ANNUAL REPORT 2023

SINCE 2003

20

ANNIVERSARY

PCB BANCORP

Company **Profile**

PCB Bank Headquarters

PCB Bancorp ("PCB") is the parent company of PCB Bank (the "Bank"), a community bank founded in 2003 with a mission to help first generation Asian-American immigrants realize the American dream through business ownership.

The Bank is a full-service bank that offers a broad range of loans along with deposit products focused on individuals, professionals, and small-to-medium sized businesses.

The Bank serves a diverse customer base through its 16 branch locations, 11 full-service branches in Los Angeles and Orange counties, California, three full-service branches on the East Coast (Bayside, New York, and Englewood Cliffs and Palisade Park, New Jersey), two full-service branches in Texas (Carrollton and Dallas), as well as seven loan production offices ("LPOs") in six states serving a diverse ethnic background. The Bank is one of the leading banks in the Korean-American community.

20 YEARS Anniversary

As we celebrate 20 years of impact, We can look to our future together.

Sang Young Lee Chairman of the Board

We are bankers **connecting people** with their dreams.

20 SINCE 2003 ANNIVERSARY

Dear Shareholders:

2023 was marked with significant challenges to the banking industry that included the unforeseen failures of three high-profile regional banks, the run-up of interest rates by the Fed to address the high inflation rate, and the geopolitical turmoil in Ukraine and the Middle East. Notwithstanding these challenges, we are proud of our bank's resiliency and our resolve to keep delivering beyond our customers' expectations and supporting the needs of the communities we serve as their trusted business partner. By working together as a single unit, the PCB team accomplished numerous achievements in 2023 that we believe pave a path for continued progress on our strategic initiatives and provide a solid platform from which our bank will be able to navigate through the uncertainties in the years ahead:

- New Vision and Mission Statements: After much deliberation, we unveiled our new Vision Statement of "We are bankers connecting people with their dreams" and Mission Statements "Focusing on partnering with our business clients," "Cultivating and empowering our employees," and "Being a responsible corporate citizen in building the communities we serve".

- 20-year Anniversary Celebration: In September 2023, we celebrated our 20th anniversary of serving the financial needs of our customers and communities that we operate in.

Henry Kim President & Chief Executive Officer

• New and Improved Bank Website: In December 2023, we rolled out a completely upgraded website with improved usability and advanced features that enhance the user experience and provide swift, pertinent information.

• Upgraded Core System: Our new core system conversion is scheduled for 2024 and will continue to strengthen our technology infrastructure with greater capabilities designed to improve the user experience and deliver enhanced banking services to both our commercial and retail customers. This significant investment underscores our commitment to consistently improve upon our digital banking platform.

• Double-Digit Growth in Loans and Deposits: Our loans outstanding balance increased $260 million year-over-year, or 12.6%, to $2.33 billion, and our total deposits increased $306 million, or 14.9%, to $2.35 billion at year-end 2023, all the while we maintained strong asset quality and robust capital ratios.

• Commitment to Community Service: One of our missions is to "Build strong and thriving communities together by embracing our corporate and social responsibilities". In 2023, the PCB team provided more than 1,000 hours of community service. The participation of nearly 40% of our teammates is a testament to our employees' embracement of this corporate mission.

Despite several years of pandemic-related turbulence, our strong balance sheet and robust capital levels position us well to navigate the ongoing uncertainties in the macroeconomic environment. We are prepared to confront the challenges of moderated asset growth expectations and prolonged elevated inflation. In spite of the prevailing economic sentiment, we will remain vigilant and proactive in tackling the challenged and extremely competitive market conditions in the coming years.

With that in mind, we summarize our key strategic initiatives as follows:

• Talent Development and Retention: Our track record over the past 20 years has proven that the foundation of success rests on a talented team of individuals working in unison to build a formidable bank franchise. We will continue to develop the talent of our teammates and augment our programs for professional growth and personal success.

• Total Relationship Banking: One of our missions is to "Partner with our business clients for success by providing total relationship banking". Our focus is to build great business banking client relationships based on trust over the long run, meeting all their banking needs,

Left to Right **Andrew Chung** Executive Vice President & Chief Risk Officer, **David W. Kim** Executive Vice President & Chief Banking Officer, **Henry Kim** President & Chief Executive Officer, **Timothy Chang** Executive Vice President & Chief Financial Officer

and mutually benefiting by prospering together.

• Middle-Market Customer Growth: We will capitalize on our asset growth, enhanced technology platform, and strong corporate brand image to expand our services to middle-market companies and to penetrate more subsidiaries of Korean national conglomerates operating in the United States. We believe our new Core system conversion scheduled for 2024 with improved online banking platform and cash management capabilities will better enable us to capture and retain such valuable customers.

• Technology and Risk Management: We will continue to prudently invest in technologies to enhance our digital infrastructure and in-training to improve our operational efficiencies and to better enable us to timely detect and mitigate risks to our franchise. In addition to our new Core system upgrade, we expect other planned automation, cybersecurity and regulatory-related technology tools will lead to process improvements and strengthened risk management capabilities.

• Geographic Market Expansion: Although we expect to moderate our expansion into new markets in the near term relative to our more recent history due to the uncertain market conditions, we will not relent on our strategic expansion into those markets where we already have a presence through loan production offices.

In closing, we want to emphasize our thoughts on our new Vision Statement. "We are bankers connecting people with their dreams" is more than a simple cliché. Our Vision Statement is our commitment and a promise we make to our community, valued customers, and shareholders. We are committed to instilling it as our core professional value and to firmly ingrain it as part of our corporate culture.

Time-after-time, we have proven our ability to effectively adapt to rapidly changing conditions and capitalize on new and unique opportunities with the ultimate goal of better serving our customers and maximizing the value for our shareholders.

On behalf of our Board of Directors and employees, thank you for your continued support, trust, and confidence in PCB as we continue our journey to a greater tomorrow.

Sincerely,

Sang Young Lee
Chairman of the Board

Henry Kim
President & Chief Executive Officer

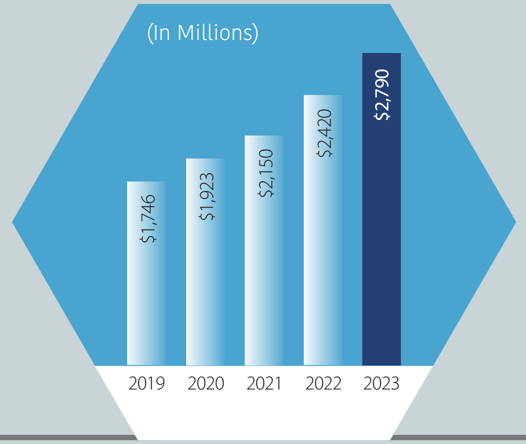
PCB BANCORP

Financial Highlights

AS OF OR FOR THE YEARS ENDED DECEMBER 31,

(dollars in thousands except share and per share data)	2023	2022	2021	2020	2019
BALANCE SHEET DATA					
Total assets	$ 2,789,506	$ 2,420,036	$ 2,149,735	$ 1,922,853	$ 1,746,328
Net loans*	2,301,074	2,043,932	1,746,850	1,559,047	1,438,426
Total deposits	2,351,612	2,045,983	1,867,134	1,594,851	1,479,307
Shareholders' equity	348,872	335,442	256,286	233,788	226,834

STATEMENT OF INCOME DATA					
Interest income	$ 151,177	$ 101,751	$ 81,472	$ 79,761	$ 92,945
Interest expense	62,673	12,119	4,335	13,572	23,911
Net interest income	88,504	89,632	77,137	66,189	69,034
Provision (reverse) for loan losses	(132)	3,602	(4,596)	13,219	4,237
Noninterest income	10,683	14,499	18,434	11,740	11,869
Noninterest expenses	56,057	51,126	43,208	41,699	42,315
Income tax expense	12,557	14,416	16,856	6,836	10,243
Net income	$ 30,705	$ 34,987	$ 40,103	$ 16,175	$ 24,108



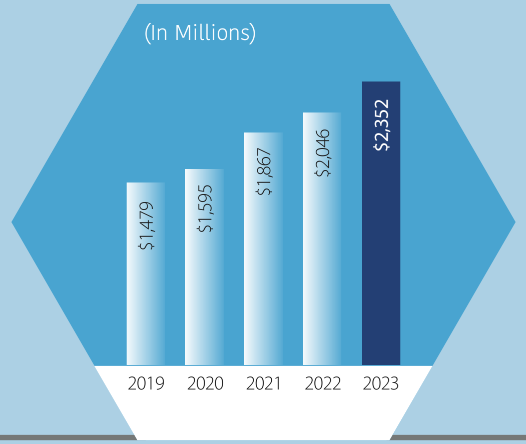
Total Aseet

PCB BANCORP

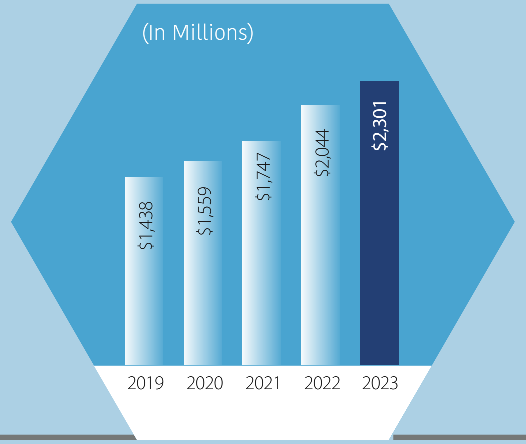
Financial Highlights

(dollars in thousands except share and per share data)	2023	2022	2021	2020	2019
PER SHARE DATA					
Book value per common share at year end	$ 24.46	$ 22.94	$ 17.24	$ 15.19	$ 14.44
Tangible common equity per common share**	$ 19.62	$ 18.21	$ 17.24	$ 15.19	$ 14.44
Basic earnings per common share	2.14	2.35	2.66	1.05	1.52
Diluted earnings per common share	2.12	2.31	2.62	1.04	1.49
Weighted-average shares outstanding - basic	14,301,691	14,833,191	15,017,637	15,384,231	15,873,383
Weighted-average shares outstanding - diluted	14,417,938	15,076,348	15,253,820	15,448,892	16,172,282
Shares of common stock outstanding	14,260,440	14,625,474	14,865,825	15,385,878	15,707,016

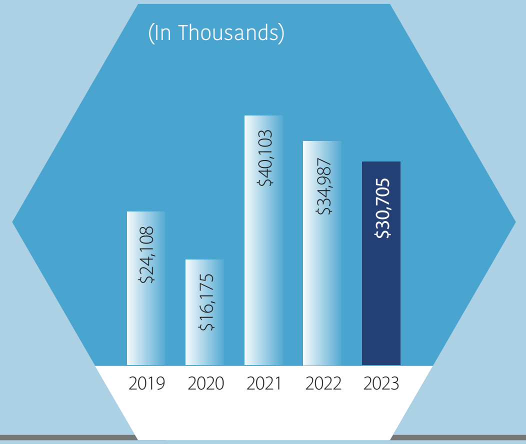
** includes loans held-for-sale*
*** Non-GAAP ratio. See See "Non-GAAP Measures" in the accompanying Annual Report on Form 10-K for reconciliation of this measure to its most comparable GAAP measure.*



Total Deposit



Net Loans*



Net Income

Sang Young Lee
Chairman of the Board
President & CEO
Lee's Gold & Diamond Import, Inc.

Daniel Cho
President & CEO
Maya Tech.

Daniel Park
Partner
KNP, LLP

Don Rhee
President & CEO
Active USA, Inc.

Board of Directors

PCB BANCORP

PCB Bancorp's Board of Directors is supported by a distinguished group of leaders and corporate professionals from various market sectors and industry groups.

Haeyoung Cho
Former President & CEO
PCB Bancorp & PCB Bank

Janice Chung
President & CEO
BIC Technologies Group

Kijun Ahn
Former Project Manager
Moffatt & Nichol

Henry Kim
President & Chief Executive Officer
PCB Bancorp & PCB Bank

Corporate Information

Board of Directors

Daniel Cho
President & CEO
Maya Tech.

Daniel Park
Partner
KNP, LLP

Don Rhee
President & CEO
Active USA, Inc.

Haeyoung Cho
Former President and CEO
PCB Bancorp & PCB Bank

Henry Kim
President & Chief Executive Officer
PCB Bancorp & PCB Bank

Janice Chung
President & CEO
BIC Technologies Group

Kijun Ahn
Former Project Manager
Moffatt & Nichol

Sang Young Lee
Chairman of the Board
President & CEO
Lee's Gold & Diamond Import, Inc.

Executive Officers

Henry Kim
President
& Chief Executive Officer

Timothy Chang
Executive Vice President
& Chief Financial Officer

Andrew Chung
Executive Vice President
& Chief Risk Officer
Corporate Secretary

Brian Bang
Executive Vice President
& Chief Credit Officer

David W. Kim
Executive Vice President
& Chief Banking Officer

John Aragon
Executive Vice President
& Chief Information Officer

John Ju
Executive Vice President
& Chief Lending Officer

Justin Chon
Executive Vice President
& Chief Consumer Lending Officer

Mimi Lee
Senior Vice President
& Chief Operations Administrator

Corporate Offices

Headquarters
3701 Wilshire Blvd., Suite 900
Los Angeles, CA 90010
213.210.2000

Commercial Loan Center
3701 Wilshire Blvd., Suite 600
Los Angeles, CA 90010
213.210.2069
• *Brian Kim*
Senior Vice President & Manager

Residential Mortgage Center
3701 Wilshire Blvd., Suite 600
Los Angeles, CA 90010
213.355.8899
• *Jay Lee*
Senior Vice President & Manager

SBA Department
3701 Wilshire Blvd., Suite 600
Los Angeles, CA 90010
213.210.2070
• *Eunice Kwak*
Senior Vice President & Manager

Trade Finance Department
777 E. 12th St., Suite 200
Los Angeles, CA 90021
213.210.2025
• *Yoo Sun Song*
First Vice President & Trade Finance Operations Officer

Mortgage Warehouse Lending Department
3550 George Busbee Pkwy., NW Suite 110
Kennesaw, GA 30144
770.212.3020
• *Joy Beam-Burns*
Senior Vice President & Manager

Regional Offices

Regional Office- Los Angeles
3701 Wilshire Blvd., Suite 600
Los Angeles, CA 90010
213.201.5405
• *Michael Kang*
Senior Vice President &
LA Regional Manager

Regional Office- Orange County
17100 Pioneer Blvd., Suite 440
Artesia, CA 90701
562.207.3060
• *Woo Young Choung*
Senior Vice President &
OC Regional Manager

Shareholder Information

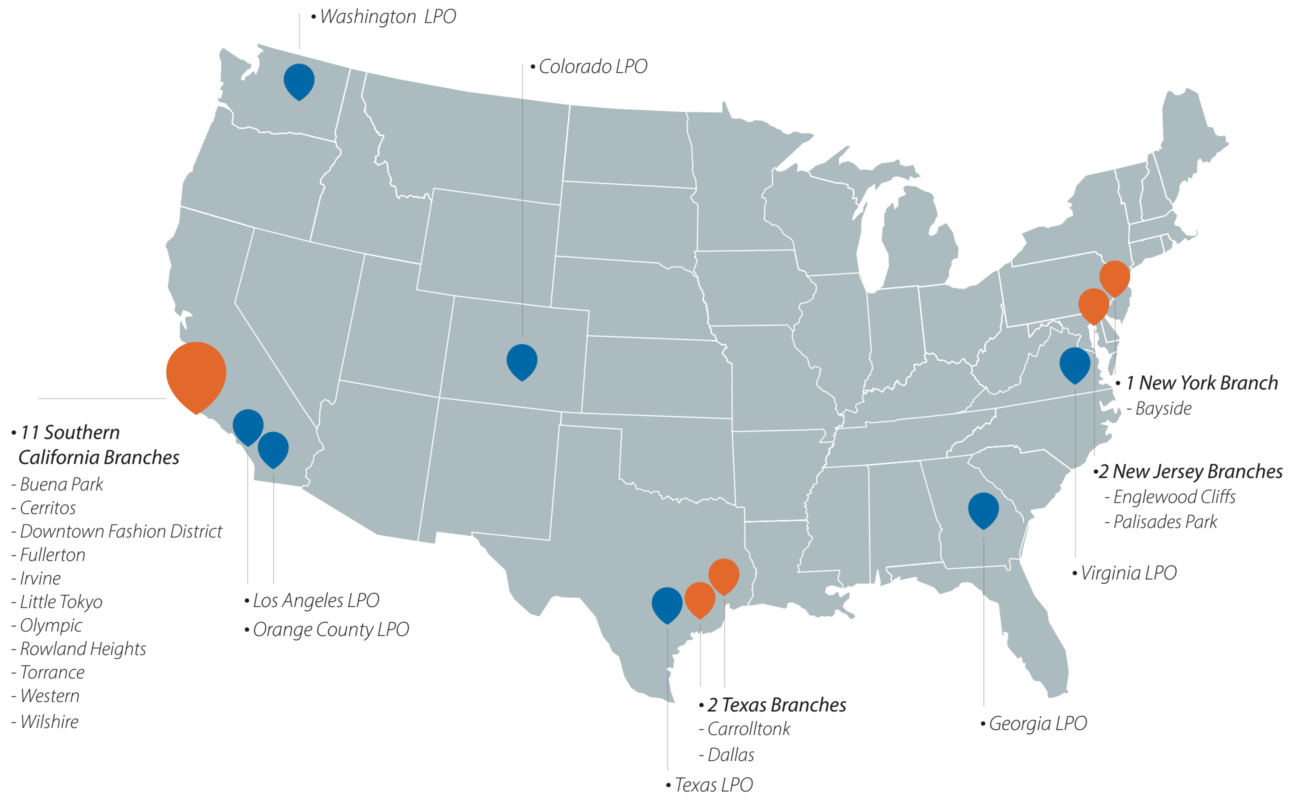
Independent Public Accountant
Crowe LLP
Sherman Oaks, CA 91403

Registar and Transfer Agent
Computershare
Canton, MA

Legal Counsel
SheppardMullin
San Francisco, CA

Listing of Common Stock

PCB Bancorp's common stock is traded on the Nasdaq. Its symbol is "PCB".



Branches & Loan Production Offices

Broader branch network and convenient services

Branches

California

Buena Park
5400 Beach Blvd., Suite 101
Buena Park, CA 90621
714.367.7990
• *Joanne Kim*
Senior Vice President & Branch Manager

Cerritos
17709 Pioneer Blvd.
Artesia, CA 90701
562.207.3060
• *Yun Hee Kang*
Senior Vice President & Branch Manager

Downtown Fashion District
777 E. 12th St., Suite 200
Los Angeles, CA 90021
213.342.2800
• *Thomas Kim*
Senior Vice President & Downtown Regional Manager

Fullerton
5301 Beach Blvd.
Buena Park, CA 90621
714.860.7100
• *Joanne Kim*
Senior Vice President & Branch Manager

Irvine
13140 Yale Ave.
Irvine, CA 92620
714.263.1800
• *Kyoung Soo Yim*
Senior Vice President & Branch Manager

Little Tokyo
333 S. Alameda St., Suite 109
Los Angeles, CA 90013
213.694.4360
• *Michael Cho*
Senior Vice President & Branch Manager

Olympic
2730 W. Olympic Blvd.
Los Angeles, CA 90006
213.201.5600
• *Yeon Ho Lee*
Senior Vice President & Branch Manager

Rowland Heights
18160 Colima Rd.
Rowland Heights, CA 91748
626.363.6730
• *Hyun Hee "Connie" Kim*
Senior Vice President & Branch Manager

Torrance
21303 Hawthorne Blvd.
Torrance, CA 90503
310.755.6900
• *Joanne Oh*
Senior Vice President & Branch Manager

Western
450 S. Western Ave., Suite 213
Los Angeles, CA 90020
213.915.5266
• *Young Hoon Jang*
Senior Vice President & Branch Manager

Wilshire
3701 Wilshire Blvd., Suite 100
Los Angeles, CA 90010
213.210.2001
• *Annie Jo*
Senior Vice President & Wilshire Regional Manager

New York/New Jersey

Bayside
220-34 Northern Blvd.
Bayside, NY 11361
347.220.0001
• *Jennifer Kim*
First Vice President & Branch Manager

Englewood Cliffs
45-47 Sylvan Ave.
Englewood Cliffs, NJ 07632
201.849.6000
• *Jungwhan Ryu*
Senior Vice President & NJ/NY Regional Manager

Palisades Park
201 Broad Ave., Suite 1S
Palisades Park, NJ 07650
201.849.4240
• *Chloe Lee*
First Vice President & Deputy Branch Manager

Texas

Carrollton
2630 Old Denton Rd., Suite 120
Carrollton, TX 75007
469.557.8330
• *Young Hoon Kim*
Vice President & Branch Manager

Dallas
2144 Royal Ln., Suite 102
Dallas, TX 75229
214.550.7660
• *Lois Kim*
Senior Vice President & Texas Regional Manager

Loan Production Offices

Colorado LPO
7887 East Belleview Ave., Suite 1100
Denver, CO 80111
303.905.1181
• *Kelvin Huh*
Senior Vice President & Manager

Georgia LPO
11555 Medlock Bridge Rd., Suite 100
Johns Creek, GA 30097
678.458.4420
• *Karl Chang*
Senior Vice President & Manager

678.541.3333
• *Seikeun Ahn*
Senior Vice President & Manager

Los Angeles LPO
3701 Wilshire Blvd., Suite 600
Los Angeles, CA 90010
213.210.2027
• *Peter Han*
Senior Vice President & Manager

Orange County LPO
13140 Yale Ave.
Irvine, CA 92620
714.263.1810
• *Taeho Kim*
Senior Vice President & Manager

Texas LPO
2630 Old Denton Rd., Suite 100
Carrollton, TX 75007
214.908.8638
• *Simon Lee*
Senior Vice President & Manager

Virginia LPO
4000 Legato Rd., Suite 1100
Fairfax, VA 22033
703.314.0301
• *Yong Jae Park*
Senior Vice President & Manager

Washington LPO
14205 SE 36th St., Suite 100
Bellevue, WA 98006
425.519.3736
• *Steven Yang*
Senior Vice President & Manager

PCB BANK

The complete PCB 2023 Form 10-K is saved in the attached USB (64GB USB)

Branches & Loan Production Office

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark one)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 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 ________
Commission file number 001-38621

PCB Bancorp

(Exact name of registrant as specified in its charter)

California	**20-8856755**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

3701 Wilshire Boulevard, Suite 900, Los Angeles, California 90010
(Address of principal executive offices) (Zip Code)

(213) 210-2000
(Registrant's telephone number, including area code)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock, No Par Value	PCB	Nasdaq Global Select Market

Securities Registered Pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued it audit report. ☒

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

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

As of June 30, 2023, the aggregate market value of the common stock held by non-affiliates of the Registrant was approximately $160.2 million. For purposes of the foregoing calculation only, in addition to affiliated companies, all directors and officers of the Registrant have been deemed affiliates.

As of February 29, 2024, the registrant had outstanding 14,263,140 shares of common stock.

Documents Incorporated by Reference: The information required in Part III, Items 10 through 14 are incorporated herein by reference to the registrant's definitive proxy statement for the 2024 annual meeting of shareholders which will be filed with the Securities and Exchange Commission within 120 days of the registrant's fiscal year end.

PCB Bancorp and Subsidiary

Annual Report on Form 10-K

December 31, 2023

Table of Contents

Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements which reflect current views of PCB Bancorp (collectively, with its consolidated subsidiary, the “Company,” “we,” “us” or “our”) with respect to, among other things, future events and our financial performance. These statements are often, but not always, made through the use of words or phrases such as “may,” “might,” “should,” “could,” “predict,” “potential,” “believe,” “expect,” “continue,” “will,” “anticipate,” “seek,” “estimate,” “intend,” “plan,” “projection,” “goal,” “target,” “outlook,” “aim,” “would,” and “annualized” or the negative version of those words or other comparable words or phrases of a future or forward-looking nature. These forward-looking statements are not historical facts, and are based on current expectations, estimates and projections about our business and industry, management’s beliefs and certain assumptions made by management, many of which, by their nature, are inherently uncertain and beyond our control. Accordingly, we caution you that any such forward-looking statements are not guarantees of future performance and are subject to risks, assumptions, estimates and uncertainties that are difficult to predict. Although we believe that the expectations reflected in these forward-looking statements are reasonable as of the date made, actual results may prove to be materially different from the results expressed or implied by the forward-looking statements.

A number of important factors could cause our actual results to differ materially from those indicated in these forward-looking statements, including those factors identified in “Risk Factors” or “Management’s Discussion and Analysis of Financial Condition and Results of Operations” or the following:

- business and economic conditions, particularly those affecting the financial services industry and our primary market areas and arising from recent inflationary pressures and governmental and societal responses thereto;
- our ability to successfully manage our credit risk and the sufficiency of our allowance for credit loss;
- factors that can impact the performance of our loan portfolio, including real estate values and liquidity in our primary market areas, the financial health of our commercial borrowers and the success of construction projects that we finance;
- governmental monetary and fiscal policies, and changes in market interest rates;
- the current inflationary environment and government and regulatory responses thereto;
- adverse developments at other banks, including bank failures, that impact general sentiment regarding the stability and liquidity of banks and may affect our customers’ behavior and our stock price;
- the significant portion of our loan portfolio that is comprised of real estate loans;
- our ability to attract and retain Korean-American customers;
- our ability to identify and address cyber-security risks, fraud and systems errors;
- our ability to effectively execute our strategic plan and manage our growth;
- changes in our senior management team and our ability to attract, motivate and retain qualified personnel;
- cyber-attacks, ransomware attacks, computer viruses or other malware that may breach the security of our websites or other systems to obtain unauthorized access to confidential information, destroy data, disable or degrade service, or sabotage our systems;
- liquidity issues, including fluctuations in the fair value and liquidity of the securities we hold and our ability to raise additional capital, if necessary;
- costs and obligations associated with operating as a public company;
- effects of competition from a wide variety of local, regional, national and other providers of financial, investment and insurance services;
- the effects of severe weather, natural disasters, acts of war or terrorism, health epidemics or pandemics (or expectations about them) and other external events on our business;
- the impact of any claims or legal actions to which we may be subject, including any effect on our reputation; and
- changes in federal tax laws or policies.

The foregoing factors should not be construed as exhaustive and should be read together with the other cautionary statements and the risks described under “Part I. Item 1A. Risk Factors” included in this Annual Report on Form 10-K and our other documents filed with the United States (“U.S.”) Securities Exchange Commission (“SEC”). Because of these risks and other uncertainties, our actual future results, performance or achievement, or industry results, may be materially different from the results indicated by the forward looking statements in this report. In addition, our past results of operations are not necessarily indicative of our future results. You should not rely on any forward looking statements, which represent our beliefs, assumptions and estimates only as of the dates on which they were made, as predictions of future events. Any forward-looking statement speaks only as of the date on which it is initially made, and we do not undertake any obligation to update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

Part I

Item 1. Business

General

PCB Bancorp is a California corporation incorporated in 2007 as a registered bank holding company subject to the Bank Holding Company Act of 1956, as amended (“BHCA”), to serve as the holding company for PCB Bank (the “Bank”), which was founded in 2003. The Company has no material operations other than those of the Bank.

The Bank is a California state-chartered commercial bank. The Bank’s deposit accounts are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to the maximum amount currently allowable under federal law.

The Bank is a single operating segment that operates 11 full-service branches in Los Angeles and Orange Counties, California, three full-service branches on the East Coast (Bayside, New York; and Englewood Cliffs and Palisade Park, New Jersey), two full-service branches in Texas (Carrollton and Dallas), and seven loan production offices (“LPOs”) located in Los Angeles and Orange Counties, California; Annandale, Virginia; Atlanta, Georgia; Aurora, Colorado; Bellevue, Washington; and Carrollton, Texas. The Bank offers a broad range of loans, deposits, and other products and services predominantly to small and middle market businesses and individuals.

The principal executive office of the Company is located at 3701 Wilshire Boulevard, Suite 900, Los Angeles, California 90010, and its telephone number is (213) 210-2000.

The reports, proxy statements and other information that the Company files with the SEC, as well as news releases, are available free of charge through the Company’s website at www.mypcbbank.com. This information can be found under the “Investor Relations” link on the website. Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed and furnished pursuant to Section 13(a) of the Exchange Act are available as soon as reasonably practicable after they have been filed or furnished to the SEC. Reference to the Company’s website address is not intended to incorporate any of the information contained on the Company’s website into this document.

Subsidiary Name Change

On August 25, 2022, the Bank changed its name to “PCB Bank” from “Pacific City Bank.” In addition, the Company introduced a new logo, which was also utilized by the Bank after its name change. In accordance with the name change, the Bank updated its website, branch signage and marketing collateral.

Corporate Name Change

On July 1, 2019, the Company changed its corporate name to “PCB Bancorp” from “Pacific City Financial Corporation” in order to align the corporate name with the trading symbol of its common stock and simplify corporate communications while maintaining its core branding.

Business Overview

<u>Lending Activities</u>

The Company’s core lending strategy is, through the Bank, to build and maintain a diversified loan portfolio based on the type of customers (e.g., businesses versus individuals), loan products (e.g., commercial real estate (“CRE”) loans, commercial and industrial (“C&I”) loans, and consumer loans), geographical locations, and different industries in which its business customers are engaged (e.g., manufacturing, wholesale and retail trade, hospitality, etc.).

The Company focuses its lending activities on loans that are originated from within its primary lending areas and seeks to be the premier provider of lending products and services in those market areas. The Company also strives to meet the credit needs of the communities that it serves. Lending activities originate through expansion of existing relationships as well as by marketing efforts with an emphasis on providing banking solutions tailored to meet customers’ needs while maintaining the underwriting standards.

<u>Legal Lending Limits</u>

With certain exceptions, the Bank is permitted under the applicable laws to make unsecured loans to single borrowers (including certain related persons and entities) in aggregate amounts of up to 15% of the sum of total capital, allowance for credit losses (“ACL”) on loans, and certain capital notes and debentures issued by the Bank. As of December 31, 2023, the Bank’s lending limit was approximately $55.4 million per borrower for unsecured loans. In addition to unsecured loans, the Bank is permitted to make collateral-secured loans in an additional amount of up to 10% (for combined total of 25%) for a total of approximately $92.3 million to one borrower as of December 31, 2023.

For lending limit purposes, a secured loan is defined as a loan secured by collateral having a current fair value of at least 100% of the amount of the loan or extension of credit at all times and satisfying certain other requirements. As of December 31, 2023, the largest aggregate carrying value of loans that the Bank had outstanding to any one borrower and related entities was $45.9 million, which were performing at that date.

Risk Governance

The Company maintains a conservative credit culture with strict underwriting standards. As the Company has grown, it has invested in and developed a credit culture designed to support future growth and expansion efforts while maintaining outstanding asset quality. The Company's credit departments have robust internal controls and lending policies with conservative underwriting standards. Loans are monitored on an ongoing basis in accordance with covenants and conditions that are commensurate with each loan's size and complexity. The Company conducts comprehensively scoped internal loan reviews at least semi-annually using an independent loan review specialist to validate the appropriateness of risk ratings of loans by management. The Company's loan monitoring processes are designed to identify both the inherent and emerging risks in a timely manner so that appropriate risk ratings are assigned and, if necessary, work-out/collection activities are commenced early to minimize any potential losses.

Loan Underwriting and Approval. Historically, the Company believes that it has made sound, high quality loans while recognizing that lending money involves a degree of business risk. The Company has loan policies designed to assist in managing this business risk. These policies provide a general framework for loan origination, monitoring and funding activities, while recognizing that not all risks can be anticipated or eliminated.

The Company's Board of Directors delegates loan authority up to board-approved limits collectively to its Directors' Loan Committee, which is comprised of members of the Board of Directors and executive management. The Board of Directors also delegates limited lending authority to the Bank's internal management loan committee, which is comprised of members of the Bank's senior management team and Chief Executive Officer. The objective of the approval process is to provide a disciplined, collaborative approach to larger credits while maintaining responsiveness to client needs.

Loan decisions are documented as to the borrower's business, purpose of the loan, evaluation of the repayment source and the associated risks, evaluation of collateral, covenants and monitoring requirements, and the risk rating rationale. The Company's strategy for approving or disapproving loans is to follow conservative loan policies and consistent underwriting practices which include:

- maintaining close relationships among the Company's customers and their designated banker to ensure ongoing credit monitoring and loan servicing;
- granting credit on a sound basis with full knowledge of the purpose and source of repayment for such credit ensuring that primary and secondary sources of repayment are adequate in relation to the amount of the loan;
- developing and maintaining targeted levels of diversification for the loan portfolio as a whole and for loans within each category; and
- ensuring that each loan is properly documented and that any insurance coverage requirements are satisfied.

Managing credit risk is an enterprise-wide process. The Company's strategy for credit risk management includes well-defined, centralized credit policies, uniform underwriting criteria, and ongoing risk monitoring and review processes for all credit exposures. The processes emphasize early-stage review of loans, regular credit evaluations and management reviews of loans, which supplement the ongoing and proactive credit monitoring and loan servicing provided. The Company attempts to identify potential problem loans early in an effort to seek aggressive resolution of these situations before the loans become a loss, record any necessary charge-offs promptly and maintain adequate levels of ACL on loans and off-balance sheet credit exposures. The Bank's Chief Credit Officer provides company-wide credit oversight and periodically reviews all credit risk portfolios to ensure that the risk identification processes are functioning properly and that the Company's credit standards are followed. In addition, third-party loan reviews are performed at least on a semi-annual basis to validate the internal risk rating of loans.

The Company's loan policies generally include additional underwriting guidelines for loans collateralized by real estate. These underwriting standards are designed to determine the maximum loan amount that a borrower has the capacity to repay based upon the type of collateral securing the loan and the borrower's income. Such loan policies include maximum amortization schedules and loan terms for each category of loans collateralized by liens on real estate. In addition, the loan policies provide guidelines for: personal guarantees; an environmental review; loans to employees, executive officers and directors; problem loan identification; maintenance of an adequate allowance for credit losses and other matters relating to lending practices.

Loan Category

The Company's loan portfolio consists primarily of three major categories: CRE loans, C&I and consumer loans. Within these three broad categories, the loan portfolio is further segmented as follows:

CRE Loans:

- Commercial property loans – loans secured by non-owner occupied real properties.
- Business property loans – loans secured by owner-occupied real properties.
- Multifamily loans – loans secured by multi-tenant (5 or more units) residential real properties.
- Construction loans

C&I Loans – C&I loans include commercial term loans and commercial lines of credit.

Consumer Loans:

- Residential mortgage loans – loans secured by single family resident ("SFR") real properties.
- Other consumer loans – Other consumer loans primarily include automobile loans, as well as unsecured lines of credit and term loans to high net worth individuals.

The following table presents the composition of the Company's loans held-for-investment as of the date indicated:

	December 31, 2023	
($ in thousands)	**Amount**	**Percentage to Total**
Commercial real estate:		
Commercial property	$ 855,270	36.8 %
Business property	558,772	24.0 %
Multifamily	132,500	5.7 %
Construction	24,843	1.1 %
Total commercial real estate	1,571,385	67.6 %
Commercial and industrial	342,002	14.7 %
Consumer:		
Residential mortgage	389,420	16.8 %
Other consumer	20,645	0.9 %
Total consumer	410,065	17.7 %
Loans held-for-investment	**$ 2,323,452**	**100.0%**

The following table presents the composition of the Company's loans held-for-sale as of the date indicated:

	December 31, 2023	
($ in thousands)	**Amount**	**Percentage to Total**
Commercial real estate:		
Business property	$ 2,802	54.4 %
Total commercial real estate	2,802	54.4 %
Commercial and industrial	2,353	45.6 %
Loans held-for-investment	**$ 5,155**	**100.0%**

CRE Loans. CRE loans consist of loans secured by commercial real estate properties (e.g., retail shopping centers, industrial/ manufacturing properties, multifamily residential properties, office buildings, multi-tenant residential real properties etc.) and construction loans. A majority of CRE lending activities originate from businesses within the Company's primary lending areas.

For CRE loans, other than loans guaranteed by the U.S. Small Business Administration ("SBA") and construction loans, the maturities are generally up to seven years with payments determined on the basis of principal amortization schedules of up to 25 years with a balloon payment due at maturity. CRE SBA loans are typically fully amortized with terms up to 25 years. Terms for construction loans vary depending on the complexity and size of the project. Construction loans have a term of 18 months on average.

Satisfactory repayments of CRE loans, other than construction loans, are often dependent on the successful operation of the underlying businesses (in the case of owner occupied) or management of the properties (in the case of non-owner occupied). Accordingly, repayment of these loans may be subject to adverse conditions in the real estate market or the economy to a greater extent than other types of loans. In underwriting CRE loans, the Company seeks to minimize these risks in a variety of ways, including giving careful consideration to the property's age, condition, operating history, future operating projections, current and projected market rental rates, vacancy rates, location and physical condition. The underwriting analysis may also include credit verification, reviews of appraisals, environmental hazard reports, the borrower's liquidity and leverage, management experience of the owners or principals, economic conditions and industry trends. Also, tertiary sources of repayment in the form of personal guarantees from responsible parties are generally required on CRE loans. The Company believes that its management team has extensive knowledge of the market areas where the Company operates and takes a conservative approach to CRE lending. The Company focuses on what it believes to be high quality credits with low loan-to-value ("LTV") ratio income-producing properties with strong cash flow characteristics and strong collateral profiles. The Company requires its loan secured by CRE to be secured by what it believes to be well-managed properties with adequate margins.

Construction loans are comprised of residential construction and commercial construction. Interest reserves are generally established on construction loans. These loans are typically prime rate-based and have maturities of less than 18 months. The policy maximum LTV for construction loans is 70% and for land development loans is 50%.

C&I Loans: C&I loans includes commercial term loans and commercial lines of credit. Commercial term loans are typically extended to finance business acquisitions, permanent working capital needs, and/or equipment purchases. Commercial term loans guaranteed by SBA are provided to small businesses to finance permanent working capital needs and/or equipment purchases. Commercial lines of credit are generally provided to finance short-term working capital needs and warehouse lending credit facilities. Warehouse lending is a line of credit given to a loan originator, the funds from which are used to finance a mortgage that a borrower uses to purchase SFR property or refinance an existing mortgage.

Commercial term loans (usually five to seven years) normally provide for monthly payments of both principal and interest. C&I SBA loans usually have a longer maturity (seven to ten years). Commercial lines of credit (generally payable within one year) typically provide for periodic interest payments, with principal payable at maturity. These C&I loans are reviewed on a periodic basis with the review frequencies commensurate with the size and complexity of the loans. Most C&I loans are collateralized by perfected security interests on business assets.

In general, C&I loans may involve increased credit risk and, therefore, typically yield a higher return. The increased risk in C&I loans derives from the expectation that such loans generally are serviced principally from the operations of the business, and those operations may not be successful.

Any interruption or discontinuance of operating cash flows from the business, which may be influenced by events not under the control of the borrower such as economic events and changes in governmental regulations, could materially affect the ability of the borrower to repay the loan. In addition, the collateral securing C&I loans generally includes moveable properties such as equipment and inventory, which may decline in value more rapidly than anticipated exposing us to increased credit risks. As a result of these additional complexities, variables and risks, C&I loans require extensive underwriting and servicing.

