,472
Provision for (reversal of) credit losses	1,614	932	(62)	(284)	(1,651)	37	11	(13)	(84)	500
Loans charged off	-	-	-	-	(44)	-	-	-	-	(44)
Recoveries	-	-	-	-	1	-	-	-	-	1
Net (charge offs) recoveries	-	-	-	-	(43)	-	-	-	-	(43)
Balance at March 31, 2023	$ 4,049	$ 34,529	$ 860	$ 802	$ 28,374	$ 37	$ 32	$ -	$ 246	$ 68,929

	Real Estate-Mortgage		Real Estate-Construction		Commercial					
	Residential	Commercial	Residential	Commercial	& Industrial	SBA	Trade Finance	Consumer & Other	Unallocated	Total
Three months ended March 31, 2022										
Balance as of January 1, 2022	$ 2,667	$ 23,371	$ 548	$ 851	$ 31,853	$ -	$ 46	$ 3	$ 630	$ 59,969
(Reversal of) provision for credit losses	(229)	1,450	81	147	(1,511)	-	35	-	(223)	(250)
Loans charged off	-	(1)	-	-	(1,222)	-	-	-	-	(1,223)
Recoveries	-	-	-	-	-	-	-	-	-	-
Net (charge offs) recoveries	-	(1)	-	-	(1,222)	-	-	-	-	(1,223)
Balance at March 31, 2022	$ 2,438	$ 24,820	$ 629	$ 998	$ 29,120	$ -	$ 81	$ 3	$ 407	$ 58,496

During the three months ended March 31, 2023, gross charge-offs totaled $44,000 and related to one commercial and industrial loan originated in 2012.

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

The following table presents risk grades and classified loans by recorded investment in class of loan by origination year as of March 31, 2023. 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								
	2023	**2022**	**2021**	**2020**	**2019**	**Prior**	**Total**	**Revolving Loans**	**Total**
Real estate mortgage									
Pass	$ 177,932	$ 872,332	$ 555,190	$ 232,089	$ 222,543	$ 642,191	$ 2,702,277	$ 665,212	$ 3,367,489
Special mention	-	-	24,277	-	5,718	18,395	48,390	-	48,390
Substandard	-	-	-	920	7,399	1,220	9,539	1,170	10,709
Doubtful	-	-	-	-	-	-	-	-	-
Real estate construction									
Pass	-	-	-	-	-	-	-	317,605	317,605
Special mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Commercial & industrial									
Pass	47,850	152,200	14,444	42,959	46,600	44,543	348,596	926,642	1,275,238
Special mention	-	-	1,071	-	232	1,097	2,400	7,911	10,311
Substandard	-	-	-	-	2,095	3,801	5,896	7,880	13,776
Doubtful	-	-	-	-	-	-	-	-	-
SBA									
Pass	3,347	1,383	2,552	24	-	-	7,306	-	7,306
Special mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Trade finance									
Pass	-	15	-	-	-	-	15	6,870	6,885
Special mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Consumer & other									
Pass	-	-	-	-	19	-	19	-	19
Special mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Total	**$ 229,129**	**$ 1,025,930**	**$ 597,534**	**$ 275,992**	**$ 284,606**	**$ 711,247**	**$ 3,124,438**	**$ 1,933,290**	**$ 5,057,728**

The following table presents risk grades and classified loans by recorded investment in class of loan by origination year as of December 31, 2022. 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								
	2022	2021	2020	2019	2018	Prior	Total	Revolving Loans	Total
Real estate mortgage									
Pass	$ 899,640	$ 549,138	$ 259,791	$ 218,738	$ 126,232	$ 536,956	$ 2,590,495	$ 684,963	$ 3,275,458
Special mention	-	24,432	-	5,747	950	18,430	49,559	-	49,559
Substandard	-	-	6,124	7,421	-	280	13,825	1,176	15,001
Doubtful	-	-	-	-	-	-	-	-	-
Real estate construction									
Pass	-	-	-	-	-	-	-	397,505	397,505
Special mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Commercial & industrial									
Pass	155,147	15,776	45,847	51,017	15,902	37,187	320,876	963,374	1,284,250
Special mention	-	-	-	-	-	735	735	29,687	30,422
Substandard	-	-	-	2,132	-	4,026	6,158	-	6,158
Doubtful	-	-	-	-	-	-	-	-	-
SBA (PPP)									
Pass	5,675	3,098	2,566	-	-	-	11,339	-	11,339
Special mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Trade finance									
Pass	145	-	-	-	-	-	145	4,376	4,521
Special mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Consumer & other									
Pass	580	-	-	-	-	-	580	-	580
Special mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Total	**$ 1,061,187**	**$ 592,444**	**$ 314,328**	**$ 285,055**	**$ 143,084**	**$ 597,614**	**$ 2,993,712**	**$ 2,081,081**	**$ 5,074,793**

The following table presents a summary of loans modified with borrowers experiencing financial difficulty, on or after January 1, 2023 by type of modification:

	Combination - Term Extension and Other-Than-Insignificant Payment Delay	
March 31, 2023:	**Amortized Cost Basis**	**% of Total Class of**
Loan Type	*(In thousands)*	
Real estate construction:		
Commercial	$ 1,310	0.05%
Commercial and industrial	4,772	0.37%
Total	**$ 6,082**	**0.12%**

During the three months ended March 31, 2023, two loans were modified with borrowers experiencing financial difficulty totaling $6.1 million. These two loans were current as of March 31, 2023.

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

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

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

(e) 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.

(f) 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.

(g) 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.

(h) 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.

(i) 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.

(j) Subordinated Debt Issuance

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

The carrying amounts and estimated fair values of financial instruments as of March 31, 2023 and December 31, 2022 are summarized in the tables below:

	March 31, 2023		
	Fair Value Measurement Using	Carrying Amount	Estimated Fair Value
		(In thousands)	
Assets:			
Cash and cash equivalents	Level 1	$ 885,691	$ 885,691
Securities held-to-maturity	Level 2	22,155	20,563
Securities available-for-sale(1)	Level 2/3	367,492	367,492
Loans receivable, net	Level 3	4,978,513	5,005,857
Customers' liability on acceptances	Level 2	107	107
Accrued interest receivable(2)	Level 2/3	26,532	26,532
Federal Home Loan Bank stock	Level 2	15,000	N/A
Liabilities:			
Demand deposits and savings:			
Noninterest-bearing	Level 2	$ 1,050,992	$ 1,050,992
Interest-bearing	Level 2	1,785,300	1,785,300
Time deposits	Level 2	2,571,474	2,554,788
Subordinated debt issuance	Level 2	148,055	171,858
Acceptances Outstanding	Level 2	107	107
Accrued interest payable	Level 2	4,529	4,529

(1) *Includes one $9.3 million corporate note measured at fair value on a recurring basis using significant unobservable (Level 3) inputs as of March 31, 2023.*

(2) *Includes $3.5 million of accrued interest on investment securities using Level 2 fair value measurements and $0.2 million of accrued interest on corporate bond and $22.9 million of accrued interest on loans receivable using Level 3 measurements as of March 31, 2023.*

	December 31, 2022		
	Fair Value Measurement Using	Carrying Amount	Estimated Fair Value
Assets:		(In thousands)	
Cash and cash equivalents	Level1	$ 767,526	$ 767,526
Securities held-to-maturity	Level 2	22,459	20,517
Securities available-for-sale(1)	Level 2/3	428,295	428,295
Loans receivable, net	Level 3	4,996,382	5,066,775
Customers' liability on acceptances	Level 2	1,731	1,731
Accrued interest receivable(2)	Level 2/3	23,593	23,593
Federal Home Loan Bank stock	Level 2	15,000	N/A
Liabilities:			
Demand deposits and savings:			
Noninterest-bearing	Level 2	$ 1,192,091	$ 1,192,091
Interest-bearing	Level 2	2,334,739	2,334,739
Time deposits	Level 2	2,030,167	2,055,438
Subordinated debt issuance	Level 2	147,995	164,477
Acceptances Outstanding	Level 2	1,731	1,731
Accrued interest payable	Level 2	2,608	2,608

(1) *Includes one $9.9 million corporate note measured at fair value on a recurring basis using significant unobservable (Level 3) inputs as of December 31, 2022.*

(2) Includes $2.9 million of accrued interest on investment securities using Level 2 fair value measurements and $52 thousand of accrued interest on corporate note and $20.6 million of accrued interest on loans receivable using Level 3 measurements as of December 31, 2022.