Consumer Loans. Consumer loans includes residential mortgage loans and other consumer loans. Residential mortgage loans are typically collateralized by primary residential properties located in the Company's market areas to enable borrowers to purchase or refinance existing homes. Other consumer loans portfolio consists of automobile loans, unsecured lines of credit and term loans to high net worth individuals.

The Company offers adjustable-rate mortgage ("ARM") loans with the interest rate fixed for the first five or seven years followed by rate adjustments every six months with terms up to 30 years. The relative amount of ARM loans that can be originated at any time is largely determined by the demand for each in a competitive environment and the effect each has on interest rate risk. Loans collateralized by residential property generally are originated in amounts of no more than 70% of appraised value.

In connection with such loans, the Company retains a valid lien on the real estate, obtains a title insurance policy that insures that the property is free from encumbrances, and requires hazard insurance. Loan fees on these products, interest rates and other provisions of residential mortgage loans are determined by the Company on the basis of its own pricing criteria and competitive market conditions. Interest rates and payments on ARM loans generally are adjusted every six months based on the Secured Overnight Financing Rate ("SOFR") 30-day average. The spreads are fixed and thus the interest rate on these loans change in parallel with any changes in the applicable selected rates. While residential mortgage loans are normally originated with up to 30-year terms, such loans typically remain outstanding for substantially shorter periods because borrowers often prepay their loans in full upon sale of the property pledged as security or upon refinancing the original loan. In addition, all residential mortgage loans contain due-on-sale clauses providing that the Bank may declare the unpaid amount due and payable upon the sale of the property securing the loan. As of December 31, 2023 and 2022, approximately 86.2% and 90.8%, respectively, of residential mortgage loans were ARM loans

Other consumer loans are underwritten primarily based on the individual borrower's income, current debt level, and past credit history. Auto loans have relatively higher LTV ratios on average and carry higher interest rates to offset for the inherently higher default risks associated with other consumer loans.

SBA Loans (Reported as either CRE or C&I Loans). The Bank offers SBA loans for qualifying businesses for amounts up to $5.0 million. The Bank primarily extends SBA loans known as SBA 7(a) loans and SBA 504 loans. SBA 7(a) loans are typically extended for working capital needs, purchase of inventory, purchases of machinery and equipment, debt refinance, business acquisitions, start-up financing or the purchase or construction of owner-occupied commercial property.

SBA 7(a) loans are typically term loans with maturities up to 10 years for C&I SBA loans and up to 25 years for CRE SBA loans. SBA loans are fully amortizing with monthly payments of principal and interest. SBA 7(a) loans are typically floating rate loans that are secured by business assets and/or real estate. Depending on the loan amount, each loan is typically guaranteed 75% to 85% by the SBA, with a maximum gross loan amount to any one small business borrower of $5.0 million and a maximum SBA guaranteed amount of $3.75 million.

The Bank is generally able to sell the guaranteed portion of the SBA 7(a) loans in the secondary market at a premium. In addition to the interest yield earned on the unguaranteed portion of the SBA 7(a) loans that are not sold, the Bank recognizes income from gains on sales and from loan servicing on the SBA 7(a) loans that are sold.

SBA 504 loans are typically extended for the purpose of purchasing owner-occupied CRE or long-term capital equipment. SBA 504 loans are typically extended for up to 20 years or the life of the asset being financed. SBA 504 loans are financed as a participation loan between the Bank and the SBA through a Certified Development Company ("CDC"). Generally, the loans are structured to give the Bank a 50% first deed of trust ("T/D"), the CDC a 40% second T/D, and the remaining 10% is funded by the borrower. Interest rates for the first T/D loans are subject to normal bank commercial rates and terms and the second T/D CDC loans are fixed for the life of the loans based on certain indices.

All of SBA loan underwriting is centralized and processed through the Company's Los Angeles headquarters SBA Loan Department. The SBA Loan Department is staffed by loan officers who provide assistance to qualified businesses. The Bank has been designated as an SBA Preferred Lender, which is the highest designation awarded by the SBA. This designation generally facilitates a more efficient marketing and approval process for SBA loans. The Bank has attained SBA Preferred Lender status nationwide. SBA loans are originated through the branch staff, lending officers, LPO managers, marketing officers, and brokers.

As of December 31, 2023, CRE SBA and C&I SBA loans totaled $130.7 million (including loans held-for-sale of $2.8 million) and $20.1 million (including loans held-for-sale of $2.4 million), respectively.

Loan Participations. When the extension of a new loan causes the aggregate exposure to a borrowing relationship to exceed or approach the Bank's legal lending limits, management on a selective basis sells/participates out a portion(s) of the loan(s) in order to remain within an acceptable range below the Bank's lending limits. As the lead lender in the participation, the Bank retains the servicing rights and the participating lender(s) are prohibited from any direct contact with the borrowers under the terms of the loan participation agreements. Loan participations are also utilized under certain circumstances to reduce and mitigate credit concentrations risks. Loan participations are generally made with local peer group banks.

The Company does not participate in syndicated loans (loans made by a group of lenders who share or participate in a specific loan) with a larger regional financial institution as the lead lender.

For additional information on loans, see Note 4 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

Investment Activities

The Company manages its investment securities portfolio and cash to maintain adequate liquidity and to ensure the safety and preservation of invested principal, with a secondary focus on yield and returns. Specific goals for the investment portfolio are as follows:

- provide a ready source of balance sheet liquidity, ensuring adequate availability of funds to meet fluctuations in loan demand, deposit balances and other changes in balance sheet volumes and composition;
- serve as a tool to manage asset-quality diversification of assets; and
- provide a vehicle to help manage interest rate risk profile pursuant to established policies and maximize overall return.

The investment securities portfolio is comprised primarily of SBA loan pools securities, mortgage-backed securities and collateralized mortgage obligations backed by U.S. government agency and U.S government sponsored enterprise ("GSE"), and tax-exempt municipal securities.

The Company's Board of Directors is responsible for the oversight of investment activities and has delegated the responsibility to the Asset Liability Committee of the Board of Directors ("Board ALCO"). Investment policy is reviewed and approved annually by Board ALCO and ratified by the Board of Directors. Board ALCO establishes risk limits and policy for conducting investment activities and approves investment strategies and meets quarterly to review investment reports and monitor investment activities. The Company also formed a management Asset Liability Committee ("Management ALCO," together with Board ALCO, "ALCOs"), which is comprised of its senior management team and Chief Executive Officer, to proactively monitor investment activities. ALCOs are responsible for ensuring compliance and implementation of investment policy guidelines. Investment activities are actively monitored on an ongoing basis to identify any material changes in the securities and also evaluated for impairment at least quarterly.

Limits for investment transactions are based on total transaction amount and require approval if they exceed designated thresholds. Investment transactions up to $10 million require the approval of two chief officers. Investment transactions between $10 million and $20 million require Management ALCO approval and investment transactions that exceed $20 million require Board ALCO approval.

For additional information, see Note 3 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

Deposits Activities

The Company offers customers traditional retail deposit products through its branch network and the ability to access their accounts through online and mobile banking platforms. The Company offers a variety of deposit accounts with a wide range of interest rates and terms including demand, savings, money market and time deposits with the goal of attracting a wide variety of customers, including small to medium-sized businesses. Core deposits, defined as all deposits except for time deposits exceeding $250,000 and internet or brokered deposits, are the primary and most valuable low-cost funding source for the lending business, and represented 62.6% of total deposits as of December 31, 2023.

The Company strives to retain an attractive deposit mix from both large and small customers as well as a broad market reach. As of December 31, 2023, the Company's top 10 customers, excluding wholesale deposits, accounted for 8.7% of total deposits. The Company believes the competitive pricing and products, convenient branch locations, and quality personal customer service enable the Company to attract and retain deposits. The Company employs conventional marketing initiatives and advertising and in addition leverages its community and board relationships to generate new accounts. The Company offers deposit products to its loan customers by encouraging, depending on the circumstances and the type of relationship, them to maintain deposit accounts as a condition of granting loans. To enhance the relationships with customers and to identify and meet their particular needs, each customer is assigned a relationship officer, including SBA loan borrowers.

Interest rates, maturity terms, service fees and withdrawal penalties are established on a periodic basis. Deposit rates and terms are based primarily on current operating strategies, rates offered by other Korean-American focused banks, general market interest rates, liquidity requirements, and the Company's deposit growth goals. Wholesale deposits are also utilized to supplement core retail deposits for funding purposes, including brokered accounts and California State Treasurer's time deposits. As of December 31, 2023, wholesale deposits totaled $363.7 million, or 15.5% of total deposits.

As of December 31, 2023, total deposits were $2.35 billion, and the average cost of deposits was 2.87% for the year ended December 31, 2023. For additional information, see Note 9 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

Borrowings Activities

Although deposits are the Company's primary source of funds, the Company may also borrow funds from the Federal Home Loan Bank of San Francisco ("FHLB"), the Federal Reserve Bank's Discount Window ("Federal Reserve Discount Window"), or its correspondent banking relationships. In addition, the Company may borrow from FHLB on a longer term basis to provide funding for certain loan or investment securities strategies, as well as asset-liability management strategies.

FHLB functions as a reserve credit capacity for qualifying financial institutions. As a member, the Company is required to own capital stock in FHLB and may apply for advances from FHLB by utilizing qualifying loans and securities as collateral. FHLB offers a full range of borrowing programs with terms ranging from one day to 30 years, at competitive rates. A prepayment penalty is usually imposed for early repayment of these advances. As of December 31, 2023, the Company had outstanding term FHLB advances of $39.0 million and maintained additional borrowing capacity of $603.0 million. For additional information, see Note 10 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

Other Products and Services

The Company offers banking products and services that are competitively priced with a focus on convenience and accessibility. A full suite of online banking solutions is available, which includes access to account balances, online transfers, online bill payment and electronic delivery of customer statements, mobile banking solutions, including remote check deposit and mobile bill pay. The Company also offers automated teller machines ("ATMs") and banking by telephone, mail, personal appointment, debit cards, direct deposit, cashier's checks, as well as treasury management, wire transfer and automated clearing house ("ACH") services.

The Company offers a full array of commercial treasury management services designed to be competitive with banks of all sizes. Treasury management services include balance reporting (including current day and previous day activity), transfers between accounts, purchase rewards, finance works, wire transfer initiation, ACH origination and stop payments. Cash management deposit products consist of remote deposit capture, courier deposit services, positive pay, zero balance accounts and sweep accounts.

The Company evaluates its services on an ongoing basis, and will add or remove services based upon the perceived needs and financial requirements of customers, competitive factors and its financial and other capabilities. Future services may also be significantly influenced by improvements and developments in technology and evolving state and federal laws and regulations.

Market Area and Competition

The Company is headquartered in Los Angeles, California and operates 11 full-service branches in Los Angeles and Orange Counties, California, three full-service branches on the East Coast (Bayside, New York; and Englewood Cliffs and Palisade Park, New Jersey), two full-service branches in Texas (Carrollton and Dallas), and seven LPOs located in Los Angeles and Orange Counties, California; Annandale, Virginia; Atlanta, Georgia; Aurora, Colorado; Bellevue, Washington; and Carrollton, Texas.

The Company operates in highly competitive market areas. The Company faces strong competition among the banks servicing the Korean-American community, as well as other commercial banks, savings and loan associations, securities and brokerage companies, mortgage companies, insurance companies, marketplace finance platforms, money market funds, credit unions, and other alternative investments. Competition is based on a number of factors including, among others, customer service, quality and range of products and services offered, reputation, interest rates on loans and deposits, lending limits and customer convenience. While the Company believes it is well positioned within this highly competitive industry, the industry could become even more competitive as a result of legislative, regulatory, economic, and technological changes, as well as continued consolidation within the industry.

Human Capital

As of December 31, 2023, the Company had a total of 268 full-time employees and 3 part-time employees. The Company’s employees are not represented by any collective bargaining group. Management considers its employee relations to be satisfactory. It is through our employees, and their ties to the local community, that we are able to dutifully support the communities we serve. Working within, and giving back to, the local community is the hallmark of a true community bank.

The Company has long been committed to comprehensive and competitive compensation and benefits programs as the Company recognizes that it operates in intensely competitive environments for talent. Retention of skilled and highly trained employees is critical to the Company’s strategy of being a trusted resource to its communities and strengthening relationships with its clients through employees. Community banking is often considered a relationship banking model rather than a purely transactional banking model. The Company’s employees are critical to the Company’s ability to develop and grow relationships with its clients. Furthering the Company’s philosophy to attract and retain a pool of talented and motivated employees who will continue to advance the purpose and contribute to the Company’s overall success, compensation and benefits programs include: equity-based compensation plan, health/dental/vision insurances, life insurance, 401(K) plan, benefits under the Family Medical Leave Act, workers’ compensation, paid time off, holiday pay, training/education, leave for bereavement, wedding and jury duty.

The Company invests in its employees’ future by sponsoring and prioritizing continued education throughout its employee ranks. The Company encourages its employees to participate in educational activities, which improve or maintain their skills in their current position, as well as to enhance future opportunities at the Company. The Company's employees are notified periodically of available internal course offerings. Employees may also choose to take external extension courses for a maximum of two courses per quarter or semester. All employees are able to participate in regular educational seminars run by outside parties, including but not limited to the American Bankers Association and Bankers Compliance Group.

In order to develop a workforce that aligns with the Company’s corporate values, it regularly sponsors local community events so that its employees can better integrate themselves in communities. The Company believes that employees’ well-being and personal and professional development is fostered by outreach to the communities it serves. The Company’s employees’ desire for active community involvement enables the Company to sponsor a number of local community events and initiatives, including hosting annual PCB scholarship that provides financial assistance to local low-to-moderate income community, conducting financial literacy training to seniors in affordable housing facilities, and participating in the Volunteer Income Tax Assistance annually to assist the community in free tax preparation.

Supervision and Regulation

General

Depository institutions, their holding companies and their affiliates are extensively regulated under U.S. federal and state law. As a result, the growth and earnings performance of the Company and its subsidiaries may be affected not only by management decisions and general economic conditions, but also by the requirements of federal and state statutes and by the regulations and policies of various bank regulatory agencies, including the California Department of Financial Protection and Innovation ("CDFPI"), the Federal Reserve System ("Federal Reserve"), the FDIC, and the Bureau of Consumer Financial Protection ("CFPB"). Furthermore, tax laws administered by the Internal Revenue Service ("IRS") and state taxing authorities, accounting rules developed by the Financial Accounting Standards Board ("FASB"), securities laws administered by the SEC and state securities authorities, Bank Secrecy Act ("BSA") and Anti-Money Laundering ("AML") laws enforced by the U.S. Treasury, and mortgage related rules, including with respect to loan securitization and servicing by the U.S. Department of Housing and Urban Development ("HUD"), and agencies such as the U.S. SBA, Federal National Mortgage Association ("Fannie Mae") and Federal Home Loan Mortgage Corporation ("Freddie Mac"), have an impact on the Company's business. The effect of these statutes, regulations, regulatory policies and rules are significant to the financial condition and results of operations of the Company and its subsidiary, and the nature and extent of future legislative, regulatory or other changes affecting financial institutions are impossible to predict with any certainty.

Federal and state banking laws impose a comprehensive system of supervision, regulation and enforcement on the operations of financial institutions, their holding companies and affiliates intended primarily for the protection of the FDIC-insured deposits and depositors of banks, rather than their shareholders. These federal and state laws, and the related regulations of the bank regulatory agencies, affect, among other things, the scope of business, the kinds and amounts of investments banks may make, reserve requirements, capital levels relative to operations, the nature and amount of collateral for loans, the establishment of branches, the ability to merge, consolidate and acquire, dealings with insiders and affiliates and the payment of dividends.

This supervisory and regulatory framework subjects banks and bank holding companies to regular examination by their respective regulatory agencies, which results in examination reports and ratings that, while not publicly available, can affect the conduct and growth of their businesses. These examinations consider not only compliance with applicable laws and regulations, but also capital levels, asset quality and risk, management ability and performance, earnings, liquidity, and various other factors. The regulatory agencies generally have broad discretion to impose restrictions and limitations on the operations of a regulated entity where the agencies determine, among other things, that such operations are unsafe or unsound, fail to comply with applicable law or are otherwise inconsistent with laws and regulations or with the supervisory policies of these agencies.

The following is a summary of the supervisory and regulatory framework applicable to the Company and its subsidiary, the Bank. It does not describe all of the statutes, regulations and regulatory policies that apply, nor does it restate all of the requirements of those that are described. The descriptions are qualified in their entirety by reference to the particular statutory and regulatory provision.

Regulatory Capital Requirements

The federal banking agencies have risk-based capital adequacy guidelines intended to provide a measure of capital adequacy that reflects the degree of risk associated with a banking organization's operations, both for transactions reported on the balance sheet as assets and for transactions, such as letters of credit and recourse arrangements, that are recorded as off-balance sheet items. In 2013, the federal banking agencies issued final rules (the "Basel III Capital Rules") establishing a new comprehensive capital framework for U.S. banking organizations.

Generally, the Basel III Capital Rules apply to both banks and their holding companies, on a consolidated basis. However, under the Federal Reserve's Small Bank Holding and Savings and Loan Holding Company Policy Statement (the "Small Bank Holding Company Policy Statement"), qualifying bank holding companies with total consolidated assets of less than $3 billion, such as the Company, are exempt from the Basel III Capital Rules' consolidated capital requirements. When the Company reaches the $3 billion asset level, the Company will be subject to the Basel III Capital Rules independent of the Bank.

The Basel III Capital Rules establish minimum risk-based capital requirements (Tier 1 capital, common equity Tier 1 capital ("CET1") and total capital) and leverage capital requirements, as well as guidelines that define components of the calculation of capital and the level of risk associated with various types of assets. The CET1 capital ratio is the ratio of the institution's common equity Tier 1 capital to its total risk-weighted assets. The Tier 1 risk-based capital ratio is the ratio of the institution's Tier 1 capital to its total risk-weighted assets. The total risk-based capital ratio is the ratio of the institution's total capital (Tier 1 capital plus other qualifying capital, which is generally "Tier 2 capital") to its total risk-weighted assets. The Tier 1 leverage ratio is the ratio of the institution's Tier 1 capital to its average total consolidated assets.

The Basel III Capital Rules provide for a number of deductions from and adjustments to CET1. These include, for example, the requirement that (i) mortgage servicing rights, (ii) deferred tax assets arising from temporary differences that could not be realized through net operating loss carrybacks, and (iii) significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such items, in the aggregate, exceed 15% of CET1.

Under the Basel III Capital Rules, the effects of certain accumulated other comprehensive income or loss items are not excluded for the purposes of determining regulatory capital ratios; however, non-advanced approaches banking organizations (i.e., banking organizations with less than $250 billion in total consolidated assets or with less than $10 billion of on-balance sheet foreign exposures), including the Company and the Bank, may make a one-time permanent election to exclude these items. The Company and the Bank made this election in 2015 order to avoid significant variations in the level of capital depending upon the impact of interest rate fluctuations on the fair value of its available-for-sale investment securities portfolio.

The Basel III Capital Rules prescribe risk weights for different assets classes, generally ranging from 0% for U.S. Government and agency securities, to 600% for certain equity exposures, depending on the nature of the assets. An asset's risk-weighted value will generally be its percentage weight multiplied by the asset's value as determined under GAAP. Some of aspects of the Basel III Capital Rules risk weighting standards that are relevant to the Company and the Bank include:

- assigning exposures secured by single-family residential properties to either a 50% risk weight for first-lien mortgages that meet prudent underwriting standards or a 100% risk weight category for all other mortgages;
- providing for a 20% credit conversion factor for the unused portion of a commitment with an original maturity of one year or less that is not unconditionally cancellable (set at 0% under the Basel I risk-based capital rules);
- assigning a 150% risk weight to all exposures that are nonaccrual or 90 days or more past due (set at 100% under the Basel I risk-based capital rules), except for those secured by single-family residential properties, which will be assigned a 100% risk weight, consistent with the Basel I risk-based capital rules;
- applying a 150% risk weight instead of a 100% risk weight for certain high volatility CRE acquisition, development and construction loans; and
- applying a 250% risk weight to the portion of mortgage servicing rights and deferred tax assets arising from temporary differences that could not be realized through net operating loss carrybacks that are not deducted from CET1 capital (set at 100% under the Basel I risk-based capital rules).

In addition to the minimum risk-based capital and leverage requirements, in order to avoid restrictions on their ability to pay dividends, to repurchase shares and to pay certain discretionary bonus payments to executive officers, depository institutions must maintain an additional "capital conservation buffer" consisting of CET1 in an amount equal to 2.5% of risk-weighted assets.

As fully phased-in on January 1, 2019,The Basel III Capital Rules subject banks to the following risk-based capital requirements:

- a minimum ratio of CET1 to risk-weighted assets of at least 4.5%, plus a 2.5% capital conservation buffer, or 7%;
- a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the 2.5% capital conservation buffer, or 8.5%;
- a minimum ratio of total capital to risk-weighted assets of at least 8.0%, plus the 2.5% capital conservation buffer, or 10.5%; and
- a minimum leverage ratio of 4%, calculated as the ratio of Tier 1 capital to balance sheet exposures plus certain off-balance sheet exposure.

As of December 31, 2023, the Bank's capital ratios exceeded the required minimums under the Basel III Capital Rules, including the capital conservation buffer.

In 2019, the federal bank regulators issued a rule establishing a "community bank leverage ratio" (the ratio of a bank's Tier 1 capital to average total consolidated assets) that qualifying institutions with less than $10 billion in assets may elect to use in lieu of the generally applicable leverage and risk-based capital requirements under Basel III. A qualifying banking organization that elects to use the new ratio is considered to have met all applicable federal regulatory capital and leverage requirements, including the minimum capital levels required to be considered "well capitalized, " if it maintains community bank leverage ratio capital exceeding 9%. The Bank has chosen not to opt into the community bank leverage ratio.

Prompt Corrective Action

The Federal Deposit Insurance Act, as amended (the "FDIA"), requires federal banking agencies to take prompt corrective action in response to depository institutions that do not meet minimum capital requirements. The FDIA specifies five capital tiers: "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," and "critically undercapitalized." A depository institution's capital tier depends upon how its capital levels compare with various relevant capital measures and certain other factors, as established by regulation. Under the prompt correction action provisions of the FDIA, an insured depository institution generally will be classified in the following categories based on the capital measures indicated:

PCA category	Total Risk-Based Capital Ratio	Tier 1 Risk-Based Capital Ratio	CET 1 Risk-Based Capital Ratio	Tier 1 Leverage Ratio
Well capitalized	10.0%	8.0%	6.5%	5.0%
Adequately capitalized	8.0%	6.0%	4.5%	4.0%
Undercapitalized	< 8.0%	< 6.0%	< 4.5%	< 4.0%
Significantly undercapitalized	< 6.0%	< 4.0%	< 3.0%	< 3.0%
Critically undercapitalized	Tangible Equity / Total Assets ≤ 2.0%			

An institution may be downgraded to, or deemed to be in, a capital category that is lower than indicated by its capital ratios, if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating with respect to certain matters. A bank's capital category is determined solely for the purpose of applying prompt corrective action regulations and an institution's capital category may not accurately represent the institution's overall financial condition or prospects for other purposes.

The FDIA generally prohibits a depository institution from making any capital distributions (including payment of a dividend) or paying any management fee to its parent holding company, if the depository institution would thereafter be "undercapitalized." "Undercapitalized" institutions are subject to growth limitations and are required to submit capital restoration plans. If a depository institution fails to submit an acceptable plan, it is treated as if it is "significantly undercapitalized." "Significantly undercapitalized" depository institutions may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become "adequately capitalized," requirements to reduce total assets, and cessation of receipt of deposits from correspondent banks. "Critically undercapitalized" institutions are subject to the appointment of a receiver or conservator. The capital classification of a bank holding company and a bank affects the frequency of regulatory examinations, the bank holding company's and the bank's ability to engage in certain activities and the deposit insurance premium paid by the bank. As of December 31, 2023, the Bank's capital ratios exceeded the minimum required to be "well-capitalized" for purposes of the prompt corrective action regulations.

The Company

General

The Company, as the sole shareholder of the Bank, is a registered bank holding company under the BHCA. As a registered bank holding company, the Company is subject to regulation by the Federal Reserve. Under the BHCA, the Company is subject to periodic examination by the Federal Reserve. The Company is required to file with the Federal Reserve periodic reports of the Company's operations and such additional information regarding the Company and the Bank as the Federal Reserve may require.

The Company is also a bank holding company within the meaning of Section 1280 of the California Financial Code. Consequently, the Company is subject to examination by, and may be required to file reports with, the CDFPI.

Activities and Acquisitions

Under the BHCA, the activities of bank holding companies are generally limited to the business of banking, managing or controlling banks, and other activities that the Federal Reserve has determined to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. Bank holding companies that qualify and register as "financial holding companies" are also able to engage in certain additional financial activities, such as merchant banking and securities and insurance underwriting, subject to limitations set forth in federal law. The Company has not elected to become a financial holding company.

As a bank holding company, the Company must obtain prior approval of the Federal Reserve before taking any action that causes a bank to become a controlled subsidiary of the bank holding company, acquiring direct or indirect ownership of 5% of the outstanding shares of any class of voting securities of another bank or bank holding company, acquiring all or substantially all the assets of a bank or merging or consolidating with another bank holding company.

In reviewing applications seeking approval of merger and acquisition transactions, the Federal Reserve considers, among other things, the competitive effect and public benefits of the transactions, the capital position and managerial resources of the combined organization, the risks to the stability of the U.S. banking or financial system, the applicant's performance record under the Community Reinvestment Act of 1977 ("CRA"), the applicant's compliance with fair housing and other consumer protection laws and the effectiveness of all organizations involved in combating money laundering activities. In addition, failure to implement or maintain adequate compliance programs could cause bank regulators not to approve an acquisition where regulatory approval is required or to prohibit an acquisition even if approval is not required.

Change in Control

Federal law prohibits any person or company from acquiring "control" of an FDIC-insured depository institution or its holding company without prior notice to the appropriate federal bank regulator. "Control" is conclusively presumed to exist upon the acquisition of 25% or more of the outstanding voting securities of a bank or bank holding company, but may arise under certain circumstances between 5% and 24.99% ownership.

Under the California Financial Code, any proposed acquisition of "control" of the Bank by any person (including a company) must be approved by the Commissioner of the CDFPI. The California Financial Code defines "control" as the power, directly or indirectly, to direct the Bank's management or policies or to vote 25% or more of any class of the Bank's outstanding voting securities. Additionally, a rebuttable presumption of control arises when any person (including a company) seeks to acquire, directly or indirectly, 10% or more of any class of the Bank's outstanding voting securities.

Source of Strength Doctrine

The Dodd-Frank Act codified the Federal Reserve's long-standing policy that bank holding companies must act as a source of financial and managerial strength to their subsidiary banks. Under this requirement, the Company is expected to commit resources to support the Bank, including at times when the Company may not be in a financial position to provide it. The Company must also maintain the financial flexibility and capital raising capacity to obtain additional resources for assisting the Bank. The Company's failure to meet its source of strength obligations may constitute an unsafe and unsound practice or a violation of law.

Dividend Payments, Stock Redemptions and Stock Repurchases

The Company's ability to pay dividends to its shareholders or repurchase shares may be affected by both general corporate law considerations and the policies of the Federal Reserve applicable to bank holding companies. As a California corporation, the Company is subject to the limitations of California law, which allows a corporation to distribute cash or property to shareholders, including a dividend or repurchase or redemption of shares, if the corporation meets either a retained earnings test or a "balance sheet" test. Under the retained earnings test, the Company may make a distribution from retained earnings to the extent that its retained earnings exceed the sum of (a) the amount of the distribution plus (b) the amount, if any, of dividends in arrears on shares with preferential dividend rights. The Company may also make a distribution if, immediately after the distribution, the value of its assets equals or exceeds the sum of (a) its total liabilities plus (b) the liquidation preference of any shares which have a preference upon dissolution over the rights of shareholders receiving the distribution. Indebtedness is not considered a liability if the terms of such indebtedness provide that payment of principal and interest thereon are to be made only if, and to the extent that, a distribution to shareholders could be made under the balance sheet test.

As a general matter, the Federal Reserve has indicated that the board of directors of a bank holding company should eliminate, defer or significantly reduce dividends to shareholders and shares repurchases if: (i) the bank holding company's net income available to shareholders for the past four quarters, net of dividends previously paid during that period, is not sufficient to fully fund the dividends; (ii) the prospective rate of earnings retention is inconsistent with the bank holding company's capital needs and overall current and prospective financial condition; or (iii) the bank holding company will not meet, or is in danger of not meeting, its minimum regulatory capital adequacy ratios. If the Company's fails to adhere to these policies, the Federal Reserve could find that the Company is operating in an unsafe and unsound manner.

In addition, under the Basel III Capital Rules, institutions must maintain a capital conservation buffer of 2.5% in CET1 in order to avoid restrictions on their ability to pay dividends or repurchase shares. See "Supervision and Regulation - Regulatory Capital Requirements" above.

Subject to exceptions for well-capitalized and well-managed holding companies, the Federal Reserve regulations also require approval of holding company purchases and redemptions of its securities if the gross consideration paid exceeds 10% of consolidated net worth for any 12-month period. In addition, the Federal Reserve policy requires that bank holding companies consult with and inform the Federal Reserve in advance of (i) redeeming or repurchasing capital instruments when experiencing financial weakness and (ii) redeeming or repurchasing common stock and perpetual preferred stock if the result will be a net reduction in the amount of such capital instruments outstanding for the quarter in which the reduction occurs.

The Bank

General

The Bank is a California-chartered bank. The deposit accounts of the Bank are insured by the FDIC to the maximum extent provided under federal law and FDIC regulations. As a California-chartered that is not a member of the Federal Reserve, the Bank is subject to examination, supervision, and regulation by the CDFPI, the chartering authority for California banks, and by the FDIC.

The Bank is required to seek approval from the CDFPI and FDIC prior to engaging in certain expansionary transactions, such as establishing new branches or merger with other depository institutions. In reviewing applications seeking approval of merger and acquisition transactions, the CDFPI and FDIC will generally consider the same factors as those described above with respect to Federal Reserve applications for merger and acquisition transactions.

Brokered Deposit Restrictions

Well capitalized institutions are not subject to limitations on brokered deposits, while adequately capitalized institutions are able to accept, renew or roll over brokered deposits only with a waiver from the FDIC and subject to certain restrictions on the yield paid on such deposits. Undercapitalized institutions are generally not permitted to accept, renew, or roll over brokered deposits. As of December 31, 2023, the Bank was eligible to accept brokered deposits without a waiver from FDIC.

Loans to One Borrower

With certain limited exceptions, the maximum amount that a California bank may lend to any borrower at any one time (including the obligations to the bank of certain related entities of the borrower) may not exceed 25% (and unsecured loans may not exceed 15%) of the bank's shareholders' equity, allowance for credit loss on loans, and any capital notes and debentures of the bank.

Tie in Arrangements

Federal law prohibits a bank holding company and any subsidiary banks from engaging in certain tie in arrangements in connection with the extension of credit. For example, the Bank may not extend credit, lease or sell property, or furnish any service, or fix or vary the consideration for any of the foregoing on the condition that (i) the customer must obtain or provide some additional credit, property or service from or to the Bank other than a loan, discount, deposit or trust service, (ii) the customer must obtain or provide some additional credit, property or service from or to the Company, or (iii) the customer must not obtain some other credit, property or service from competitors, except reasonable requirements to assure soundness of credit extended.

Deposit Insurance

The Bank's deposits are insured by the Deposit Insurance Fund of the FDIC up to the maximum amount permitted by law. As an FDIC-insured institution, the Bank is required to pay deposit insurance premium assessments to the FDIC. The FDIC assesses a quarterly deposit insurance premium on each insured institution based on the assets levels and risk characteristics of the institution. The FDIC may impose special assessments in emergency situations or based on the adequacy of the reserves of the Deposit Insurance Fund. As a result, the Bank's FDIC deposit insurance premiums could increase. During the year ended December 31, 2023, the Bank paid $1.1 million in aggregate FDIC deposit insurance premiums.

The FDIC may terminate insurance of deposits of any insured institution if the FDIC finds that the insured institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC or any other regulatory agency.

Supervisory Assessments

California-chartered banks are required to pay supervisory assessments to the CDFPI to fund its operations. The amount of the assessment paid by a California bank to the CDFPI is calculated on the basis of the institution's total assets in California, including consolidated subsidiaries, as reported to the CDFPI. During the year ended December 31, 2023, the Bank paid supervisory assessments to the CDFPI totaling $216 thousand.

Dividend Payments

The primary source of funds for the Company is dividends from the Bank. Under the California Financial Code, the Bank is permitted to pay a dividend in the following circumstances: (i) without the consent of either the CDFPI or the Bank's shareholders, in an amount not exceeding the lesser of (a) the retained earnings of the Bank; or (b) the net income of the Bank for its last three fiscal years, less the amount of any distributions made during the prior period; (ii) with the prior approval of the CDFPI, in an amount not exceeding the greatest of: (a) the retained earnings of the Bank; (b) the net income of the Bank for its last fiscal year; or (c) the net income for the Bank for its current fiscal year; and (iii) with the prior approval of the CDFPI and the Bank's shareholders (i.e., the Company) in connection with a reduction of its contributed capital.

The payment of dividends by any financial institution is affected by the requirement to maintain adequate capital pursuant to applicable capital adequacy guidelines and regulations, and a financial institution generally is prohibited from paying any dividends if, following payment thereof, the institution would be undercapitalized. In addition, under the Basel III Rule, institutions must maintain a capital conservation buffer of 2.5% in CET1 attributable to avoid restrictions on dividend payments. See "Supervision and Regulation - Regulatory Capital Requirements" above. As described above, the Bank exceeded its minimum capital requirements under applicable regulatory guidelines as of December 31, 2023.

Transactions with Affiliates

Transactions between depository institutions and their affiliates, including transactions between the Bank and the Company, are governed by Sections 23A and 23B of the Federal Reserve Act and the Federal Reserve's Regulation W promulgated thereunder. Generally, Section 23A limits the extent to which a depository institution and its subsidiaries may engage in "covered transactions" with any one affiliate to an amount equal to 10% of the depository institution's capital stock and surplus, and contains an aggregate limit on all such transactions with all affiliates of an amount equal to 20% of the depository institution's capital stock and surplus. Section 23A also establishes specific collateral requirements for loans or extensions of credit to, or guarantees, acceptances or letters of credit issued on behalf of, an affiliate. Section 23B requires that covered transactions and a broad list of other specified transactions be on terms substantially the same, or at least as favorable to the depository institution and its subsidiaries, as those for similar transactions with non-affiliates.

Loans to Directors, Executive Officers and Principal Shareholders

The authority of the Bank to extend credit to its directors, executive officers and principal shareholders, including their immediate family members and corporations and other entities that they control, is subject to substantial restrictions and requirements under the Federal Reserve's Regulation O, as well as the Sarbanes-Oxley Act. These laws and regulations impose limits on the amount of loans the Bank may make to directors and other insiders and require, among other things, that: (i) the loans must be made on substantially the same terms, including interest rates and collateral, as prevailing at the time for comparable transactions with persons not affiliated with the Company or the Bank; (ii) the Bank follow credit underwriting procedures at least as stringent as those applicable to comparable transactions with persons who are not affiliated with the Company or the Bank; and (iii) the loans not involve a greater-than-normal risk of non-payment or include other features not favorable to the Bank. A violation of these restrictions may result in the assessment of substantial civil monetary penalties on the affected bank or any officer, director, employee, agent or other person participating in the conduct of the affairs of that bank, the imposition of a cease and desist order, and other regulatory sanctions.

Safety and Soundness Standards/Risk Management

The federal banking agencies have adopted guidelines that establish operational and managerial standards to promote the safety and soundness of federally insured depository institutions. The guidelines set forth standards for internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees and benefits, asset quality and earnings.

During the past decade, the bank regulatory agencies have increasingly emphasized the importance of sound risk management processes and strong internal controls when evaluating the activities of the financial institutions they supervise. Properly managing risks has been identified as critical to the conduct of safe and sound banking activities and has become even more important as new technologies, product innovation, and the size and speed of financial transactions have changed the nature of banking markets. The agencies have identified a spectrum of risks facing a banking institution including, but not limited to, credit, market, liquidity, operational, legal, and reputational risk. In particular, recent regulatory pronouncements have focused on operational risk, which arises from the potential that inadequate information systems, operational problems, breaches in internal controls, fraud, or unforeseen catastrophes will result in unexpected losses. New products and services, third-party risk management and cyber-security are critical sources of operational risk that financial institutions are expected to address in the current environment. The Bank is expected to have active board and senior management oversight; adequate policies, procedures, and limits; adequate risk measurement, monitoring, and management information systems; and comprehensive internal controls.

On November 23, 2021, the federal banking agencies issued a final rule requiring banking organizations that experience a computer-security incident to notify its primary Federal regulator of the occurrence of an event that rises to the level of a "notification incident" as soon as possible and no later than 36 hours after the banking organization has determined that a notification incident has occurred.

Community Reinvestment Act Requirements

The CRA is intended to encourage banks to help meet the credit needs of their entire communities, including low- and moderate-income neighborhoods, consistent with safe and sound operations. The regulators examine banks and assign each bank a public CRA rating. The CRA then requires bank regulators to take into account the bank's record in meeting the needs of its community when considering certain applications by a bank, including applications to establish a banking center or to conduct certain mergers or acquisitions. The Federal Reserve is required to consider the CRA records of a bank holding company's controlled banks when considering an application by the bank holding company to acquire a bank or to merge with another bank holding company. When the Bank seeks regulatory approval to engage in certain expansionary transactions, such as new branches or merger and acquisitions, the FDIC will consider the CRA record of the target institution and the Bank. An unsatisfactory CRA record could substantially delay approval or result in denial of an application. The Bank received a "satisfactory" rating on its most recent CRA performance evaluation, dated July 6, 2021.

On May 5, 2022, the Federal Reserve, the FDIC and the OCC issued a joint notice of proposed rulemaking to strengthen and modernize the CRA regulatory framework. The proposal clarifies the activities and investments that qualify for credit under the CRA and would establish an evaluation framework tailored for differences in bank size and business models.

Anti-Money Laundering and Office of Foreign Assets Control Regulation

The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "Patriot Act"), is designed to deny terrorists and criminals the ability to obtain access to the U.S. financial system and has significant implications for depository institutions, brokers, dealers and other businesses involved in the transfer of money. The Patriot Act mandates financial services companies to have policies and procedures with respect to measures designed to address any or all of the following matters: (i) customer identification programs; (ii) money laundering; (iii) terrorist financing; (iv) identifying and reporting suspicious activities and currency transactions; (v) currency crimes; and (vi) cooperation between financial institutions and law enforcement authorities. Regulatory authorities routinely examine financial institutions for compliance with these obligations, and failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with all of the relevant laws or regulations, could have serious legal and reputational consequences for the institution, including causing applicable bank regulatory authorities not to approve merger or acquisition transactions when regulatory approval is required or to prohibit such transactions even if approval is not required. Regulatory authorities have imposed cease and desist orders and civil money penalties against institutions found to be violating these obligations.