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

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

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

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

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

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

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

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

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

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

The following tables present the Bank's hierarchy for its assets and liabilities measured at fair value on a recurring basis at March 31, 2023 and December 31, 2022.

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 March 31, 2023
	(In thousands)			
Securities, available-for-sale:				
Asset-backed securities	$ -	$ 2,904	$ -	$ 2,904
Corporate notes	-	114,117	9,313	123,430
U.S. Agency mortgage-backed securities	-	10,549	-	10,549
Collateralized mortgage obligations	-	154,125	-	154,125
Municipal securities	-	63,641	-	63,641
U.S. Agency principal-only strips	-	360	-	360
SBA Securities	-	67	-	67
U.S. Treasury Bill	-	12,416	-	12,416
Total	$ -	$ 358,179	$ 9,313	$ 367,492

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, 2022
	(In thousands)			
Securities, available-for-sale:				
Asset-backed securities	$ -	$ 3,007	$ -	$ 3,007
Corporate notes	-	123,100	9,883	132,983
U.S. Agency mortgage-backed securities	-	10,863	-	10,863
Collateralized mortgage obligations	-	156,312	-	156,312
Municipal securities	-	64,531	-	64,531
U.S. Agency principal-only strips	-	382	-	382
SBA Securities	-	85	-	85
U.S. Treasury Bill	-	60,132	-	60,132
Total	$ -	$ 418,412	$ 9,883	$ 428,295

There were no transfers in or out of Level 1, Level 2 or Level 3 fair value measurements during the three months ended March 31, 2023 and 2022.

There was one $9.3 million and one $9.9 million corporate note measured at fair value on a recurring basis using significant unobservable (Level 3) inputs as of March 31, 2023 and December 31, 2022, respectively.

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

Other real estate owned and repossessed assets – Real estate and repossessed assets acquired in the settlement of loans is initially recorded at fair value, less estimated costs to sell. The Bank records other real estate owned at fair value on a non-recurring basis. As from time to time, nonrecurring fair value adjustments to other real estate owned are recorded based on current appraisal value of the property, a Level 2 measurement, or management's judgment and estimation based on reported appraisal value, a Level 3 measurement. There was $18.6 million and $22.0 million of other real estate owned and repossessed assets measured at estimated fair value on a non-recurring basis at March 31, 2023 and December 31, 2022, respectively. There were no gains or losses resulting from the measurement of other real estate owned or repossessed assets measured on a non-recurring basis for the three months ending March 31, 2023 and 2022.

The following table presents the Bank's hierarchy for its assets measured at estimated fair value on a nonrecurring basis at March 31, 2023 and December 31, 2022, and the total losses resulting from these fair value adjustments:

	Fair Value Measurements Using				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Balance at March 31, 2023**	**Three Months Ended March 31, 2023 Total Losses**
	(Dollars in thousands)				
Collateral-dependent loans:					
Commercial and industrial	$ -	$ -	$ 499	$ 499	$ 75
Real estate owned	-	-	18,525	18,525	-
Total	$ -	$ -	$ 19,024	$ 19,024	$ 75

	Fair Value Measurements Using				
	Quoted Prices Active Markets for Identical Assets (Level 1)	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Balance at December 31, 2022**	**Year Ended December 31, 2022 Total Losses**
	(Dollars in thousands)				
Collateral-dependent loans:					
Commercial and industrial	$ -	$ -	$ 499	$ 499	$ 191
Real estate owned	-	-	18,525	18,525	1,425
Total	$ -	$ -	$ 19,024	$ 19,024	$ 1,616

The following table represents quantitative information regarding the significant unobservable inputs used in significant Level 3 assets measured at fair value on a non-recurring basis at March 31, 2023 and December 31, 2022:

At March 31, 2023

	Fair Value	**Valuation Technique**	**Unobservable Input**	**Range**
	(Dollars in thousands)			
Collateral-dependent loans:				
Commercial and industrial	$ 499	Market comparable	Adjustment to appraisal for selling costs	5%
Real estate owned	18,525	Market comparable	Adjustment to appraisal for selling costs	5%

At December 31, 2022

	Fair Value	**Valuation Technique**	**Unobservable Input**	**Range**
	(Dollars in thousands)			
Collateral-dependent loans:				
Commercial and industrial	$ 499	Market comparable	Adjustment to appraisal for selling costs	5%
Real estate owned	18,525	Market comparable	Adjustment to appraisal for selling costs	5%

11. Affordable Housing Partnerships

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

The Bank amortizes investments in affordable housing partnerships in proportion to tax credits and benefits realized. As of March 31, 2023, the Bank had nine investments, with a net carrying value of $59.0 million. Commitments to fund investment in affordable housing partnerships as of March 31, 2023 totaled $26.7 million. As of December 31, 2022, the Bank had nine investments with a net carrying value of $61.2 million and a further commitment to fund $27.5 million.

12. Income Taxes

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

We record net tax assets to the extent we believe these assets will more likely than not be realized. In making such determination, we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent financial performance. A valuation allowance is provided when it is more likely than not that some portion of deferred tax assets will not be realized. As of March 31, 2023 and December 31, 2022, the Bank determined that a valuation allowance for deferred tax assets was not required.

Income tax expense was $15.2 million for the three months ended March 31, 2023 representing an effective tax rate of 28.50%. Income tax expense was $10.4 million for the three months ended March 31, 2022 representing an effective tax rate of 28.48%. 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.

As of March 31, 2023 and December 31, 2022, there were no uncertain tax positions. The Bank does not expect the amount of unrecognized tax benefit to change significantly within the next twelve months.

13. Long-Term Debt

On June 16, 2021, the Bank completed a public offering of $150.0 million in aggregate principal amount of 3.375% fixed-to-floating rate subordinated notes due June 15, 2031. A majority of the proceeds from the placement of the notes were used to repay the subordinated notes due 2026. The subordinated notes mature on June 15, 2031 and bear interest at a fixed rate per annum of 3.375%, payable semi-annually in arrears until June 15, 2026. On that date, the subordinated notes will bear interest at a floating rate per annum equal to a benchmark rate, which is expected to the Three-Month Term SOFR, plus 278 basis points (2.78%), 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 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.

Debt issuance costs are reported as a direct deduction from the face of the note. The premium and related debt issuance costs are being amortized into interest expense over a 10-year period. A summary of outstanding long-term debt at March 31, 2023 is as follows:

	As of March 31, 2023	As of December 31, 2022	Interest rate	Maturity date	Earliest call date
		(in thousands)			
Subordinated notes payable ($150,000 face amount)	$ 148,055	$ 147,995	3.375%	June 15, 2031	June 15, 2026

14. Leases

The Bank is obligated under non-cancellable operating leases for our corporate office/main branch, eleven branch offices, one administrative office, one loan production office and one satellite office. Our leases have remaining terms of 1 to 9 years, with a weighted average remaining lease term of 5.8 years as of March 31, 2023. The majority of our leases provide for increases in future minimum annual rental payments as defined in the lease agreements. We have one variable lease where the increase in lease liability is tied to the Consumer Price Index capped at 3% and no options to extend were incorporated into our lease liability calculations.

At March 31, 2023, operating lease right-of-use ("ROU") assets and related liabilities were $22.2 million and $21.1 million, respectively. For the three months ended March 31, 2023, the recorded operating lease expense was $683,000. For the three months ended March 31, 2022, the recorded operating lease expense was $597,000. For the three months ended March 31, 2023, cash payments for operating leases were $1.0 million. For the three months ended March 31, 2022, cash payments for operating leases were $1.0 million.

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

The table below shows contractually obligated lease payments under current leases and a reconciliation to the lease liability reported on the consolidated statement of financial condition as of March 31, 2023.

(Dollars in thousands)	
2023	$ 3,344
2024	4,385
2025	3,446
2026	2,846
2027	2,249
Thereafter	4,919
Total future lease payments	$ 21,189
Discount to present value	(113)
Total lease liability	$ 21,076

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

We are one of the larger independent commercial banks headquartered in California focusing primarily on the California market, with a historical niche in the Chinese-American market. We consider the Chinese-American market to encompass individuals born in the United States of Chinese ancestry, ethnic Chinese who have immigrated to the United States and ethnic Chinese who live abroad but conduct business in the United States. Although founded as a Bank that primarily serves the Chinese-American community, Preferred Bank has grown into an institution whereby the majority of our current business activities come from the mainstream (non-Chinese American) markets of Southern and Northern California. Our Flushing, New York office, however, still primarily serves the Chinese-American segment of that market. 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 provide personalized deposit services as well as real estate finance, commercial loans and trade finance to small and mid-sized businesses and their owners, entrepreneurs, real estate developers and investors, 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.

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 Bank conducts its banking business from its main office in Los Angeles, California, and through eleven other full-service branch offices in in the California cities of Alhambra, Century City, City of Industry, Torrance, Arcadia, Irvine, Diamond Bar, Pico Rivera, Tarzana, and San Francisco (2 branches), and one branch in Flushing, New York all of which we lease, except the Irvine branch which we own. Additionally, the Bank operates a loan production office in the Houston suburb of Sugar Land, Texas, and a satellite office in Manhattan, New York used only for meeting and communications and no business is transacted there. We market our services and conduct our business primarily in Los Angeles, Orange, Ventura, Riverside, San Bernardino, and San Francisco counties within California, and the Tri-State area of New York, New Jersey and Connecticut.

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

	Three months ended March 31,	
(Dollars in thousands, except per share amounts)	**2023**	**2022**
Selected Financial Ratios:		
Return on average assets (annualized)	2.41%	1.75%
Return on average shareholders' equity (annualized)	23.72%	17.67%
Net interest margin	4.77%	3.42%
Efficiency ratio	26.02%	30.89%
Net charge-offs to average loans	0.00%	0.11%

	March 31, 2023	**December 31, 2022**	**March 31, 2022**
Selected Asset Quality Ratios:			
Non-performing loans to total loans	0.01%	0.11%	0.05%
Non-performing asset to total assets	0.29%	0.43%	0.29%
Allowance for credit losses to total loans	1.36%	1.35%	1.27%
Allowance for credit losses to non-performing loans	254.35x	12.49x	27.15x
Liquidity and Capital Ratios:			
Tier 1 leverage capital ratio	10.63%	10.30%	9.92%
Common equity tier 1 risk-based capital ratio	11.30%	10.81%	11.20%
Tier 1 risk-based capital ratio	11.30%	10.81%	11.20%
Total risk-based capital ratio	14.91%	14.39%	15.12%

At March 31, 2023, assets totaled $6.46 billion, an increase of $36.2 million, or 0.6% from $6.43 billion at December 31, 2022. Our loan portfolio decreased $17.1 million to $5.06 billion at March 31, 2023, from $5.07 billion at December 31, 2022. At March 31, 2023, deposits totaled $5.41 billion, a decrease of $149.2 million, or 2.7% from $5.56 billion at December 31, 2022. We recorded net income per share on a diluted basis of $2.61 for the three months ended March 31, 2023, as compared to net income per share on a diluted basis of $1.74 for the three months ended March 31, 2022. Our net interest income before (reversal of) provision for credit losses for the three-month periods increased compared to the same three -month periods a year ago, primarily due to increases in yields on interest-earning assets outpacing the cost of interest-bearing liabilities, offset by the increase in average interest-bearing liabilities outpacing the increase in average interest-earning assets. For the first quarter of 2023, return on average assets was 2.41%, compared to 1.75% from the same period in 2022, while return on average equity was 23.72%, compared to 17.67% for the first quarter of 2022.

Non-performing assets were $18.9 million and $27.5 million as of March 31, 2023 and December 31, 2022, respectively. The decrease in non-performing assets is primarily due to 1) $5.2 million in paydowns of nonaccrual loans and 2) $3.4 million in repossessed assets sold.

Federal Reserve Bank Actions

Beginning in the first quarter of 2022, the Federal Reserve Open Market Committee ("FOMC") initiated a range of actions in response to inflation and other economic pressures. In March 2022, the FOMC increased its benchmark interest rate 25 bps. This was the first rate hike by the FOMC in more than three years. The FOMC then increased its benchmark interest rate another 25 bps in May 2022, 75 bps in June, July, September and November 2022, and 50 bps in December 2022. The FOMC increased rates another 25 bps in both February and March 2023. These increases in the benchmark rate are designed to reduce the demand side of the economic equation which is expected to cause a reduction in prices. However, the Bank's balance sheet position should benefit from rising interest rates as a large majority of the Bank's interest-earning assets are floating rate and reprice at a faster pace than our interest-bearing liabilities.

Economy

The economic shutdown(s) resulting from the pandemic have resulted in unprecedented uncertainties for our economy and the banking industry. Our operating results indicated 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. As previously mentioned, the inflation rate in the U.S. is running high due to the various stimulus programs enacted during the pandemic. In response to this high level of inflation, the FOMC has raised overnight interest rates by 475 basis points since March 2022. These rapid rate hikes have created volatility in nearly all financial markets and are starting to have an effect on non-financial markets such as real estate. There is a widespread belief that these rapid and significant rate hikes will put the economy into a recession in late 2023 or 2024. As such, we are acutely focused on credit quality and the financial health of our borrowers.

Critical Accounting Policies

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

Allowance for Credit Losses

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

Allowance for credit losses – off-balance sheet commitments

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 CECL methodology, the look back period beginning from January 2010 diluted the more recent loss experience so a rolling 4-year loss rate is applied until the historical loss rate equalizes.

Allowance for credit losses – debt securities

On a quarterly basis, management performs a qualitative evaluation for available-for-sale ("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. 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. Per the new guidance, the credit impairment is limited by the amount of the unrealized loss through the allowance for credit losses and the reversals of credit losses are recognized immediately through earnings. The Bank measures credit losses on AFS debt securities at the individual security level for purposes of measuring credit losses.