U.S. Treasury's Office of Foreign Assets Control ("OFAC"), administers and enforces economic and trade sanctions against targeted foreign countries and regimes under authority of various laws, including designated foreign countries, nationals and others. OFAC publishes lists of specially designated targets and countries. Financial Institutions are responsible for, among other things, blocking accounts of and transactions with such targets and countries, prohibiting unlicensed trade and financial transactions with them and reporting blocked transactions after their occurrence. Banking regulators examine banks for compliance with the economic sanctions regulations administered by OFAC and failure of a financial institution to maintain and implement adequate OFAC programs, or to comply with all of the relevant laws or regulations, could have serious legal and reputational consequences for the institution.

Concentrations in Commercial Real Estate

Concentration risk exists when financial institutions deploy too many assets to any one industry or segment. Concentration stemming from CRE is one area of regulatory concern. The CRE Concentration Guidance provides supervisory criteria, including the following numerical indicators, to assist bank examiners in identifying banks with potentially significant CRE loan concentrations that may warrant greater supervisory scrutiny: (i) CRE loans exceeding 300% of capital and increasing 50% or more in the preceding three years; or (ii) construction and land development loans exceeding 100% of capital. The CRE Concentration Guidance does not limit banks' levels of CRE lending activities, but rather guides institutions in developing risk management practices and levels of capital that are commensurate with the level and nature of their CRE concentrations.

As of December 31, 2023, using regulatory definitions in the CRE Concentration Guidance, the Bank's CRE loans represented 280.7% of total risk-based capital, as compared to 253.9%, 269.8% and 256.1% as of December 31, 2022, 2021 and 2020, respectively. The Bank is actively working to manage its CRE concentration and the management has discussed the CRE Concentration Guidance with the FDIC and believes that the Bank's underwriting policies, management information systems, independent credit administration process, and monitoring of real estate loan concentrations are currently sufficient to address the CRE Concentration Guidance.

Consumer Financial Services

Banks and other financial institutions are subject to numerous laws and regulations intended to protect consumers in their transactions with banks. These laws include, among others, laws regarding unfair and deceptive acts and practices and usury laws, as well as the following consumer protection statutes: Truth in Lending Act, Truth in Savings Act, Electronic Fund Transfer Act, Expedited Funds Availability Act, Equal Credit Opportunity Act, Fair and Accurate Credit Transactions Act, Fair Housing Act, Fair Credit Reporting Act, Fair Debt Collection Practices Act, Gramm-Leach-Bliley Act, Home Mortgage Disclosure Act, Right to Financial Privacy Act, Servicemembers Civil Relief Act, Military Lending Act and Real Estate Settlement Procedures Act.

Many states and local jurisdictions have consumer protection laws analogous, and in addition, to those listed above. These federal, state and local laws regulate the manner in which financial institutions deal with customers when taking deposits, making loans or conducting other types of transactions. Failure to comply with these laws and regulations could give rise to regulatory sanctions, customer rescission rights, action by state and local attorneys general and civil or criminal liability. Failure to comply with consumer protection requirements may also result in the Bank's failure to obtain any required bank regulatory approval for merger or acquisition transactions the Bank may wish to pursue or its prohibition from engaging in such transactions even if approval is not required.

The CFPB has significant authority to implement and enforce federal consumer protection laws as well as the authority to identify and prohibit unfair, deceptive or abusive acts and practices.

The review of products and practices to prevent such acts and practices is a continuing focus of the CFPB, and of banking regulators more broadly. The ultimate impact of this heightened scrutiny is uncertain but could result in changes to pricing, practices, products and procedures. It could also result in increased costs related to regulatory oversight, supervision and examination, additional remediation efforts and possible penalties.

The CFPB is authorized to issue rules for both bank and non-bank companies that offer consumer financial products and services, subject to consultation with the prudential banking regulators. In general, however, banks with assets of $10 billion or less, such as the Bank, will continue to be examined for consumer compliance by their primary bank regulator.

On June 9, 2022, the CDFPI's proposed commercial financing disclosure regulations were approved, which became effective on December 9, 2022. The regulations require commercial financing providers to disclose certain information to assist small businesses in making more informed decisions, including the amount of funding the small business will receive, the Annual Percentage Rate calculated for the transaction, the term, details related to prepayment policies and an average monthly cost.

Mortgage and Mortgage-Related Products

The Dodd-Frank Act significantly expanded the regulation of mortgage lending and augmented federal law combating predatory lending practices. Pursuant to the Dodd-Frank Act, the CFPB has adopted numerous rules addressing mortgage and mortgage-related products, their underwriting, origination, disclosure requirements, servicing and sales.

These reforms include amendments to the Truth In Lending Act establishing underwriting standards that lenders must conduct before making a residential mortgage loan, including verifying a borrower's ability to repay the mortgage loan. Borrowers may assert violations of certain provisions of the Truth in Lending Act as a defense to foreclosure proceedings. Prepayment penalties are prohibited for certain mortgage transactions and creditors are prohibited from financing insurance policies in connection with a residential mortgage loan or home equity line of credit. Mortgage lenders are required to make additional disclosures prior to the extension of credit, in each billing statement and for negative amortization loans and hybrid adjustable rate mortgages. Additionally, mortgage originators are prohibited from receiving compensation based on the terms of residential mortgage loans, other that the loan amount.

The Dodd-Frank Act generally requires lenders or securitizers to retain an economic interest in the credit risk relating to loans that the lender sells, and other asset-backed securities that the securitizer issues, if the loans do not comply with the ability-to-repay standards described above. The risk retention requirement generally is 5%, but could be increased or decreased by regulation. The CFPB's mortgage rules have not had a significant impact on the Bank's operations, except for higher compliance costs.

Pursuant to the Dodd-Frank Act, the CFPB has implemented certain provisions of the Dodd-Frank Act relating to mortgage servicing through rulemaking. The servicing rules require servicers to meet certain benchmarks for loan servicing and customer service in general. The rules provide for an exemption from most of these requirements for "small servicers," which are defined as loan servicers that service 5,000 or fewer mortgage loans and service only mortgage loans that they or an affiliate originated or own.

Enforcement Powers of Federal and State Banking Agencies

The federal bank regulatory agencies have broad enforcement powers. If as federal banking agency determines that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity, or other aspects of depository institution's or its bank holding company's operations are unsatisfactory or that it or its management was in violation of any law or regulation, the agency would have the authority to take a number of different remedial actions as it deems appropriate under the circumstances. These actions include the power to enjoin any "unsafe or unsound" banking practices; to require that affirmative action be taken to correct any conditions resulting from any violation of law or unsafe or unsound practice; to issue an administrative order that can be judicially enforced; to require that it increase its capital; to restrict its growth; to assess civil monetary penalties against it or its officers or directors; to remove officers and directors of the bank; and if the federal banking agency concludes that such conditions at the bank holding company or the bank cannot be corrected or there is an imminent risk of loss to depositors, to terminate a bank's deposit insurance, which in the case of a California state chartered bank would result in revocation of its charter and require it to cease its banking operations. The CDFPI has similarly broad enforcement powers over the Bank, including the power to impose orders, remove officers and directors, impose fines and appoint supervisors and conservators.

Financial Privacy

The federal bank regulatory agencies have adopted rules that limit the ability of banks and other financial institutions to disclose non-public information about consumers to non-affiliated third-parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to a non-affiliated third-party. These regulations affect how consumer information is transmitted through financial services companies and conveyed to outside vendors. In addition, consumers may also prevent disclosure of certain information among affiliated companies that is assembled or used to determine eligibility for a product or service, such as that shown on consumer credit reports and asset and income information from applications. Consumers also have the option to direct banks and other financial institutions not to share information about transactions and experiences with affiliated companies for the purpose of marketing products or services.

Monetary Policy

The monetary policy of the Federal Reserve has a significant effect on the operating results of financial or bank holding companies and their subsidiaries. Among the tools available to the Federal Reserve to affect the money supply are open market transactions in U.S. government securities, changes in the discount rate on member bank borrowings and changes in reserve requirements against member bank deposits. These means are used in varying combinations to influence overall growth and distribution of bank loans, investments and deposits, and their use may affect interest rates charged on loans or paid on deposits. The actions of the Federal Reserve in these areas influence the growth of bank loans, investments, and deposits and also affect interest rates earned on interest earning assets and paid on interest bearing liabilities. The nature and impact on the Company, and the Bank, of future changes in monetary and fiscal policies cannot be predicted.

The Volcker Rule

The Volcker Rule generally prohibits banking entities, such as the Bank, the Company and their affiliates and subsidiaries, from engaging in short-term proprietary trading of financial instruments and from owning, sponsoring or having certain relationships with hedge funds or private equity funds (collectively, "covered funds"). The regulations implementing the Volcker Rule provide exemptions for certain activities, including market making, underwriting, hedging, trading in certain government obligations and organizing and offering a covered fund, among others. Although the Volcker Rule has significant implications for many large financial institutions, it does not currently have a material effect on the operations of the Company or the Bank. The Company and the Bank may, however, incur costs if they are required to adopt additional policies and systems to ensure compliance with certain provisions of the Volcker Rule in the future.

Item 1A. Risk Factors

Investing in our common stock involves a high degree of risk. Before you decide to invest, you should carefully consider the risks described below, together with all other information included in this Annual Report on Form 10-K. Any of the following risks, as well as risks that we do not know or currently deem immaterial, could have a material adverse effect on our business, financial condition, results of operations and growth prospects. As a result, the trading price of our common stock could decline and you could experience a partial or complete loss of your investment. Further, to the extent that any of the information in this Annual Report on Form 10-K constitutes forward-looking statements, the risk factors below also are cautionary statements identifying important factors that could cause actual results to differ materially from those expressed in any forward-looking statements made by us or on our behalf. See "Forward-Looking Statements" immediately preceding Part I of this Annual Report on Form 10-K.

Risks Related to our Business

Our business depends on our ability to successfully manage credit risk.

The operation of our business requires us to manage credit risk. As a lender, we are exposed to the risk that our borrowers will be unable to repay their loans according to their terms, and that the collateral securing repayment of their loans, if any, may not be sufficient to ensure repayment. In addition, there are risks inherent in making any loan, including risks with respect to the period of time over which the loan may be repaid, risks relating to proper loan underwriting, risks resulting from changes in economic and industry conditions and risks inherent in dealing with individual borrowers.

In order to successfully manage credit risk, we must, among other things, maintain disciplined and prudent underwriting standards and ensure that our bankers follow those standards. The weakening of these standards for any reason, such as an attempt to attract higher yielding loans, a lack of discipline or diligence by our employees in underwriting and monitoring loans, the inability of our employees to adequately adapt policies and procedures to changes in economic or any other conditions affecting borrowers and the quality of our loan portfolio, may result in loan defaults, foreclosures and additional charge-offs and may necessitate that we significantly increase our ACL, each of which could adversely affect our net income. As a result, our inability to successfully manage credit risk could have a material adverse effect on our business, financial condition and/or results of operations.

An important feature of our credit risk management system is our use of an internal credit risk rating and control system through which we identify, measure, monitor and mitigate existing and emerging credit risk of our borrowers. As this process involves detailed analysis of the borrower or credit risk, taking into account both quantitative and qualitative factors, it is subject to human error. In exercising their judgment, our employees may not always be able to assign an accurate credit rating to a borrower or credit risk, which may result in our exposure to higher credit risks than indicated by our risk rating and control system. The credit risk rating and control system may not identify credit risk in our loan portfolio and we may fail to manage credit risk effectively.

Fluctuations in interest rates may reduce net interest income and otherwise negatively impact our financial condition and results of operations.

Shifts in short-term interest rates may reduce net interest income, which is the principal component of our earnings. Net interest income is the difference between the amounts received by us on our interest-earning assets and the interest paid by us on our interest-bearing liabilities. When interest rates rise, the rate of interest we earn on our assets, such as loans, typically rises more quickly than the rate of interest that we pay on our interest-bearing liabilities, such as deposits, which may cause our profits to increase. However, when deposit competition is strong, the rate of increase in our deposit costs may exceed the rate of increase in the yields on our loans, placing pressure on our net interest margins. When interest rates decrease, the rate of interest we earn on our assets, such as loans, typically declines more quickly than the rate of interest that we pay on our interest-bearing liabilities, such as deposits, which may cause our profits to decrease.

The impact on earnings is more adverse when the slope of the yield curve flattens or inverts, that is, when short-term interest rates increase more than long-term interest rates or when long-term interest rates decrease more than short-term interest rates. Many factors impact interest rates, including governmental monetary policies, inflation, recession, changes in unemployment, the money supply and international disorder and instability in domestic and foreign financial markets.

Interest rate increases often result in larger payment requirements for our borrowers, which increases the potential for default. At the same time, the marketability of the underlying property may be adversely affected by any reduced demand resulting from higher interest rates. In a declining interest rate environment, there may be an increase in prepayments on loans as borrowers refinance their mortgages and other indebtedness at lower rates. For the year ended December 31, 2023, total loans were 86.3% of our average interest-earning assets. Our net interest income exhibited a positive 3.6% sensitivity to rising interest rates and a negative 4.3% sensitivity to declining interest rates in a twelve-month 100 basis point parallel shock at December 31, 2023.

Changes in interest rates also can affect the value of loans, securities and other assets. An increase in interest rates that adversely affects the ability of borrowers to pay the principal or interest on loans may lead to an increase in nonperforming assets ("NPAs") and a reduction of income recognized, which could have a material adverse effect on our results of operations and cash flows. Further, when we place a loan on nonaccrual status, we reverse any accrued but unpaid interest receivable, which decreases interest income. Subsequently, we continue to have a cost to fund the loan, which is reflected as interest expense, without any interest income to offset the associated funding expense. Thus, an increase in the amount of NPAs would have an adverse impact on net interest income.

Rising interest rates will result in a decline in value of the fixed-rate debt securities we hold in our investment securities portfolio. The unrealized losses resulting from holding these securities would be recognized in accumulated other comprehensive income (loss) and reduce total shareholders' equity. Unrealized losses do not negatively impact our regulatory capital ratios; however, tangible common equity and the associated ratios would be reduced. If debt securities in an unrealized loss position are sold, such losses become realized and will reduce our regulatory capital ratios. If short-term interest rates decline, and assuming longer term interest rates fall faster, we could experience net interest margin compression as our interest-earning assets would continue to reprice downward while our interest-bearing liability rates could fail to decline in tandem. This would have a material adverse effect on our net interest income and our results of operations.

Liquidity risks could affect operations and jeopardize our business, financial condition and results of operations.

Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, the sale of loans and/or investment securities, and from other sources could have a substantial negative effect on our liquidity. Our most important source of funds consists of our customer deposits, a significant portion of which are time deposits. Such deposit balances can decrease when customers perceive they can earn higher interest on their interest-bearing deposits elsewhere, or alternative investments, such as the stock market, provide a better risk/return tradeoff. If customers move money to other financial institutions, or out of bank deposits and into other investments, we could lose a relatively low cost source of funds, which would require us to seek wholesale funding alternatives in order to continue to grow, thereby increasing our funding costs and reducing our net interest income and net income.

Other primary sources of funds consist of cash from operations, investment maturities and sales and proceeds from the issuance and sale of our equity and debt securities to investors. Additional liquidity is provided by the ability to borrow from the Federal Reserve Discount Window and the FHLB. We also may borrow from third-party lenders from time to time. Our access to funding sources in amounts adequate to finance or capitalize our activities or on terms that are acceptable to us could be impaired by factors that affect us directly or the financial services industry or economy in general, such as disruptions in the financial markets or negative views and expectations about the prospects for the financial services industry. Any decline in available funding could adversely impact our ability to continue to implement our strategic plan, including originate loans, invest in securities, meet our expenses, pay dividends to our shareholders or to fulfill obligations such as repaying our borrowings or meeting deposit withdrawal demands, any of which could have a material adverse impact on our liquidity, business, financial condition and results of operations.

As a result of increases in interest rates over the past two years, the market values of previously issued government, agency and other debt securities have declined significantly, resulting in unrealized losses in our securities portfolio. While we do not expect or intend to sell these securities, if we were required to sell these securities to meet liquidity needs, we may incur significant losses, which could impair our capital and financial condition and adversely affect our results of operations. Further, while we have taken actions to maximize our sources of liquidity, there is no guarantee that such sources will be available or sufficient in the event of sudden liquidity needs.

We face a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti-money laundering statutes and regulations.

The BSA, the Patriot Act and other laws and regulations require financial institutions, among other duties, to institute and maintain an effective AML program and to file reports such as suspicious activity reports and currency transaction reports. We are required to comply with these and other AML requirements. The federal banking agencies and Financial Crimes Enforcement Network are authorized to impose significant civil money penalties for violations of those requirements and have recently engaged in coordinated enforcement efforts against banks and other financial services providers with the U.S. Department of Justice, Drug Enforcement Administration and IRS. We are also subject to increased scrutiny of compliance with the rules enforced by the OFAC. If our policies, procedures and systems are deemed deficient, we would be subject to liabilities, including fines and regulatory actions, which may include restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to proceed acquisition and certain aspects of our business plan.

Failures to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for us. Any of these results could reduce the Company's ability to receive any necessary regulatory approvals for acquisitions or new branch openings. This could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

Adverse developments affecting the banking industry could have a material effect on our operations and/or stock price.

During 2023, the high-profile failures of several depository institutions negatively impacted customer confidence in the safety and soundness of some regional and community banks. As a result, we face that risk that customers may prefer to maintain deposits with larger financial institutions or invest in fixed income securities instead of deposits with the Bank, either of which could materially adversely impact our liquidity, cost of funding, capital, and results of operations. In response to the failures of other depository institutions, we may face increased regulation and supervisory oversight, higher capital or liquidity requirements or a heightened risk of regulatory enforcement activities, any of which could have a material impact on our business. Further, our costs of deposit insurance may increase as a result of these bank failures and the resulting losses to the FDIC's Deposit Insurance Fund. In addition, concerns about the banking industry's operating environment and the public trading prices of bank holding companies are often correlated, particularly during times of financial stress, which could adversely impact the trading price of our common stock.

A decline in general business and economic conditions and any regulatory responses to such conditions could have a material adverse effect on our business, financial position, results of operations and growth prospects.

Our business and operations are sensitive to general business and economic conditions in the U.S., generally, and particularly the state of California and the Los Angeles/Orange County region, as well as the greater New York City/New Jersey metropolitan area and Dallas, Texas, where our branch offices are located. Unfavorable or uncertain economic and market conditions in these areas could lead to credit quality concerns related to repayment ability and collateral protection as well as reduced demand for the products and services we offer. The impact of the Biden administration's policy changes regarding international trade, tariffs, renewable energy, immigration, domestic taxation, among other actions and policies of the current administration, may have on economic and market conditions is uncertain.

In addition, concerns about the performance of international economies, especially in Europe and emerging markets, and economic conditions in Asia can impact the economy and financial markets here in the U.S. If the national, regional and local economies experience worsening economic conditions, including high levels of unemployment, our growth and profitability could be constrained. Weak economic conditions are characterized by, among other indicators, deflation, elevated levels of unemployment, fluctuations in debt and equity capital markets, increased delinquencies on mortgage, commercial and consumer loans, residential and CRE price declines, lower home sales and commercial activity and fluctuations in the commercial Federal Housing Administration ("FHA") financing sector. All of these factors are generally detrimental to our business.

System failure or breaches of our network security could subject us to increased operating costs as well as litigation and other liabilities.

The computer systems and network infrastructure we use could be vulnerable to hardware and cyber-security issues. Our operations are dependent upon our ability to protect our computer equipment against damage from fire, power loss, telecommunications failure or a similar catastrophic event. We could also experience a breach by intentional or negligent conduct on the part of employees or other internal or external sources, including our third-party vendors. Any damage or failure that causes an interruption in our operations could have an adverse effect on our financial condition and results of operations. In addition, our operations are dependent upon our ability to protect the computer systems and network infrastructure utilized by us, including our internet banking activities, against damage from physical break-ins, cyber-security breaches and other disruptive problems caused by the internet or other users. Such computer break-ins and other disruptions would jeopardize the security of information stored in and transmitted through our computer systems and network infrastructure, which may result in significant liability, damage our reputation and inhibit the use of our internet banking services by current and potential customers.

We rely heavily on communications, information systems (both internal and provided by third-parties) and the internet to conduct our business. Our business is dependent on our ability to process and monitor large numbers of daily transactions in compliance with legal, regulatory and internal standards and specifications. In addition, a significant portion of our operations relies heavily on the secure processing, storage and transmission of personal and confidential information, such as the personal information of our customers and clients. In recent periods, several governmental agencies and large corporations, including financial service organizations and retail companies, have suffered major data breaches, in some cases exposing not only their confidential and proprietary corporate information, but also sensitive financial and other personal information of their customers/clients or customers/clients and their employees or other third-parties, subjecting those agencies and corporations to potential fraudulent activity and exposing their customers/clients, customers/clients and their employees or other third-parties to identity theft and fraudulent activity in their credit card and banking accounts. Therefore, security breaches and cyber-attacks can cause significant increases in operating costs, including the costs of compensating clients and customers for any resulting losses they may incur and the costs and capital expenditures required to correct the deficiencies in and strengthen the security of data processing and storage systems. These risks may increase in the future as we continue to increase mobile payments and other internet-based product offerings and expand our internal usage of web-based products and applications.

Other potential attacks have attempted to obtain unauthorized access to confidential information, steal money, or manipulate or destroy data, often through the introduction of computer viruses or malware, cyber-attacks and other means. Other threats of this type may include fraudulent or unauthorized access to data processing or data storage systems used by us or by our customers, electronic identity theft, "phishing," account takeover, and malware or other cyber-attacks. To date, none of these types of attacks have had a material effect on our business or operations. Such security attacks can originate from a wide variety of sources, including persons who are involved with organized crime or who may be linked to terrorist organizations or hostile foreign governments. Those same parties may also attempt to fraudulently induce employees, customers or other users of our systems to disclose sensitive information in order to gain access to our data or that of our customers or clients. We are also subject to the risk that our employees may intercept and transmit unauthorized confidential or proprietary information. An interception, misuse or mishandling of personal, confidential or proprietary information being sent to or received from a customer or third-party could result in legal liabilities, remediation costs, regulatory actions and reputational harm.
As cyber-threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities or incidents. We maintain a system of internal controls and insurance coverage to mitigate against such operational risks, including data processing system failures and errors and customer or employee fraud. If our internal controls fail to prevent or detect an occurrence, or if any resulting loss is not insured or exceeds applicable insurance limits, it could have a material adverse effect on our business, financial condition and results of operations.

Furthermore, the public perception that a cyber-attack on our systems has been successful, whether or not this perception is correct, may damage our reputation with customers and third-parties with whom we do business.

We have a continuing need for technological change, and we may not have the resources to effectively implement new technology or we may experience operational challenges when implementing new technology.

The financial services industry is undergoing rapid technological changes with frequent introductions of new technology-driven products and services. In addition to allowing us to better serve customers, the effective use of technology increases efficiency and enables financial institutions to reduce costs. Our future success will depend in part upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands for convenience as well as to create additional efficiencies in our operations as we continue to grow and expand our market area.

We may experience operational challenges as we implement these new technology enhancements, or seek to implement them across all of our offices and business units, which could result in us not fully realizing the anticipated benefits from such new technology or require us to incur significant costs to remedy any such challenges in a timely manner. Many of our larger competitors have substantially greater resources to invest in technological improvements. As a result, they may be able to offer additional and/or superior products to those that we will not be able to offer, which would put us at a competitive disadvantage. Accordingly, a risk exists that we will not be able to effectively implement new technology-driven products and services or be successful in marketing such products and services to our customers.

Our business depends on our ability to attract and retain Korean-American immigrants as clients.

A significant portion of our business is based on successfully attracting and retaining Asian-American immigrants generally, and first and second generation Korean-American immigrants specifically, as clients for our commercial loans and consumer loans and deposits. We may be limited in our ability to attract Asian-American clients to the extent the U.S. adopts restrictive domestic immigration laws.

Adverse conditions in Asia and elsewhere could adversely affect our business.

Because our business focuses on Korean-American individuals and businesses as customers, we are likely to feel the effects of adverse economic and political conditions in Asia, including the effects of rising inflation or slowing growth and volatility in the real estate and stock markets in South Korea and other regions. The U.S. and global economic policies, military tensions and unfavorable global economic conditions may adversely impact the Asian economies. In addition, pandemics and other public health crises or concerns over the possibility of such crises could create economic and financial disruptions in the region, such as recent health pandemics in China, South Korea as well as other regions. A significant deterioration of economic conditions in Asia could expose us to, among other things, economic and transfer risk, and we could experience an outflow of deposits by those of our customers with connections to Asia. Transfer risk may result when an entity is unable to obtain the foreign exchange needed to meet its obligations or to provide liquidity.

This may adversely impact the recoverability of investments with, or loans made to, such entities. Adverse economic conditions in Asia, and in South Korea in particular, may also negatively impact asset values and the profitability and liquidity of our customers who operate in this region.

Severe Weather, Natural Disasters or Other Climate Change Related Matters Could Significantly Impact Our Business.

Our primary market is located in an earthquake-prone zone in California, which is also subject to other weather or disasters, such as severe rainstorms, wildfire or flood, as well as health epidemics or pandemics (or expectations about them). These events could interrupt our business operations unexpectedly. Climate-related physical changes and hazards could also pose credit risks for us. For example, our borrowers may have collateral properties located in coastal areas at risk to rise in sea level. The properties pledged as collateral on our loan portfolio could also be damaged by tsunamis, floods, earthquakes or wildfires and thereby the recoverability of loans could be impaired. A number of factors can affect credit losses, including the extent of damage to the collateral, the extent of damage not covered by insurance, the extent to which unemployment and other economic conditions caused by the natural disaster adversely affect the ability of borrowers to repay their loans, and the cost of collection and foreclosure to us. Lastly, there could be increased insurance premiums and deductibles, or a decrease in the availability of coverage, due to severe weather-related losses. The ultimate impact on our business of a natural disaster, whether or not caused by climate change, is difficult to predict.

As we expand our business outside of California markets, we will encounter risks that could adversely affect us.

We primarily operate in California markets with a concentration of Korean-American individuals and businesses as customers. We also currently have branch operations in New York, New Jersey and Texas, and LPO operations in various states, and would evaluate additional branch expansion opportunities in other Korean-American populated markets. In the course of this expansion, we will encounter significant risks and uncertainties that could have a material adverse effect on our operations. These risks and uncertainties include increased expenses and operational difficulties arising from, among other things, our need to hire adequate staffing, attract sufficient business in new markets, to manage operations in non-contiguous market areas, to comply with all of the various local laws and regulations, and to anticipate events or differences in markets in which we have no current experience.

We have a limited service area. This lack of geographic and ethnic diversification increases our risk profile.

Our operations are conducted through 16 branches located principally in Los Angeles and Orange Counties of Southern California and to a lesser extent in Texas and the New York/New Jersey region. As a result of these geographic concentrations, our results depend largely upon economic and business conditions in these areas. Any significant deterioration in economic and business conditions in our service areas could have a material adverse impact on the quality of our loan portfolio and the demand for our products and services, which in turn could have a material adverse effect on our results of operations. We have attempted to diversify some of our loan business through LPOs in five other states; however, this diversification strategy may not be effective to reduce our geographic and ethnic concentrations.

Risks Related to Our Loans

Because a significant portion of our loan portfolio is comprised of real estate loans, negative changes in the economy affecting real estate values and liquidity could impair the value of collateral securing our real estate loans and result in loan and other losses.

At December 31, 2023, approximately 84.4% of our loans held-for-investment portfolio was comprised of loans with real estate as a primary or secondary component of collateral. As a result, adverse developments affecting real estate values in our market areas could increase the credit risk associated with our real estate loan portfolio. The market value of real estate can fluctuate significantly in a short period of time as a result of market conditions in the geographic area in which the real estate is located. Real estate values and real estate markets are generally affected by changes in national, regional or local economic conditions, the rate of unemployment, fluctuations in interest rates and the availability of loans to potential purchasers, changes in tax laws and other governmental statutes, regulations and policies and acts of nature, such as earthquakes and natural disasters. Adverse changes affecting real estate values and the liquidity of real estate in one or more of our markets could increase the credit risk associated with our loan portfolio, significantly impair the value of property pledged as collateral on loans and affect our ability to sell the collateral upon foreclosure without a loss or additional losses, which could result in losses that would adversely affect profitability.

Such declines and losses would have a material adverse impact on our business, results of operations and growth prospects. In addition, if hazardous or toxic substances are found on properties pledged as collateral, the value of the real estate could be impaired. If we foreclose on and take title to such properties, we may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require us to incur substantial expenses to address unknown liabilities and may materially reduce the affected property's value or limit our ability to use or sell the affected property.

The recognition of gains on the sale of loans and servicing asset valuations reflect certain assumptions.

We expect that gains on the sale of U.S. government guaranteed loans, primarily 7(a) loans, will comprise a significant component of our revenue. The gains on such sales recognized for the year ended December 31, 2023 was $3.6 million. The determination of these gains is based on assumptions regarding the value of unguaranteed loans retained, servicing rights retained, and net premiums paid by purchasers of the guaranteed portions of U.S. government guaranteed loans. The value of retained unguaranteed loans and servicing rights are determined based on market derived factors such as prepayment rates and current market conditions. Significant errors in assumptions used to compute gains on sale of these loans or servicing asset valuations could result in material revenue misstatements, which may have a material adverse effect on our business, results of operations and profitability.

If we breach any of the representations or warranties we make to a purchaser of our mortgage loans, we may be liable to the purchaser for certain costs and damages.

When we sell or securitize mortgage loans in the ordinary course of business, we are required to make certain representations and warranties to the purchaser about the mortgage loans and the manner in which they were originated. Under these agreements, we may be required to repurchase mortgage loans if we have breached any of these representations or warranties, in which case we may record a loss. In addition, if repurchase and indemnity demands increase on loans that we sell from our portfolios, our liquidity, results of operations and financial condition could be adversely affected.

The non-guaranteed portion of SBA loans that we retain on our balance sheet as well as the guaranteed portion of SBA loans that we sell could expose us to various credit and default risks.

We originated $83.0 million and $141.1 million, respectively, of SBA loans (total commitment basis) during the years ended December 31, 2023 and 2022. During the same time periods, we sold $82.3 million and $122.9 million, respectively, of the guaranteed portion of our SBA loans. As of December 31, 2023, we held $150.8 million of SBA loans on our balance sheet, $141.1 million of which consisted of the non-guaranteed portion of SBA loans and $9.6 million or 6.4% consisted of the guaranteed portion of SBA loans. The non-guaranteed portion of SBA loans have a higher degree of risk of loss as compared to the guaranteed portion of such loans, and these non-guaranteed loans make up a substantial majority of our remaining SBA loans. When we sell the guaranteed portion of SBA loans in the ordinary course of business, we are required to make certain representations and warranties to the purchaser about the SBA loan and the manner in which they were originated.

Under these agreements, we may be required to repurchase the guaranteed portion of the SBA loan if we have breached any of these representations or warranties, in which case we may record a loss. In addition, if repurchase and indemnity demands increase on loans that we sell from our portfolios, our liquidity, results of operations and financial condition could be adversely affected. Further, we generally retain the non-guaranteed portions of the SBA loans that we originate and sell, and to the extent the borrowers of such loans experience financial difficulties, our financial condition and results of operations could be adversely impacted.

Many of our loans are to commercial borrowers, which have a higher degree of risk than other types of loans.

At December 31, 2023 we had $1.91 billion of commercial loans, consisting of $1.57 billion of CRE loans and $342.0 million of C&I loans, for which real estate is not the primary source of collateral. Commercial loans represented 82.4% of our total loan portfolio at December 31, 2023. Commercial loans are often larger and involve greater risks than other types of lending. Because payments on such loans are often dependent on the successful operation or development of the property or business involved, repayment of such loans is often more sensitive than other types of loans to adverse conditions in the real estate market or the general business climate and economy.

Our high concentration in commercial real estate could cause our regulators to restrict our ability to grow and could adversely affect our results of operations and financial condition.

CRE lending continues to be a significant focus of federal and state bank regulators with multiple guidelines issued in an attempt by regulators to manage CRE lending risk across the banking system. These various guidelines and pronouncements were issued in response to the agencies' concerns that rising CRE concentrations might expose institutions to unanticipated earnings and capital volatility in the event of adverse changes in the CRE market. For example, bank regulators have issued guidance which refer to as the CRE Concentration Guidance that identifies certain CRE concentration levels that, if exceeded, will expose an institution to additional supervisory analysis with regard to the institution's CRE concentration risk.

The CRE Concentration Guidance is designed to promote appropriate levels of capital and sound loan and risk management practices for institutions with a concentration of CRE loans. In general, the CRE Concentration Guidance establishes the following supervisory criteria as preliminary indications of possible CRE concentration risk: (i) the institution's total construction, land development and other land loans represent 100% or more of total risk-based capital; or (ii) total CRE loans as defined in the regulatory guidelines represent 300% or more of total risk-based capital, and the institution's CRE loan portfolio has increased by 50% or more during the prior 36-month period. Pursuant to the CRE Concentration Guidelines, loans secured by owner-occupied CRE are not included for purposes of CRE Concentration calculation. As of December 31, 2023, using regulatory definitions in the CRE Concentration Guidance, our CRE loans represented 280.7% of our total risk-based capital, as compared to 253.9%, 269.8% and 256.1% as of December 31, 2022, 2021 and 2020, respectively. The FDIC may become concerned about our CRE loan concentrations, and they may inhibit our organic growth by restricting our ability to execute on our strategic plan.

Our residential mortgage loan product consists primarily of non-qualified residential mortgage loans which may be considered riskier and less liquid than qualified residential mortgage loans.

As of December 31, 2023, our residential mortgage loan portfolio amounted to $389.4 million or 16.8% of our total loans held-for-investment portfolio. As of such date, all of our residential mortgage loans consisted of non-qualified residential mortgage loans. Non-qualified loans are residential loans that do not comply with certain standards set by the Dodd-Frank Act and its related regulations. These non-qualified residential mortgage loans are considered to have a higher degree of risk and are less liquid than qualified mortgage loans. We offer two residential mortgage products: a lower LTV, alternative document non-qualified residential mortgage loan, and a qualified residential mortgage loan.

We originated non-qualified residential mortgage loans of $63.4 million and $177.1 million, respectively, for the years ended December 31, 2023 and 2022. We originated qualified residential mortgage loans of $0 and $400 thousand, respectively, for the years ended December 31, 2023 and 2022. As of December 31, 2023, our non-qualified residential mortgage loans had a weighted average LTV of 65.3% and a weighted average Fair Isaac Corporation ("FICO") score of 761.

Our non-qualified residential mortgage loans are designed to assist Asian-Americans who have recently immigrated to the U.S. or are self-employed business owners and as such are willing to provide higher down payment amounts and pay higher interest rates and fees in return for documentation requirements more accommodative for self-employed borrowers. Non-qualified residential mortgage loans are considered less liquid than qualified residential mortgage loans because such loans cannot be securitized and can only be sold directly to other financial institutions. Such non-qualified residential mortgage loans may be considered riskier than qualified mortgage loans. Despite the original intention to hold to maturity for our non-qualified residential mortgage loans at the time of origination, we may sell these loans in the secondary market if opportunity arises. However, these loans also present pricing risk as rates change, and our sale premiums cannot be guaranteed. Further, the criteria for our loans to be purchased by other investors may change from time to time, which could limit our ability to sell these loans in the secondary market. Mortgage production, including refinancing activity, historically declines in rising interest rate environments. While we have been experiencing historically low interest rates over the last five years, this low interest rate environment likely will not continue indefinitely. Consequently, when interest rates increase further, our mortgage production may not continue at current levels.

Curtailment of government guaranteed loan programs could affect a segment of our business.

A significant segment of our business consists of originating and periodically selling the U.S. government guaranteed loans, in particular those guaranteed by the SBA. Presently, the SBA guarantees 75% to 85% of the principal amount of each qualifying SBA loan originated under the SBA's 7(a) loan program. The U.S. government may not maintain the SBA 7(a) loan program, and even if it does, such guaranteed portion may not remain at its current level. In addition, from time to time, the government agencies that guarantee these loans reach their internal limits and cease to guarantee future loans. In addition, these agencies may change their rules for qualifying loans or Congress may adopt legislation that would have the effect of discontinuing or changing the loan guarantee programs. Therefore, if these changes occur, the volume of loans to small business and industrial borrowers of the types that now qualify for government guaranteed loans could decline. Also, the profitability of the sale of the guaranteed portion of these loans could decline as a result of market displacements due to increases in interest rates, and premiums realized on the sale of the guaranteed portions could decline from current levels.

As the funding and sale of the guaranteed portion of SBA 7(a) loans is a major portion of our business and a significant portion of our noninterest income, any significant changes to the funding for the SBA 7(a) loan program may have an unfavorable impact on our prospects, future performance and results of operations. The gain on sale of SBA loans was $3.6 million and $8.0 million, respectively, or 33.4% and 55.1%, respectively, of the total noninterest income, for the years ended December 31, 2023 and 2022.

The small- and medium-sized businesses that we lend to may have fewer resources to weather adverse business developments, which may impair a borrower's ability to repay a loan, and such impairment could adversely affect our results of operations and financial condition.

We target our business development and marketing strategy primarily to serve the banking and financial services needs of small- to medium-sized businesses. These businesses generally have fewer financial resources in terms of capital or borrowing capacity than larger entities, frequently have smaller market shares than their competitors, may be more vulnerable to economic downturns, often need substantial additional capital to expand or compete and may experience substantial volatility in operating results, any of which may impair a borrower's ability to repay a loan. In addition, the success of a small and medium-sized business often depends on the management talents and efforts of one or two people or a small group of people, and the death, disability or resignation of one or more of these people could have a material adverse impact on the business and its ability to repay its loan. If general economic conditions negatively impact the markets in which we operate and small to medium-sized businesses are adversely affected or our borrowers are otherwise affected by adverse business developments, our business, financial condition and results of operations may be adversely affected.

Real estate construction loans are based upon estimates of costs and values associated with the complete project. These estimates may be inaccurate, and we may be exposed to significant losses on loans for these projects.

Real estate construction loans, including land development loans, comprised approximately 1.1% of our total loans held-for-investment portfolio as of December 31, 2023, and such lending involves additional risks because funds are advanced upon the security of the project, which is of uncertain value prior to its completion, and costs may exceed realizable values in declining real estate markets. Because of the uncertainties inherent in estimating construction costs and the realizable market value of the completed project and the effects of governmental regulation of real property, it is relatively difficult to evaluate accurately the total funds required to complete a project and the related LTV ratio.

The risks inherent in construction lending may affect adversely our results of operations. Such risks include, among other things, the possibility that contractors may fail to complete, or complete on a timely basis, construction of the relevant properties; substantial cost overruns in excess of original estimates and financing; market deterioration during construction; and lack of permanent take-out financing. Loans secured by such properties also involve additional risks because they have no operating history. In these loans, loan funds are advanced upon the security of the project under construction (which is of uncertain value prior to completion of construction) and the estimated operating cash flow to be generated by the completed project. Such properties may not be sold or leased so as to generate the cash flow anticipated by the borrower. A general decline in real estate sales and prices across the U.S. or locally in the relevant real estate market, a decline in demand for residential property, economic weakness, high rates of unemployment and reduced availability of mortgage credit are some of the factors that can adversely affect the borrowers' ability to repay their obligations to us and the value of our security interest in collateral, and thereby adversely affect our results of operations and financial results.

Nonperforming assets take significant time to resolve and adversely affect our results of operations and financial condition, and could result in further losses in the future.