ASC 326-20 requires an estimate of lifetime credit loss allowance for the held-to-maturities ("HTM") debt securities. The Bank holds the HTM debt securities that are issued by the government agencies which are highly rated by the agencies and have a long history of no credit losses so no ACL on these securities are recorded.

Results of Operations

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

(Dollars in thousands, except per share amounts)	Three months ended March 31, 2023	Three months ended March 31, 2022
Net income	$ 38,073	$ 26,027
Net income available to common shareholders, basic	38,073	26,026
Net income available to common shareholders per share, basic	2.64	1.76
Net income available to common shareholders, diluted	38,073	26,026
Net income available to common shareholders per share, diluted	2.61	1.74
Return on average assets (annualized)	2.41%	1.75%
Return on average shareholders' equity (annualized)	23.72%	17.67%

	Three months ended March 31, 2023	Three months ended March 31, 2022	Increase (Decrease)
Statement of Operations Data:			
Interest income	$ 109,084	$ 55,024	$ 54,060
Interest expense	35,369	4,992	30,377
Net interest income	73,715	50,032	23,683
Provision for (reversal of) credit losses	500	(250)	750
Net interest income after provision for credit losses	73,215	50,282	22,933
Noninterest income	(1,066)	2,266	(3,332)
Noninterest expense	18,900	16,157	2,743
Income before income taxes	53,249	36,391	16,858
Income tax expense	15,176	10,364	4,812
Net income	$ 38,073	$ 26,027	$ 12,046
Net income available to common shareholders per share, basic	$ 2.64	$ 1.76	$ 0.88
Net income available to common shareholders per share, diluted	$ 2.61	$ 1.74	$ 0.87

Net Interest Income and Net Interest Margin

Net interest income before provision for (reversal of) credit losses increased to $73.7 million for the three months ended March 31, 2023 compared to $50.0 million for the same period of 2022. Our net interest margin for the first quarter of 2023 was 4.77%, an increase of 135 basis points from 3.42% for the same period of 2022 due to the recent increases in the Federal Reserve benchmark interest rate as well as growth in interest-earning assets.

For the three months ended March 31, 2023, the average yield on interest-earning assets was 7.05%, an increase of 329 basis points from 3.76% for the same period of 2022. The increase in yield during the three month periods was primarily due to the increases in market interest rates during 2022 and into 2023. We do not anticipate that in the future the average yield on interest-earning assets will increase, if at all, at the same rate as it did for this period, and may in fact decrease. Interest income, interest expense, net interest income, and the net interest margin are all influenced by the distribution of assets and liabilities and the income earned and costs incurred on such assets and liabilities. For the three months ended March 31, 2023, average interest-earning assets totaled $6.28 billion, an increase of $337.9 million from the comparable 2022 period. The increase in average interest-earning assets during the three -month period was primary related to the loan portfolio growth, offset by lower average investment securities and other earning assets.

As of March 31, 2023, 72% of our loan portfolio was tied to the Prime Rate, which has the potential to re-price daily, and 21% was tied to the London Interbank Offered Rate, or LIBOR, or the Secured Overnight Financing Rate, or SOFR, and other indices which re-price periodically, respectively. Approximately 81% of our adjustable-rate loan portfolio had an interest rate floor at various levels, which will provide us with some protection in the future if interest rates decrease from the current levels. Approximately 12% of our loan portfolio had interest rate ceilings at various rates limiting the amount of interest rate increases that can be passed on to the borrower.

The average cost of interest-bearing liabilities increased 260 basis points to 3.10% for the three months ended March 31, 2023 from 0.49% for the same period of 2022. The increase in the cost of interest-bearing liabilities during the three-month period was primarily due to the overall impact of increasing market interest rates and its effect on the cost of existing and new depositors. For the three months ended March 31, 2023, average interest-bearing deposits totaled was $4.45 billion, an increase of $503.7 million from the comparable 2022 period. The increases in average interest-bearing deposits during the three-month period was primarily due to growth in interest-bearing demand and savings account, and time deposits. The steps taken in the aftermath of the recent bank failures led to an outsized increase in the Bank's overall cost of funds as the Bank took out $150 million in short term FHLB borrowings to increase liquidity and meet deposit withdrawals, which it otherwise would not have done. The cost of these borrowings was higher than the rates of deposit we would have paid during this period.

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 and leases while non-accrued interest thereon is excluded from the computation of yields earned.

	Three months ended March 31,					
	2023			2022		
	Average Balance	Interest Income or Expense	Average Yield or Cost	Average Balance	Interest Income or Expense	Average Yield or Cost
ASSETS			*(Dollars in thousands)*			
Interest-earning assets:						
Loans [1,2]	$ 5,013,740	$ 95,881	7.76%	$ 4,367,095	$ 52,119	4.84%
Investment securities [3]	442,852	3,994	3.66%	455,899	2,224	1.98%
Federal funds sold	20,222	224	4.49%	20,122	19	0.38%
Other earning assets	799,816	9,087	4.61%	1,095,604	770	0.29%
Total interest-earning assets	6,276,630	109,186	7.05%	5,938,720	55,132	3.76%
Deferred loan fees, net	(9,937)			(6,322)		
Allowance for credit losses on loans	(68,466)			(59,951)		
Noninterest earning assets:						
Cash and due from banks	11,527			11,589		
Bank furniture and fixtures	8,977			10,440		
Right of use assets	21,867			21,754		
Other assets	160,251			127,925		
Total assets	$ 6,400,849			$ 6,044,155		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Interest-bearing liabilities:						
Deposits:						
Interest-bearing demand/savings	$ 2,241,929	$ 17,077	3.09%	$ 2,077,962	$ 1,450	0.28%
TCD $250K or more	1,266,072	10,743	3.44%	929,170	1,027	0.45%
Other time certificates	943,298	5,850	2.52%	940,484	1,190	0.51%
Total interest-bearing deposits	4,451,299	33,670	3.07%	3,947,616	3,667	0.38%
Advances from FHLB	31,667	374	4.79%	-	-	0.00%
Subordinated debt	148,016	1,325	3.63%	147,783	1,325	3.64%
Total interest-bearing liabilities	4,630,982	35,369	3.10%	4,095,399	4,992	0.49%
Non-interest bearing liabilities:						
Demand deposits	1,028,646			1,268,194		
Lease Liability	20,993			22,463		
Other liabilities	69,265			60,885		
Total liabilities	5,749,886			5,446,941		
Shareholders' equity	650,963			597,214		
Total liabilities and shareholders' equity	$ 6,400,849			$ 6,044,155		
Net interest income		$ 73,817			$ 50,140	
Net interest spread			3.96%			3.27%
Net interest margin			4.77%			3.42%

(1) Includes average non-accrual loans.
(2) Includes net loan fee income of $1.2 million and $765,000 for the quarter ended March 31, 2023 and 2022, respectively.
(3) Yields on securities have been adjusted to a tax-equivalent basis.

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

	Three months ended March 31, 2023 compared to three months ended March 31, 2022		
	Net Change	Rate	Volume
		(In thousands)	
Interest income:			
Loans and leases	$ 43,762	$ 35,127	$ 8,635
Investment securities[1]	1,770	1,835	(65)
Federal funds sold	205	204	1
Other earning assets	8,317	8,580	(263)
Total interest income	54,054	45,746	8,308
Interest expense:			
Interest-bearing demand	8,586	8,439	147
Money market	7,021	7,026	(5)
Savings	20	21	(1)
Time certificates of deposits	14,376	13,872	504
Advances from FHLB	374	-	374
Subordinated debt	-	(2)	2
Total interest expense	30,377	29,356	1,021
Net interest income	$ 23,677	$ 16,390	$ 7,287

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

Provision for (Reversal of) Credit Losses

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

The Bank recorded a $500,000 provision for credit losses for the three months ended March 31, 2023 compared to a reversal of credit losses of $0.3 million for the same period in 2022. This provision for credit losses was primarily due to growth in loan portfolio, coupled with the forecast of a somewhat negative economic outlook. Net charge-offs were $43,000 for the three months ended March 31, 2023, compared to net charge-offs of $1.2 million for the three months ended March 31, 2022. Net charge-offs during the three months ended March 31, 2023 related to one commercial and industrial loan. Net charge-offs during the three months ended March 31, 2022 primarily related to one commercial and industrial relationship that was foreclosed on during the quarter.

The provision for (reversal of) credit losses includes the consideration of the impact to the national and local economies resulting from the COVID-19 pandemic, and risk rating changes within the loan portfolio. The Bank will continue to monitor any continuing impact of the pandemic on credit risks and losses. The provision for (reversal of) credit losses is based on the Bank's determination of the allowance for credit losses under a current expected credit losses methodology. We also apply qualitative factors in calculating allowance levels by loan type, which are revised quarterly and take into consideration reasonable and supportable economic forecasts, the mix of the loan portfolio, concentration levels and trends, local and national economic conditions, changes in capabilities, experience of lending management and staff, and other external factors such as industry conditions, competition and regulatory requirements.

Non-performing loans decreased $5.2 million to $271,000 at March 31, 2023, compared to $5.5 million as of December 31, 2022. The decrease was from $5.2 million in paydowns of nonaccrual loans. The ratio of allowance for credit losses on loans to total loans increased to 1.36% of total loans at March 31, 2023 compared to 1.35% at December 31, 2022. The 1 basis point increase between periods is primarily attributable to the factors applied in the economic forecasts of the Bank's CECL model, such as charge-offs and loan growth.

Management believes that through the application of the allowance methodology's quantitative and qualitative components, that the provision and overall level of allowance for credit losses on loans is adequate for current expected credit losses inherent in the portfolio as of March 31, 2023. 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 loans and investment securities.

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

	Three months ended March 31, 2023	Three months ended March 31, 2022	Increase (Decrease)
	(In thousands)		
Fees and service charges on deposit accounts	$ 694	$ 671	$ 23
Letter of credit fee income	1,324	933	391
BOLI income	101	99	2
Net gain on sale of SBA loans	340	-	340
Net loss on sale or call of investment securities	(4,117)	-	(4,117)
Other income	592	563	29
Total noninterest income	$ (1,066)	$ 2,266	$ (3,332)

Noninterest income for the three months ended March 31, 2023, was a loss of $1.1 million, compared to noninterest income of $2.3 million for the corresponding period in 2022. The $3.3 million decrease was primarily attributable to a $4.2 million loss on sale of the SBNY corporate note, which was sold in the days following its failure. Letter of credit fee income was $1.3 million for the quarter, an increase of $391,000 over the same period last year. Gains on sales of loans were $340,000 compared to zero in the same period last year, as the Bank's SBA department is now originating and selling loans. Finally, service charges on deposits were up slightly over both comparable periods.

Noninterest Expense

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

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

	Three months ended March 31, 2023	Three months ended March 31, 2022	Increase (Decrease)
	(In thousands)		
Salaries and employee benefits	$ 13,728	$ 11,640	$ 2,088
Net occupancy expense	1,474	1,422	52
Business development and promotion expense	105	101	4
Professional services	1,149	1,243	(94)
Office supplies and equipment expense	404	489	(85)
OREO related expense	72	16	56
Other expense	1,968	1,246	722
Total noninterest expense	$ 18,900	$ 16,157	$ 2,743

Total noninterest expense was $18.9 million for the three months ended March 31, 2023 compared to $16.2 million for the corresponding period in 2022. The $2.7 million increase was primarily the result of a $2.0 million increase in salaries and benefits mainly due to new hires, merit increases and an increase in incentive compensation, and a $721,000 increase in other expense mainly due to an increase in FDIC premiums of $510,000 over the same period last year.

Provision for Income Taxes

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

We record net tax assets to the extent we believe these assets will more likely than not be realized. In making such determination, we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent financial operations. A valuation allowance is provided when it is more likely than not that some portion of deferred tax assets will not be realized. As of March 31, 2023 and December 31, 2022, the Bank determined that a valuation allowance for deferred tax assets was not required.

We recorded net tax expense of $15.2 million and $10.4 million for the three months ended March 31, 2023 and 2022, respectively, resulting in an effective tax rate of 28.50% and 28.48%, respectively.

As of March 31, 2023 and December 31, 2022, the total amount related to uncertain tax positions was zero, net of federal tax benefit. The Bank does not expect the amount of unrecognized tax benefit to change significantly within the next twelve months.

Financial Condition

Total assets as of March 31, 2023 were $6.46 billion compared to $6.43 billion as of December 31, 2022. Earning assets as of March 31, 2023 totaled $6.34 billion compared to $6.30 billion as of December 31, 2022. Total deposits were $5.41 billion as of March 31, 2023 compared to $5.56 billion as of December 31, 2022.

Loans

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

	March 31, 2023	December 31, 2022	March 31, 2022
		(In thousands)	
Loans (by portfolio and class):			
Real estate – mortgage:			
Real estate—residential	$ 612,907	$ 617,504	$ 539,614
Real estate—commercial	2,813,681	2,722,514	2,367,862
Total real estate – mortgage	3,426,588	3,340,018	2,907,476
Real estate – construction:			
Real estate construction — residential	175,286	193,027	141,218
Real estate construction — commercial	142,319	204,478	209,726
Total real estate construction loans	317,605	397,505	350,944
Commercial & industrial	1,299,325	1,320,830	1,281,559
SBA	7,306	11,339	32,554
Trade finance	6,885	4,521	18,919
Consumer & other	19	580	115
Total gross loans and leases	5,057,728	5,074,793	4,591,567
Less: allowance for credit losses on loans	(68,929)	(68,472)	(58,496)
Less: deferred loan fees, net	(10,286)	(9,939)	(8,573)
Total net loans	$ 4,978,513	$ 4,996,382	$ 4,524,498

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 and New York areas. All loans are typically made based on substantially the same credit standards regardless of where the customers and/or collateral properties are located although there may be circumstances whereby geographical location would require more stringent requirements for a loan.

Total gross loans decreased by $17.1 million, or 0.3%, to $5.06 billion as of March 31, 2023 from $5.07 billion as of December 31, 2022. Real estate mortgage loans, which include real estate loans collateralized by various types of commercial and residential real estate, increased $86.6 million from $3.34 billion as of December 31, 2022 to $3.43 billion at March 31, 2023. Real estate construction loans which are loans made to borrowers and developers for the purpose of constructing residential or commercial properties, decreased $79.9 million from $397.5 million at December 31, 2022 to $317.6 million at March 31, 2023. Commercial and industrial loans decreased $21.5 million from $1.32 billion at December 31, 2022 to $1.30 billion at March 31, 2023, and trade finance loans, which are primarily working capital revolving and term loans for business operations, increased $2.4 million from $4.5 million at December 31, 2022 to $6.9 million at March 31, 2023.