As of December 31, 2023, our nonperforming loans ("NPLs") held-for-investment totaled $3.9 million, or 0.17% of our loans held-for-investment portfolio. Our NPAs, which include NPLs and other real estate owned ("OREO"), totaled $6.5 million, or 0.23% of total assets. A loan is placed on nonaccrual status if: (i) it is maintained on a cash basis because of deterioration in the financial condition of the borrower, (ii) payment in full of principal or interest is not expected, or (iii) principal or interest has been in default for a period of 90 days or more, unless the loan is both well secured and in the process of collection. In addition, we had $1.4 million in accruing loans that were 30-89 days past due as of December 31, 2023.

Our NPAs adversely affect our net income in various ways. We do not record interest income on nonaccrual loans or OREO, which adversely affects our net income and returns on assets and equity, increases our loan administration costs and adversely affects our efficiency ratio. When we take collateral in foreclosure and similar proceedings, we are required to mark the collateral to its then-fair market value, which may result in a loss. These NPLs and OREO also increase our risk profile and the level of capital our regulators believe is appropriate for us to maintain in light of such risks. The resolution of NPAs requires significant time commitments from management and can be detrimental to the performance of their other responsibilities. If we experience increases in NPLs and NPAs, our net interest income may be negatively impacted and our loan administration costs could increase, each of which could have an adverse effect on our net income and related ratios, such as return on assets and equity.

Real estate market volatility and future changes in our disposition strategies could result in net proceeds that differ significantly from our other real estate owned fair value appraisals.

As of December 31, 2023, we had OREO of $2.6 million on our books. OREO typically consists of properties that we obtain through foreclosure or through an in-substance foreclosure in satisfaction of an outstanding loan. The Company initially records OREO at fair value at the time of foreclosure. Thereafter, OREO is recorded at the lower of cost or fair value based on their subsequent changes in fair value. The fair value of OREO is generally based on recent real estate appraisals adjusted for estimated selling costs. Generally, in determining fair value, an orderly disposition of the property is assumed, unless a different disposition strategy is expected. Significant judgment is required in estimating the fair value of OREO property, and the period of time within which such estimates can be considered current is significantly shortened during periods of market volatility.

In response to market conditions and other economic factors, we may utilize alternative sale strategies other than orderly disposition as part of our OREO disposition strategy, such as immediate liquidation sales. In this event, as a result of the significant judgments required in estimating fair value and the variables involved in different methods of disposition, the net proceeds realized from such sales transactions could differ significantly from the appraisals, comparable sales and other estimates used to determine the fair value of our OREO properties.

We could be exposed to risk of environmental liabilities with respect to properties to which we take title.

In the course of our business, we may foreclose and take title to real estate, and could be subject to environmental liabilities with respect to these properties. We may be held liable to a governmental entity or to third-parties for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination, or may be required to investigate or clean up hazardous or toxic substances, or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, if we are the owner or former owner of a contaminated site, we may be subject to common law claims by third-parties based on damages and costs resulting from environmental contamination emanating from the property. If we become subject to significant environmental liabilities, our business, financial condition, results of operations and cash flows may be materially and adversely affected.

Risks Related to Our Deposits

Competition among U.S. banks for customer deposits is intense and may increase the cost of retaining current deposits or procuring new deposits.

Any changes we make to the rates offered on our deposit products to remain competitive with other financial institutions may adversely affect our profitability and liquidity. Interest-bearing deposit accounts earn interest at rates established by management based on competitive market factors. Our cost of deposits increased from 0.62% for the year ended December 31, 2022, to 2.87% for the year ended December 31, 2023. The demand for the deposit products we offer may also be reduced due to a variety of factors, such as demographic patterns, changes in customer preferences, reductions in consumers' disposable income, regulatory actions that decrease customer access to particular products, or the availability of competing products.

A large percentage of our deposits is attributable to a relatively small number of customers, which could adversely affect our liquidity, financial condition and results of operations.

Our ten largest depositor relationships, excluding wholesale deposits, accounted for approximately 8.7% of our deposits at December 31, 2023. Our largest depositor relationship accounted for approximately 1.4% of our deposits at December 31, 2023. The Bank maintained brokered deposits of $303.7 million and $87.0 million, respectively, and deposits from California State Treasurer of $60.0 million and $60.0 million, respectively, at December 31, 2023 and 2022. Federal banking law and regulation place restrictions on depository institutions regarding brokered deposits. Due to the short-term nature of the deposit balances maintained by our large depositors, the deposit balances they maintain with us may fluctuate. The loss of one or more of our ten largest customers, or a significant decline in the deposit balances due to ordinary course fluctuations related to these customers' businesses, would be likely to adversely affect our liquidity and require us to raise deposit interest rates to attract new deposits, purchase federal funds or borrow funds on a short term basis to replace such deposits. Depending on the interest rate environment and competitive factors, low cost deposits may need to be replaced with higher cost funding, resulting in a decrease in net interest income and net income.

Risks Related to Our Management

We are highly dependent on key personnel and the loss of one or more of those key personnel may materially and adversely affect our ability to execute on our strategic plan, existing and prospective customer relationships, growth prospects, and results of operations.

Competition for qualified employees and personnel in the banking industry is intense and there are a limited number of qualified persons with knowledge of and experience in the community banking industry generally, and in community banking focused on Korean-Americans specifically. The process of recruiting personnel with the combination of skills and attributes required to carry out our strategies can often be lengthy. Our success depends to a significant degree upon our ability to attract and retain qualified management, loan and deposit origination, administrative, marketing and technical personnel and upon the continued contributions of our management and personnel. In addition, our continued success will be highly dependent on retaining the current executive management team, which includes, but is not limited to, executive and senior management, finance, lending, credit administration, and other professionals at the Company and the Bank level who work directly with the management team to implement the strategic direction of the Company's and the Bank's Boards of Directors. We believe this management team, comprised principally of long-time employees who have worked in the banking industry for a number of years, is integral to implementing our business strategy. The loss of the services of any one of them could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Risks Related to Our Allowance for Credit Losses and Other Accounting Estimates

Accounting estimates and risk management processes rely on analytical models that may prove inaccurate resulting in a material adverse effect on our business, financial condition and results of operations.

The processes we use to estimate current expected credit losses and to measure the fair value of financial instruments, as well as the processes used to estimate the effects of changing interest rates and other market measures on our financial condition and results of operations, depend upon the use of analytical models. These models reflect assumptions that may not be accurate, particularly in times of market stress or other unforeseen circumstances. Even if these assumptions are adequate, the models using those assumptions may prove to be inadequate or inaccurate because of other flaws in their design or their implementation. If the models we use for interest rate risk and asset-liability management are inadequate, we may incur increased or unexpected losses upon changes in market interest rates or other market measures. If the models we use for determining our current expected loan losses are inadequate, the ACL may not be sufficient to support future charge-offs. If the models we use to measure the fair value of financial instruments are inadequate, the fair value of such financial instruments may fluctuate unexpectedly or may not accurately reflect what we could realize upon sale or settlement of such financial instruments. Any such failure in our analytical models could result in losses that could have a material adverse effect on our business, financial condition and results of operations.

Our allowance for credit losses may not be adequate to cover actual losses in our loan portfolio.

A significant source of risk arises from the possibility that losses could be sustained because borrowers, guarantors and related parties may fail to perform in accordance with the terms of their loans and leases. The underwriting and credit monitoring policies and procedures that the Bank has adopted to address this risk may not prevent unexpected losses and such losses could have a material adverse effect on our business, financial condition, results of operations and cash flows. These unexpected losses may arise from a wide variety of specific or systemic factors, many of which are beyond our ability to predict, influence or control.

Like all financial institutions, the Bank maintains an ACL to provide for loan defaults and non-performance. ACL on loans, expressed as a percentage of loans held-for-investment, was 1.19%, 1.22% and 1.29%, respectively, at December 31, 2023, 2022 and 2021. ACL is funded from a provision (reversal) for credit losses, which is a charge to our income statement. Our provision (reversal) for credit losses, was $(132) thousand, $3.6 million and $(4.6) million, respectively, for the years ended December 31, 2023, 2022 and 2021.

The determination of an appropriate level of allowance for credit losses is an inherently difficult process and is based on numerous assumptions. The amount of future losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates that may be beyond our control, and these losses may exceed current estimates. For these reasons, our allowance for credit losses may not be adequate to cover actual loan losses, and future provision for credit losses could materially and adversely affect our business, financial condition, results of operations and cash flows.

Risks Related to Our Growth Strategy

We may not be able to continue growing our business, particularly if we cannot increase loans and deposits through organic growth because of constrained capital resources or other reasons.

We have grown our consolidated assets from $1.75 billion as of December 31, 2019 to $2.79 billion as of December 31, 2023, and our deposits from $1.48 billion as of December 31, 2019 to $2.35 billion as of December 31, 2023. We intend to continue to grow our business through organic loan and deposit growth, and we anticipate that much of our future growth will be dependent on our ability to successfully implement our organic growth strategy, which may include establishing additional branches or LPOs in new or existing markets. A risk exists, however, that we will not be able to gain regulatory approval or identify suitable locations and management teams to execute this strategy. Further, our ability to grow organically loan and deposits is dependent on the financial health of our target demographic of Korean-Americans, which is in turn based on the financial health not only of their relevant geographic locations in the U.S. but also more broadly on the economic health of Korea. A decline in economic and business conditions in our market areas or in Korea could have a material impact on our loan portfolio or the demand for our products or services, which in turn may have a material adverse effect on our financial condition and results of operations.

Operations in our LPOs have positively affected our results of operations, and sustaining these operations and growing loans may be more difficult than we expect, which could adversely affect our results of operations.

We maintain seven LPOs that primarily originate SBA loans. During the year ended December 31, 2023, these LPOs accounted for approximately 11.4% of new loans originated by the Bank. Sustaining the expansion of loan production through use of these out of state LPOs depends on a number of factors, including the continued strength of the markets in which our offices are located and identifying, hiring and retaining critical personnel. The strength of these markets could be weakened by anticipated increases in interest rates and any economic downturn. Moreover, competition for successful business developers and relationship managers in the SBA loan industry is fierce, and we may not be able to attract and retain the personnel we need to profitably operate our LPOs. Unsuccessful operation of our out of state LPOs could negatively impact our financial condition and results of operation.

Risks Related to Our Capital

We are subject to stringent capital requirements.

We are subject to capital adequacy and liquidity rules and other regulatory requirements specifying minimum amounts and types of capital that must be maintained. From time to time, banking regulators implement changes to these regulatory capital adequacy and liquidity guidelines.

The failure to meet applicable regulatory capital requirements could result in one or more of our regulators placing limitations or conditions on our activities, including our growth initiatives, or restricting the commencement of new activities, and could affect customer and investor confidence, our costs of funds and FDIC insurance costs, our ability to pay dividends on our common stock, our ability to make acquisitions, and our business, results of operations and financial conditions, generally.

We may need to raise additional capital in the future, and if we fail to maintain sufficient capital, whether due to losses, an inability to raise additional capital or otherwise, our financial condition, liquidity and results of operations, as well as our ability to maintain regulatory compliance, would be adversely affected.

We face significant capital and other regulatory requirements as a financial institution. We will likely need to raise additional capital in the future to provide us with sufficient capital resources and liquidity to meet our commitments and business needs. In addition, the Company, on a consolidated basis, and the Bank, on a stand-alone basis, must meet certain regulatory capital requirements and maintain sufficient liquidity. Importantly, regulatory capital requirements could increase from current levels, which could require us to raise additional capital or contract our operations. Our ability to raise additional capital depends on conditions in the capital markets, economic conditions and a number of other factors, including investor perceptions regarding the banking industry, market conditions and governmental activities, and significantly on our financial condition and performance. Accordingly, we may not be able to raise additional capital if needed or, if we can raise capital, we may not be able to do so on terms acceptable to us. If we fail to maintain capital to meet regulatory requirements or if we fail to raise capital for operations when needed or opportune, our financial condition, liquidity and results of operations would be materially and adversely affected.

The Company relies on dividends from the Bank to pay cash dividends, repurchase shares and fund its operating expenses.

The Company is a separate legal entity from its subsidiary, the Bank. The Company receives substantially all of its revenue from the Bank in the form of dividends, which is the Company's principal source of funds to pay cash dividends to the Company's shareholders, repurchase shares and cover operational expenses of the holding company. Various federal and state laws and regulations limit the amount of dividends that the Bank may pay to Company. In the event that the Bank is unable to pay dividends to Company, Company may not be able to pay dividends to its shareholders and pay interest on the subordinated debentures. As a result, it could have an adverse effect on Company's stock price and investment value.

Under federal law, the Bank's payment of capital distributions to the Company may be limited or prohibited if, for example, the Bank does not maintain adequate levels of capital based on regulatory guidelines or by actions taken by our regulators. In addition, as a California bank, the Bank is subject to state law restrictions on the payment of dividends.

Legislative and Regulatory Risks

We are subject to extensive government regulation that could limit or restrict our activities, which in turn may adversely impact our ability to increase our assets and earnings.

We operate in a highly regulated environment and are subject to supervision and regulation by a number of governmental regulatory agencies, including the Federal Reserve, the CDFPI and the FDIC. Regulations adopted by these agencies, which are generally intended to provide protection for depositors and customers rather than for the benefit of shareholders, govern a comprehensive range of matters relating to ownership and control of our shares, our acquisition of other companies and businesses, permissible activities for us to engage in, maintenance of adequate capital levels, and other aspects of our operations. These bank regulators possess broad authority to prevent or remedy unsafe or unsound practices or violations of law. The laws and regulations applicable to the banking industry could change at any time and we cannot predict the effects of these changes on our business, profitability or growth strategy. Increased regulation could increase our cost of compliance and adversely affect profitability.

The Federal Reserve, the FDIC and the CDFPI periodically examine our business, including our compliance with laws and regulations. If, as a result of an examination, a banking agency were to determine that our financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of any of our operations had become unsatisfactory, or that we were in violation of any law or regulation, they may take a number of different remedial actions as they deem appropriate.

Moreover, certain of these regulations contain significant punitive sanctions for violations, including monetary penalties and limitations on a bank's ability to implement components of its business plan, such as expansion through mergers and acquisitions or the opening of new branch offices. In addition, changes in regulatory requirements may add costs associated with compliance efforts. Furthermore, government policy and regulation, particularly as implemented through the Federal Reserve, significantly affect credit conditions. Negative developments in the financial industry and the impact of new legislation and regulation in response to those developments could negatively impact our business operations and adversely impact our financial performance.

We are subject to numerous laws designed to protect consumers, including the Community Reinvestment Act and fair lending laws, and failure to comply with these laws could lead to a wide variety of sanctions.

The CRA, the Equal Credit Opportunity Act, the Fair Housing Act and other fair lending laws and regulations prohibit discriminatory lending practices by financial institutions. The U.S. Department of Justice, federal banking agencies and other federal agencies are responsible for enforcing these laws and regulations. A challenge to an institution's compliance with fair lending laws and regulations could result in a wide variety of sanctions, including damages and civil money penalties, injunctive relief, restrictions on mergers and acquisitions activity, restrictions on expansion and restrictions on entering new business lines. Private parties may also challenge an institution's performance under fair lending laws in private class action litigation. Such actions could have a material adverse effect on our business, financial condition, results of operations and growth prospects. In addition, federal, state and local laws have been adopted that are intended to eliminate certain lending practices considered "predatory." These laws prohibit practices such as steering borrowers away from more affordable products, selling unnecessary insurance to borrowers, repeatedly refinancing loans and making loans without a reasonable expectation that the borrowers will be able to repay the loans irrespective of the value of the underlying property. It is our policy not to make predatory loans, but these laws create the potential for liability with respect to our lending and loan investment activities. They increase our cost of doing business and, ultimately, may prevent us from making certain loans and cause us to reduce the average percentage rate or the points and fees on loans that we do make.

Monetary policies and regulations of the Federal Reserve could adversely affect our business, financial condition and results of operations.

In addition to being affected by general economic conditions, our earnings and growth are affected by the policies of the Federal Reserve. An important function of the Federal Reserve is to regulate the money supply and credit conditions. Among the instruments used by the Federal Reserve to implement these objectives are open market purchases and sales of U.S. government securities, adjustments of the discount rate and changes in banks' reserve requirements against bank deposits. These instruments are used in varying combinations to influence overall economic growth and the distribution of credit, bank loans, investments and deposits. Their use also affects interest rates charged on loans or paid on deposits.

The monetary policies and regulations of the Federal Reserve have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future. Importantly, the Federal Reserve recently and aggressively raised its benchmark federal funds rate in an attempt to combat inflation. This has had a direct effect on financial institutions like us. Further increases by the Federal Reserve could impact, among other elements of our business and operations, our net interest margin as deposit costs generally increase alongside general market interest rate increases following Federal Reserve actions, loan demand may suffer as the cost of credit to borrowers increases, and any economic downturn that results from increased interest rates caused by the Federal Reserve's actions could impact our borrowers' ability to repay their loans. The effects of such policies upon our business, financial condition and results of operations cannot be predicted precisely, but the effects on our financial condition and results of operations could be severely and negatively impacted.

Item 1B. Unresolved Staff Comments

None.

Item 1C. Cybersecurity

Cybersecurity Risk Management and Strategy

As a financial institution, the Company's business depends on the continuous operation of its information and data processing systems and the security of information received from customers, employees and others. The Company has developed and implemented a cybersecurity program intended to protect the reliability of its critical systems and the confidentiality of nonpublic information.

The Company has designed and assess its cybersecurity program based on the National Institute of Standards and Technology Cybersecurity Framework ("NIST CSF") and the guidance of banking and other regulatory agencies. The Company's information security team has primary responsibility for overall cybersecurity risk management program. The Company's cybersecurity professionals are led by the Information Security Officer, who has over 23 years of experience in the information technology field, including over 3 years of experience focusing solely on the cybersecurity space. The Information Security Officer has Security+ and Network+ certifications and is currently working on obtaining CISSP. The Company's cybersecurity risk management is integrated as part of its overall risk management program, and the Company's Chief Risk Officer, Information Security Officer in conjunction with Chief Information Officer work together to develop and maintain the cybersecurity program.

In addition to its own employees, the Company engages third party service providers to provide security products and services as needed, using their expertise to evaluate and enhance its cybersecurity program and to inform employees regarding evolving threats, risks and defensive measures. Generally, these third party service providers are managed by the Information Security Officer and Chief Information Officer.

Features of the cybersecurity risk management program include:

- Technology solutions designed to prevent, detect and mitigate cybersecurity incidents.
- Review, testing and assessments of the Company's cybersecurity systems, both internal and using third party service providers with cybersecurity expertise.
- Required cybersecurity training for employees to learn about data security, how to identify and mitigate potential cybersecurity risks and how to protect our resources and information.
- Specialized security training for members of the risk management, cybersecurity and technology teams that includes information about evolving cybersecurity threats and new risk mitigation and detection technologies.
- Processes to assess, identify and manage the material risks from cybersecurity threats include the risks arising from threats associated with third-party service providers, including technology providers and cloud-based platforms.
- A cybersecurity incident response plan that includes procedures for responding to cybersecurity incidents and facilitates coordination and communication across multiple parts of the Company.
- On-going assessment of the adequacy of the cybersecurity program.

Like many financial institutions, the Company has experienced cyber-based attacks and other attempts to compromise its information systems and expects that it will continue to experience these attacks and attempts in the future. In 2021, the Bank was the target of a ransomware attack in which an external actor illegally accessed and/or acquired certain data on its network. As a result, the Bank was sued in a purported class action lawsuit. The lawsuit is currently in process of settlement, subject to final court approval. See "Item 3. Legal Proceedings," above. While the Company has not identified other known risks from previous cybersecurity threats that have materially affected or are reasonably likely to materially affect the Company, like all financial institutions, the Company faces ongoing risks from certain cybersecurity threats that, if realized, are reasonably likely to materially affect its business, results of operations, or financial condition. See Item 1A – Risk Factors – "Risk Related to our Business -- System failure or breaches of our network security could subject us to increased operating costs as well as litigation and other liabilities.," above.

Cybersecurity Governance

The Company's Board of Directors and its Risk and Compliance Committee are responsible for overseeing the Company's cybersecurity program and polices. The Company's management, led by the Chief Risk Officer and Information Security Officer in conjunction with Chief Information Officer, is responsible for designing and implementing the program. The Chief Risk Officer and Information Security Officer regularly report to the Risk and Compliance Committee regarding management's implementation of the cybersecurity program, cybersecurity risks and threat, assessments of the Company's cybersecurity systems and the planning and status project to strength the Company's information security. The Company's cybersecurity incident response plan requires that management promptly advise of the Risk and Compliance Committee of any material cybersecurity incident. The Chair of the Risk and Compliance Committee regularly reports to the Board on cybersecurity risks and other matters reviewed by the Committee. Board members may attend Risk and Compliance Committee meetings where cybersecurity issues are discussed and have access to the materials for each Risk and Compliance Committee meeting.

Item 2. Properties

As of December 31, 2023, the Company's headquarters office is located at 3701 Wilshire Boulevard, Suite 900, Los Angeles, California 90010. This office is located in the Wilshire Center/Koreatown District of Los Angeles and houses the Company's management unit, including compliance and Bank Security Act groups, information technology, SBA lending management, branch management, CRE and C&I lending groups, credit administration and administrative groups. The lease expires in September 2033. The Bank leases all of its LPO and retail branch locations.

The Bank maintains 16 branch locations, with eight in Los Angeles County (three in Koreatown, Rowland Heights, Downtown Fashion District, Cerritos, Torrance and Little Tokyo), three in Orange County (Fullerton, Buena Park and Irvine), three on the East Coast (Bayside, New York; and Englewood Cliffs and Palisades Park, New Jersey), and two in Texas (Carrollton and Dallas) as of December 31, 2023. The Bank also maintains seven LPOs located in Los Angeles and Orange Counties, California; Annandale, Virginia; Atlanta, Georgia; Aurora, Colorado; Bellevue, Washington; and Carrollton, Texas.

Item 3. Legal Proceedings

In the normal course of business, the Company is involved in various legal claims. The Company has reviewed all legal claims with counsel and has taken into consideration the views of such counsel as to the potential outcome of the claims in determining the accrued loss contingency. The Company had accrued loss contingencies of $40 thousand for certain legal claims at December 31, 2023. It is reasonably possible the Company may incur losses in addition to the amounts currently accrued. However, at this time, the Company is unable to estimate the range of additional losses that are reasonably possible because of a number of factors, including the fact that certain of these litigation matters are still in their early stages and involve claims for which, at this point, the Company believes have little to no merit. Management has considered these and other possible loss contingencies and does not expect the amounts to be material to the consolidated financial statements.

On August 30, 2021, the Bank identified unusual activity on its network. The Bank responded promptly to disable the activity, investigate its source and monitor the Bank's network. The Bank subsequently became aware of claims that it had been the target of a ransomware attack. On September 7, 2021, the Bank determined that an external actor had illegally accessed and/or acquired certain data on its network. The Bank worked with third-party forensic investigators to understand the nature and scope of the incident and determine what information may have been accessed and/or acquired and who may have been impacted. The investigation revealed that this incident impacted certain files containing certain Bank customer information. Some of these files contained documents related to loan applications, such as tax returns, Form W-2 information of their employees, and payroll records. The Bank has notified all individuals identified as impacted, consistent with applicable laws. All impacted individuals were offered free Equifax Complete Premier credit monitoring and identify theft protection services. The Bank has notified law enforcement and appropriate authorities of the incident.

On December 16, 2021, Plaintiff Min Woo Bae, individually and on behalf of all others similarly situated, filed in the Los Angeles County Superior Court a complaint based on the incident for damages, injunctive relief, and equitable relief, *styled Min Woo Bae v. Pacific City Bank*, Case Number 21STCV45922 ("the Matter"). During the three months ended September 30, 2023, the Bank agreed to settle this matter in exchange for $700 thousand to the putative class members, including costs of settlement administration, and attorneys' fees and costs. The Bank received preliminary court approval of the settlement and notice was provided to members of the proposed class during the three months ended September 30, 2023. However, due to the low claims rate by the members of the proposed class, Plaintiff had requested and the Court had agreed to extend the claims deadline for another 45 days. March 21, 2024 is now the new claims deadline. No new final approval hearing date has been set by the Court.

The Company expects that the full amount of the final settlement will be covered under the Company's applicable insurance policies.

Item 4. Mine Safety Disclosures

Not applicable.

Part II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The Company’s common stock (symbol: PCB) is listed on the NASDAQ Global Select Market. The approximate number of holders of record of the Company’s common stock as of December 31, 2023 was 236. Certain shares are held in “nominee” or “street” name and accordingly, the number of beneficial owners of such shares is somewhat greater.

Dividend Policy

The Company’s shareholders are entitled to receive dividends only if, when and as declared by the Board of Directors and out of funds legally available therefore. It has been the Company’s policy to pay quarterly dividends to holders of its common stock and the Company currently intends to continue paying quarterly dividends. However, the Board of Directors may change or eliminate the payment of future dividends at its discretion, without notice to the shareholders.

Any future determination to pay dividends to the shareholders will depend on the Company’s results of operations, financial condition, capital requirements, banking regulations, payment of dividends on preferred stock, contractual restrictions and any other factors that the Board of Directors may deem relevant. The Company’s profitability and regulatory capital ratios, in addition to other financial conditions, will be key factors in determining the payment of dividends. For additional information, see “Forward-Looking Statements” immediately preceding Part I, and Note 17 to the Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K.

Dividend Restrictions

As a bank holding company, the Company’s ability to pay dividends is affected by the policies and enforcement powers of the Federal Reserve. In addition, the Company is dependent upon the payment of dividends by the Bank as the principal source of funds for the Company to pay dividends in the future, if any, and to make other payments. The Bank is also subject to various legal, regulatory and other restrictions on its ability to pay dividends and make other distributions and payments to its holding company, PCB Bancorp. For additional information, see “Supervision and Regulation - The Company - Dividend Payments, Stock Redemptions and Stock Repurchases” included in Item 1 and Note 17 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

Issuer Purchase of Equity Securities

There were no unregistered sales of equity securities during the year ended December 31, 2023.

The following table presents share repurchase activities during the periods indicated:

($ in thousands, except per share data)	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Number of Shares That May Yet Be Purchased Under the Program
From October 1, 2023 to October 31, 2023	59,474	$ 15.39	59,474	$ 593,324
From November 1, 2023 to November 30, 2023	600	14.99	600	592,724
From December 1, 2023 to December 31, 2023	—	—	—	592,724
Total	**60,074**	**$ 15.39**	**60,074**	

On July 28, 2022, the Company’s Board of Directors approved a repurchase program authorizing the repurchase of up to 5% of the Company’s outstanding common stock, which represented 747,938 shares, through February 1, 2023. On January 26, 2023, the Company announced that it has extended the program expiration from February 1, 2023 to February 1, 2024. The Company completed the repurchase of all shares under this program during the three months ended March 31, 2023. The Company repurchased and retired 747,938 shares of common stock at a weighted-average price of $18.15 per share, totaling $13.6 million under this repurchase program under this program.

On August 2, 2023, the Company’s Board of Directors approved a new repurchase program authorizing the repurchase of up to 5% of the Company’s outstanding common stock, which represented 720,000 shares, through August 2, 2024. The Company repurchased and retired 127,276 shares of common stock at a weighted-average price of $15.58 per share, totaling $2.0 million under this repurchase program through December 31, 2023.

Item 6. Reserved

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion and analysis of financial condition and results of operations together with the Consolidated Financial Statements and accompanying notes included in Item 8 of this Annual Report on Form 10-K. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including those set forth under Item 1A "Risk Factors" and "Forward Looking Statements" immediately preceding Part I of this Annual Report on Form 10-K.

Critical Accounting Estimates

The Company follows accounting and reporting policies and procedures that conform, in all material respects, to GAAP and to practices generally applicable to the financial services industry, the most significant of which are described in Note 1 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K. The preparation of Consolidated Financial Statements in conformity with GAAP requires management to make judgments and accounting estimates that affect the amounts reported for assets, liabilities, revenues and expenses on the Consolidated Financial Statements and accompanying notes, and amounts disclosed as contingent assets and liabilities. While the Company bases estimates on historical experience, current information and other factors deemed to be relevant, actual results could differ from those estimates. Accounting estimates are necessary in the application of certain accounting policies and procedures that are particularly susceptible to significant change. Critical accounting policies are defined as those that require the most complex or subjective judgment and are reflective of significant uncertainties, and could potentially result in materially different results under different assumptions and conditions

The following is a summary of the more subjective and complex accounting estimates and principles affecting the financial condition and results reported in financial statements. In each area, the Company has identified the variables that management believes to be the most important in the estimation process. The Company uses the best information available to make the estimations necessary to value the related assets and liabilities in each of these areas.

Allowance for Credit Losses

On January 1, 2023, the Company adopted the provisions of ASC 326, *"Financial Instruments - Credit Losses (Topic 326)" Instruments*. The adoption of ASC 326 changes the way the Company estimates the ACL on certain financial assets. The adoption of ASC 326 requires the Company to measure and record current expected credit losses for financial assets within the scope of ASC 326, which the Company currently consist substantially of loans, off-balance sheet credit exposures and securities available-for-sale. Measuring credit losses under the current expected credit losses ("CECL") framework requires a significant amount of judgment, including the incorporation of reasonable and supportable forecasts about future conditions that may ultimately impact the level of credit losses the Company may recognize. Under the CECL framework, current expected credit losses are recorded on financial assets within the scope of ASC 326 at the time of their origination or acquisition.

Estimating expected credit losses requires management to use relevant forward-looking information, including the use of reasonable and supportable forecasts. The measurement of the ACL is performed by collectively evaluating loans with similar risk characteristics. The Company's discounted cash flow methodology incorporates a probability of default ("PD") and loss given default ("LGD") model, as well as expectations of future economic conditions, using reasonable and supportable forecasts.

The use of reasonable and supportable forecasts requires significant judgment, such as selecting forecast scenarios, as well as determining the appropriate length of the forecast horizon. Management leverages economic projections from a reputable and independent third party to inform and provide its reasonable and supportable economic forecasts. Although no one economic variable can fully demonstrate the sensitivity of the ACL estimate to changes in economic variables used in the ACL model, the Company utilized changes in U.S. unemployment rate and year-over-year change in real gross domestic product ("GDP") growth rate as its key economic variables. Other internal and external indicators of economic forecasts may also be considered by management when developing the forecast metrics. The Company's ACL model reverts to long-term average loss rates for purposes of estimating expected cash flows beyond a period deemed reasonable and supportable. The Company forecasts economic conditions and expected credit losses over a one-year time horizon. Beyond the one-year forecast time horizon, the Company's ACL model reverts to historical long-term average loss rates over one-year period.

Within the various economic scenarios considered as of December 31, 2023, the quantitative estimate of the ACL would increase by approximately $7.7 million under sole consideration of the more adverse downside scenario. The quoted sensitivity calculation reflects the sensitivity of the modeled ACL estimate to macroeconomic forecast data, but is absent of qualitative overlays and other qualitative adjustments that are part of the quarterly reserving process and does not necessarily reflect the nature and extent of future changes in the ACL for reasons including increases or decreases in qualitative adjustments, changes in the risk profile and size of the portfolio, changes in the severity of the macroeconomic scenario and the range of scenarios under management consideration.

A portion of the collectively evaluated ACL on loans also includes qualitative adjustments for risk factors not reflected or captured by the quantitative modeled ACL but are relevant in estimating future expected credit losses. Qualitative adjustments may be related to and include, but not limited to factors such as: (i) management's assessment of economic forecasts used in the model and how those forecasts align with management's overall evaluation of current and expected economic conditions, (ii) organization-specific risks such as credit concentrations, collateral specific risks, regulatory risks, and external factors that may ultimately impact credit quality, (iii) potential model limitations such as limitations identified through back-testing, and other limitations associated with factors such as underwriting changes, acquisition of new portfolios and changes in portfolio segmentation, and (iv) management's overall assessment of the adequacy of the ACL, including an assessment of ACL model data inputs.

Although management uses the best information reasonably available to derive estimates and assumptions necessary to measure an appropriate level of the ACL, these estimates and assumptions are subject to change in future periods, which may have a material impact on the level of the ACL and the Company's results of operations.

As a part of the adoption of ASC 326, the Company reviewed and revised certain loan segments for the Company's ACL model. Before the adoption of ASC 326, commercial property and SBA property loans were separately presented and represented 63.0% and 6.6% of loans held-for-investment at December 31, 2022, respectively. The Company re-divided these loan segments into commercial property, business property and multifamily loans, as described below, as these new loan segments are determined to share similar characteristics under the Company's ACL model. In addition, four loan segments before the adoption of ASC 326 (commercial term loans, commercial lines of credit, SBA term loans and SBA PPP loans), which represented 12.2% of loans held-for-investment at December 31, 2022, are combined into a single loan segment, commercial and industrial loans, as these loans are determined to share similar risk characteristics under the Company's ACL model. However, loan related disclosures for prior periods continue to be presented under the legacy loan segments in this Annual Report on Form 10-K.

Loan portfolio segments identified by the Company include: commercial real estate (commercial property, business property, multifamily and construction), commercial and industrial, and consumer loans (residential mortgage and other consumer).

Each loan segment bears varying degrees of risk based on, among other things, the type of loan and collateral, and the sensitivity of the borrower or industry to changes in external factors such as economic conditions and interest rate changes. The loan segments are as following:

Commercial Real Estate Loans:

- Commercial property loans – Commercial property loans include loans for which the Company holds real property as collateral, but where the borrower does not occupy the underlying property. The primary risks associated with investor property loans include the borrower's inability to pay, material decreases in the value of the real estate that is being held as collateral, significant increases in interest rates, changes in market rents, and vacancy and conditions of the underlying property, any of which may make the real estate property unprofitable to the borrower. Real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy.
- Business property loans – Business property loans include loans for which the Company holds real property as collateral and where the underlying property is occupied by the borrower, such as with a place of business. These loans are primarily underwritten based on the cash flows of the business and secondarily on the real estate. The primary risks associated with business property loans include the borrower's inability to pay, material decreases in the value of the real estate that is being held as collateral, and significant increases in interest rates, which reduce the cash flows of the underlying business. Real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy.
- Multifamily loans: Multifamily loans are secured by multi-tenant (5 or more units) residential real properties. Payments on multifamily loans are dependent on the successful operation or management of the properties, and repayment of these loans may be subject to adverse conditions in the real estate market or the economy.

- Construction loans: Construction loans are considered to have higher risks due to construction completion and timing risk, and the ultimate repayment being sensitive to interest rate changes, government regulation of real property, and the availability of long-term financing. Additionally, economic conditions may impact the Company's ability to recover its investment in construction loans, as adverse economic conditions may negatively impact the real estate market, which could affect the borrower's ability to complete and sell the project. The fair value of the underlying collateral may fluctuate as market conditions change. The primary risks include the borrower's inability to pay and the inability of the Company to recover its investment due to a decline in the fair value of the underlying collateral.

Commercial and Industrial Loans:

- Commercial and industrial loans – The C&I loan category includes commercial term loans and commercial lines of credit. Commercial term loans are typically extended to finance business acquisitions, permanent working capital needs, and/or equipment purchases. Commercial lines of credit are generally provided to finance short-term working capital needs and mortgage warehouse lending credit facilities. Mortgage warehouse lending is a line of credit given to a loan originator, the funds from which are used to finance a mortgage that a borrower uses to purchase single-family residential property or refinance an existing mortgage. The primary risk associated with C&I loans is the difference between expected and actual cash flows of the borrowers. In addition, the recoverability of the Company's investment in these loans is also dependent on other factors primarily dictated by the type of collateral securing these loans, and occasionally upon other borrower assets and guarantor assets.

Consumer Loans

- Residential mortgage loans – The primary risks of residential mortgage loans include the borrower's inability to pay, material decreases in the value of the real estate that is being held as collateral, and significant increases in interest rates, which may reduce the borrower's capacity to pay.
- Other consumer loans – Other consumer loans primarily include automobile loans, as well as unsecured lines of credit and term loans to high net worth individuals. Automobile loans have relatively higher LTV ratios on average and carry higher interest rates to offset for the inherently higher default risks. Unsecured lines of credit and term consumer loans are underwritten primarily based on the individual borrower's income, current debt level, and past credit history. Repayment of these loans is dependent on the borrower's ability to pay, and the fair value of the underlying collateral for automobile loans.

ACL and provision (reversal) for credit losses for reporting periods beginning with January 1, 2023 are presented under ASC 326, while prior period amounts, comparisons and related ratios continue to be presented under legacy ASC 450 and ASC 310 in this Annual Report on Form 10-K .

Please also see Note 1 to the Consolidated Financial Statements included in Item 1 of this Annual Report on Form 10-K for additional discussion.

Non-GAAP Measures

The Company uses certain non-GAAP financial measures to provide meaningful supplemental information regarding the Company’s operational performance and to enhance investors’ overall understanding of such financial performance. Generally, a non-GAAP financial measure is a numerical measure of a company’s financial performance, financial position or cash flows that exclude (or include) amounts that are included in (or excluded from) the most directly comparable measure calculated, and presented in accordance with GAAP. However, these non-GAAP financial measures are supplemental and are not a substitute for an analysis based on GAAP measures and may not be comparable to non-GAAP financial measures that may be presented by other companies.

The following tables present reconciliation of return on average tangible common equity, tangible common equity per common share and tangible common equity to tangible assets ratios to their most comparable GAAP measures as of the dates or for the periods indicated. These non-GAAP measures are used by management in its analysis of the Company's performance.