SBA loans decreased $4.0 million from $11.3 million at December 31, 2022 to $7.3 million at March 31, 2023. During the three months ended March 31, 2023, the Bank's SBA department began originating and selling loans. At March 31, 2023, SBA loans consisted of $4.8 million in traditional SBA loans and $2.6 million in loans originated under the SBA's PPP Program. At December 31, 2022, SBA loans consisted of $5.6 million in traditional SBA loans and $5.7 million of SBA PPP loans. Management's focus from a lending perspective now is on monitoring the Bank's existing loan relationships due to the immense increase in interest rates in 2022 and into 2023, as this will have a negative effect of debt service coverage ratios for the Bank's borrowers. Management will also focus on expanding its lending footprint and to strengthen the loan growth within our current markets.

The following table represent the breakdown of the PPP loans, included within SBA loans, as of March 31, 2023 and December 31, 2022:

	March 31, 2023		December 31, 2022	
	Count	Amount	Count	Amount
	(In thousands)		(In thousands)	
PPP Loan Balance Range				
Less than or equal to $350,000	5	2,576	7	1,124
Greater than $350,000 and less than or equal to $2.0 million	-	-	1	2,000
Greater than $2.0 million	-	-	1	2,540
Total as of March 31, 2023:	**5**	**2,576**	**9**	**5,664**

Non-Performing Assets

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

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

	As of March 31, 2023	As of December 31, 2022	As of March 31, 2022
		(Dollars in thousands)	
Non-accrual loans	$ 271	$ 5,480	$ 2,154
Accruing loans and leases past due 90 days or more	-	-	-
Total non-performing loans (NPLs)	271	5,480	2,154
OREO and other repossessed assets	18,628	21,990	15,547
Total non-performing assets (NPAs)	$ 18,899	$ 27,470	$ 17,701
Selected ratios:			
NPLs to total gross loans	0.01%	0.11%	0.05%
NPAs to total assets	0.29%	0.43%	0.29%

Total non-performing assets were $18.9 million and $27.5 million at March 31, 2023 and December 31, 2022 and $17.7 million as of March 31, 2022. As of March 31, 2023, total non-accrual loans were $271,000 compared to $5.5 million as of December 31, 2022 and $2.2 million as of March 31, 2022. See "Notes to Consolidated Interim Financial Statements (Unaudited) Note 9 — *Loans, Leases 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, 2023 to March 31, 2023:

	Loans 90+ Days Past Due & Still Accruing	Non Accrual Loans	OREO and Repossessed Assets
		(In thousands)	
Balance, December 31, 2022	$ -	$ 5,480	$ 21,990
Other additions	-	44	-
Sales/Payoffs	-	(5,209)	(3,362)
(Charge-offs) recoveries	-	(44)	-
Balance, March 31, 2023	$ -	$ 271	$ 18,628

The $5.2 million decrease in nonaccrual loans during the three months ended March 31, 2023 was primarily related to $5.2 million in paydowns.

There were no loans over 90 days past due and still accruing at March 31, 2023 and December 31, 2022.

OREO and repossessed assets totaled $18.6 million and $22.0 million at March 31, 2023 and December 31, 2022. The balance at March 31, 2023 included residential real estate of $18.5 million and other repossessed assets of $103,000. The balance at December 31, 2022 included residential real estate of $18.5 million and other repossessed assets of $3.5 million. During the three months ended March 31, 2023, the Bank sold $3.4 million in other repossessed assets. There was no similar sale activity during the three months ended March 31, 2022.

OREO and repossessed assets are initially recorded at the fair value of the property based on appraisal, less estimated selling costs. Any cost in excess of the fair value at the time of acquisition is accounted for as a loan charge-off and deducted from the allowance for credit losses on loans. A valuation allowance is established for any subsequent declines in value through a charge to earnings. At March 31, 2023 and December 31, 2022, the valuation allowance related to OREO and repossessed assets totaled $1.4 million and zero, respectively. Operating expenses of such properties, net of related income, and gains and losses on their disposition are included in noninterest income or expense, as appropriate.

Allowance for Credit Losses

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

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

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

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

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

Allowance for Credit Losses & Loss Histories

	Three months ended March 31, 2023	Three months ended March 31, 2022	Year ended December 31, 2022
	(Dollars in thousands)		
Allowance for credit losses:			
Balance at beginning of period	$ 68,472	$ 59,969	$ 59,969
Actual charge-offs:			
Commercial & Industrial	44	1,222	1,222
Real estate mortgage	-	1	1
Consumer & other	-	-	-
Total charge-offs	44	1,223	1,223
Less recoveries:			
Commercial & Industrial	1	-	-
Real estate mortgage	-	-	2,376
Total recoveries	1	-	2,376
Net loans charged-off (recovered)	43	1,223	(1,153)
Provision for (reversal of) credit losses	500	(250)	7,350
Balance at end of period	$ 68,929	$ 58,496	$ 68,472
Total gross loans at end of period	$ 5,057,728	$ 4,591,567	$ 5,074,793
Average total loans	5,013,740	4,367,095	4,760,815
Non-performing loans	271	2,154	5,480
Selected ratios:			
Net charge-offs (recoveries) to average loans (1)	0.00%	0.11%	-0.02%
Provision for (reversal of) credit losses to average loans (1)	0.04%	-0.02%	0.15%
Allowances for credit losses to loans at end of period	1.36%	1.27%	1.35%
Allowance for credit losses to non-performing loans	254.35x	27.15x	12.49x

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

See the above section entitled "Provision for Credit Losses" for further discussion regarding our provision.

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

	Three months ended March 31,					
	2023			2022		
	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	$ (43)	$ 1,247,662	-0.01%	$ (1,222)	$ 1,191,334	-0.41%
Trade Finance	-	4,365	0.00%	-	14,087	0.00%
Real estate construction	-	360,037	0.00%	-	342,642	0.00%
Real estate mortgage	-	3,389,251	0.00%	(1)	2,777,946	0.00%
SBA	-	5,481	0.00%	-	36,304	0.00%
Consumer & other	-	6,066	0.00%	-	4,782	0.00%
Net charge-offs	**$ (43)**	**$ 5,012,862**	0.00%	**$ (1,223)**	**$ 4,367,095**	-0.11%

Net charge-offs to average loans were 0.00% for the three months ended March 31, 2023 compared to net charge-offs to average loans of 0.11% for the three months ended March 31, 2022. The decrease in the net charge-off ratio between periods was due to there being significantly lower net charge-offs for the three months ended March 31, 2023. Net charge-offs for the three months ended March 31, 2022 included $1.2 million related to one commercial and industrial relationship.

Allowance for Credit Losses Related to Undisbursed Loan and Lease Commitments

We maintain an allowance for credit losses for undisbursed loan commitments. Management estimates the amount by applying the loss factors used in our allowance for credit losses on loans using the current expected credit losses methodology to our estimate of the expected usage of undisbursed commitments for each loan type. Provisions for credit losses for undisbursed loan commitments are recorded in other expense. The allowance for credit losses on undisbursed loan commitments totaled $1.2 million at March 31, 2023 and December 31, 2022. There was no provision for credit losses on undisbursed loan commitment for the three months ended March 31, 2023 and 2022.