	Year Ended December 31,				
($ in thousands)	**2023**	**2022**	**2021**	**2020**	**2019**
Average total shareholders' equity	$ 340,508	$ 306,440	$ 242,766	$ 228,553	$ 221,576
Less: average preferred stock	69,141	42,053	—	—	—
Average tangible common equity	$ 271,367	$ 264,387	$ 242,766	$ 228,553	$ 221,576
Net income	$ 30,705	$ 34,987	$ 40,103	$ 16,175	$ 24,108
Return on average shareholders' equity	9.02%	11.42%	16.52%	7.08%	10.88%
Return on average tangible common equity	11.31%	13.23%	16.52%	7.08%	10.88%

	December 31,				
($ in thousands, except per share data)	**2023**	**2022**	**2021**	**2020**	**2019**
Total shareholders' equity	$ 348,872	$ 335,442	$ 256,286	$ 233,788	$ 226,834
Less: preferred stock	69,141	69,141	—	—	—
Tangible common equity	$ 279,731	$ 266,301	$ 256,286	$ 233,788	$ 226,834
Outstanding common shares	14,260,440	14,625,474	14,865,825	15,385,878	15,707,016
Book value per common share	$ 24.46	$ 22.94	$ 17.24	$ 15.19	$ 14.44
Tangible common equity per common share	$ 19.62	$ 18.21	$ 17.24	$ 15.19	$ 14.44
Total assets	$ 2,789,506	$ 2,420,036	$ 2,149,735	$ 1,922,853	$ 1,746,328
Total shareholders' equity to total assets	12.51 %	13.86 %	11.92 %	12.16 %	12.99 %
Tangible common equity to total assets	10.03 %	11.00 %	11.92 %	12.16 %	12.99 %

Five-Year Summary of Selected Financial Data

The following table presents certain selected financial data as of the dates or for the periods indicated:

	As of or For the Year Ended December 31,				
($ in thousands, except per share data)	2023	2022	2021	2020	2019
Selected balance sheet data:					
Cash and cash equivalents	$ 242,342	$ 147,031	$ 203,285	$ 194,098	$ 146,228
Securities available-for-sale	143,323	141,863	123,198	120,527	97,566
Securities held-to-maturity	—	—	—	—	20,154
Loans held-for-sale	5,155	22,811	37,026	1,979	1,975
Loans held-for-investment	2,323,452	2,046,063	1,732,205	1,583,578	1,450,831
ACL on loans [(1)]	(27,533)	(24,942)	(22,381)	(26,510)	(14,380)
Total assets	2,789,506	2,420,036	2,149,735	1,922,853	1,746,328
Total deposits	2,351,612	2,045,983	1,867,134	1,594,851	1,479,307
Shareholders' equity	348,872	335,442	256,286	233,788	226,834
Selected income statement data:					
Interest income	$ 151,177	$ 101,751	$ 81,472	$ 79,761	$ 92,945
Interest expense	62,673	12,119	4,335	13,572	23,911
Net interest income	88,504	89,632	77,137	66,189	69,034
Provision (reversal) for credit losses [(1)]	(132)	3,602	(4,596)	13,219	4,237
Noninterest income	10,683	14,499	18,434	11,740	11,869
Noninterest expense	56,057	51,126	43,208	41,699	42,315
Income before income taxes	43,262	49,403	56,959	23,011	34,351
Income tax expense	12,557	14,416	16,856	6,836	10,243
Net income	30,705	34,987	40,103	16,175	24,108
Per share data:					
Earnings per common share, basic	$ 2.14	$ 2.35	$ 2.66	$ 1.05	$ 1.52
Earnings per common share, diluted	2.12	2.31	2.62	1.04	1.49
Book value per common share [(2)]	24.46	22.94	17.24	15.19	14.44
Tangible common equity per common share [(8)]	19.62	18.21	17.24	15.19	14.44
Cash dividends declared per common share	0.69	0.60	0.44	0.40	0.25
Outstanding share data:					
Number of common shares outstanding	14,260,440	14,625,474	14,865,825	15,385,878	15,707,016
Weighted-average common shares outstanding, basic	14,301,691	14,822,018	15,017,637	15,384,231	15,873,383
Weighted-average common shares outstanding, diluted	14,417,938	15,065,175	15,253,820	15,448,892	16,172,282
Selected performance ratios:					
Return on average assets	1.20%	1.54%	1.96%	0.84%	1.40%
Return on average shareholders' equity	9.02%	11.42%	16.52%	7.08%	10.88%
Return on average tangible common equity [(8)]	11.31%	13.23%	16.52%	7.08%	10.88%
Dividend payout ratio [(3)]	32.24%	25.53%	16.54%	38.10%	16.45%
Efficiency ratio [(4)]	56.52%	49.10%	45.21%	53.51%	52.30%
Yield on average interest-earning assets	6.10%	4.63%	4.05%	4.25%	5.53%
Cost of average interest-bearing liabilities	4.05%	1.08%	0.41%	1.15%	2.09%
Net interest spread	2.05%	3.55%	3.64%	3.10%	3.44%
Net interest margin [(5)]	3.57%	4.08%	3.83%	3.53%	4.11%
Total loans to total deposits ratio [(6)]	99.02%	101.12%	94.76%	99.42%	98.21%

($ in thousands, except per share data)	As of or For the Year Ended December 31, 2023	2022	2021	2020	2019
Asset quality:					
Loans 30 to 89 days past due and still accruing	$ 1,428	$ 134	$ 554	$ 338	$ 1,818
Loans past due 90 days or more and still accruing	—	—	—	—	287
Nonaccrual loans held-for-investment	3,916	3,360	994	3,163	2,537
NPLs held-for-investment	3,916	3,360	994	3,163	2,824
NPLs held-for-sale	—	4,000	—	—	—
Total NPLs	3,916	7,360	994	3,163	2,824
NPAs (7)	6,474	7,360	994	4,564	2,824
Net charge-offs (recoveries)	(1,027)	1,041	(467)	1,089	3,024
Loans 30 to 89 days past due and still accruing to loans held-for-investment	0.06 %	0.01%	0.03 %	0.02%	0.13%
Nonaccrual loans held-for-investment to loans held-for-investment	0.17 %	0.16%	0.06 %	0.20%	0.17%
Nonaccrual loans held-for-investment to ACL on loans (1)	14.22 %	13.47%	4.44 %	11.93%	17.64%
NPLs held-for-investment to loans held-for-investment	0.17 %	0.16%	0.06 %	0.20%	0.19%
NPLs held-for-investment to ACL on loans (1)	14.22 %	13.47%	4.44 %	11.93%	19.64%
NPAs to total assets	0.23 %	0.30%	0.05 %	0.24%	0.16%
ACL on loans (1) to loans held-for-investment	1.19 %	1.22%	1.29 %	1.67%	0.99%
ACL on loans (1) to nonaccrual loans held-for-investment	703.09 %	742.32%	2,251.61 %	838.13%	566.81%
ACL on loans (1) to NPLs held-for-investment	703.09 %	742.32%	2,251.61 %	838.13%	509.21%
Net charge-offs (recoveries) to average loans held-for-investment	(0.05)%	0.06%	(0.03)%	0.07%	0.22%
Capital ratios:					
Shareholders' equity to total assets	12.51 %	13.86%	11.92 %	12.16%	12.99%
Tangible common equity to total assets (8)	10.03 %	11.00%	11.92 %	12.16%	12.99%
Average equity to average assets	13.35 %	13.49%	11.86 %	11.94%	12.88%
PCB Bancorp					
Common tier 1 capital (to risk-weighted assets)	12.23 %	13.29%	14.79 %	15.97%	15.87%
Total capital (to risk-weighted assets)	16.39 %	17.83%	16.04 %	17.22%	16.90%
Tier 1 capital (to risk-weighted assets)	15.16 %	16.62%	14.79 %	15.97%	15.87%
Tier 1 capital (to average assets)	13.43 %	14.33%	12.11 %	11.94%	13.23%
PCB Bank					
Common tier 1 capital (to risk-weighted assets)	14.85 %	16.30%	14.48 %	15.70%	15.68%
Total capital (to risk-weighted assets)	16.07 %	17.52%	15.73 %	16.95%	16.71%
Tier 1 capital (to risk-weighted assets)	14.85 %	16.30%	14.48 %	15.70%	15.68%
Tier 1 capital (to average assets)	13.16 %	14.05%	11.85 %	11.74%	13.06%

(1) ACL and provision (reversal) for credit losses for the year ended December 31, 2023 are presented under ASC 326, while prior period comparisons continue to be presented under legacy ASC 450 and ASC 310. Provision (reversal) for credit losses on off-balance sheet credit exposures of $85 thousand, $(24) thousand, $(63) thousand and $162 thousand, respectively, for the years ended December 31, 2022, 2021, 2020 and 2019 were recorded in Other Expense on the Consolidated Income Statement.

(2) Shareholders' equity divided by common shares outstanding.

(3) Dividends declared per common share divided by basic earnings per common share.

(4) Noninterest expenses divided by the sum of net interest income and noninterest income.

(5) Net interest income divided by average total interest-earning assets.

(6) Total loans include both loans held-for-sale and loans held-for-investment.

(7) NPAs include total NPLs (nonaccrual loans plus loans past due 90 days or more and still accruing) and other real estate owned.

(8) Non-GAAP measure. See "Non-GAAP Measures" for a reconciliation to its most comparable GAAP measure.

Executive Summary

Financial Highlights

- Net income was $30.7 million for the year ended December 31, 2023, a decrease of $4.3 million, or 12.2%, from $35.0 million for the year ended December 31, 2022 and a decrease of $9.4 million, or 23.4%, from $40.1 million for the year ended December 31, 2021;
  - Provision (reversal) for credit losses [1] was $(132) thousand, $3.6 million and $(4.6) million for the years ended December 31, 2023, 2022 and 2021, respectively.
  - Diluted earnings per common share was $2.12, $2.31 and $2.62 for the years ended December 31, 2023, 2022 and 2021, respectively.
  - Net interest margin was 3.57%, 4.08% and 3.83% for the years ended December 31, 2023, 2022 and 2021, respectively.
- Total assets were $2.79 billion at December 31, 2023, an increase of $369.5 million, or 15.3%, from $2.42 billion at December 31, 2022;
- Loans held-for-investment were $2.32 billion at December 31, 2023, an increase of $277.4 million, or 13.6%, from $2.05 billion at December 31, 2022;
- Total deposits were $2.35 billion at December 31, 2023, an increase of $305.6 million, or 14.9%, from $2.05 billion at December 31, 2022;
- The Company declared and paid cash dividends of $0.69, $0.60, and $0.44 per common share for the years ended December 31, 2023, 2022 and 2021, respectively; and
- The Company purchased and retired 512,657, 362,557 and 680,269 shares of common stock for the years ended December 31, 2023, 2022 and 2021, respectively.

(1) Provision (reversal) for credit losses for the year ended December 31, 2023 is presented under ASC 326, while prior period comparisons continue to be presented under legacy ASC 450 and ASC 310. Provision (reversal) for credit losses on off-balance sheet credit exposures of $85 thousand and $(24) thousand, respectively, for the years ended December 31, 2022 and 2021 was recorded in Other Expense on the Consolidated Income Statement.

The decrease in net income for the year ended December 31, 2023 compared with the year ended December 31, 2022 was primarily due to an increase in noninterest expense, decreases in noninterest income and net interest income, partially offset by reversal for credit losses of $132 thousand for the year ended December 31, 2023 compared with provision for credit losses of $3.6 million for the year ended December 31, 2022.

The decrease in net income for the year ended December 31, 2022 compared with the year ended December 31, 2021 was primarily due to an increase in noninterest expense, a decrease in noninterest income and additional provision for loan losses, partially offset by an increase in net interest income.

The increase in total assets for the year ended December 31, 2023 was primarily due to increases in cash and cash equivalents, loans held-for-investment and operating lease assets. The increase in operating lease assets was primarily due to renewal and expansion of the Company’s headquarters and a new location for relocation of a regional office and branches. The Company plans to relocate and consolidate a regional office and two branches into one location in Orange County, California in 2024.

The Company is committed to making corporate decisions that directly benefit its shareholders, and during the year ended December 31, 2023, increased its dividend per common share by $0.09, or 15.0%, to $0.69 from $0.60 for the year ended December 31, 2022. During the year ended December 31, 2023, the Company also repurchased 512,657 shares of common stock, totaling $8.8 million. Overall, the Company returned 61.0% of its earnings to common shareholders through dividends and common share repurchases during the year ended December 31, 2023.

Result of Operations

Net Interest Income

A principal component of the Company’s earnings is net interest income, which is the difference between the interest and fees earned on loans and investments and the interest paid on deposits and borrowed funds. Net interest income expressed as a percentage of average interest-earning assets is referred to as the net interest margin. The net interest spread is the yield on average interest-earning assets less the cost of average interest-bearing liabilities. Net interest income is affected by changes in the balances of interest-earning assets and interest-bearing liabilities and changes in the yields earned on interest-earning assets and the rates paid on interest-bearing liabilities.

The following table presents interest income, average interest-earning assets, interest expense, average interest-bearing liabilities, and their correspondent yields and costs expressed both in dollars and rates for the periods indicated:

	Year Ended December 31,								
	2023			**2022**			**2021**		
($ in thousands)	**Average Balance**	**Interest**	**Yield/ Cost**	**Average Balance**	**Interest**	**Yield/ Cost**	**Average Balance**	**Interest**	**Yield/ Cost**
Interest-earning assets:									
Total loans [(1)]	$2,137,851	$136,029	6.36 %	$1,872,557	$95,054	5.08 %	$1,702,073	$79,155	4.65 %
Mortgage-backed securities	98,903	3,001	3.03 %	89,066	1,826	2.05 %	89,693	989	1.10 %
Collateralized mortgage obligation	25,466	1,039	4.08 %	23,479	545	2.32 %	22,633	221	0.98 %
SBA loan pool securities	8,166	325	3.98 %	10,309	208	2.02 %	10,515	189	1.80 %
Municipal securities - tax exempt [(2)]	3,788	126	3.33 %	4,874	140	2.87 %	5,755	146	2.54 %
Corporate bonds	4,273	188	4.40 %	4,810	188	3.91 %	1,841	68	3.69 %
Interest-bearing deposits in other financial institutions	186,850	9,621	5.15 %	184,502	3,212	1.74 %	170,814	220	0.13 %
FHLB and other bank stock	11,959	848	7.09 %	9,703	578	5.96 %	8,539	484	5.67 %
Total interest-earning assets	2,477,256	151,177	6.10 %	2,199,300	101,751	4.63 %	2,011,863	81,472	4.05 %
Noninterest-earning assets:									
Cash and due from banks	21,565			20,735			19,676		
ACL on loans	(25,495)			(22,125)			(25,270)		
Other assets	76,444			73,951			41,187		
Total noninterest-earning assets	72,514			72,561			35,593		
Total assets	**$2,549,770**			**$2,271,861**			**$2,047,456**		
Interest-bearing liabilities:									
Deposits:									
NOW and money market accounts	$ 470,750	16,190	3.44 %	$ 504,275	4,970	0.99 %	$ 400,446	1,242	0.31 %
Savings	7,499	18	0.24 %	14,068	9	0.06 %	12,302	6	0.05 %
Time deposits	1,059,985	45,957	4.34 %	593,106	7,005	1.18 %	609,351	2,795	0.46 %
Other borrowings	9,192	508	5.53 %	6,290	135	2.15 %	31,302	292	0.93 %
Total interest-bearing liabilities	1,547,426	62,673	4.05 %	1,117,739	12,119	1.08 %	1,053,401	4,335	0.41 %
Noninterest-bearing liabilities:									
Demand deposits	629,774			831,621			737,216		
Other liabilities	32,061			16,061			14,073		
Total noninterest-bearing liabilities	661,835			847,682			751,289		
Total liabilities	2,209,261			1,965,421			1,804,690		
Shareholders' equity	340,509			306,440			242,766		
Total liabilities and shareholders' equity	**$2,549,770**			**$2,271,861**			**$2,047,456**		
Net interest income		**$ 88,504**			**$89,632**			**$77,137**	
Net interest spread [(3)]			**2.05 %**			**3.55 %**			**3.64 %**
Net interest margin [(4)]			**3.57 %**			**4.08 %**			**3.83 %**
Cost of funds [(5)]			**2.88 %**			**0.62 %**			**0.24 %**
Cost of deposits			**2.87 %**			**0.62 %**			**0.23 %**

(1) *Average balance includes both loans held-for-sale and loans held-for-investment, as well as nonaccrual loans. Net amortization of deferred loan fees (cost) of $1.1 million, $2.2 million and $6.1 million, respectively, and net accretion of discount on loans of $2.2 million, $3.6 million and $3.5 million, respectively, are included in the interest income for the years ended December 31, 2023, 2022 and 2021, respectively.*

(2) *The yield on municipal bonds has not been computed on a tax-equivalent basis.*

(3) *Net interest spread is calculated by subtracting average rate on interest-bearing liabilities from average yield on interest-earning assets.*

(4) *Net interest margin is calculated by dividing net interest income by average interest-earning assets.*

(5) *Cost of funds is calculated by dividing total interest expense by the sum of total interest-bearing liabilities and noninterest-bearing demand deposits.*

The following table presents the changes in interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities. Information is provided on changes attributable to: (i) changes in volume multiplied by the prior rate; and (ii) changes in rate multiplied by the prior volume. Changes attributable to both rate and volume which cannot be segregated have been allocated proportionately to the change due to volume and the change due to rate.

	Year Ended December 31, 2023 vs. 2022			Year Ended December 31, 2022 vs. 2021		
	Increase (Decrease) Due to		Net Increase (Decrease)	Increase (Decrease) Due to		Net Increase (Decrease)
($ in thousands)	Volume	Rate		Volume	Rate	
Interest earned on:						
Total loans	$ 13,467	$ 27,508	$ 40,975	$ 7,928	$ 7,971	$ 15,899
Investment securities	177	1,595	1,772	26	1,268	1,294
Other interest-earning assets	90	6,589	6,679	58	3,028	3,086
Total interest income	13,734	35,692	49,426	8,012	12,267	20,279
Interest paid on:						
Savings, NOW, and money market deposits	(385)	11,614	11,229	319	3,412	3,731
Time deposits	5,514	33,438	38,952	(75)	4,285	4,210
Other borrowings	62	311	373	(233)	76	(157)
Total interest expense	5,191	45,363	50,554	11	7,773	7,784
Change in net interest income	**$ 8,543**	**$ (9,671)**	**$ (1,128)**	**$ 8,001**	**$ 4,494**	**$ 12,495**

Year Ended December 31, 2023 Compared to Year Ended December 31, 2022

The following table presents the components of net interest income for the periods indicated:

	Year Ended December 31,		Amount Change	Percentage Change
($ in thousands)	2023	2022		
Interest income:				
Interest and fees on loans	$ 136,029	$ 95,054	$ 40,975	43.1 %
Interest on investment securities	4,679	2,907	1,772	61.0 %
Interest and dividends on other interest-earning assets	10,469	3,790	6,679	176.2 %
Total interest income	151,177	101,751	49,426	48.6 %
Interest expense:				
Interest on deposits	62,165	11,984	50,181	418.7 %
Interest on other borrowings	508	135	373	276.3 %
Total interest expense	62,673	12,119	50,554	417.1 %
Net interest income	**$ 88,504**	**$ 89,632**	**$ (1,128)**	**(1.3)%**

Net interest income decreased primarily due to a 38.4% increase in average balance of interest-bearing liabilities and a 297 basis point increase in average cost of interest-bearing liabilities, partially offset by a 12.6% increase in average balance of interest-earning assets and a 147 basis point increase in average yield on interest-earning assets. The increase in average balance of interest-earning assets was primarily due to growth in loans and investment securities, supported by deposit growth. The increases in average yield on interest-earning assets and average cost of interest-bearing liabilities were primarily due to the rising market rates during the year ended December 31, 2023.

Interest and fees on loans increased primarily due to a 14.2% increase in average balance and a 128 basis point increase in average yield. The increase in average balance was primarily due to an increase in commercial real estate, commercial and industrial, and residential mortgage loans, partially offset by a decrease in other consumer loans. The increase in average yield was primarily due to the rising market rates, partially offset by a decrease in net amortization of deferred fees on SBA PPP loans.

Interest on investment securities increased primarily due to a 114 basis point increase in average yield and a 6.1% increase in average balance. The increase in average yield was primarily due to new investment securities purchased at higher market rates and a decrease in net amortization. The Company purchased $17.3 million and $57.4 million, respectively, of investment securities during the years ended December 31, 2023 and 2022. For the years ended December 31, 2023 and 2022, average yield on total investment securities was 3.33% and 2.19%, respectively.

Interest income on other interest-earning assets increased primarily due to a 332 basis point increase in average yield and a 2.4% increase in average balance. The increase in average yield was primarily due to the rising market rates and an increase in dividend on Federal Home Loan Bank stock. The increase in average balance was primarily due to an increase in average balance of deposits, partially offset by an increase in loans. For the years ended December 31, 2023 and 2022, yield on total other interest-earning assets was 5.27% and 1.95%, respectively.

Interest expense on deposits increased primarily due to a 38.4% increase in average balance of interest-bearing deposits and a 296 basis point increase in average cost of interest-bearing deposits. The increase in average balance was primarily due to an increase in time deposits, partially offset by decreases in savings, NOW and money market accounts. The increase in average cost was primarily due to the rising market rates. For the years ended December 31, 2023 and 2022, average cost on total interest-bearing deposits was 4.04% and 1.08%, respectively.

Interest expense on other borrowings increased primarily due to a 46.1% increase in average balance and a 338 basis point increase in average cost. The increase in average cost was primarily due to the rising market rates.

Year Ended December 31, 2022 Compared to Year Ended December 31, 2021

The following table presents the components of net interest income for the periods indicated:

($ in thousands)	Year Ended December 31, 2022	Year Ended December 31, 2021	Amount Change	Percentage Change
Interest income:				
Interest and fees on loans	$ 95,054	$ 79,155	$ 15,899	20.1 %
Interest on investment securities	2,907	1,613	1,294	80.2 %
Interest and dividends on other interest-earning assets	3,790	704	3,086	438.4 %
Total interest income	101,751	81,472	20,279	24.9 %
Interest expense:				
Interest on deposits	11,984	4,043	7,941	196.4 %
Interest on borrowings	135	292	(157)	(53.8) %
Total interest expense	12,119	4,335	7,784	179.6 %
Net interest income	**$ 89,632**	**$ 77,137**	**$ 12,495**	**16.2 %**

Net interest income increased primarily due to a 9.3% increase in average balance of interest-earning assets and a 58 basis point increase in average yield on interest-earning assets, partially offset by a 6.1% increase in average balance of interest-bearing liabilities and a 67 basis point increase in average cost of interest-bearing liabilities. The increase in average balance of interest-earning assets was primarily due to growth in loans and investment securities, supported by deposit growth. The increases in average yield on interest-earning assets and average cost of interest-bearing liabilities were primarily due to the rising market rates during the year ended December 31, 2022.

Interest and fees on loans increased primarily due to a 10.0% increase in average balance and a 43 basis point increase in average yield. The increase in average balance was primarily due to an increase in commercial real estate and residential mortgage loans, and commercial lines of credit, partially offset by a decrease in commercial term loans. The increase in average yield was primarily due to the rising market rates, partially offset by a decrease in net amortization of deferred fees on SBA PPP loans.

Interest on investment securities increased primarily due to a 95 basis point increase in average yield and a 1.6% increase in average balance. The increase in average yield was primarily due to new investment securities purchased at higher market rates and a decrease in net amortization. The Company purchased $57.4 million and $47.3 million, respectively, of investment securities during the years ended December 31, 2022 and 2021. For the years ended December 31, 2022 and 2021, average yield on total investment securities was 2.19% and 1.24%, respectively.

Interest income on other interest-earning assets increased primarily due to a 156 basis point increase in average yield and an 8.3% increase in average balance. The increase in average yield was primarily due to the rising market rates. The increase in average balance was primarily due to an increase in average balance of deposits and the Emergency Capital Investment Program ("ECIP") capital investment, partially offset by an increase in loans. For the years ended December 31, 2022 and 2021, yield on total other interest-earning assets was 1.95% and 0.39%, respectively.

Interest expense on deposits increased primarily due to an 8.7% increase in average balance of interest-bearing deposits and a 68 basis point increase in average cost of interest-bearing deposits. The increase in average balance was primarily due to increases in savings, NOW and money market accounts, partially offset by a decrease in time deposits. The increase in average cost was primarily due to the rising market rates. For the years ended December 31, 2022 and 2021, average cost on total interest-bearing deposits was 1.08% and 0.40%, respectively.

Interest expense on other borrowings increased primarily due to a 122 basis point increase in average cost, partially offset by a 79.9% decrease in average balance. The increase in average cost was primarily due to the rising market rates.

Provision (reversal) for Credit Losses

The following table presents a composition of provision (reversal) for credit losses for the periods indicated:

	Year Ended December 31,		
($ in thousands)	**2023**	**2022**	**2021**
Provision (reversal) for credit losses on loans	$ 497	$ 3,602	$ (4,596)
Provision (reversal) for credit losses on off-balance sheet credit exposure [1]	(629)	85	(24)
Total provision (reversal) for credit losses	**$ (132)**	**$ 3,687**	**$ (4,620)**

(1) Provision (reversal) for credit losses on off-balance sheet credit exposures for the years ended December, 2022 and 2021 was recorded in Other Expense on the Consolidated Income Statement.

Provision for credit losses on loans for the year ended December 31, 2023 was primarily due to increases in loans held-for-investment and reserve related to qualitative adjustment factors, partially offset by a decrease in quantitatively measured loss reserve requirement. See further discussion in "Allowance for Credit Losses."

Noninterest Income

Year Ended December 31, 2023 Compared to Year Ended December 31, 2022

The following table presents the components of noninterest income for the periods indicated:

	Year Ended December 31,		Amount Change	Percentage Change
($ in thousands)	**2023**	**2022**		
Service charges and fees on deposits	$ 1,475	$ 1,326	$ 149	11.2 %
Loan servicing income	3,330	2,969	361	12.2 %
Bank-owned life insurance income	753	706	47	6.7 %
Gain on sale of loans	3,570	7,990	(4,420)	(55.3)%
Other income	1,555	1,508	47	3.1 %
Total noninterest income	**$ 10,683**	**$ 14,499**	**$ (3,816)**	**(26.3)%**

Service charges and fees on deposits increased primarily due to an increase in fee-based transactions.

Loan servicing income represents fees received on loans that the Company services, net of amortization of servicing assets. The increase was primarily due to an increase in servicing income received and a decrease in amortization of servicing assets from lower prepayments of loans being serviced.

Bank-owned life insurance income represents the increase in cash surrender value of the insurance policy.

Gain on sale of loans decreased primarily due to decreases in sales volume and gain margin. The Company sold SBA loans of $82.3 million with a gain of $3.6 million during the year ended December 31, 2023. During the year ended December 31, 2022, SBA loans of $122.9 million with a gain of $8.0 million and residential mortgage loans of $858 thousand with a gain of $8 thousand.

Other income included wire and remittance fees of $625 thousand and $643 thousand, respectively, and debit card interchange fees of $339 thousand and $335 thousand, respectively, for the years ended December 31, 2023 and 2022.

Year Ended December 31, 2022 Compared to Year Ended December 31, 2021

The following table presents the components of noninterest income for the periods indicated:

($ in thousands)	Year Ended December 31, 2022	Year Ended December 31, 2021	Amount Change	Percentage Change
Service charges and fees on deposits	$ 1,326	$ 1,195	$ 131	11.0 %
Loan servicing income	2,969	2,770	199	7.2 %
Bank-owned life insurance income	706	108	598	553.7 %
Gain on sale of loans	7,990	12,932	(4,942)	(38.2)%
Other income	1,508	1,429	79	5.5 %
Total noninterest income	**$ 14,499**	**$ 18,434**	**$ (3,935)**	**(21.3)%**

Service charges and fees on deposits increased primarily due to an increase in fee-based transactions.

Loan servicing income represents fees received on loans that the Company services, net of amortization of servicing assets. The increase was primarily due to an increase in servicing income received, partially offset by an increase in amortization of servicing assets from increased prepayments of loans being serviced.

The Company purchased bank-owned life insurance of $29.3 million in November 2021. Bank-owned life insurance income represents the increase in cash surrender value of the insurance policy.

Gain on sale of loans decreased primarily due to decreases in sales volume and gain margin. During the year ended December 31, 2021, SBA guaranteed portion was temporarily increased until September 30, 2021 under the Economic Aid Act, which resulted in a higher gain margin on sold SBA loans. The Company sold SBA loans of $122.9 million with a gain of $8.0 million and residential mortgage loans of $858 thousand with a gain of $8 thousand during the year ended December 31, 2022. During the year ended December 31, 2021, the Company sold SBA loans of $126.8 million with a gain of $12.8 million and residential mortgage loans of $10.4 million with a gain of $151 thousand and certain commercial property loans of $8.6 million with a gain of $6 thousand.

Other income included wire and remittance fees of $643 thousand and $596 thousand, respectively, and debit card interchange fees of $335 thousand and $306 thousand, respectively, for the years ended December 31, 2022 and 2021.

Noninterest Expense

Year Ended December 31, 2023 Compared to Year Ended December 31, 2022

The following table presents the components of noninterest expense for the periods indicated:

($ in thousands)	Year Ended December 31, 2023	Year Ended December 31, 2022	Amount Change	Percentage Change
Salaries and employee benefits	$ 34,572	$ 33,056	$ 1,516	4.6 %
Occupancy and equipment	7,924	6,481	1,443	22.3 %
Professional fees	3,087	2,239	848	37.9 %
Marketing and business promotion	2,327	2,150	177	8.2 %
Data processing	1,552	1,706	(154)	(9.0) %
Director fees and expenses	756	706	50	7.1 %
Regulatory assessments	1,103	597	506	84.8 %
Other expenses	4,736	4,191	545	13.0 %
Total noninterest expense	**$ 56,057**	**$ 51,126**	**$ 4,931**	**9.6 %**

Salaries and employee benefits increased primarily due to increases in wages and other employee benefits, partially offset by decreases in bonus and vacation accruals, and incentives tied to LPO originated SBA loan sales and loan origination cost, which offsets the recognition of salaries. The number of full-time equivalent employees averaged 272.5 for the year ended December 31, 2023 compared to 268.3 for the year ended December 31, 2022.

Occupancy and equipment expense increased primarily due to an expansion of headquarters location and relocations of a regional office and branches, as well as three new branch openings during the second half of 2022. The Company plans to relocate a regional office and consolidate two branches into one location in Orange County, California in 2024. The Company opened three new branches in Dallas and Carrollton, Texas, and Palisades Park, New Jersey during the second half of 2022.

Professional fees increased primarily due to increases in consulting and internal audit fees for enhancing internal controls and process, and professional fees related to a planned core system conversion.

Marketing and business promotion expense increased primarily due to increased marketing activities and advertisement, as well as the Company's 20th anniversary celebration during the year ended December 31, 2023.

Data processing expense decreased primarily due to a decrease in processing costs from a decrease in transaction accounts.

Director fees and expenses increased primarily due to additional expenses related to stock options issued to directors during the year ended December 31, 2023.

Regulatory assessment expense increased primarily due to increases in FDIC assessment rates and balance sheet. The FDIC increased the initial base deposit insurance assessment rate schedules by two basis points beginning in the first quarterly assessment period of 2023.

Other expense included other loan related legal expenses of $534 thousand and $389 thousand, respectively, armed guard expense of $798 thousand and $656 thousand, respectively, office expenses of $2.2 million and $1.9 million, respectively, and provision for off-balance sheet credit exposures was $85 thousand for the year ended December 31, 2022.

Year Ended December 31, 2022 Compared to Year Ended December 31, 2021

The following table presents the components of noninterest expense for the periods indicated:

($ in thousands)	Year Ended December 31, 2022	Year Ended December 31, 2021	Amount Change	Percentage Change
Salaries and employee benefits	$ 33,056	$ 27,974	$ 5,082	18.2 %
Occupancy and equipment	6,481	5,575	906	16.3 %
Professional fees	2,239	2,159	80	3.7 %
Marketing and business promotion	2,150	1,656	494	29.8 %
Data processing	1,706	1,572	134	8.5 %
Director fees and expenses	706	594	112	18.9 %
Regulatory assessments	597	537	60	11.2 %
Other expenses	4,191	3,141	1,050	33.4 %
Total noninterest expense	**$ 51,126**	**$ 43,208**	**$ 7,918**	**18.3 %**

Salaries and employee benefits increased primarily due to increases in wages, vacation accrual, and other employee benefits, partially offset by decreases in incentives tied to LPO originated SBA loan sales and loan origination cost, which offsets the recognition of salaries. The number of full-time equivalent employees averaged 268.3 for the year ended December 31, 2022 compared to 247.9 for the year ended December 31, 2021.

Occupancy and equipment expense increased primarily due to new branch openings. The Company opened three new branches in Dallas and Carrollton, Texas, and Palisades Park, New Jersey during the year ended December 31, 2022.

Professional fees increased primarily due to the additional legal expenses associated with the on-going legal matters related to the 2021 Network and Data Incident, partially offset by a decrease in internal audit fees.

Marketing and business promotion expense increased primarily due to increased marketing activities and advertisement.

Data processing expense increased primarily due to an increase in processing costs from a greater number of accounts and transactions.

Director fees and expenses increased primarily due to a new director appointed during the fourth quarter of 2021.

Regulatory assessment expense increased primarily due to an increase in balance sheet.

Other expense included other loan related legal expenses of $389 thousand and $302 thousand, respectively, armed guard expense of $656 thousand and $546 thousand, respectively, office expenses of $1.9 million and $1.4 million, respectively, and provision (reversal) for off-balance sheet credit exposures was $85 thousand and $(24) thousand, respectively, for the years ended December 31, 2022 and 2021.

Income Tax Expense

Income tax expense was $12.6 million, $14.4 million and $16.9 million, respectively, and the effective tax rate was 29.0%, 29.2% and 29.6%, respectively, for the years ended December 31, 2023, 2022 and 2021.

Financial Condition

Investment Securities

The Company's investment strategy aims to maximize earnings while maintaining liquidity in securities with minimal credit risk. The types and maturities of securities purchased are primarily based on current and projected liquidity and interest rate sensitivity positions.

The following table presents the amortized cost and fair value of the investment securities portfolio as of the dates indicated:

	December 31,					
	2023			2022		
($ in thousands)	**Amortized Cost**	**Fair Value**	**Unrealized Gain (Loss)**	**Amortized Cost**	**Fair Value**	**Unrealized Gain (Loss)**
Securities available-for-sale:						
U.S. government agency and U.S. government sponsored enterprise securities:						
Mortgage-backed securities	$ 114,485	$ 104,091	$ (10,394)	$ 109,497	$ 96,900	$ (12,597)
Collateralized mortgage obligations	25,611	24,173	(1,438)	28,515	26,956	(1,559)
SBA loan pool securities	7,773	7,450	(323)	9,704	9,298	(406)
Municipal bonds	3,306	3,329	23	4,262	4,186	(76)
Corporate bonds	5,000	4,280	(720)	5,000	4,523	(477)
Total securities available-for-sale	**$ 156,175**	**$ 143,323**	**$ (12,852)**	**$ 156,978**	**$ 141,863**	**$ (15,115)**

Total carrying value of investment securities were $143.3 million at December 31, 2023, an increase of $1.5 million, or 1.0%, from $141.9 million at December 31, 2022. The increase was primarily due to purchases of $17.3 million and an increase in fair value of securities available-for-sale of $2.3 million, partially offset by principal paydowns and calls of $17.9 million, and net premium amortization of $209 thousand.

As of December 31, 2023, 94.7%, at amortized cost basis, of the Company's securities available-for-sale were issued by U.S. government agency and U.S. government sponsored enterprise. Because the decline in fair value is attributable to changes in interest rates and illiquidity, and not credit quality, and because the Company does not have the intent to sell these securities and it is likely that it will not be required to sell these securities before their anticipated recovery, the Company determined that these securities with unrealized losses did not warrant an ACL.

Municipal and corporate bonds had an investment grade rating upon purchase. The issuers of these securities have not established any cause for default on these securities and various rating agencies have reaffirmed their long-term investment grade status as of December 31, 2023. These securities have fluctuated in value since their purchase dates as market interest rates fluctuated. The Company does not intend to sell these securities and it is more likely than not that the Company will not be required to sell before the recovery of its amortized cost basis. The Company therefore determined that the investment securities with unrealized losses did not warrant an ACL as of December 31, 2023.

As of December 31, 2023, the Company recorded no ACL on securities available-for-sale.

The following table presents the contractual maturity schedule for securities, at amortized cost, and their weighted-average yields as of the date indicated. Weighted-average yields are based upon the amortized cost of securities and are calculated using the interest method which takes into consideration of premium amortization and discount accretion. Weighted-average yields on tax-exempt debt securities exclude the federal income tax benefit.

	December 31, 2023									
	Within One Year		More than One Year through Five Years		More than Five Years through Ten Years		More than Ten Years		Total	
($ in thousands)	Amortized Cost	Weighted-Average Yield	Amortized Cost	Weighted-Average Yield	Amortized Cost	Weighted-Average Yield	Amortized Cost	Weighted-Average Yield	Amortized Cost	Weighted-Average Yield
Securities available-for-sale:										
U.S. government agency and U.S. government sponsored enterprise securities:										
Mortgage-backed securities	$ 6	1.24 %	$ 1,848	1.32 %	$ 5,903	2.00 %	$ 106,728	3.00 %	$ 114,485	2.92 %
Collateralized mortgage obligations	—	— %	1,876	4.29 %	5,513	6.01 %	18,222	3.38 %	25,611	4.01 %
SBA loan pool securities	—	— %	723	4.71 %	2,829	3.60 %	4,221	4.05 %	7,773	3.95 %
Municipal bonds	864	3.26 %	82	2.98 %	724	3.51 %	1,636	3.54 %	3,306	3.44 %
Corporate bonds	—	— %	—	— %	5,000	3.75 %	—	— %	5,000	3.75 %
Total securities available-for-sale	**$ 870**	**3.25 %**	**$ 4,529**	**3.12 %**	**$ 19,969**	**3.83 %**	**$ 130,807**	**3.09 %**	**$ 156,175**	**3.19 %**

Loans Held-For-Investment and Allowance for Credit Losses

On January 1, 2023, the Company adopted ASU 2016-13 using the modified retrospective method through a cumulative-effect adjustment to retained earnings. Balance sheet information and results for reporting periods beginning with January 1, 2023 are presented under ASC 326, while prior period comparisons continue to be presented under legacy ASC 450 and ASC 310.

The following table presents the composition of the Company's loans held-for-investment as of the dates indicated:

	December 31, 2023		January 1, 2023	
($ in thousands)	Amount	Percentage to Total	Amount	Percentage to Total
Commercial real estate:				
Commercial property	$ 855,270	36.8 %	$ 772,020	37.8 %
Business property	558,772	24.0 %	526,513	25.7 %
Multifamily	132,500	5.7 %	124,751	6.1 %
Construction	24,843	1.1 %	17,054	0.8 %
Total commercial real estate	1,571,385	67.6 %	1,440,338	70.4 %
Commercial and industrial	342,002	14.7 %	249,250	12.2 %
Consumer:				
Residential mortgage	389,420	16.8 %	333,726	16.3 %
Other consumer	20,645	0.9 %	22,749	1.1 %
Total consumer	410,065	17.7 %	356,475	17.4 %
Loans held-for-investment	**$ 2,323,452**	**100.0%**	**$ 2,046,063**	**100.0%**
ACL on loans	(27,533)		(26,009)	
Net loans held-for-investment	**$ 2,295,919**		**$ 2,020,054**	

The following table presents the composition of the Company's loans held-for-investment by legacy loan segments as of the dates indicated:

	December 31,							
	2022		2021		2020		2019	
($ in thousands)	Amount	Percentage to Total	Amount	Percentage to Total	Amount	Percentage to Total	Amount	Percentage to Total
Real estate loans:								
Commercial property	$1,288,392	63.0 %	$1,105,843	63.9 %	$ 880,736	55.5 %	$ 803,014	55.4 %
Residential property	333,726	16.3 %	209,485	12.1 %	198,431	12.5 %	235,046	16.3 %
SBA property	134,892	6.6 %	129,661	7.5 %	126,570	8.0 %	129,837	8.9 %
Construction	17,054	0.8 %	8,252	0.5 %	15,199	1.0 %	19,164	1.3 %
Total real estate loans	1,774,064	86.7 %	1,453,241	84.0 %	1,220,936	77.0 %	1,187,061	81.9 %
Commercial and industrial loans:								
Commercial term	77,700	3.8 %	73,438	4.2 %	87,250	5.5 %	103,380	7.1 %
Commercial lines of credit	154,142	7.5 %	100,936	5.8 %	96,087	6.1 %	111,768	7.7 %
SBA commercial term	16,211	0.8 %	17,640	1.0 %	21,878	1.4 %	25,332	1.7 %
SBA PPP	1,197	0.1 %	65,329	3.8 %	135,654	8.6 %	—	— %
Total commercial and industrial loans	249,250	12.2 %	257,343	14.8 %	340,869	21.6 %	240,480	16.5 %
Other consumer loans	22,749	1.1 %	21,621	1.2 %	21,773	1.4 %	23,290	1.6 %
Loans held-for-investment	**2,046,063**	**100.0 %**	**1,732,205**	**100.0 %**	**1,583,578**	**100.0 %**	**1,450,831**	**100.0 %**
Allowance for loan losses	(24,942)		(22,381)		(26,510)		(14,380)	
Net loans held-for-investment	**$2,021,121**		**$1,709,824**		**$1,557,068**		**$1,436,451**	

Loans held-for-investment were $2.32 billion at December 31, 2023, an increase of $277.4 million, or 13.6%, from $2.05 billion at December 31, 2022. The increase was primarily due to new funding and advances of $1.19 billion and purchases of residential mortgage loans of $15.7 million, partially offset by paydowns and payoffs of $923.0 million, a loan transferred to OREO of $593 thousand and charge-offs of $132 thousand.

The following table shows the contractual maturities of loans held-for-investment and the distribution between fixed and floating interest rate loans at the date indicated:

	December 31, 2023				
($ in thousands)	**Within One Year**	**Due After One Year to Five Years**	**Due After Five Years to 15 Years**	**Due After 15 Years**	**Total**
Commercial real estate:					
Commercial property	$ 147,146	$ 470,578	$ 212,093	$ 25,453	$ 855,270
Business property	52,785	268,077	143,643	94,267	558,772
Multifamily	6,076	93,312	33,112	—	132,500
Construction	24,843	—	—	—	24,843
Total commercial real estate	230,850	831,967	388,848	119,720	1,571,385
Commercial and industrial	206,366	79,488	56,148	—	342,002
Consumer:					
Residential mortgage	—	—	—	389,420	389,420
Other consumer	3,906	16,093	646	—	20,645
Total consumer	3,906	16,093	646	389,420	410,065
Loans held-for-investment	**$ 441,122**	**$ 927,548**	**$ 445,642**	**$ 509,140**	**$ 2,323,452**
Loans with variable (floating) interest rates	$ 329,008	$ 297,638	$ 133,539	$ 165,099	$ 925,284
Loans with adjustable (fixed to floating) interest rates	—	267,638	303,061	335,674	906,373
Loans with predetermined (fixed) interest rates	112,114	362,272	9,042	8,367	491,795
Total	**$ 441,122**	**$ 927,548**	**$ 445,642**	**$ 509,140**	**$ 2,323,452**

The following table reflects the allocation of the ACL on loans by loan category and the ratio of each loan category to total loans as of the dates indicated:

	December 31, 2023		January 1, 2023	
($ in thousands)	**ACL on Loans**	**Percentage of Loans to Total Loans**	**ACL on Loans**	**Percentage of Loans to Total Loans**
Commercial real estate:				
Commercial property	$ 12,665	36.8 %	$ 6,740	37.8 %
Business property	4,739	24.0 %	6,645	25.7 %
Multifamily	1,441	5.7 %	1,390	6.1 %
Construction	135	1.1 %	151	0.8 %
Total commercial real estate	18,980	67.6 %	14,926	70.4 %
Commercial and industrial	6,245	14.7 %	9,846	12.2 %
Consumer:				
Residential mortgage	2,226	16.8 %	1,157	16.3 %
Other consumer	82	0.9 %	80	1.1 %
Total consumer	2,308	17.7 %	1,237	17.4 %
Total	**$ 27,533**	**100.0%**	**$ 26,009**	**100.0%**
ACL on loans to loans held-for-investment	1.19 %		1.27 %	

The following table reflects the allocation of the allowance for loan losses by legacy loan segments and the ratio of each legacy loan category to total loans as of the dates indicated:

	December 31,							
	2022		2021		2020		2019	
($ in thousands)	**Allowance for Loan Losses**	**Percentage of Loans to Total Loans**	**Allowance for Loan Losses**	**Percentage of Loans to Total Loans**	**Allowance for Loan Losses**	**Percentage of Loans to Total Loans**	**Allowance for Loan Losses**	**Percentage of Loans to Total Loans**
Real estate loans:								
Commercial property	$ 14,059	63.0 %	$ 13,586	63.9 %	$ 13,810	55.5 %	$ 6,942	55.4 %
Residential property	3,691	16.3 %	1,869	12.1 %	2,680	12.5 %	1,167	16.3 %
SBA property	1,326	6.6 %	1,253	7.5 %	2,179	8.0 %	1,446	8.9 %
Construction	151	0.8 %	89	0.5 %	225	1.0 %	299	1.3 %
Total real estate loans	19,227	86.7 %	16,797	84.0 %	18,894	77.0 %	9,854	81.9 %
Commercial and industrial loans:								
Commercial term	2,100	3.8 %	2,715	4.2 %	4,090	5.5 %	1,848	7.1 %
Commercial lines of credit	3,036	7.5 %	2,071	5.8 %	2,359	6.1 %	1,805	7.7 %
SBA commercial term	366	0.8 %	524	1.0 %	773	1.4 %	701	1.7 %
SBA PPP	—	0.1 %	—	3.8 %	—	8.6 %	—	— %
Total commercial and industrial loans	5,502	12.2 %	5,310	14.8 %	7,222	21.6 %	4,354	16.5 %
Other consumer loans	213	1.1 %	274	1.2 %	394	1.4 %	172	1.6 %
Total	**$ 24,942**	**100.0 %**	**$ 22,381**	**100.0 %**	**$ 26,510**	**100.0 %**	**$ 14,380**	**100.0 %**
Allowance for loan losses to loans held-for-investment	1.22 %		1.29 %		1.67 %		0.99 %	

The following table presents activities in ACL for the periods indicated:

	Year Ended December 31,				
($ in thousands)	2023	2022	2021	2020	2019
ACL on loans					
Balance at beginning of period	$ 24,942	$ 22,381	$ 26,510	$ 14,380	$ 13,167
Impact of ASC 326 adoption	1,067	—	—	—	—
Charge-offs	(132)	(1,199)	(227)	(1,529)	(3,579)
Recoveries	1,159	158	694	440	555
Provision (reversal) for credit losses on loans	497	3,602	(4,596)	13,219	4,237
Balance at end of period	**$ 27,533**	**$ 24,942**	**$ 22,381**	**$ 26,510**	**$ 14,380**
ACL on off-balance sheet credit exposures					
Balance at beginning of period	$ 299	$ 214	$ 238	$ 301	$ 139
Impact of ASC 326 adoption	1,607	—		—	—
Provision (reversal) for credit losses on off-balance sheet credit exposure (1)	(629)	85	(24)	(63)	162
Balance at end of period	**$ 1,277**	**$ 299**	**$ 214**	**$ 238**	**$ 301**

(1) Provision (reversal) for credit losses on off-balance sheet credit exposures for the years ended December 31, 2022, 2021, 2020 and 2019 was recorded in Other Expense on the Consolidated Income Statement.

ASC 326 adoption required additional ACL on both loans and off-balance sheet credit exposures primarily due to an increase in the quantitatively measured ACL under ASC 326 because the incurred loss model under the legacy ASC 450 and ASC 310 measures inherent losses in the loan portfolio on a 1-year loss horizon basis, while ASC 326 measures losses on "prepayment adjusted life of the loans" basis. In addition, historical loss rates used in legacy incurred loss model were low due to the Company's low loss rates in recent years, while the Company also leverages peer group loss information under ASC 326.

The increase in ACL for the year ended December 31, 2023 was primarily due to increases in loans held-for-investment and reserve related to qualitative adjustment factors, partially offset by a decrease in quantitatively measured loss reserve requirement. The decrease in the quantitatively measured loss reserve requirement was primarily due to the improved economic forecasts by the FOMC. The projected 2023 year-end national unemployment rate improved from 4.6% in the December 2022 FOMC meeting to 4.1% in the December 2023 meeting. The projected year-over-year change in real GDP improved from 0.5% in the December 2022 meeting to 1.4% in the December 2023 meeting. These improved macroeconomic projections resulted in the decreases of PD and LGD rates across majority of the loan segments leading to lower overall expected loss measurements. Management believes that the projections used are reasonable and aligns with the Company's expectation of the economic environment over the next 4 quarters.

The following table present net charge-offs as a percentage to the average loan held for investment balances in each of the loan categories for the period indicated:

	Year Ended December 31, 2023		
($ in thousands)	Average Balance	Net Charge-offs (Recoveries)	Percentage
Commercial real estate:			
Commercial property	$ 794,642	$ —	— %
Business property	537,044	(5)	-0.01 %
Multifamily	127,338	—	— %
Construction	18,565	—	— %
Total commercial real estate	1,477,589	(5)	-0.01 %
Commercial and industrial	263,447	(1,062)	-0.40 %
Consumer:			
Residential mortgage	358,303	—	— %
Other consumer	21,602	40	0.19 %
Total consumer	379,905	40	0.01 %
Total loans held-for-investment	**$ 2,120,941**	**$ (1,027)**	**-0.05%**

The following tables present net charge-offs as a percentage to the average loan held for investment balances in each of the legacy loan categories for the periods indicated:

	For the Year Ended December 31,					
	2022			2021		
($ in thousands)	**Average Balance**	**Net Charge-offs (Recoveries)**	**Percentage**	**Average Balance**	**Net Charge-offs (Recoveries)**	**Percentage**
Real estate loans:						
Commercial property	$ 1,201,405	$ —	— %	$ 983,129	$ —	— %
Residential property	261,576	—	— %	197,741	—	— %
SBA property	115,488	—	— %	125,051	(39)	(0.03) %
Construction	12,202	—	— %	12,715	—	— %
Total real estate loans	1,590,671	—	— %	1,318,636	(39)	(0.01) %
Commercial and industrial loans:						
Commercial term	74,934	(8)	(0.01) %	77,383	(200)	(0.26) %
Commercial lines of credit	111,864	1,063	0.95 %	92,874	(146)	(0.16) %
SBA commercial term	16,262	(21)	(0.13) %	19,390	(104)	(0.54) %
SBA PPP	13,732	—	— %	150,043	—	— %
Total commercial and industrial loans	216,792	1,034	0.48 %	339,690	(450)	(0.13) %
Other consumer loans	21,991	7	0.03 %	21,101	22	0.10 %
Total loans held-for-investment	**$ 1,829,454**	**$ 1,041**	**0.06 %**	**$ 1,679,427**	**$ (467)**	**(0.03)%**

	For the Year Ended December 31,					
	2020			2019		
($ in thousands)	**Average Balance**	**Net Charge-offs (Recoveries)**	**Percentage**	**Average Balance**	**Net Charge-offs (Recoveries)**	**Percentage**
Real estate loans:						
Commercial property	$ 826,288	$ —	— %	$ 744,513	$ —	— %
Residential property	221,296	—	— %	237,825	—	— %
SBA property	124,996	117	0.09 %	125,785	25	0.02 %
Construction	20,285	—	— %	22,384	—	— %
Total real estate loans	1,192,865	117	0.01 %	1,130,507	25	0.01 %
Commercial and industrial loans:						
Commercial term	97,247	(96)	(0.10) %	104,427	179	0.17 %
Commercial lines of credit	100,154	709	0.71 %	93,344	2,597	2.78 %
SBA commercial term	23,868	255	1.07 %	25,911	196	0.76 %
SBA PPP	92,818	—	— %	—	—	— %
Total commercial and industrial loans	314,087	868	0.28 %	223,682	2,972	1.33 %
Other consumer loans	22,033	104	0.47 %	22,884	27	0.12 %
Total loans held-for-investment	**$ 1,528,985**	**$ 1,089**	**0.07 %**	**$ 1,377,073**	**$ 3,024**	**0.22 %**

Loans 30 to 89 Days Past Due and Still Accruing

The following table presents a summary of loans 30 to 89 days past due and still accruing as of the dates indicated:

	December 31,				
($ in thousands)	**2023**	**2022**	**2021**	**2020**	**2019**
Commercial real estate:					
SBA property [(1)]	$ —	$ —	$ —	$ —	$ 794
Business property	560	N/A	N/A	N/A	N/A
Total commercial real estate	560	—	—	—	794
Commercial and industrial	217	—	—	—	189
Consumer:					
Residential mortgage	604	—	461	182	697
Other consumer	47	134	93	156	138
Total consumer	651	134	554	338	835
Total	**$ 1,428**	**$ 134**	**$ 554**	**$ 338**	**$ 1,818**

(1) Under the legacy loan segments.

Nonperforming Loans and Nonperforming Assets

The following table presents a summary of total NPLs and NPAs as of the dates indicated:

	December 31,				
($ in thousands)	**2023**	**2022**	**2021**	**2020**	**2019**
Nonaccrual loans held-for-investment:					
Commercial real estate:					
Commercial property [(1)]	N/A	$ 2,400	$ —	$ 524	$ —
SBA property [(1)]	N/A	585	746	885	442
Commercial property	$ 958	N/A	N/A	N/A	N/A
Business property	2,865	N/A	N/A	N/A	N/A
Total commercial real estate	3,823	2,985	746	1,409	442
Commercial and industrial	68	—	213	1,499	2,047
Consumer:					
Residential property	—	372	—	189	—
Other consumer	25	3	35	66	48
Total consumer	25	375	35	255	48
Total nonaccrual loans held-for-investment	**3,916**	**3,360**	**994**	**3,163**	**2,537**
Loans past due 90 days or more still on accrual	—	—	—	—	287
NPLs held-for-investment	3,916	3,360	994	3,163	2,824
NPLs held-for-sale	—	4,000	—	—	—
Total NPLs	3,916	7,360	994	3,163	2,824
Other real estate owned	2,558	—	—	1,401	—
NPAs	**$ 6,474**	**$ 7,360**	**$ 994**	**$ 4,564**	**$ 2,824**
Nonaccrual loans held-for-investment to loans held-for-investment	**0.17 %**	**0.16 %**	**0.06 %**	**0.20 %**	**0.17 %**
NPLs held-for-investment to loans held-for-investment	**0.17 %**	**0.16 %**	**0.06 %**	**0.20 %**	**0.19 %**
NPAs to total assets	**0.23 %**	**0.30 %**	**0.05 %**	**0.24 %**	**0.16 %**
ACL on loans to:					
Nonaccrual loans held-for-investment	**703.09 %**	**742.32 %**	**2,251.61 %**	**838.13 %**	**566.81 %**
NPLs held-for-investment	**703.09 %**	**742.32 %**	**2,251.61 %**	**838.13 %**	**509.21 %**

(1) Under the legacy loan segments

Total nonaccrual loans held-for-investment were $3.9 million at December 31, 2023, an increase of $556 thousand, or 16.5%, from $3.4 million at December 31, 2022. The increase was primarily due to loans placed on nonaccrual status during the year ended December 31, 2023 of $2.5 million, partially offset by payoffs and paydowns of $1.3 million, a loan transferred to OREO of $593 thousand and charge-offs of $45 thousand.

Loans are generally placed on nonaccrual status when they become 90 days past due, unless management believes the loan is well secured and in the process of collection. Past due loans may or may not be adequately collateralized, but collection efforts are continuously pursued. Loans may be restructured by management when a borrower experiences changes to their financial condition, causing an inability to meet the original repayment terms, and where management believe the borrower will eventually overcome those circumstances and repay the loan in full.

Additional income of approximately $356 thousand would have been recorded during the year ended December 31, 2023, had these loans been paid in accordance with their original terms throughout the periods indicated.

CRE Concentration

The Bank has policies and procedures in place to monitor compliance with the CRE Concentration Guidance. The Bank has set targets for CRE concentration limits as a percentage of total capital in accordance with interagency guidelines and actively manages the Bank's exposure to CRE lending. The Bank's construction and land development loans remain a small portion of the loan portfolio and as a percentage of total capital (as defined by the federal bank regulators) were 7.4% and 6.2%, respectively, at December 31, 2023 and 2022. As of December 31, 2023, using regulatory definitions in the CRE Concentration Guidance, CRE loans represented 280.7% of total risk-based capital, as compared to 253.9%, 269.8%, 256.1% and 243.6% as of December 31, 2022, 2021, 2020 and 2019, respectively.

The management believes that the Bank has a robust risk management framework in place for CRE concentration issues including board approved CRE concentration contingency plans. The CRE concentration contingency plan contains overview of the Bank's strategies to mitigate and manage the concentration risks including the plans to maintain stable capital levels, having access to additional capital, maintaining adequate amount of ACL, potentially implementing more conservative growth/ lending strategies if necessary, maintaining liquidity within the CRE portfolio, and strengthening the loan workout infrastructure.

Loans Held-For-Sale

Loans held-for-sale are carried at the lower of cost or fair value. When a determination is made at the time of commitment to originate as held-for-investment, it is the Company's intent to hold these loans to maturity or for the "foreseeable future," subject to periodic reviews under the Company's management evaluation processes, including asset/liability management and credit risk management. When the Company subsequently changes its intent to hold certain loans, the loans are transferred to held-for-sale at the lower of cost or fair value. Certain loans are transferred to held-for-sale with write-downs to ACL on loans.

The following table presents the composition of the Company's loans held-for-sale as of the dates indicated:

	December 31,				
($ in thousands)	**2023**	**2022**	**2021**	**2020**	**2019**
Commercial real estate:					
SBA property [1]	N/A	$ 16,473	$ 33,603	$ 1,411	$ 150
Business property	$ 2,802	N/A	N/A	N/A	N/A
Total commercial real estate	2,802	16,473	33,603	1,411	150
Commercial and industrial	2,353	6,338	3,423	268	1,065
Consumer:					
Residential mortgage	—	—	—	300	760
Total consumer	—	—	—	300	760
Loans held-for-sale	**$ 5,155**	**$ 22,811**	**$ 37,026**	**$ 1,979**	**$ 1,975**

(1) Under the legacy loan segments

Loans held-for-sale were $5.2 million at December 31, 2023, a decrease of $17.7 million, or 77.4%, from $22.8 million at December 31, 2022. The decrease was primarily due to sales of $82.3 million and pay-downs and pay-offs of $4.4 million, partially offset by originations of $69.0 million.

Deposits

The Bank gathers deposits primarily through its branch locations. The Bank offers a variety of deposit products including demand deposits accounts, NOW and money market accounts, savings accounts and time deposits. The following table presents a summary of the Company's deposit as of the dates indicated:

($ in thousands)	December 31, 2023	December 31, 2022	Amount Change	Percentage Change
Noninterest-bearing demand deposits	$ 594,673	$ 734,989	$ (140,316)	(19.1)%
Interest-bearing deposits:				
Savings	6,846	8,579	(1,733)	(20.2)%
NOW	16,825	11,405	5,420	47.5 %
Retail money market accounts	397,531	494,749	(97,218)	(19.6)%
Brokered money market accounts	1	8	(7)	(87.5)%
Retail time deposits of:				
$250,000 or less	456,293	295,354	160,939	54.5 %
More than $250,000	515,702	353,876	161,826	45.7 %
Brokered time deposits	303,741	87,023	216,718	249.0 %
Time deposits from California State Treasurer	60,000	60,000	—	— %
Total interest-bearing deposits	1,756,939	1,310,994	445,945	34.0 %
Total deposits	**$ 2,351,612**	**$ 2,045,983**	**$ 305,629**	**14.9 %**
Total deposits not covered by deposit insurance	**$ 954,591**	**$ 1,062,111**	**$ (107,520)**	**(10.1)%**
Time deposits not covered by deposit insurance	**$ 408,637**	**$ 293,951**	**$ 114,686**	**39.0 %**

The decrease in noninterest-bearing demand deposits was primarily due to strong deposit market competition and the migration of noninterest-bearing demand deposits to interest-bearing deposits attributable to the rising market rates. To remain competitive in this rising interest rate environment, the Bank started to offer higher rates on deposit products to retain and attract new customers.

The increase in retail time deposits was primarily due to new accounts of $657.0 million, renewals of the matured accounts of $555.3 million and balance increases of $26.7 million, partially offset by matured and closed accounts of $916.2 million.

As of December 31, 2023 and 2022, total deposits were comprised of 25.3% and 35.9%, respectively, of noninterest-bearing demand accounts, 17.9% and 25.2%, respectively, of savings, NOW and money market accounts and 56.8% and 38.9%, respectively, of time deposits.

The following table presents the maturity of time deposits as of the dates indicated:

($ in thousands)	Three Months or Less	Three to Six Months	Six Months to One Year	Over One Year	Total
December 31, 2023					
Time deposits of $250,000 or less	$ 316,356	$ 165,091	$ 276,145	$ 2,442	$ 760,034
Time deposits of more than $250,000	207,539	140,583	224,557	3,023	575,702
Total	**$ 523,895**	**$ 305,674**	**$ 500,702**	**$ 5,465**	**$ 1,335,736**
Not covered by deposit insurance	**$ 147,680**	**$ 107,482**	**$ 151,070**	**$ 2,405**	**$ 408,637**
December 31, 2022					
Time deposits of $250,000 or less	$ 71,740	$ 71,808	$ 229,127	$ 9,702	$ 382,377
Time deposits of more than $250,000	137,312	35,812	239,257	1,495	413,876
Total	**$ 209,052**	**$ 107,620**	**$ 468,384**	**$ 11,197**	**$ 796,253**
Not covered by deposit insurance	**$ 112,437**	**$ 26,749**	**$ 153,209**	**$ 1,556**	**$ 293,951**

Shareholders' Equity and Regulatory Capital

Capital Resources

Shareholders' equity is influenced primarily by earnings, dividends paid on common stock and preferred stock, sales and redemptions of common stock and preferred stock, and changes in accumulated other comprehensive income caused primarily by fluctuations in unrealized gains or losses, net of taxes, on securities available-for-sale.

Shareholders' equity was $348.9 million at December 31, 2023, an increase of $13.4 million, or 4.0%, from $335.4 million at December 31, 2022. The increase was primarily due to the net income of $30.7 million, a decrease in other comprehensive loss from the fair value change in securities available-for-sale of $1.6 million and stock options exercised of $488 thousand, partially offset by repurchase of common stock of $8.8 million, cash dividends declared on common stock of $9.9 million, and cumulative effect adjustment upon adoption of ASC 326 of $1.9 million.

Regulatory Capital Requirements

The following table presents a summary of the capital requirements applicable to the Bank in order to be considered "well-capitalized" from a regulatory perspective as of the dates indicated. For comparison purpose, the Company's ratios are included as well, all of which would have exceeded the "well-capitalized" level had the Company been subject to separate capital consolidated minimums.

	PCB Bancorp	PCB Bank	Minimum Regulatory Requirements	Well Capitalized Requirements (Bank)
December 31, 2023				
Common tier 1 capital (to risk-weighted assets)	12.23 %	14.85 %	4.5 %	6.5 %
Total capital (to risk-weighted assets)	16.39 %	16.07 %	8.0 %	10.0 %
Tier 1 capital (to risk-weighted assets)	15.16 %	14.85 %	6.0 %	8.0 %
Tier 1 capital (to average assets)	13.43 %	13.16 %	4.0 %	5.0 %
December 31, 2022				
Common tier 1 capital (to risk-weighted assets)	13.29 %	16.30 %	4.5 %	6.5 %
Total capital (to risk-weighted assets)	17.83 %	17.52 %	8.0 %	10.0 %
Tier 1 capital (to risk-weighted assets)	16.62 %	16.30 %	6.0 %	8.0 %
Tier 1 capital (to average assets)	14.33 %	14.05 %	4.0 %	5.0 %

The Company and the Bank's capital conservation buffer was 7.73% and 8.07%, respectively, as of December 31, 2023, and 8.79% and 9.52%, respectively, as of December 31, 2022.

Emergency Capital Investment Program

On May 24, 2022, the Company issued 69,141 shares of Senior Non-Cumulative Perpetual Preferred Stock, Series C, liquidation preference of $1,000 per share ("Series C Preferred Stock") for the capital investment of $69.1 million from the U.S. Treasury under the ECIP. The ECIP investment is treated as tier 1 capital for regulatory capital purposes.

The Series C Preferred Stock bears no dividend for the first 24 months following the investment date. Thereafter, the dividend rate will be adjusted based on the lending growth criteria listed in the terms of the ECIP investment with the annual dividend rate up to 2%. After the tenth anniversary of the investment date, the dividend rate will be fixed based on the average annual amount of lending in years 2 through 10. Dividends will be payable quarterly in arrears on March 15, June 15, September 15, and December 15.

The Series C Preferred Stock may be redeemed at the option of the Company on or after the fifth anniversary of issuance (or earlier in the event of loss of regulatory capital treatment), subject to the approval of the appropriate federal banking regulator and in accordance with the federal banking agencies' regulatory capital regulations.

Established by the Consolidated Appropriations Act, 2021, the ECIP was created to encourage low- and moderate-income community financial institutions and minority depository institutions to provide loans, grants, and forbearance for small businesses, minority-owned businesses, and consumers, especially low-income and underserved communities, including persistent poverty counties, that may be disproportionately impacted by the economic effect of the COVID-19 pandemic by providing direct and indirect capital investments in low- and moderate-income community financial institutions.

Stock Repurchases

During the year ended December 31, 2023, the Company repurchased and retired 512,657 shares of common stock at a weighted-average price of $17.22 per share under a stock repurchase program approved by the Board of Directors on August 2, 2023 and a legacy stock repurchase program approved on July 28, 2022. As of December 31, 2023, the Company is authorized to purchase 592,724 additional shares under the 2023 stock repurchase program, which expires on August 2, 2024. For information regarding shares purchased during the three months ended December 31, 2023, please see “Item 5. - Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.”

During the year ended December 31, 2022, the Company repurchased and retired 362,557 shares of common stock at a weighted-average price of $18.57 per share.

From January 1, 2019 through December 31, 2023, the Company has repurchased and retired at total of 2,380,672 shares of common stock at a weighted-average price of $16.55 per share under several stock repurchase programs.

Liquidity

Liquidity refers to the measure of ability to meet the cash flow requirements of depositors and borrowers, while at the same time meeting operating, capital and strategic cash flow needs, all at a reasonable cost. The Company continuously monitors its liquidity position to ensure that assets and liabilities are managed in a manner that will meet all short-term and long-term cash requirements, while maintaining an appropriate balance between assets and liabilities to meet the return on investment objectives of the Company's shareholders.

The Company's liquidity position is supported by management of liquid assets and liabilities and access to alternative sources of funds. Liquid assets include cash, interest-bearing deposits in financial institutions, federal funds sold, and unpledged securities available-for-sale. Liquid liabilities may include core deposits, federal funds purchased, securities sold under repurchase agreements and other borrowings. Other sources of liquidity include the sale of loans, the ability to acquire additional national market noncore deposits, additional collateralized borrowings such as FHLB advances and Federal Reserve Discount Window, and the issuance of debt securities and preferred or common securities.

The Company's short-term and long-term liquidity requirements are primarily to fund on-going operations, including payment of interest on deposits and debt, extensions of credit to borrowers, capital expenditures and shareholder dividends. These liquidity requirements are met primarily through cash flow from operations, redeployment of prepaying and maturing balances in loan and investment securities portfolios, increases in debt financing and other borrowings, and increases in customer deposits.

Integral to the Company's liquidity management is the administration of borrowings. To the extent the Company is unable to obtain sufficient liquidity through core deposits, the Company seeks to meet its liquidity needs through wholesale funding or other borrowings on either a short- or long-term basis.

The following table presents a summary of the Company's liquidity position as of the dates indicated:

	December 31,		Amount	Percentage
($ in thousands)	**2023**	**2022**	**Change**	**Change**
Cash and cash equivalents	$ 242,342	$ 147,031	$ 95,311	64.8 %
Cash and cash equivalents to total assets	8.7 %	6.1 %		
Available borrowing capacity:				
FHLB advances	602,976	$ 561,745	41,231	7.3 %
Federal Reserve Discount Window	$ 528,893	23,902	504,991	2,112.8 %
Overnight federal funds lines	65,000	65,000	—	— %
Total	$ 1,196,869	$ 650,647	$ 546,222	84.0 %
Total available borrowing capacity to total assets	42.9 %	26.9 %		

During the year ended December 31, 2023, the Company increased cash and cash equivalents by $95.3 million, or 64.8%, to $242.3 million and available borrowing capacity by $546.2 million, or 84.0%, to $1.20 billion. As of December 31, 2023, the Company's cash and cash equivalents and available borrowing capacity cover approximately 151.9% of deposits not covered by deposit insurance compared to 75.1% at December 31, 2022. During the year ended December 31, 2023, the Company updated its application in the Borrower-in Custody Program with Federal Reserve that provides additional borrowing capacity.

The Company also maintains relationships in the capital markets with brokers and dealers to issue time deposits and money market accounts.

PCB Bancorp, on a stand-alone holding company basis, must provide for its own liquidity and its main source of funding is dividends from the Bank. There are statutory, regulatory and debt covenant limitations that affect the ability of the Bank to pay dividends to the holding company. Management believes that these limitations will not impact the Company's ability to meet its ongoing short- and long-term cash obligations.

Off-Balance Sheet Arrangements

The Company has limited off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on financial condition, results of operations, liquidity, capital expenditures or capital resources.

In the ordinary course of business, the Company enters into financial commitments to meet the financing needs of its customers. These financial commitments include commitments to extend credit, unused lines of credit, commercial and similar letters of credit and standby letters of credit. Those instruments involve to varying degrees, elements of credit and interest rate risk not recognized in the Company's financial statements.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Since many of the commitments are expected to expire without being drawn upon, the total amounts do not necessarily represent future cash requirements. The Company evaluates each client's credit worthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary is based on management's credit evaluation of the customer. The following table presents outstanding financial commitments whose contractual amount represents credit risk as of the dates indicated:

	December 31,			
	2023		2022	
($ in thousands)	**Fixed Rate**	**Variable Rate**	**Fixed Rate**	**Variable Rate**
Unused lines of credit	$ 2,808	$ 347,652	$ 3,117	$ 251,178
Unfunded loan commitments	4,020	47,038	692	38,486
Standby letters of credit	4,638	1,786	2,989	1,901
Commercial letters of credit	—	160	—	502
Total	**$ 11,466**	**$ 396,636**	**$ 6,798**	**$ 292,067**

The Company applies an expected credit loss estimation methodology applied to each respective loan segment for determining the ACL on off-balance sheet credit exposures. The loss estimation process includes assumptions for utilization at default. These assumptions are based on the Company's own historical internal loan data. As a part of adoption of ASC 326, the Company recorded an initial adjustment to the ACL on off-balance sheet credit exposures of $1.6 million. As of December 31, 2023 and 2022, the Company maintained an ACL on off-balance sheet credit exposures of $1.3 million and $299 thousand in Accrued Interest Payable and Other Liabilities in the Consolidated Balance Sheets, respectively.

Contractual Obligations

The following table presents supplemental information regarding total contractual obligations as of the dates indicated:

($ in thousands)	**Within One Year**	**One to Three Years**	**Three to Five Years**	**Over Five Years**	**Total**
December 31, 2023					
Time deposits	$ 1,330,271	$ 5,279	$ 186	$ —	$ 1,335,736
FHLB advances	39,000	—	—	—	39,000
Operating leases	3,385	6,233	4,959	10,695	25,272
Total	**$ 1,372,656**	**$ 11,512**	**$ 5,145**	**$ 10,695**	**$ 1,400,008**
December 31, 2022					
Time deposits	$ 785,056	$ 11,046	$ 151	$ —	$ 796,253
FHLB advances	20,000	—	—	—	20,000
Operating leases	2,718	2,484	1,282	845	7,329
Total	**$ 807,774**	**$ 13,530**	**$ 1,433**	**$ 845**	**$ 823,582**

Management believes that the Company will be able to meet its contractual obligations as they come due through the maintenance of adequate cash levels. Management expects to maintain adequate cash levels through profitability, loan and securities repayment and maturity activity and continued deposit gathering activities. The Company has in place various borrowing mechanisms for both short-term and long-term liquidity needs.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Market risk represents the risk of loss due to changes in market values of assets and liabilities. Market risk occurs in the normal course of business through exposures to market interest rates, equity prices, and credit spreads.

Overview

Interest rate risk is the risk to earnings and value arising from changes in market interest rates. Interest rate risk arises from timing differences in the repricings and maturities of interest-earning assets and interest-bearing liabilities (repricing risk), changes in the expected maturities of assets and liabilities arising from embedded options, such as borrowers' ability to prepay residential mortgage loans at any time and depositors' ability to redeem certificates of deposit before maturity (option risk), changes in the shape of the yield curve where interest rates increase or decrease in a nonparallel fashion (yield curve risk), and changes in spread relationships between different yield curves, such as U.S. Treasuries and SOFR (basis risk).

The Company's Board ALCO establishes broad policy limits with respect to interest rate risk. The Board ALCO establishes specific operating guidelines within the parameters of the Board of Directors' policies. In general, The Company seeks to minimize the impact of changing interest rates on net interest income and the economic values of assets and liabilities. The Board ALCO meets quarterly to monitor the level of interest rate risk sensitivity to ensure compliance with the Board of Directors' approved risk limits. The Company also has a Management ALCO, which is comprised of the senior management team and the Chief Executive Officer, to proactively monitor interest rate risk.

Interest rate risk management is an active process that encompasses monitoring loan and deposit flows complemented by investment and funding activities. Effective management of interest rate risk begins with understanding the dynamic characteristics of assets and liabilities and determining the appropriate interest rate risk posture given business forecasts, management objectives, market expectations, and policy constraints.

An asset sensitive position refers to a balance sheet position in which an increase in short-term interest rates is expected to generate higher net interest income, as rates earned on interest-earning assets would reprice upward more quickly than rates paid on interest-bearing liabilities, thus expanding net interest margin. Conversely, a liability sensitive position refers to a balance sheet position in which an increase in short-term interest rates is expected to generate lower net interest income, as rates paid on interest-bearing liabilities would reprice upward more quickly than rates earned on interest-earning assets, thus compressing net interest margin.

Measurement

Interest rate risk exposure is measured and monitored through various risk management tools, which include a simulation model that performs interest rate sensitivity analyses under multiple interest rate scenarios. Interest rate risk measurement is calculated and reported to the Board ALCO at least quarterly. The information reported includes period-end results and identifies any policy limits exceeded, along with an assessment of the policy limit breach and the action plan and timeline for resolution, mitigation, or assumption of the risk.

The Company uses two approaches to model interest rate risk: Net Interest Income at Risk ("NII at Risk"), and Economic Value of Equity ("EVE"). Under NII at Risk, net interest income is modeled utilizing various assumptions for assets, liabilities, and derivatives. The Company uses a static balance sheet to perform these analyses. EVE measures the period end market value of assets minus the market value of liabilities and the change in this value as rates change. EVE simulation reflects the effect of interest rate shifts on the value of the Company. In contrast to NII simulation, EVE simulation identifies risks arising from repricing or maturity gaps over the life of the balance sheet. The EVE approach provides a comparatively broader scope than the NII at Risk approach since it captures all anticipated cash flows.

Simulation results are highly dependent on input assumptions. To the extent the actual behavior is different from the assumption used in the models, there could be material changes in results. The assumptions applied in the model are documented, supported, and periodically back-tested to assess the reasonableness and effectiveness. The Company makes appropriate changes to the model as needed and these changes are reviewed by ALCOs. The Company also continuously validates the model, methodology and results. Scenario results do not reflect strategies that the management could employ to limit the impact of changing interest rate expectations.

As part of the Company's continuous evaluation and periodic enhancements to its NII and EVE calculations, the Company updated its model in the third quarter of 2023 to incorporate deposit repricing assumptions impacting both consumer and wholesale deposits, deposit behavior assumption related to its non-maturity deposits, and prepayment assumptions related to its loan portfolio. The model change incorporated observed pricing and customer behavior in both rising and falling interest rate environments.

The following table presents the projected changes in NII at Risk and EVE that would occur upon an immediate change in interest rates based on independent analysis, but without giving effect to any steps that management might take to counteract that change as of the dates indicated:

	December 31,			
	2023		2022	
Simulated Rate Changes	Net Interest Income Sensitivity	Economic Value of Equity Sensitivity	Net Interest Income Sensitivity	Economic Value of Equity Sensitivity
+200	7.0 %	(6.8)%	6.9 %	(0.5)%
+100	3.6 %	(3.1)%	3.6 %	0.3 %
-100	(4.3)%	1.8 %	(4.6)%	(1.5)%
-200	(9.4)%	— %	(10.3)%	(5.8)%

On January 31, 2024, the FOMC kept the upper range of the Fed Funds Target Rate at 5.50% unchanged, a level which the Committee has maintained since July 26, 2023. In the accompanying statement, the Committee added that “In considering any adjustments to the target range for the Federal Funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks. The Committee does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2 percent.” The Federal Reserve noted that it remains highly attentive to inflation risk.

As of December 31, 2023, the Company’s net interest income sensitivity results exhibit an asset sensitive profile. Net interest income is expected to increase when interest rates rise, as the Company has a large proportion of variable rate loans in its loan portfolio, primarily linked to Prime Rate indices, that are sensitive to changes in short-term interest rates. The Company’s deposit portfolio is also sensitive to changes in short-term interest rates, even though a large portion of its deposit mix is composed of non-maturity deposits that are not directly tied to short-term interest rate indices. The modeled results are highly sensitive to reinvestment yield and deposit beta assumptions. Actual results in net interest income during a period of rising interest rates may vary from the Company’s net interest income sensitivity results, as the actual result reflects earnings asset growth and deposit mix changes based on customer preferences relative to the interest rate environment.

The Company’s EVE sensitivity reflects a slightly liability sensitive profile due to the continuing deposit mix shift from non-maturity deposits to time deposits. The model result is highly sensitive to deposit behaviors as well as loan prepayment assumptions. Due to the uncertainty of the current economic forecast, and timing and direction of future interest rate movements, actual result may vary from the Company’s EVE sensitivity results.

Item 8. Financial Statements

PCB Bancorp and Subsidiary

Index to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

Shareholders and the Board of Directors of PCB Bancorp
Los Angeles, California

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of PCB Bancorp and Subsidiary (the "Company") as of December 31, 2023 and 2022, the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2023, and the related notes (collectively referred to as the "financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2023, based on criteria established in Internal Control – Integrated Framework: (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2023 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2023, based on criteria established in Internal Control – Integrated Framework: (2013) issued by COSO.

Change in Accounting Principle

As discussed in Notes 1 and 4 to the financial statements, the Company has changed its method of accounting for credit losses effective January 1, 2023 due to the adoption of Financial Accounting Standards Board (FASB) Accounting Standards Codifications No. 326, Financial Instruments – Credit Losses (ASC 326). The Company adopted the new credit loss standard using the modified retrospective method such that prior period amounts are not adjusted and continue to be reported in accordance with previously applicable generally accepted accounting principles. The adoption of the new credit loss standard and its subsequent application is also communicated as a critical audit matter below.

Basis for Opinions

The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Allowance and Provision for Credit Losses – Loans Carried at Amortized Cost

As described in Notes 1 and 4 to the financial statements and the explanatory paragraph above, on January 1, 2023 ("adoption date"), the Company adopted ASU 2016-13, Financial instruments – Credit Losses (Topic 326), under a modified retrospective approach, which required the Company to estimate expected credit losses for its financial assets carried at amortized cost utilizing the current expected credit loss ("CECL") methodology. As of the adoption date, the Company reported a $26.0 million allowance for credit losses ("ACL") under the CECL methodology on its loans carried at amortized cost. Upon adoption, the Company recorded a $2.7 million increase to the ACL, of which $1.1 million related to the ACL on loans. After adjusting for the net tax impact, a $1.9 million decrease was recorded in retained earnings through a cumulative-effect adjustment, of which approximately $0.8 million related to the ACL on loans.