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

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

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

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

Bank records the amount of credit loss through a charge to provision for (reversal of) credit losses in current period earnings. If the Bank determines the security's unrealized loss, or a portion thereof, is not related to credit, the Bank records the non-credit related loss, net of tax, through a debit to accumulated other comprehensive income. The Bank have made a policy election to exclude accrued interest from the amortized cost basis of available-for-sale securities and report accrued interest in accrued interest receivables in the consolidated balance sheets. Available-for-sale securities are placed on non-accrual status when we no longer expect to receive all contractual amounts due, which is generally at 90 days past due. Accrued interest receivable is reversed against interest income when a security is placed on non-accrual status. Accordingly, we do not recognize an allowance for credit loss against accrued interest receivable.

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

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

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

At March 31, 2023 and December 31, 2022, the Bank owned four mortgage-backed securities considered held-to-maturity with a carrying value of $22.2 million and $22.5 million, respectively. At March 31, 2023, investment securities classified as available-for-sale with a carrying value of $59.5 million were pledged to secure public deposits.

The table below shows the amortized cost, gross unrealized gains and losses, estimated fair value of securities available-for-sale as of March 31, 2023 and December 31, 2022:

	March 31, 2023			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
	(In thousands)			
Asset-backed securities	$ 3,082	$ -	$ (178)	$ 2,904
Corporate notes	139,030	-	(15,600)	123,430
U.S. Agency mortgage-backed securities	10,941	2	(394)	10,549
Collateralized mortgage obligations	168,388	-	(14,263)	154,125
Municipal securities	72,173	43	(8,575)	63,641
U.S. Agency principal-only strip securities	390	-	(30)	360
SBA securities	68	-	(1)	67
U.S. Treasury Bill	14,940	-	(2,524)	12,416
Total securities available-for-sale	$ 409,012	$ 45	$ (41,565)	$ 367,492

	December 31, 2022			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
	(In thousands)			
Asset-backed securities	$ 3,172	$ -	$ (165)	$ 3,007
Corporate notes	144,091	-	(11,108)	132,983
U.S. Agency mortgage-backed securities	11,396	-	(533)	10,863
Collateralized mortgage obligations	170,872	-	(14,560)	156,312
Municipal securities	74,986	32	(10,487)	64,531
U.S. Agency principal-only strip securities	418	-	(36)	382
SBA securities	86	-	(1)	85
U.S. Treasury Bill	63,030	14	(2,912)	60,132
Total securities available-for-sale	$ 468,051	$ 46	$ (39,802)	$ 428,295

As of March 31, 2023, available-for-sale securities decreased by $60.8 million or 14.2% to $367.5 million, compared to $428.3 million as of December 31, 2022. The decrease was primarily due to $7.7 million in maturities and calls of corporate notes and municipal securities (of which $5.0 million related to SBNY bonds), $48.6 million in sales primarily US Treasury Bills, $3.1 million in principal reductions and $1.8 million in fair value decreases. As of March 31, 2023, available-for-sale securities had a net unrealized loss of $41.5 million compared to a net unrealized loss of $39.8 million as of December 31, 2022. The increase in net unrealized losses was attributable to decreases in the value of corporate bonds as a result of expanding credit spreads to the U.S. Treasury curve.

The carrying value of our held-to-maturity investment securities was $22.1 million at March 31, 2023 and $22.5 million at December 31, 2022. The decrease between periods was due to principal paydowns and premium amortization during the quarter.

The table below shows the amortized cost, unrecognized gross gains and losses, and estimated fair value of securities held-to-maturity as of March 31, 2023 and December 31, 2022:

	March 31, 2023			
	Amortized cost	Gross unrecognized gains	Gross unrecognized losses	Estimated fair value
	(In thousands)			
Mortgage-backed securities	$ 22,155	$ -	$ (1,592)	$ 20,563

	December 31, 2022			
	Amortized cost	Gross unrecognized gains	Gross unrecognized losses	Estimated fair value
	(In thousands)			
Mortgage-backed securities	$ 22,459	$ -	$ (1,942)	$ 20,517

Deposits

Total deposits at March 31, 2023 were $5.41 billion, a decrease of $149.2 million or 2.7% from the balance of $5.56 billion as of December 31, 2022. Compared to December 31, 2022, noninterest-bearing demand deposits decreased by $141.1 million or 11.8%, interest-bearing demand deposits increased by $543.8 million or 23.7%, and saving deposits decreased slightly by $5.7 million or 14.3%. Offsetting these changes, time deposits increased $541.3 million or 26.7%. The decrease in deposits was due largely to depositor withdraws in light of the recent bank failures.

As of March 31, 2023, total uninsured deposits represented approximately 49.5 % of total deposits. Since mid-March, 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. Along these lines, we also hope to bring back some depositors who left in the aftermath of the recent bank failures.

The following table shows the balance of each major category of deposit at the dates indicated:

	March 31, 2023		December 31, 2022	
	Amount	% of Total Deposits	Amount	% of Total Deposits
	(Dollars in thousands)			
Noninterest-bearing deposits	$ 1,050,992	19.43%	$ 1,192,091	21.46%
Interest-bearing deposits:				
Interest-bearing demand	1,751,439	32.39%	2,295,212	41.30%
Savings	33,861	0.63%	39,527	0.71%
Time certificates of $250,000 or more	1,329,720	24.59%	1,138,727	20.49%
Other time certificates	1,241,754	22.96%	891,440	16.04%
Total deposits	$ 5,407,766	100.00%	$ 5,556,997	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. It should be noted that in the aftermath of the SVB and SBNY failures, the Bank did not lose any certificates of deposit due to the crisis. This can, in effect, demonstrate that these deposits exhibit more ‘core deposit’ features than does the standard checking account.

Borrowings

At March 31, 2023 and December 31, 2022, there were $150.0 million and zero, respectively, of advances outstanding from Federal Home Loan Bank of San Francisco (“FHLB”).

Subordinated Debentures

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

Capital Resources

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

A new capital conservation buffer of 2.50% became effective starting January 1, 2019 and must be met to avoid limitations on the ability of the Bank to pay dividends, repurchase shares or pay discretionary bonuses. The Bank's capital conservation buffer was 5.30% and 4.81% as of March 31, 2023 and December 31, 2022, respectively.

In September 2019, the FDIC finalized a rule that introduces an optional simplified measure of capital adequacy for qualifying community banking organizations (i.e., the community bank leverage ratio ("CBLR") framework), as required by the Economic Growth, Regulatory Relief, and Consumer Protection Act ("EGRRCPA"). The CBLR framework is designed to reduce the 15 requirements for calculating and reporting risk-based capital ratios for qualifying community banking organizations that opt into the framework. In order to qualify for the CBLR framework, a community banking organization must have a tier 1 leverage ratio of greater than 9 percent, less than $10 billion in total consolidated assets, and limited amounts of off-balance sheet exposures and trading assets and liabilities. A qualifying community banking organization that opts into the CBLR framework and meets all requirements under the framework will be considered to have met the well capitalized ratio requirements under the Prompt Corrective Action regulations and will not be required to report or calculate risk-based capital. The CBLR framework was available for banks to use beginning in their March 31, 2020, Call Report. We elected to not opt in to the CBLR framework. The FDIC also finalized a rule that permits non-advanced approaches banking organizations to use the simpler regulatory capital requirements for mortgage servicing assets, certain deferred tax assets arising from temporary differences, investments in the capital of unconsolidated financial institutions, and minority interest when measuring their tier 1 capital as of January 1, 2020. Banking organizations may use this new measure of tier 1 capital under the CBLR framework. We did not adopt the CBLR framework.