The ACL on loans under the CECL methodology was a significant estimate recorded within the Company's financial statements with a reported balance of $26.0 million and $27.5 million as of the adoption date and December 31, 2023, respectively, on amortized loans of $2.0 billion and $2.3 billion, respectively.

The Company's discounted cash flow ("DCF") methodology incorporates a probability of default ("PD") and loss given default ("LGD") modeling approach. PD and LGD assumptions are adjusted using economic forecast scenarios to calculate expected future credit losses over a one-year time horizon before reverting over one year to historical long-term average loss rates. Management utilizes past loan loss experience from peers with similar portfolio sizes and geographic locations to the Company to estimate the PD and LGD assumptions. The use of reasonable and supportable forecasts requires significant judgment, such as selecting forecast scenarios, as well as determining the appropriate length of the forecast horizon. The Company utilizes the forecasted national unemployment and year-over-year change in national gross domestic product rates provided by the Federal Open Market Committee.

The Company adjusts the modeled ACL with internal and external qualitative factors not inherently considered in the quantitative component of the methodology. For each segment of loans collectively evaluated, a hypothetical worst-case scenario loss rate is calculated which is then used as the high watermark for the qualitative factors. The net difference between the worst-case scenario loss rate and the current period's quantitative reserve rate is the maximum available qualitative reserve for a given segment. The required reserve for each segment is then determined based on the weighting of the qualitative category and the assignment of risk status rating for each qualitative category.

The audit procedures over the modeling techniques and assumptions selected by management and the qualitative factor methodology have been identified as a critical audit matter due to the high degree of auditor judgment and use of more experienced audit personnel and valuation specialists in procedures over the modeling techniques and assumptions. The development of the Company's qualitative factor methodology involved significant management judgment and assumptions, which in turn involved a high degree of auditor judgment and significant audit effort, including the need to involve more experienced audit personnel.

The primary procedures we performed to address this critical audit matter included:

- Testing the design and operating effectiveness of controls over the estimate of the allowance for credit losses on loans, including controls addressing:
    - The appropriate application of management’s established methodology in accordance with generally accepted accounting principles;
    - The reasonableness of establishment of management’s qualitative factor methodology;
    - The reasonableness of management's judgments over qualitative factors;
    - Management's model validation, including an evaluation of the conceptual soundness of the ACL framework and significant management judgments and assumptions;
    - Management's review of the reasonableness and sensitivity of significant judgments and assumptions; and
    - Management's review of the directional consistency of judgments and assumptions with modeled or estimate results.
- Substantively testing management's process, including evaluating their judgments and assumptions, for developing the estimate of the allowance of credit losses on loans which included:
    - Evaluating and testing of management’s methodology and conceptual soundness of the DCF model, including the use of valuation specialists to assist with evaluating the model used in forecasting future economic conditions and testing of inputs into the model;
    - Evaluating the reasonableness of management’s significant judgments over the application of reasonable and supportable forecasts;
    - Evaluating the subjective assumptions within the quantitative discounted cash flow model;
    - Evaluating the reasonableness of management’s judgments over selection of qualitative factors;
    - Evaluating the procedures and results of the Company’s third-party model validation, as well as management’s responses to results; and
    - Evaluating of directional consistency of judgments and assumptions with modeled or estimate results.

/s/ Crowe LLP

We have served as the Company’s auditor since 2016.

Los Angeles, California
March 12, 2024

PCB Bancorp and Subsidiary
Consolidated Balance Sheets
(in thousands, except share data)

	December 31, 2023	December 31, 2022
Assets		
Cash and due from banks	$ 26,518	$ 23,202
Interest-bearing deposits in other financial institutions	215,824	123,829
Total cash and cash equivalents	242,342	147,031
Securities available-for-sale, at fair value (amortized cost of $156,175 and $156,978 at December 31, 2023 and 2022, respectively, and allowance for credit losses of $0 at December 31, 2023)	143,323	141,863
Loans held-for-sale	5,155	22,811
Loans held-for-investment, net of deferred loan costs (fees)	2,323,452	2,046,063
Allowance for credit losses on loans (1)	(27,533)	(24,942)
Net loans held-for-investment	2,295,919	2,021,121
Premises and equipment, net	5,999	6,916
Federal Home Loan Bank and other restricted stock, at cost	12,716	10,183
Other real estate owned, net	2,558	—
Bank-owned life insurance	30,817	30,064
Deferred tax assets, net	—	3,115
Servicing assets	6,666	7,347
Operating lease assets	18,913	6,358
Accrued interest receivable	9,468	7,472
Other assets	15,630	15,755
Total assets	**$ 2,789,506**	**$ 2,420,036**
Liabilities and Shareholders' Equity		
Deposits:		
Noninterest-bearing demand	$ 594,673	$ 734,989
Savings, NOW and money market accounts	421,203	514,741
Time deposits of $250,000 or less	760,034	382,377
Time deposits of more than $250,000	575,702	413,876
Total deposits	2,351,612	2,045,983
Federal Home Loan Bank advances	39,000	20,000
Deferred tax liabilities, net	876	—
Operating lease liabilities	20,137	6,809
Accrued interest payable and other liabilities	29,009	11,802
Total liabilities	2,440,634	2,084,594
Commitments and contingent liabilities		
Preferred stock, 10,000,000 shares authorized, no par value:		
Series C, senior non-cumulative perpetual, $1,000 per share liquidation preference, 69,141 and 69,141 shares issued and outstanding at December 31, 2023 and 2022, respectively	69,141	69,141
Common stock, 60,000,000 shares authorized, no par value; issued and outstanding 14,260,440 and 14,625,474 shares, respectively, and included 41,661 and 62,022 shares of unvested restricted stock, respectively, at December 31, 2023 and 2022	142,563	149,631
Retained earnings	146,092	127,181
Accumulated other comprehensive loss, net	(8,924)	(10,511)
Total shareholders' equity	348,872	335,442
Total liabilities and shareholders' equity	**$ 2,789,506**	**$ 2,420,036**

(1) Allowance for credit losses on loans at December 31, 2023 is presented under ASC 326, while prior period comparison continues to be presented under legacy ASC 450 and ASC 310.

See Accompanying Notes to Consolidated Financial Statements

PCB Bancorp and Subsidiary
Consolidated Statements of Income
(in thousands, except share and per share data)

	Year Ended December 31,		
	2023	2022	2021
Interest and dividend income:			
Loans, including fees	$ 136,029	$ 95,054	$ 79,155
Tax-exempt investment securities	126	140	146
Taxable investment securities	4,553	2,767	1,467
Other interest-earning assets	10,469	3,790	704
Total interest income	151,177	101,751	81,472
Interest expense:			
Deposits	62,165	11,984	4,043
Other borrowings	508	135	292
Total interest expense	62,673	12,119	4,335
Net interest income	88,504	89,632	77,137
Provision (reversal) for credit losses (1)	(132)	3,602	(4,596)
Net interest income after provision (reversal) for loan losses	88,636	86,030	81,733
Noninterest income:			
Service charges and fees on deposits	1,475	1,326	1,195
Loan servicing income	3,330	2,969	2,770
Bank-owned life insurance income	753	706	108
Gain on sale of loans	3,570	7,990	12,932
Other income	1,555	1,508	1,429
Total noninterest income	10,683	14,499	18,434
Noninterest expense:			
Salaries and employee benefits	34,572	33,056	27,974
Occupancy and equipment	7,924	6,481	5,575
Professional fees	3,087	2,239	2,159
Marketing and business promotion	2,327	2,150	1,656
Data processing	1,552	1,706	1,572
Director fees and expenses	756	706	594
Regulatory assessments	1,103	597	537
Other expenses	4,736	4,191	3,141
Total noninterest expense	56,057	51,126	43,208
Income before income taxes	43,262	49,403	56,959
Income tax expense	12,557	14,416	16,856
Net income	**$ 30,705**	**$ 34,987**	**$ 40,103**
Earnings per common share, basic	$ 2.14	$ 2.35	$ 2.66
Earnings per common share, diluted	$ 2.12	$ 2.31	$ 2.62
Weighted-average common shares outstanding, basic	14,301,691	14,822,018	15,017,637
Weighted-average common shares outstanding, diluted	14,417,938	15,065,175	15,253,820

(1) Provision (reversal) for credit losses for the year ended December 31, 2023 is presented under ASC 326, while prior period comparisons continue to be presented under legacy ASC 450 and ASC 310.

See Accompanying Notes to Consolidated Financial Statements

PCB Bancorp and Subsidiary
Consolidated Statements of Comprehensive Income
(in thousands)

	Year Ended December 31,		
	2023	2022	2021
Net income	$ 30,705	$ 34,987	$ 40,103
Other comprehensive income (loss):			
Unrealized gain (loss) on securities available-for-sale arising during the year	2,263	(15,128)	(2,553)
Income tax benefit (expense) related to items of other comprehensive income (loss)	(676)	4,463	751
Total other comprehensive income (loss), net of tax	1,587	(10,665)	(1,802)
Total comprehensive income	**$ 32,292**	**$ 24,322**	**$ 38,301**

See Accompanying Notes to Consolidated Financial Statements

PCB Bancorp and Subsidiary
Consolidated Statements of Changes in Shareholders' Equity
(in thousands, except share data)

	Shares Outstanding		Shareholders' Equity				
	Preferred Stock	Common Stock	Preferred Stock	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2021	**—**	**15,385,878**	**—**	**164,140**	**67,692**	**1,956**	**233,788**
Comprehensive income (loss)							
Net income	—	—	—	—	40,103	—	40,103
Other comprehensive loss, net of tax	—	—	—	—	—	(1,802)	(1,802)
Issuance of restricted stock	—	35,584	—	—	—	—	—
Forfeiture of restricted stock	—	(1,300)	—	—	—	—	—
Restricted stock surrendered due to employee tax liability	—	(231)	—	(4)	—	—	(4)
Repurchase of common stock	—	(680,269)	—	(10,876)	—	—	(10,876)
Share-based compensation expense	—	—	—	453	—	—	453
Stock options exercised	—	126,163	—	1,279	—	—	1,279
Cash dividends declared on common stock ($0.44 per share)	—	—	—	—	(6,655)	—	(6,655)
Balance at December 31, 2021	**—**	**14,865,825**	**—**	**154,992**	**101,140**	**154**	**256,286**
Comprehensive income (loss)							
Net income	—	—	—	—	34,987	—	34,987
Other comprehensive loss, net of tax	—	—	—	—	—	(10,665)	(10,665)
Issuance of preferred stock	69,141	—	69,141				69,141
Issuance of restricted stock	—	27,700	—	—	—	—	—
Forfeiture of restricted stock	—	(200)	—	—	—	—	—
Restricted stock surrendered due to employee tax liability	—	(429)	—	(8)	—	—	(8)
Repurchase of common stock	—	(362,557)	—	(6,732)	—	—	(6,732)
Share-based compensation expense	—	—	—	539	—	—	539
Stock options exercised	—	95,135	—	840	—	—	840
Cash dividends declared on common stock ($0.60 per share)	—	—	—	—	(8,946)	—	(8,946)
Balance at December 31, 2022	**69,141**	**14,625,474**	**69,141**	**149,631**	**127,181**	**(10,511)**	**335,442**
Cumulative effect adjustment upon adoption of ASC 326	—	—	—	—	(1,886)	—	(1,886)
Adjusted balance at January 1, 2023	**69,141**	**14,625,474**	**69,141**	**149,631**	**125,295**	**(10,511)**	**333,556**
Comprehensive income							
Net income	—	—	—	—	30,705	—	30,705
Other comprehensive income, net of tax	—	—	—	—	—	1,587	1,587
Issuance of restricted stock	—	3,300	—	—	—	—	—
Forfeiture of restricted stock	—	(500)	—	—	—	—	—
Restricted stock surrendered due to employee tax liability	—	(99)	—	(2)	—	—	(2)
Repurchase of common stock	—	(512,657)	—	(8,828)	—	—	(8,828)

Stock repurchase excise tax	—	—	—	(76)	—	—	(76)
Share-based compensation expense	—	—	—	488	—	—	488
Stock options exercised	—	144,922	—	1,350	—	—	1,350
Cash dividends declared on common stock ($0.69 per share)	—	—	—	—	(9,908)	—	(9,908)
Balance at December 31, 2023	**69,141**	**14,260,440**	**$ 69,141**	**$ 142,563**	**$ 146,092**	**$ (8,924)**	**$ 348,872**

See Accompanying Notes to Consolidated Financial Statements

PCB Bancorp and Subsidiary
Consolidated Statements of Cash Flows
(in thousands)

	Year Ended December 31,		
	2023	2022	2021
Cash flows from operating activities			
Net income	$ 30,705	$ 34,987	$ 40,103
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation of premises and equipment	2,184	1,597	1,375
Net amortization of premiums on securities	209	367	1,004
Net accretion of discounts on loans	(2,197)	(3,551)	(3,504)
Net accretion of deferred loan fees	(1,097)	(2,181)	(6,096)
Amortization of servicing assets	1,883	2,135	2,009
Provision (reversal) for credit losses (1)	(132)	3,602	(4,596)
Bank-owned life insurance income	(753)	(706)	(108)
Deferred tax expense (benefit)	4,103	12,172	(1,953)
Share-based compensation	488	539	453
Gain on sale of loans	(3,570)	(7,990)	(12,932)
Originations of loans held-for-sale	(69,040)	(105,570)	(172,211)
Proceeds from sales of and principal collected on loans held-for-sale	87,422	132,881	150,236
Change in accrued interest receivable and other assets	(934)	(12,738)	2,660
Change in accrued interest payable and other liabilities	14,072	1,723	1,943
Net cash provided by (used in) operating activities	63,343	57,267	(1,617)
Cash flows from investing activities:			
Purchase of securities available-for-sale	(17,271)	(57,360)	(47,306)
Proceeds from maturities, calls, and paydowns of securities available-for-sale	17,865	23,200	41,078
Proceeds from sales of and principal collected on loans held-for-sale previously classified as held-for-investment	5,074	458	8,757
Net increase in loans held-for-investment	(261,352)	(317,095)	(149,237)
Purchase of loans held-for-investment	(15,741)	—	(2,139)
Purchase of Federal Home Loan Bank and other restricted stock	(2,533)	(1,606)	(130)
Proceeds from sale of other real estate owned	—	1,191	3,434
Purchases of premises and equipment	(1,315)	(5,453)	(430)
Purchase of bank-owned life insurance	—	—	(29,250)
Net cash used in investing activities	(275,273)	(356,665)	(175,223)
Cash flows from financing activities:			
Net increase in deposits	305,629	178,849	272,283
Net change in short-term Federal Home Loan Bank advances	(20,000)	20,000	—
Proceeds from long-term Federal Home Loan Bank advances	39,000	—	—
Repayment of long-term Federal Home Loan Bank advances	—	(10,000)	(70,000)
Stock options exercised	1,350	840	1,279
Restricted stock surrendered due to employee tax liability	(2)	(8)	(4)
Issuance of preferred stock	—	69,141	—
Repurchase of common stock	(8,828)	(6,732)	(10,876)
Cash dividends paid on common stock	(9,908)	(8,946)	(6,655)
Net cash provided by financing activities	307,241	243,144	186,027
Net increase (decrease) in cash and cash equivalents	95,311	(56,254)	9,187
Cash and cash equivalents at beginning of year	147,031	203,285	194,098
Cash and cash equivalents at end of year	**$ 242,342**	**$ 147,031**	**$ 203,285**

(1) Provision (reversal) for credit losses for the year ended December 31, 2023 is presented under ASC 326, while prior period comparisons continue to be presented under legacy ASC 450 and ASC 310.

See Accompanying Notes to Consolidated Financial Statements

PCB Bancorp and Subsidiary
Consolidated Statements of Cash Flows (Continued)
(in thousands)

	Year Ended December 31,		
	2023	2022	2021
Supplemental disclosures of cash flow information:			
Interest paid	$ 47,780	$ 9,731	$ 5,790
Income taxes paid	4,284	13,977	14,982
Supplemental disclosures of non-cash investment activities:			
Loans transferred to loans held-for-sale	$ —	$ 4,458	$ 8,752
Loans transferred to other real estate owned	593	151	905
Right-of-use assets obtained in exchange for lease obligations	15,317	2,150	1,459

See Accompanying Notes to Consolidated Financial Statements

Note 1. Basis of Presentation and Significant Accounting Policies

Nature of Operations

PCB Bancorp is a bank holding company whose subsidiary is PCB Bank, which is a single operating segment. The Company changed the Bank's name from "Pacific City Bank" to "PCB Bank" on August 25, 2022. The Bank is a single operating segment that operates 11 full-service branches in Los Angeles and Orange Counties, California, three full-service branches on the East Coast (Bayside, New York; and Englewood Cliffs and Palisades Park, New Jersey), and two full-service branches in Texas (Carrollton and Dallas), and seven LPOs in Los Angeles and Orange Counties, California; Annandale, Virginia; Atlanta, Georgia; Aurora, Colorado; Bellevue, Washington; and Carrollton, Texas. The Bank offers a broad range of loans, deposits, and other products and services predominantly to small and middle market businesses and individuals.

Basis of Presentation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary as of December 31, 2023 and 2022 and for the years ended December 31, 2023, 2022 and 2021. Significant inter-company accounts and transactions have been eliminated in consolidation. Unless the context requires otherwise, all references to the Company include its wholly owned subsidiaries. The accounting and reporting polices of the Company are based upon GAAP and conform to predominant practices within the financial services industry. Significant accounting policies followed by the Company are presented below.

Certain prior period amounts have been reclassified to conform to the current year's presentation. These reclassifications had no impact on the Company's consolidated statements of financial condition or operations.

Use of Estimates in the Preparation of Financial Statements

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. These estimates are subject to change and such change could have a material effect on the consolidated financial statements. Actual results may differ from those estimates.

Significant Accounting Policies

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, cash items in transit, cash due from the Federal Reserve Bank and other financial institutions, and federal funds sold with original maturities less than 90 days.

On March 26, 2020, the Federal Reserve reduced reserve requirement ratios to 0%, eliminating the reserve requirement for all depository institutions. There was no reserve and clearing requirement balance at December 31, 2023 and 2022.

Investment Securities

Investment securities are classified as held-to-maturity or available-for-sale at the time of purchase based upon the intent of management, liquidity and capital requirements, regulatory limitations and other relevant factors. Debt securities are classified as held-to-maturity when management has the positive intent and ability to hold to maturity. Debt securities are classified as available-for-sale when they might be sold before maturity. Securities held-to-maturity are carried at amortized cost and securities available-for-sale are carried at fair value with unrealized gains and losses, net of taxes, recorded in other comprehensive income. As of December 31, 2023 and 2022, all of the investment securities held by the Company were securities available-for-sale.

Gains and losses on sales of securities are determined using the specific identification method. Net realized gains or losses on available-for-sale securities are included in noninterest income and, when applicable, are reported as a reclassification adjustment, net of tax, in other comprehensive income. Amortization of premiums and accretion of discounts are included in interest income using the effective interest method.

Allowance for Credit Losses on Investment Securities.

Effective January 1, 2023, ACL on securities available-for-sale is determined in accordance with ASC 326. The Company performs a quarterly evaluation for securities in an unrealized loss position to determine if, for those investments in an unrealized loss position, the decline in fair value is credit related or non-credit related. In determining whether a security's decline in fair value is credit related, the Company 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 that the unrealized loss, or a portion thereof, is credit related, the Company records the amount of credit loss through a charge to provision for credit losses. Unrealized losses deemed non-credit related are recorded, net of tax, through accumulated other comprehensive income.

The Company does not measure credit losses on an investment's accrued interest receivable, but rather promptly reverses from current period earnings the amount of accrued interest that is no longer deemed collectable. Accrued interest receivable for investment securities is included in accrued interest receivable in the consolidated statements of financial condition.

Loans Held-For-Sale

The Company originates SBA loans, and certain residential mortgage and CRE loans with the intention for sale in the secondary market. The Company records the guaranteed portion of SBA loans and these residential mortgage and CRE loans held-for-sale at the lower of cost or fair value on an aggregate basis. Fair value is based on commitments on hand from investors or prevailing market prices. A valuation allowance is established if the fair value of such loans is lower than their cost, with a corresponding charge to noninterest income.

When the Company changes its intent to hold loans for investment, the loans are transferred to held-for-sale at lower of cost or fair value at the time of transfer, as determined on an individual loan level with charges made to ACL on loans when the fair value is lower than the cost. Deferred fees and cost on transferred loans are included in the determination of gains or losses on sale of the related loans. Subsequent decreases in fair value, if any, are recognized through a valuation allowance with charges made to noninterest income.

If a determination is made that a loan held-for-sale cannot be sold in the foreseeable future, it is transferred to loans held-for-investment at lower of cost or fair value on the transfer date with a charge made to noninterest income when the fair value is lower than the cost.

Realized gains and losses from sales of loans are included in noninterest income. For sales of guaranteed portion of SBA and certain residential mortgage loans, the loan servicing rights are retained.

Loans Held-For-Investment

Loans held-for-investment that management has the intent and ability to hold for the foreseeable future are reported at their outstanding unpaid principal balances, net of any charge-offs, deferred fees or costs on originated loans, or unamortized premiums or discounts on purchased loans. Loan origination fees and certain direct origination costs are deferred and recognized in interest income using the effective interest method over the life of the loan. Interest is accrued and credited to income as earned only if deemed collectible.

Loans on which the accrual of interest has been discontinued are designated as nonaccrual loans. Accrual of interest on loans is discontinued when principal or interest payment is 90 days past due based on the contractual terms of the loan or when, in the opinion of management, there is reasonable doubt as to collectability. When loans are placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income. Past-due status is based on the contractual terms of the loan. Interest payments that are subsequently received are applied as a reduction to the remaining principal balance as long as concern exists as to the collectability of the principal. Interest accruals are resumed on such loans only when the loans are brought current with respect to interest and principal and when, in the judgment of management, all principal and interest on the loans are expected to be fully collectable.

Loan portfolio segments identified by the Company include: commercial real estate (commercial property, business property, multifamily and construction), commercial and industrial, and consumer loans (residential mortgage and other consumer).

Each loan segment bears varying degrees of risk based on, among other things, the type of loan and collateral, and the sensitivity of the borrower or industry to changes in external factors such as economic conditions and interest rate changes. The loan segments are as following:

Commercial Real Estate Loans:

- Commercial property loans – Commercial property loans include loans for which the Company holds real property as collateral, but where the borrower does not occupy the underlying property. The primary risks associated with investor property loans include the borrower's inability to pay, material decreases in the value of the real estate that is being held as collateral, significant increases in interest rates, changes in market rents, and vacancy and conditions of the underlying property, any of which may make the real estate property unprofitable to the borrower. Real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy.
- Business property loans – Business property loans include loans for which the Company holds real property as collateral and where the underlying property is occupied by the borrower, such as with a place of business. These loans are primarily underwritten based on the cash flows of the business and secondarily on the real estate. The primary risks associated with business property loans include the borrower's inability to pay, material decreases in the value of the real estate that is being held as collateral, and significant increases in interest rates, which reduce the cash flows of the underlying business. Real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy.
- Multifamily loans: Multifamily loans are secured by multi-tenant (5 or more units) residential real properties. Payments on multifamily loans are dependent on the successful operation or management of the properties, and repayment of these loans may be subject to adverse conditions in the real estate market or the economy.
- Construction loans: Construction loans are considered to have higher risks due to construction completion and timing risk, and the ultimate repayment being sensitive to interest rate changes, government regulation of real property, and the availability of long-term financing. Additionally, economic conditions may impact the Company's ability to recover its investment in construction loans, as adverse economic conditions may negatively impact the real estate market, which could affect the borrower's ability to complete and sell the project. The fair value of the underlying collateral may fluctuate as market conditions change. The primary risks include the borrower's inability to pay and the inability of the Company to recover its investment due to a decline in the fair value of the underlying collateral.

Commercial and Industrial Loans:

- Commercial and industrial loans – The C&I loan category includes commercial term loans and commercial lines of credit. Commercial term loans are typically extended to finance business acquisitions, permanent working capital needs, and/or equipment purchases. Commercial lines of credit are generally provided to finance short-term working capital needs and mortgage warehouse lending credit facilities. Mortgage warehouse lending is a line of credit given to a loan originator, the funds from which are used to finance a mortgage that a borrower uses to purchase single-family residential property or refinance an existing mortgage. The primary risk associated with C&I loans is the difference between expected and actual cash flows of the borrowers. In addition, the recoverability of the Company's investment in these loans is also dependent on other factors primarily dictated by the type of collateral securing these loans, and occasionally upon other borrower assets and guarantor assets.

Consumer Loans

- Residential mortgage loans – The primary risks of residential mortgage loans include the borrower's inability to pay, material decreases in the value of the real estate that is being held as collateral, and significant increases in interest rates, which may reduce the borrower's capacity to pay.
- Other consumer loans – Other consumer loans primarily include automobile loans, as well as unsecured lines of credit and term loans to high net worth individuals. Automobile loans have relatively higher LTV ratios on average and carry higher interest rates to offset for the inherently higher default risks. Unsecured lines of credit and term consumer loans are underwritten primarily based on the individual borrower's income, current debt level, and past credit history. Repayment of these loans is dependent on the borrower's ability to pay, and the fair value of the underlying collateral for automobile loans.

The Company classifies loans into risk categories based on relevant information about the ability of borrowers to service their debt, such as current financial information, historical payment experience, collateral adequacy, credit documentation, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans in regards to credit risk. This analysis typically includes non-homogeneous loans, such as commercial real estate and commercial and industrial loans, and is performed on an ongoing basis as new information is obtained.

The Company uses the following definitions for risk ratings:

- *Pass* - Loans classified as pass include non-homogeneous loans not meeting the risk ratings defined below and smaller, homogeneous loans not assessed on an individual basis.
- *Special Mention* - Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in the deterioration of repayment prospects for the loan or of the institution's credit position at some future date.
- *Substandard* - Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified as substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.
- *Doubtful* - Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or repayment in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

As of December 31, 2023, the Company's loan portfolio was primarily collateralized by various forms of real estate and business assets located primarily in California. The Company's loan portfolio contains concentrations of credit in commercial real estate loans and commercial and industrial loans. The Company maintains policies that address these concentrations, as well as residential mortgage loans, and diversifies its loan portfolio through loan originations, purchases, and sales to meet approved concentration levels.

Allowance for Credit Losses on Loans and Off-Balance Sheet Credit Exposures

Effective January 1, 2023, ACL on loans is determined in accordance with ASC 326, which requires the Company to record an estimate of expected lifetime credit losses for loans at the time of origination or acquisition. The ACL is maintained at a level deemed appropriate by management to provide for expected credit losses in the portfolio as of the date of the consolidated statements of financial condition. Estimating expected credit losses requires management to use relevant forward-looking information, including the use of reasonable and supportable forecasts. The measurement of the ACL is performed by collectively evaluating loans with similar risk characteristics. The Company's discounted cash flow methodology incorporates a PD and LGD model, as well as expectations of future economic conditions, using reasonable and supportable forecasts.

The Company leverages its peer group information to estimate PD and LGD. Peer group is selected from institutions in California with total assets between $1 billion and $5 billion. The Company analyzes and compares each loan segment's volume as a percentage of total loans, recent charge-off rates, and charge-off rate during recession of the peer group against those of the Bank for inclusion in the peer group population. PD and LGD are forecasted over a one-year time horizon using economic forecast scenarios, which the Company believes is a reasonable and supportable period. Beyond the 1-year forecast time horizon, the Company's ACL model reverts to historical long-term average loss rates over a 1-year period.

The use of reasonable and supportable forecasts requires significant judgment, such as selecting forecast scenarios, as well as determining the appropriate length of the forecast horizon. Management leverages economic projections from a reputable and independent third party to inform and provide its reasonable and supportable economic forecasts. Other internal and external indicators of economic forecasts may also be considered by management when developing the forecast metrics. The Company's ACL model reverts to long-term average loss rates for purposes of estimating expected cash flows beyond a period deemed reasonable and supportable. The Company forecasts economic conditions and expected credit losses over a one-year time horizon. Beyond the one-year forecast time horizon, the Company's ACL model reverts to historical long-term average loss rates over one-year period. Management utilizes the economic forecasts provided by the FOMC to forecast the first 4 quarters of the credit loss estimate. The FOMC projects national unemployment rate and the projected change in the year-over-year national GDP growth rates over the forward-looking 4 quarters are used in determining the PD rates over the forecasted periods. Changes in economic forecasts, in conjunction with changes in loan specific attributes, impact a loan's PD and LGD, which can drive changes in the determination of the ACL.

A portion of the collectively evaluated ACL on loans also includes qualitative adjustments for risk factors not reflected or captured by the quantitative modeled ACL but are relevant in estimating future expected credit losses. For each segment of the collectively evaluated loans, a hypothetical worst case scenario loss rate is calculated which is then used as the high watermark for the qualitative adjustment factors. The net difference between the worst case scenario loss rate and the current period's quantitative reserve rate is the maximum available qualitative reserve for a given segment. The required qualitative reserve for each segment is then determined based on the weighting of the qualitative category and the assignment of risk status rating (improvement, no risk, minor risk, moderate risk, and major risk) for each qualitative factor category.

Qualitative adjustments may be related to and include, but not limited to factors such as: (i) management's assessment of economic forecasts used in the model and how those forecasts align with management's overall evaluation of current and expected economic conditions, (ii) organization-specific risks such as credit concentrations, collateral specific risks, regulatory risks, and external factors that may ultimately impact credit quality, (iii) potential model limitations such as limitations identified through back-testing, and other limitations associated with factors such as underwriting changes, acquisition of new portfolios and changes in portfolio segmentation, and (iv) management's overall assessment of the adequacy of the ACL, including an assessment of ACL model data inputs.

Problem loans are typically substandard or have a worse internal risk grade, and may consist of loans on nonaccrual status where the likelihood of foreclosure on underlying collateral has increased, collateral dependent loans and other loans where concern or doubt over the ultimate collectability of all contractual amounts due has become elevated. These problem loans, in the opinion of management, no longer possess risk characteristics similar to other loans in the loan segment, and as such may require individual evaluation for appropriate ACL for the loan. For performing loans individually evaluated, the Company measures the expected credit loss based on a discounted cash flow approach or fair value of collateral, less costs to sell. Collateral dependent loans are loans to borrowers with financial difficulty where the repayment of the loan is expected from the operation of and/or eventual liquidation of the underlying collateral. Although management uses the best information reasonably available to derive estimates necessary to measure an appropriate level of the ACL, future adjustments to the ACL may be necessary due to economic, operating, regulatory and other conditions that may extend beyond the Company's control.

Generally, loans are charged off immediately when it is determined that advances to the borrower are in excess of the calculated current fair value of the collateral and if a borrower is deemed incapable of repayment of unsecured debt, there is little or no prospect for near term improvement and no realized strengthening action of significance pending. Other consumer loans are charged off based on delinquency, typically 120 days for closed loans and 180 days for open-end loans, or earlier when it is determined that the loan is uncollectible due to a triggering event, such as bankruptcy, fraud, or death. This methodology for determining charge-offs is consistently applied to each segment. Charge-offs are recorded to the ACL. Subsequent recoveries, if any, are credited to the ACL.

Prior to the Company's adoption of ASC 326 on January 1, 2023

The Company maintained an allowance for loan losses in accordance with ASC 450, *Contingencies* and ASC 310, *Receivables,* which was a valuation allowance for probable incurred credit losses. Management estimated the allowance for loan losses using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors.

The allowance consisted of general reserves (collectively evaluated for impairment) and specific reserves (individually evaluated for impairment). General reserves covered non-impaired loans and are based on historical loss rates over the most recent 11 years for each portfolio segment, as of December 31, 2022, adjusted for the effects of qualitative or environmental factors that were likely to cause estimated credit losses as of the evaluation date to differ from the portfolio segment's historical loss experience.

The Company utilized a migration analysis to measure actual historical loss experience, with the resulting historical loss rate adjusted for any applicable loss emergence period factors serving as the base loss rate to estimate the amount of appropriate loss reserve. Qualitative factors included consideration of the following: changes in lending policies and procedures; changes in economic conditions; changes in the nature and volume of the portfolio; changes in the experience, ability, and depth of lending management and other relevant staff; changes in the volume and severity of past due, nonaccrual, and other adversely graded loans; changes in the loan review system; changes in the value of the underlying collateral for collateral-dependent loans; concentrations of credit and the effect of other external factors such as competition and legal and regulatory requirements.

Specific reserves related to loans that were individually classified as impaired. A loan was impaired when, based on current information and events, it was probable that the Company would be unable to collect all amounts due according to the contractual terms of the loan agreement. Factors considered in determining impairment included payment status, collateral value, and the probability of collecting all amounts when due. Measurement of impairment was based on the expected future cash flows of an impaired loan, which were to be discounted at the loan's effective interest rate, or measured by reference to an observable market value, if one exists, or the fair value of the collateral for a collateral-dependent loan. The Company selected the measurement method on a loan-by-loan basis, with the exception of collateral-dependent loans for which the most viable source of repayment was the continued operation of the collateral or liquidation of the collateral. The impairment for these loans was measured at the fair value of the collateral, less estimated selling cost.

The Company applies an expected credit loss estimation methodology applied to each respective loan segment for determining the ACL on off-balance sheet credit exposures. These assumptions are based on the Company's own historical internal loan data.

Premises and Equipment

Premises and equipment are carried at cost less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives, which ranges from three to seven years for furniture and equipment. Leasehold improvements are amortized using the straight-line method over the estimated useful lives of the improvements or the remaining lease term, whichever is shorter. Expenditures for betterments or major repairs are capitalized and those for ordinary repairs and maintenance are charged to operations as part of occupancy and equipment expense as incurred.

Operating Leases

The Company's operating leases are for its headquarters' office spaces, and retail branch and LPO locations. Most leases include one or more options to renew, with renewal terms that can extend the lease term from one to five years. The exercise of a lease renewal option is at the Company's sole discretion. Certain leases with an initial term of 12 months or less are not recorded on the balance sheet and lease expenses for these leases are recognized on a straight-line basis over the lease term. None of the Company's lease agreements contain any material residual value guarantees or material restrictive covenants. The Company also leases certain equipment, such as copy machines and scanners, but they are determined to be immaterial.

Federal Home Loan Bank and Other Restricted Stock

The Bank is a member of the FHLB and Pacific Coast Bankers' Bancshares ("PCBB") system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB and PCBB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on the ultimate recovery of par value. Both cash and stock dividends are reported as income.

Other Real Estate Owned

OREO represents properties acquired through foreclosure or other proceedings. The Company initially records OREO at fair value at the time of foreclosure. Thereafter, OREO is recorded at the lower of cost or fair value based on their subsequent changes in fair value. The fair value of OREO is generally based on recent real estate appraisals adjusted for estimated selling costs. Any write-down to fair value at the time of transfer to OREO is charged to ACL on loans. Property is evaluated regularly to ensure the recorded amount is supported by its current fair value and valuation allowances to reduce the carrying amounts to fair value less estimated costs to dispose are recorded as necessary. Additions to or reductions from valuation allowances are recorded in noninterest expense.

Servicing Assets

Servicing assets are recognized when servicing rights are retained from the sale of loans, such as sales of the guaranteed portion of SBA and certain residential mortgage loans, and are initially recorded at fair value. Fair value is calculated as the present value of estimated future cash flows from the servicing rights based on current market sources, such as the cost to service, discount rates, and prepayment speeds. Servicing assets are amortized into noninterest income over the expected life of the underlying loans.

Servicing assets are evaluated for impairment based on the fair value of the servicing rights as compared to the carrying amount. Impairment is determined by stratifying servicing rights into groupings based on predominant risk characteristics, such as collateral type. For purposes of measuring impairment, the Company has identified each servicing asset with the underlying loan being serviced. A valuation allowance is recorded when the fair value is below the carrying amount of the asset. If the Company later determines that all or a portion of the impairment no longer exists for a particular grouping, a reduction of the valuation allowance may be recorded as an increase to income. The fair values of servicing assets are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and changes in discount rates.

Servicing income as reported on the income statement consists of fees earned for servicing loans, net of the amortization of servicing assets and changes in the valuation allowance. The servicing fees are based on a contractual percentage of the outstanding principal and recorded as income when earned.

Investment in Qualified Affordable Housing Projects

The Company has invested in a limited partnership that operates qualified affordable housing projects for lower income tenants in California. The Company accounts for this investment under the proportional amortization method and the amortization expense is presented as a component of current tax expense. Return of this investment is generated primarily through allocated federal tax credits and other tax benefits.

The recorded investment amount was $3.8 million and $4.3 million, respectively, and unfunded commitments were $2.9 million and $2.9 million, respectively, at December 31, 2023 and 2022. The recorded investment amount is included in Other Assets and unfunded commitment is included in Accrued Interest Payable and Other Liabilities on the Consolidated Statements of Financial Condition. As components of income tax expense, the Company recognized $451 thousand, $343 thousand and $247 thousand in amortization expense, respectively, partially offset by federal tax credits and other benefits of $674 thousand, $336 thousand and $299 thousand, respectively, for the years ended December 31, 2023, 2022 and 2021. The Company determined that there were no events or changes in circumstances indicating that it is more likely than not that the carrying amount of the investment will not be realized. Therefore, no impairment was recorded for the years ended December 31, 2023 and 2022.

Bank-owned Life Insurance

The Company purchases life insurance policies on certain officers and directors. The Bank and named beneficiaries of various current covered officers are the beneficiaries under each policy. In the event of the death of a covered officer, the Bank and named beneficiaries of the covered officer will receive the specified insurance benefit from the insurance carrier. Bank-owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due, if any, that are probable at settlement.

Earnings Per Share

Earnings per share ("EPS") is computed under the two-class method. Net income allocated to common stock is computed by subtracting income allocated to unvested restricted stock from net income. Income allocated to unvested restricted stock includes cash dividend paid and undistributed income available to holders of unvested restricted stock, if any. Basic EPS is computed by dividing net income allocated to common stock by the weighted-average common shares outstanding excluding the weighted-average unvested restricted stock. Diluted EPS is computed by dividing net income allocated to common stock by the weighted-average common stock outstanding, excluding the weighted-average unvested restricted stock, adjusted for the dilutive effect of the stock options. Diluted EPS reflects the potential dilution that could occur if options or other contracts to issue common stock were exercised or converted into common stock, or resulted in the issuance of common stock that then shared in the earnings of the entity.

Transfer of Financial Assets

Transfers of financial assets are accounted for sales, when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Company, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Share-Based Compensation

The Company recognizes the cost of employee services received in exchange for stock options and restricted stock awards ("RSAs"), based on the grant date fair value of those awards. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Company's common stock at the date of grant is used for RSAs. This cost is recognized in income over the period which an employee is required to provide services in exchange for the award, generally the vesting period. See Note 12 for additional information on the Company's stock option plan.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. Interest and penalties related to unrecognized tax benefits are recorded as part of income tax expense. A valuation allowance is established to reduce the deferred tax asset to the level at which it is more likely than not that the tax benefits will be realized. Realization of tax benefits of deductible temporary differences and carryforwards depends on having sufficient taxable income of an appropriate character and in the appropriate periods.