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

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

Our goal is to exceed the Basel III minimum regulatory capital requirements for well capitalized institutions. At March 31, 2023 and December 31, 2022, 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 the dates indicated below:

	At March 31, 2023	At December 31, 2022
Leverage Ratio		
Preferred Bank	10.63%	10.30%
Minimum requirement for "Well-Capitalized" institution	5.00%	5.00%
Common Equity Tier 1 Risk-Based Capital Ratio		
Preferred Bank	11.30%	10.81%
Minimum requirement for "Well-Capitalized" institution	6.50%	6.50%
Tier 1 Risk-Based Capital Ratio		
Preferred Bank	11.30%	10.81%
Minimum requirement for "Well-Capitalized" institution	8.00%	8.00%
Total Risk-Based Capital Ratio		
Preferred Bank	14.91%	14.39%
Minimum requirement for "Well-Capitalized" institution	10.00%	10.00%

Commitments and Contingencies

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

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

The following table presents these commitments as of March 31, 2023:

	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	$ 1,297,102	$ 626,624	$ 554,155	$ 95,865	$ 20,458
Commercial letters of credit	6,165	6,165	-	-	-
Standby letters of credit	421,818	69,137	104,851	168,031	79,799
Commitments to fund investments in affordable housing partnerships	26,709	15,469	8,810	1,415	1,015
Lease commitments	21,189	4,458	7,396	4,914	4,421
Future contract commitments	2,280	1,362	918	-	-
Total	$ 1,775,263	$ 723,215	$ 676,130	$ 270,225	$ 105,693

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 93.5% at March 31, 2023 compared to 91.3% at December 31, 2022. This increase in our loan-to-deposit ratio was due mostly to the decrease deposit balances between periods. The Bank has typically carried more cash as a percentage of assets than most financial institutions in our peer group. This is in the interest of safety but also it is because the Bank's earnings are so strong that investing in long duration securities is always risky when rates have been so low for so long.

Borrowings from the FHLB are another source of funding for our loan and investment activities. At March 31, 2023, we had $150.0 million outstanding FHLB borrowings, and we could borrow up to an additional $303.9 million with collateral of specifically identified loans and securities. The Bank is also presently moving more loan collateral to the FHLB and expect to have well over $500 million in borrowing capacity by the middle of the second quarter of 2023. In addition, we have pledged securities with a fair value of $113.2 million at the Federal Reserve Discount Window which we may borrow from on an overnight basis. We have one uncommitted fed funds line with a financial institution for $25.0 million. Finally, we have approximately $200 million in unpledged securities that could be pledged to the Federal Reserve and their Bank Term Funding Program. As an additional condition of borrowing from the FHLB, we are required to purchase FHLB stock. As of March 31, 2023, the Bank was required to maintain the minimum stock requirement of $15.0 million of FHLB stock based on the volume of “membership assets” as defined by the FHLB. At March 31, 2023, the Bank held $15.0 million in FHLB stock. For the three months ended March 31, 2023 and 2022, dividends from the FHLB totaled $272,000 and $222,000, respectively, representing an average yield of 7.35% and 6.00%, 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 28% at March 31, 2023 and 24% at December 31, 2022. 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 and deposit taking activities. To that end, management actively monitors and manages interest rate risk exposure. The Bank does not have any market risk sensitive instruments entered into for trading purposes. We manage interest rate sensitivity by matching the re-pricing opportunities on earning assets to those on funding liabilities. Management uses various asset/liability strategies to manage the re-pricing 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 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. 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, 300 and 400 basis points and an immediate and sustained downward movement in interest rates of 100 and 300 basis points as of March 31, 2023.

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 400 basis points	1,124,063	19.3%	17.9%	171.2%
Up 300 basis points	1,090,237	15.7%	17.2%	166.1%
Up 200 basis points	1,048,586	11.3%	16.5%	159.7%
Up 100 basis points	999,292	6.1%	15.6%	152.2%
Base	942,212	-	14.6%	143.5%
Down 100 basis points	862,747	-8.4%	13.3%	131.4%
Down 200 basis points	791,086	-16.0%	12.1%	120.5%
Down 300 basis points	714,840	-24.1%	10.8%	108.9%

The computation of prospective effects of hypothetical interest rate changes are based on numerous assumptions, including relative levels of market interest rates, asset prepayments and deposit decay, and should not be relied upon as indicative of actual results. Further, the computations do not contemplate any actions management may undertake in response to changes in interest rates. Actual amounts may differ from the projections set forth above should market conditions vary from the underlying assumptions.

Net Interest Income

In order to measure interest rate risk as of March 31, 2023, we used a simulation model to project changes in net interest income that result from forecasted changes in interest rates. This analysis calculates the difference between net interest forecasted using a rising and a falling interest rate scenario and a net interest income forecast using a base market interest rate derived from the current treasury yield curve. The income simulation model includes various assumptions regarding the re-pricing relationships for each of our products. Many of our assets are floating rate loans, which are assumed to reprice immediately, and to the same extent as the change in market rates according to their contracted index. Some loans and investment vehicles include the opportunity of prepayment (embedded options), and accordingly the simulation model uses national indexes to estimate these prepayments and reinvest their proceeds at current yields. Non-term deposit products reprice more slowly, usually changing less than the change in market rates and at management's discretion.

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

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

Sensitivity of Net Interest Income March 31, 2023

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 400 basis points	$ 424,185	41.5%	6.46%	186
Up 300 basis points	$ 392,743	31.0%	5.99%	139
Up 200 basis points	$ 361,550	20.6%	5.52%	93
Up 100 basis points	$ 330,584	10.3%	5.06%	46
Base	$ 299,798	0.0%	4.60%	-
Down 100 basis points	$ 271,014	-9.6%	4.14%	(46)
Down 200 basis points	$ 260,211	-13.2%	4.00%	(60)
Down 300 basis points	$ 256,239	-14.5%	3.94%	(66)

Inflation

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

Recent Accounting Pronouncements

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

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

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

ITEM 4. Controls and Procedures

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

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

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

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

ITEM 1A. Risk Factors

There are no material changes to the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2022 that was filed on March 15, 2023.

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

None.

ITEM 6. Exhibits

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

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

SIGNATURES

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

Dated: May 10, 2023

PREFERRED BANK
(Registrant)

By: /s/ Edward J. Czajka

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

Exhibit 31.1

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

I, Li Yu, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: May 10, 2023

/s/ Li Yu

Li Yu
Chairman and Chief Executive Officer

Exhibit 31.2

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

I, Edward J. Czajka, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: May 10, 2023

/s/ Edward J. Czajka

Edward J. Czajka
Executive Vice President and Chief Financial Officer

Exhibit 32.1

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

In connection with the Quarterly Report of Preferred Bank (the “Bank”) on Form 10-Q for the three months period ended March 31, 2023 as filed with the Federal Deposit Insurance Corporation on the date hereof (the “Report”), I, Li Yu, Chairman and Chief Executive Officer of the Bank, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: May 10, 2023

/s/ Li Yu

Li Yu
Chairman and Chief Executive Officer

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

Exhibit 32.2

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

In connection with the Quarterly Report of Preferred Bank (the “Bank”) on Form 10-Q for the three months period ended March 31, 2023 as filed with the Federal Deposit Insurance Corporation on the date hereof (the “Report”), I, Edward J. Czajka, Executive Vice President and Chief Financial Officer of the Bank, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: May 10, 2023

/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.