Comprehensive Income (Loss)

Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes the changes in unrealized gains and losses on securities available-for-sale, net of tax.

Commitments and Contingencies

In the ordinary course of business, the Company enters into off-balance sheet financial instruments consisting of commitments to extend credit, commercial letters of credit, and standby letters of credit as described in Note 16. Such financial instruments are recorded in the consolidated financial statements when they are funded or related fees are incurred or received.

Revenue Recognition

Topic 606, "Revenue from Contracts with Customers," does not apply to revenue associated with financial instruments, including revenue from loans and securities. In addition, certain noninterest income streams such as gain or loss associated with mortgage servicing assets and financial guarantees are also not within the scope. Topic 606 is applicable to noninterest income such as deposit related fees, interchange fees, and merchant related income. Noninterest income considered to be within the scope of Topic 606 is discussed below.

Service charges and fees on deposits: Deposit account service charges consist of monthly service fees, account analysis fees, non-sufficient funds ("NSF") charges and other deposit related fees. The Company's performance obligation for account analysis fees and monthly service fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided. NSF charges, and other deposit account service charges are largely transactional based, and therefore, the Company's performance obligation is satisfied, and related revenue recognized, at a point in time as incurred.

Debit card fees: When customers use their debit cards to pay merchants for goods or services, the Company retains a fee from the funds collected from the related deposit account and transfers the remaining funds to the payment network for remittance to the merchant. The performance obligation to the merchant is satisfied and the fee is recognized at the point in time when the funds are collected and transferred to the payment network.

Gain (loss) on sale of other real estate owned: The Company's performance obligation for sale of OREO is the transfer of title and ownership rights of the OREO to the buyer, which occurs at the settlement date when the sale proceeds are received and income is recognized.

Wire transfer fees and other service charges: Wire transfer fees and other service charges are transaction based, and therefore, the Company's performance obligation is satisfied, and related revenue recognized, at a point in time as incurred.

Fair Value Measurement

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (i.e., an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Current accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs when measuring fair value. The guidance describes three levels of inputs that may be used to measure fair value:

- Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- Level 2: Significant observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

See Note 2 for more information and disclosures relating to the Company's fair value measurements.

Adopted Accounting Pronouncements

During the year ended December 31, 2023, the Company adopted following accounting pronouncements.

In June 2016, the FASB issued Accounting Standards Update ("ASU") 2016-13, *"Financial Instruments-Credit Losses (Topic 326)."* The amendments in this ASU require that entities change the impairment model for most financial assets that are measured at amortized cost and certain other instruments from an incurred loss model to an expected loss model. Under this model, entities will estimate credit losses over the entire contractual term of the instrument from the date of initial recognition of that instrument. It includes financial assets such as loan receivables, held-to-maturity debt securities, net investment in leases that are not accounted for at fair value through net income, and certain off-balance sheet credit exposures. This ASU was effective for public business entities that are SEC filers for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. In 2019, the FASB amended this ASU, which delayed the effective date to 2023 for certain SEC filers that are Smaller Reporting Companies, such as the Company.

On January 1, 2023, the Company adopted the provisions of ASC 326 through the application of the modified retrospective transition approach, and recorded a net decrease of $1.9 million to the beginning balance of retained earnings as of January 1, 2023 for the cumulative effect adjustment, reflecting an initial adjustment to the ACL on loans of $1.1 million and the ACL on off-balance sheet credit exposures of $1.6 million, net of related deferred tax assets arising from temporary differences of $788 thousand. The initial adjustment to the ACL reflects the expected lifetime credit losses associated with the composition of financial assets within the scope of ASC 326 as of January 1, 2023, as well as management's current expectation of future economic conditions.

The following table summarizes the initial adjustment to the ACL as of January 1, 2023:

($ in thousands)	Pre-ASC 326 Adoption	Impact of ASC 326 Adoption	As Reported Under ASC 326
Assets			
ACL on loans			
Commercial real estate	$ 15,536	$ (610)	$ 14,926
Commercial and industrial	5,502	4,344	9,846
Consumer	3,904	(2,667)	1,237
Total ACL on loans	24,942	1,067	26,009
Deferred tax assets	3,115	788	3,903
Liabilities			
ACL on off-balance sheet credit exposures	$ 299	$ 1,607	1,906
Shareholders' equity			
Retained earnings	$ 127,181	$ (1,886)	125,295

In conjunction with the adoption of ASC 326, the Company made an accounting policy election not to measure an ACL on accrued interest receivables for the loans collectively evaluated. For the loans individually evaluated, the Company considers accrued interest receivables as a part of the amortized cost and measures an ACL.

When accrued interest receivable is deemed to be uncollectable, the Company promptly reverses such balances through current period interest income in the period they are deemed uncollectable. Additionally, the Company has also elected not to include the balance of accrued interest receivable in the amortized cost basis of financial assets within the scope of ASC 326. Accrued interest receivable will continue to be presented separately in the Consolidated Balance Sheets.

As a part of the adoption of ASC 326, the Company reviewed and revised certain loan segments for the Company's ACL model. Before the adoption of ASC 326, commercial property and SBA property loans were separately presented and represented 63.0% and 6.6% of loans held-for-investment at December 31, 2022, respectively. The Company re-divided these loan segments into commercial property, business property and multifamily loans, as described above, as these new loan segments are determined to share similar characteristics under the Company's ACL model. In addition, four loan segments before the adoption of ASC 326 (commercial term loans, commercial lines of credit, SBA term loans and SBA PPP loans), which represented 12.2% of loans held-for-investment at December 31, 2022, are combined into a single loan segment, commercial and industrial loans, as these loans are determined to share similar risk characteristics under the Company's ACL model. However, loan related disclosures for prior periods continue to be presented under the legacy loan segments in this Annual Report on Form 10-K.

The following table presents a summary of reclassification of loans held-for-investment as the date indicated:

($ in thousands)	December 31, 2022	Reclassification	January 1, 2023
Commercial property [(1)]	$ 1,288,392	$ (1,288,392)	$ —
SBA property	134,892	(134,892)	—
Commercial property	N/A	772,020	772,020
Business property	N/A	526,513	526,513
Multifamily	N/A	124,751	124,751
Total Reclassed:	1,423,284	—	1,423,284
Construction	17,054	—	17,054
Commercial and industrial	249,250	—	249,250
Residential property	333,726	—	333,726
Other consumer	22,749	—	22,749
Total loans held-for-investment	**$ 2,046,063**	**$ —**	**$ 2,046,063**

(1) Commercial property loans under the legacy loan segments included all commercial property, business property and multifamily loans under the new loan segments.

The following table presents a summary of reclassification of ACL on loans as the date indicated as well as the initial adjustment to the ACL as of January 1, 2023:

($ in thousands)	December 31, 2022	Reclassification	January 1, 2023	Impact of ASC 326 Adoption	As Reported Under ASC 326
Commercial property [(1)]	$ 14,059	$ (14,059)	$ —	$ —	$ —
SBA property	1,326	(1,326)	—	—	—
Commercial property	N/A	8,502	8,502	(1,762)	6,740
Business property	N/A	5,749	5,749	896	6,645
Multifamily	N/A	1,134	1,134	256	1,390
Total Reclassed:	15,385	—	15,385	(610)	14,775
Construction	151	—	151	—	151
Commercial and industrial	5,502	—	5,502	4,344	9,846
Residential property	3,691	—	3,691	(2,534)	1,157
Other consumer	213	—	213	(133)	80
Total ACL	**$ 24,942**	**$ —**	**$ 24,942**	**$ 1,067**	**$ 26,009**

(1) Commercial property loans under the legacy loan segments included all commercial property, business property and multifamily loans under the new loan segments.

In March 2022, the FASB issued ASU 2022-02, *"Financial Instruments-Credit Losses (Topic 326) - Troubled Debt Restructuring and Vintage Disclosures."* The amendments in this ASU eliminate the accounting guidance for TDRs by creditors in ASC 310-40, *"Receivables - Troubled Debt Restructurings by Creditors,"* while enhancing disclosure requirements for restructurings involving borrowers that are experiencing financial difficulty. This ASU also requires public business entities to disclose current-period gross write-offs by year of origination for financing receivables and net investments in leases. The Company adopted this ASU as of January 1, 2023, in conjunction with the adoption of ASU 2016-13. The Company did not have a material impact on its consolidated financial statements upon adoption of this ASU.

Recent Accounting Pronouncements Not Yet Adopted

The following recently issued accounting pronouncement applicable to the Company has not yet been adopted:

In December 2023, the FASB issued ASU 2023-09, *"Income Taxes (Topic 780) - Improvements to Income Tax Disclosures."* The amendments in this ASU requires public entities to disclose in their rate reconciliation table additional categories of information about federal, state and foreign income taxes and to provide more details about the reconciling items in some categories if items meet a quantitative threshold. This ASU also requires all entities to disclose income taxes paid, net of refunds, disaggregated by federal, state and foreign taxes for annual periods and to disaggregate the information by jurisdiction based on a quantitative threshold, among other things. This ASU is effective for the Company for fiscal years beginning after December 15, 2024 with early adoption permitted. The Company will update it income tax disclosure upon adoption.

Note 2. Fair Value Measurements

ASC 820, Fair Value Measurements and Disclosures, defines fair value, establishes a framework for measuring fair value including a three-level valuation hierarchy, and expands disclosures about fair value measurements. Fair value is the exchange price that would be received for an asset or paid to transfer a liability (i.e. an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The three-level fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs that may be used to measure fair value are defined as follows:

- Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- Level 2: Significant observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Fair value is measured on a recurring basis for certain assets and liabilities in which fair value is the primary basis of accounting. Additionally, fair value is used on a non-recurring basis to evaluate certain assets or liabilities for impairment or for disclosure purposes. Categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The Company records securities available-for-sale at fair value on a recurring basis. Certain other assets, such as loans held-for-sale, individually evaluated loans, servicing assets and OREO are recorded at fair value on a non-recurring basis. Non-recurring fair value measurements typically involve assets that are periodically evaluated for impairment and for which any impairment is recorded in the period in which the re-measurement is performed.

The following is a description of valuation methodologies used for assets and liabilities recorded at fair value:

Investment securities: The fair values of securities available-for-sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1) or matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2). Management reviews the valuation techniques and assumptions used by the provider and determines that the provider uses widely accepted valuation techniques based on observable market inputs appropriate for the type of security being measured.

Loans held-for-sale: The Company records SBA loans held-for-sale, residential mortgage loans held-for-sale and certain non-residential real estate loans held-for-sale at the lower of cost or fair value, on an aggregate basis. The Company obtains fair values from a third-party independent valuation service provider. Loans held-for-sale accounted for at the lower of cost or fair value are considered to be recognized at fair value when they are recorded at below cost, on an aggregate basis, and are classified as Level 2.

Individually evaluated loans: The Company records fair value adjustments on certain loans that reflect (i) partial write-downs, through charge-offs or individual reserve allowances, that are based on the current appraised or market-quoted value of the underlying collateral or (ii) the full charge-off of the loan carrying value. In some cases, the properties for which market quotes or appraised values have been obtained are located in areas where comparable sales data is limited, outdated, or unavailable. Fair value estimates for collateral-dependent individually evaluated loans are obtained from real estate brokers or other third-party consultants, and are classified as Level 3.

Other real estate owned: The Company initially records OREO at fair value at the time of foreclosure. Thereafter, OREO is recorded at the lower of cost or fair value based on their subsequent changes in fair value. The fair value of OREO is generally based on recent real estate appraisals adjusted for estimated selling costs. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments may be significant and result in a Level 3 classification due to the unobservable inputs used for determining fair value. Only OREO with a valuation allowance are considered to be carried at fair value.

Servicing Assets: Servicing assets represent the value of servicing rights associated with servicing loans that have been sold. The fair value for servicing assets is determined through discounted cash flow analysis and utilizes discount rates and prepayment speed assumptions as inputs. All of these assumptions require a significant degree of management estimation and judgment. The fair market valuation is performed on a quarterly basis for servicing assets. Servicing assets are accounted for at the lower of cost or market value and considered to be recognized at fair value when they are recorded at below cost and are classified as Level 3.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table presents the Company's assets and liabilities measured at fair value on a recurring basis as of the dates indicated:

	Fair Value Measurement Level			
($ in thousands)	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
December 31, 2023				
Securities available-for-sale:				
U.S. government agency and U.S. government sponsored enterprise securities:				
Mortgage-backed securities	$ —	$ 104,091	$ —	$ 104,091
Collateralized mortgage obligations	—	24,173	—	24,173
SBA loan pool securities	—	7,450	—	7,450
Municipal bonds	—	3,329	—	3,329
Corporate bonds	—	4,280	—	4,280
Total securities available-for-sale	—	143,323	—	143,323
Total assets measured at fair value on a recurring basis	**$ —**	**$ 143,323**	**$ —**	**$ 143,323**
Total liabilities measured at fair value on a recurring basis	**$ —**	**$ —**	**$ —**	**$ —**
December 31, 2022				
Securities available-for-sale:				
U.S. government agency and U.S. government sponsored enterprise securities:				
Mortgage-backed securities	$ —	$ 96,900	$ —	$ 96,900
Collateralized mortgage obligations	—	26,956	—	26,956
SBA loan pool securities	—	9,298	—	9,298
Municipal bonds	—	4,186	—	4,186
Corporate bonds	—	4,523	—	4,523
Total securities available-for-sale	—	141,863	—	141,863
Total assets measured at fair value on a recurring basis	**$ —**	**$ 141,863**	**$ —**	**$ 141,863**
Total liabilities measured at fair value on a recurring basis	**$ —**	**$ —**	**$ —**	**$ —**

Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis

The following table presents the Company's assets and liabilities measured at fair value on a non-recurring basis as of the dates indicated:

($ in thousands)	Fair Value Measurement Level			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
December 31, 2023				
Loans individually evaluated:				
Business property	—	—	425	425
Total loans individually evaluated	—	—	425	425
Total assets measured at fair value on a non-recurring basis	**$ —**	**$ —**	**$ 425**	**$ 425**
Total liabilities measured at fair value on a non-recurring basis	**$ —**	**$ —**	**$ —**	**$ —**
December 31, 2022				
Impaired loans:				
Commercial lines of credit [1]	$ —	$ —	$ 4,000	$ 4,000
Total impaired loans	—	—	4,000	4,000
Total assets measured at fair value on a non-recurring basis	**$ —**	**$ —**	**$ 4,000**	**$ 4,000**
Total liabilities measured at fair value on a non-recurring basis	**$ —**	**$ —**	**$ —**	**$ —**

(1) Under the legacy loan segments and included in loans held-for-sale

The following table presents quantitative information about level 3 fair value measurements for assets measured at fair value on a non-recurring basis as of the dates indicated:

($ in thousands)	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range (Weighted-Average)
December 31, 2023				
Loans individually evaluated:				
Business property	$ 425	Pending sales agreement	NM	NM
December 31, 2022				
Impaired loans:				
Commercial lines of credit	$ 4,000	Pending sales agreement	NM	NM

For assets measured at fair value, the following table presents the total net losses, which include charge-offs, recoveries, individual reserves, impairment on servicing assets, gain (loss) on sale of OREO, and OREO valuation write-downs recorded for the periods indicated:

($ in thousands)	Year Ended December 31,		
	2023	2022	2021
Loans individually evaluated:			
Commercial and industrial	$ 1,074	$ (1,074)	$ 131
Business property	(264)	N/A	N/A
SBA property [1]	NA	—	(8)
Other real estate owned	—	152	73
Net gain (losses) recognized	**$ 810**	**$ (922)**	**$ 196**

(1) Under the legacy loan segments

Fair Value of Financial Instruments

The fair value of a financial instrument is the amount at which the asset or obligation could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Fair value estimates are made at a specific point in time based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the entire holdings of a particular financial instrument. Because no market value exists for a significant portion of the financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature, involve uncertainties and matters of judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on financial instruments both on and off the consolidated balance sheet without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Additionally, tax consequences related to the realization of the unrealized gains and losses can have a potential effect on fair value estimates and have not been considered in many of the estimates. The following methods and assumptions were used to estimate the fair value of significant financial instruments.

Financial assets: The carrying amounts of interest-bearing deposits with other financial institutions and accrued interest receivable are considered to approximate fair value. The fair values of investment securities are generally based on matrix pricing (Level 2). The fair value of loans is estimated based on a discounted cash flow approach under an exit price notion. The fair value reflects the estimated yield that would be negotiated with a willing market participant. Because sale transactions of such loans are not readily observable, as many of the loans have unique risk characteristics, the valuation is based on significant unobservable inputs (Level 3). It is not practical to determine the fair value of FHLB and other restricted stock due to restrictions placed on its transferability.

Financial liabilities: The carrying amounts of accrued interest payable are considered to approximate fair value. The fair value of deposits is estimated based on discounted cash flows. The discount rate is derived from the interest rates currently being offered for similar remaining maturities. Non-maturity deposits are estimated based on their historical decaying experiences (Level 3). The fair value of FHLB advances is estimated based on discounted cash flows. The discount rate is derived from the current market rates for borrowings with similar remaining maturities (Level 2).

Off-balance-sheet financial instruments: The fair value of commitments to extend credit and standby letters of credit is estimated using the fees currently charged to enter into similar agreements. The fair value of these financial instruments is not material and is excluded from the table below.

The following table presents the carrying value and estimated fair values of financial assets and liabilities as of the dates indicated:

($ in thousands)	Carrying Value	Fair Value	Fair Value Measurements Level 1	Level 2	Level 3
December 31, 2023					
Financial assets:					
Interest-bearing deposits in other financial institutions	$ 215,824	$ 215,824	$ 215,824	$ —	$ —
Securities available-for-sale	143,323	143,323	—	143,323	—
Loans held-for-sale	5,155	5,472	—	5,472	—
Net loans held-for-investment	2,295,919	2,225,573	—	—	2,225,573
FHLB and other restricted stock	12,716	N/A	N/A	N/A	N/A
Accrued interest receivable	9,468	9,468	128	513	8,827
Financial liabilities:					
Deposits	$ 2,351,612	$ 2,353,465	$ —	$ —	$ 2,353,465
FHLB advances	39,000	39,013	—	39,013	—
Accrued interest payable	18,052	18,052	—	192	17,860
December 31, 2022					
Financial assets:					
Interest-bearing deposits in other financial institutions	$ 123,829	$ 123,829	$ 123,829	$ —	$ —
Securities available-for-sale	141,863	141,863	—	141,863	—
Loans held-for-sale	22,811	23,992	—	23,992	—
Net loans held-for-investment	2,021,121	1,970,235	—	—	1,970,235
FHLB and other restricted stock	10,183	N/A	N/A	N/A	N/A
Accrued interest receivable	7,472	7,472	49	475	6,948
Financial liabilities:					
Deposits	$ 2,045,983	$ 2,041,667	$ —	$ —	$ 2,041,667
FHLB advances	20,000	20,001	—	20,001	—
Accrued interest payable	3,159	3,159	—	5	3,154

Note 3. Investment Securities

The following table presents the amortized cost and fair value of the investment securities as of the dates indicated:

($ in thousands)	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
December 31, 2023				
Securities available-for-sale:				
U.S. government agency and U.S. government sponsored enterprise securities:				
Mortgage-backed securities	$ 114,485	$ 199	$ (10,593)	$ 104,091
Collateralized mortgage obligations	25,611	63	(1,501)	24,173
SBA loan pool securities	7,773	3	(326)	7,450
Municipal bonds	3,306	25	(2)	3,329
Corporate bonds	5,000	—	(720)	4,280
Total securities available-for-sale	**$ 156,175**	**$ 290**	**$ (13,142)**	**$ 143,323**
December 31, 2022				
Securities available-for-sale:				
U.S. government agency and U.S. government sponsored enterprise securities:				
Mortgage-backed securities	$ 109,497	$ 1	$ (12,598)	$ 96,900
Collateralized mortgage obligations	28,515	107	(1,666)	26,956
SBA loan pool securities	9,704	8	(414)	9,298
Municipal bonds	4,262	2	(78)	4,186
Corporate bonds	5,000	—	(477)	4,523
Total securities available-for-sale	**$ 156,978**	**$ 118**	**$ (15,233)**	**$ 141,863**

As of December 31, 2023 and 2022, pledged securities were $70.9 million and $69.0 million, respectively. These securities were pledged for the State Deposit from the California State Treasurer.

The Company elected to exclude accrued interest receivable from the amortized cost of its securities available-for-sale. Accrued interest receivable on securities available-for-sale totaled $513 thousand and $475 thousand at December 31, 2023 and 2022, respectively.

As of December 31, 2023 and 2022, there were no holdings of securities available-for-sale of any one issuer, other than the U.S. government agency and U.S. government sponsored enterprise, in an amount greater than 10% of shareholder’s equity.

The following table presents the amortized cost and fair value of the investment securities by contractual maturity as of December 31, 2023. Expected maturities may differ from contractual maturities, if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separately.

	Securities Available-For-Sale	
($ in thousands)	**Amortized Cost**	**Fair Value**
Within one year	$ 864	$ 862
One to five years	82	81
Five to ten years	5,724	5,010
Greater than ten years	1,636	1,656
Mortgage-backed securities, collateralized mortgage obligations and SBA loan pool securities	147,869	135,714
Total	**$ 156,175**	**$ 143,323**

The following table presents proceeds from sales and calls of securities available-for-sale and the associated gross gains and losses realized through earnings upon the sales and calls of securities available-for-sale for the periods indicated:

	Year Ended December 31,		
($ in thousands)	**2023**	**2022**	**2021**
Gross realized gains on sales and calls of securities available-for-sale	$ —	$ —	$ —
Gross realized losses on sales and calls of securities available-for-sale	—	—	—
Net realized gains on sales and calls of securities available-for-sale	**$ —**	**$ —**	**$ —**
Proceeds from sales and calls of securities available-for-sale	$ —	$ 1,040	$ —
Tax expense on sales and calls of securities available-for-sale	$ —	$ —	$ —

The following table summarizes the investment securities with unrealized losses by security type and length of time in a continuous unrealized loss position as of the dates indicated:

	Length of Time That Individual Securities Have Been In a Continuous Unrealized Loss Position								
	Less Than 12 Months			12 Months or Longer			Total		
($ in thousands)	Fair Value	Gross Unrealized Losses	Number of Securities	Fair Value	Gross Unrealized Losses	Number of Securities	Fair Value	Gross Unrealized Losses	Number of Securities
December 31, 2023									
Securities available-for-sale:									
U.S. government agency and U.S. government sponsored enterprise securities:									
Mortgage-backed securities	$ 9,252	$ (41)	8	$ 78,958	$ (10,552)	110	$ 88,210	$ (10,593)	118
Collateralized mortgage obligations	5,660	(62)	4	13,919	(1,439)	35	19,579	(1,501)	39
SBA loan pool securities	—	—	—	6,627	(326)	14	6,627	(326)	14
Municipal bonds	81	—	1	362	(2)	1	443	(2)	2
Corporate bonds	—	—	—	4,280	(720)	1	4,280	(720)	1
Total securities available-for-sale	**$ 14,993**	**$ (103)**	**13**	**$ 104,146**	**$ (13,040)**	**161**	**$ 119,139**	**$ (13,142)**	**174**
December 31, 2022									
Securities available-for-sale:									
U.S. government agency and U.S. government sponsored enterprise securities:									
Mortgage-backed securities	$ 55,171	$ (3,721)	83	$ 41,697	$ (8,877)	36	$ 96,868	$ (12,598)	119
Collateralized mortgage obligations	12,600	(1,191)	29	2,262	(475)	7	14,862	(1,666)	36
SBA loan pool securities	7,161	(325)	12	821	(89)	2	7,982	(414)	14
Municipal bonds	3,314	(78)	11	—	—	—	3,314	(78)	11
Corporate bonds	4,523	(477)	1	—	—	—	4,523	(477)	1
Total securities available-for-sale	**$ 82,769**	**$ (5,792)**	**136**	**$ 44,780**	**$ (9,441)**	**45**	**$ 127,549**	**$ (15,233)**	**181**

As of December 31, 2023, 94.7%, at amortized cost basis, of the Company's securities available-for-sale were issued by U.S. government agency and U.S. government sponsored enterprise. Because the decline in fair value is attributable to changes in interest rates and illiquidity, and not credit quality, and because the Company does not have the intent to sell these securities and it is likely that it will not be required to sell these securities before their anticipated recovery, the Company determined that these securities with unrealized losses did not warrant an ACL.

Municipal and corporate bonds had an investment grade rating upon purchase. The issuers of these securities have not established any cause for default on these securities and various rating agencies have reaffirmed their long-term investment grade status as of December 31, 2023. These securities have fluctuated in value since their purchase dates as market interest rates fluctuated. The Company does not intend to sell these securities and it is more likely than not that the Company will not be required to sell before the recovery of its amortized cost basis. The Company therefore determined that the investment securities with unrealized losses did not warrant an ACL as of December 31, 2023.

As of December 31, 2023, the Company recorded no ACL on securities available-for-sale.

Note 4. Loans and Allowance for Credit Losses

On January 1, 2023, the Company adopted ASU 2016-13 using the modified retrospective method through a cumulative-effect adjustment to retained earnings. Balance sheet information and results for reporting periods beginning with January 1, 2023 are presented under ASC 326, while prior period comparisons continue to be presented under legacy ASC 450 and ASC 310.

Loans Held-For-Investment

The following table presents the composition of the Company's loans held-for-investment as of the dates indicated.

($ in thousands)	December 31, 2023	January 1, 2023
Commercial real estate:		
Commercial property	$ 855,270	$ 772,020
Business property	558,772	526,513
Multifamily	132,500	124,751
Construction	24,843	17,054
Total commercial real estate	1,571,385	1,440,338
Commercial and industrial	342,002	249,250
Consumer:		
Residential mortgage	389,420	333,726
Other consumer	20,645	22,749
Total consumer	410,065	356,475
Loans held-for-investment	**2,323,452**	**2,046,063**
Allowance for credit losses on loans	(27,533)	(26,009)
Net loans held-for-investment	**$ 2,295,919**	**$ 2,020,054**

In the ordinary course of business, the Company may grant loans to certain officers and directors, and the companies with which they are associated. As of December 31, 2023, the Company had $111 thousand of such loans outstanding.

Allowance for Credit Losses on Loans

The following table presents a composition of provision (reversal) for credit losses for the periods indicated:

($ in thousands)	Year Ended December 31, 2023
Provision for credit losses on loans	$ 497
Reversal for credit losses on off-balance sheet credit exposures	(629)
Total reversal for credit losses	**$ (132)**

The following table presents the activities in ACL on loans for the periods indicated:

($ in thousands)	Commercial Property	Business Property	Multifamily	Construction	Commercial and Industrial	Residential Mortgage	Other Consumer	Total
Balance at January 1, 2023	$ 8,502	$ 5,749	$ 1,134	$ 151	$ 5,502	$ 3,691	$ 213	$ 24,942
Impact of ASC 326 adoption	(1,762)	896	256	—	4,344	(2,534)	(133)	1,067
Charge-offs	—	(4)	—	—	(45)	—	(83)	(132)
Recoveries	—	9	—	—	1,107	—	43	1,159
Provision (reversal) for credit losses on loans	5,925	(1,911)	51	(16)	(4,663)	1,069	42	497
Balance at December 31, 2023	**$ 12,665**	**$ 4,739**	**$ 1,441**	**$ 135**	**$ 6,245**	**$ 2,226**	**$ 82**	**$ 27,533**

The increase in overall ACL for the year ended December 31, 2023 was primarily due to an increase in loans held-for-investment and the update of prepayment and principal curtailment rate assumptions applied in determining the maximum threshold for qualitative adjustment factors that resulted in increases in the high watermarks for each loan segment's qualitative adjustment factors, partially offset by decreases in quantitative reserves from improvements in the economic forecasts and update of the historical losses of peer groups. The Company updates prepayment and principal curtailment rates on a semiannual basis and the historical losses of peer groups, including the maximum loss scenario used for qualitative factor adjustments, on an annual basis.

Credit Quality Indicators

The Company classifies loans into risk categories based on relevant information about the ability of borrowers to service their debt, such as current financial information, historical payment experience, collateral adequacy, credit documentation, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans in regards to credit risk. This analysis typically includes non-homogeneous loans, such as commercial real estate and commercial and industrial loans, and is performed on an ongoing basis as new information is obtained. The Company uses the following definitions for risk ratings:

Pass - Loans classified as pass include non-homogeneous loans not meeting the risk ratings defined below and smaller, homogeneous loans not assessed on an individual basis.

Special Mention - Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in the deterioration of repayment prospects for the loan or of the institution's credit position at some future date.

Substandard - Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified as substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful - Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or repayment in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

The following table summarize the Company’s loans held-for-investment by loan segment, internal risk ratings and vintage year as of December 31, 2023 and gross write offs for the year ended December 31, 2023. The vintage year is the year of origination, renewal or major modification. Revolving loans that are converted to term loans presented in the table below are excluded from term loans by vintage year columns.

	Term Loans by Origination Year								
($ in thousands)	**2023**	**2022**	**2021**	**2020**	**2019**	**Prior**	**Revolving Loans**	**Revolving Loans Converted to Term**	**Total**
December 31, 2023									
Commercial Real Estate:									
Commercial property									
Pass	$ 154,563	$ 268,369	$ 155,817	$ 83,461	$ 70,425	$ 107,879	$ 8,807	$ —	$ 849,321
Special mention	—	—	484	—	—	2,952	—	—	3,436
Substandard	—	—	—	—	311	2,202	—	—	2,513
Doubtful	—	—	—	—	—	—	—	—	—
Total	$ 154,563	$ 268,369	$ 156,301	$ 83,461	$ 70,736	$ 113,033	$ 8,807	$ —	$ 855,270
Current period gross write offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Business property									
Pass	$ 103,364	$ 103,549	$ 163,136	$ 50,362	$ 69,852	$ 59,765	$ 882	$ 4,327	$ 555,237
Special mention	—	—	—	—	—	—	—	—	—
Substandard	—	452	193	—	2,254	636	—	—	3,535
Doubtful	—	—	—	—	—	—	—	—	—
Total	$ 103,364	$ 104,001	$ 163,329	$ 50,362	$ 72,106	$ 60,401	$ 882	$ 4,327	$ 558,772
Current period gross write offs	$ —	$ —	$ —	$ —	$ —	$ 4	$ —	$ —	$ 4
Multifamily									
Pass	$ 14,219	$ 40,618	$ 42,848	$ 26,472	$ 2,419	$ 5,924	$ —	$ —	$ 132,500
Special mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Total	$ 14,219	$ 40,618	$ 42,848	$ 26,472	$ 2,419	$ 5,924	$ —	$ —	$ 132,500
Current period gross write offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Construction									
Pass	$ 4,617	$ 9,120	$ —	$ 7,500	$ 3,606	$ —	$ —	$ —	$ 24,843
Special mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Total	$ 4,617	$ 9,120	$ —	$ 7,500	$ 3,606	$ —	$ —	$ —	$ 24,843
Current period gross write offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —

($ in thousands)	Term Loans by Origination Year 2023	2022	2021	2020	2019	Prior	Revolving Loans	Revolving Loans Converted to Term	Total
December 31, 2023 (Continued)									
Commercial and Industrial									
Pass	$ 77,957	$ 28,638	$ 11,950	$ 4,354	$ 6,323	$ 8,327	$ 198,010	$ 3,796	$ 339,355
Special mention	—	—	—	379	314	27	1,000	—	1,720
Substandard	—	—	—	—	142	785	—	—	927
Doubtful	—	—	—	—	—	—	—	—	—
Total	$ 77,957	$ 28,638	$ 11,950	$ 4,733	$ 6,779	$ 9,139	$ 199,010	$ 3,796	$ 342,002
Current period gross write offs	$ —	$ —	$ —	$ —	$ —	$ 45	$ —	$ —	$ 45
Consumer									
Residential mortgage									
Pass	$ 79,581	$ 163,734	$ 78,499	$ 11,363	$ 10,865	$ 45,378	$ —	$ —	$ 389,420
Special mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Total	$ 79,581	$ 163,734	$ 78,499	$ 11,363	$ 10,865	$ 45,378	$ —	$ —	$ 389,420
Current period gross write offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Other consumer									
Pass	$ 4,837	$ 7,527	$ 3,275	$ 1,326	$ 458	$ 7	$ 3,190	$ —	$ 20,620
Special mention	—	—	—	—	—	—	—	—	—
Substandard	—	15	—	10	—	—	—	—	25
Doubtful	—	—	—	—	—	—	—	—	—
Total	$ 4,837	$ 7,542	$ 3,275	$ 1,336	$ 458	$ 7	$ 3,190	$ —	$ 20,645
Current period gross write offs	$ 12	$ 57	$ —	$ 14	$ —	$ —	$ —	$ —	$ 83
Total loans held-for-investment									
Pass	$ 439,138	$ 621,555	$ 455,525	$ 184,838	$ 163,948	$ 227,280	$ 210,889	$ 8,123	$ 2,311,296
Special mention	—	—	484	379	314	2,979	1,000	—	5,156
Substandard	—	467	193	10	2,707	3,623	—	—	7,000
Doubtful	—	—	—	—	—	—	—	—	—
Total	**$ 439,138**	**$ 622,022**	**$ 456,202**	**$ 185,227**	**$ 166,969**	**$ 233,882**	**$ 211,889**	**$ 8,123**	**$ 2,323,452**
Current period gross write offs	$ 12	$ 57	$ —	$ 14	$ —	$ 49	$ —	$ —	$ 132

Nonaccrual Loans

The following table presents the loans on nonaccrual status by loan segments as of the date indicated:

($ in thousands)	Total Nonaccrual Loans	Nonaccrual Loans with ACL	ACL on Nonaccrual Loans	Collateral Dependent Nonaccrual Loans	ACL on Collateral Dependent Nonaccrual Loans
December 31, 2023					
Commercial real estate:					
Commercial property	$ 958	$ —	$ —	$ 958	$ —
Business property	2,865	689	264	2,865	264
Total commercial real estate	3,823	689	264	3,823	264
Commercial and industrial	68	—	—	68	—
Consumer:					
Other consumer	25	25	—	—	—
Total consumer	25	25	—	—	—
Total	**$ 3,916**	**$ 714**	**$ 264**	**$ 3,891**	**$ 264**

There were no nonaccrual loans guaranteed by a U.S. government agency at December 31, 2023.

Collateral Dependent Loans

Loans that have been classified as collateral dependent are loans where substantially all repayment of the loan is expected to come from the operation of or eventual liquidation of the collateral. Collateral dependent loans are evaluated individually for purposes of determining the ACL, which is determined based on the estimated fair value of the collateral. Estimates for costs to sell are included in the determination of the ACL when liquidation of the collateral is anticipated. In cases where the loan is well secured and the estimated value of the collateral exceeds the amortized cost of the loan, no ACL is recorded. The following table presents the collateral dependent loans by loan segments as of the date indicated:

($ in thousands)	Hotel / Motel	Warehouse	Retail	Single Family Residential	Other	Total
December 31, 2023						
Commercial real estate:						
Commercial property	$ 958	$ —	$ —	$ —	$ —	$ 958
Business property	—	2,137	689	—	39	2,865
Total commercial real estate	958	2,137	689	—	39	3,823
Commercial and industrial	13	—	—	55	—	68
Total	**$ 971**	**$ 2,137**	**$ 689**	**$ 55**	**$ 39**	**$ 3,891**

Past Due Loans

The following table presents the aging of past due in accruing loans and nonaccrual loans by loan segments as of date indicated:

($ in thousands)	Still Accruing				Nonaccrual				
	30 to 59 Days Past Due	60 to 89 Days Past Due	90 or More Days Past Due	Total	30 to 59 Days Past Due	60 to 89 Days Past Due	90 or More Days Past Due	Total	Total Loans Past Due
December 31, 2023									
Commercial real estate:									
Commercial property	$ —	$ —	$ —	$ —	$ —	$ 296	$ —	$ 296	$ 296
Business property	560	—	—	560	—	39	168	207	767
Total commercial real estate	560	—	—	560	—	335	168	503	1,063
Commercial and industrial	217	—	—	217	—	—	—	—	217
Consumer:									
Residential mortgage	604	—	—	604	—	—	—	—	604
Other consumer	13	34	—	47	—	15	3	18	65
Total consumer	617	34	—	651	—	15	3	18	669
Total	**$ 1,394**	**$ 34**	**$ —**	**$ 1,428**	**$ —**	**$ 350**	**$ 171**	**$ 521**	**$ 1,949**

Loan Modification

Occasionally, the Company modifies loans to borrowers in financial distress by providing principal forgiveness, term extension, an other-than-insignificant payment delay, interest rate reduction or combination of the above mentioned modifications. When principal forgiveness is provided, the amount of forgiveness is charged-off against the ACL.

There were no loans that were both experiencing financial difficulty and modified during the year ended December 31, 2023.

Purchases, Sales, and Transfers

The Company had no loans that were transferred from loans held-for-investment to loans held-for-sale the year ended December 31, 2023.

The Company had no loans that were transferred from loans held-for-sale to loans held-for investment during the year ended December 31, 2023.

The following table presents a summary of purchases of loans held-for-investment for the periods indicated:

($ in thousands)	Year Ended December 31, 2023
Consumer:	
Residential mortgage	$ 15,741
Total consumer	15,741
Total	**$ 15,741**

The Company had no sales of loans held-for-investment during the year ended December 31, 2023. When the Company changes its intent to hold loans for investment, the loans are transferred to held-for-sale.

Loans Held-For-Sale

The following table presents a composition of loans held-for-sale as of the date indicated:

($ in thousands)	December 31, 2023
Commercial real estate:	
Business property	$ 2,802
Total commercial real estate	2,802
Commercial and industrial	2,353
Total	**$ 5,155**

Loans held-for-sale are carried at the lower of cost or fair value. When a determination is made at the time of commitment to originate as held-for-investment, it is the Company's intent to hold these loans to maturity or for the "foreseeable future," subject to periodic reviews under the Company's management evaluation processes, including asset/liability management and credit risk management. When the Company subsequently changes its intent to hold certain loans, the loans are transferred to held-for-sale at the lower of cost or fair value. Certain loans are transferred to held-for-sale with write-downs to ACL on loans.

Prior to Adoption of ASC 326

Loans Held-For-Investment

The following table presents the composition of the Company's loans held-for-investment by legacy loan segments as of the date indicated:

($ in thousands)	December 31, 2022
Real estate loans:	
Commercial property	$ 1,288,392
Residential property	333,726
SBA property	134,892
Construction	17,054
Total real estate loans	1,774,064
Commercial and industrial loans:	
Commercial term	77,700
Commercial lines of credit	154,142
SBA commercial term	16,211
SBA PPP	1,197
Total commercial and industrial loans	249,250
Other consumer loans	22,749
Loans held-for-investment	**2,046,063**
Allowance for loan losses	(24,942)
Net loans held-for-investment	**$ 2,021,121**

In the ordinary course of business, the Company may grant loans to certain officers and directors, and the companies with which they are associated. As of December 31, 2022, the Company had $113 thousand of such loans outstanding.

Allowance for Loan Losses

The following table presents the activities in allowance for loan losses by legacy loan segments for the periods indicated:

($ in thousands)	Real Estate	Commercial and Industrial	Consumer	Total
Balance at January 1, 2021	**18,894**	**7,222**	**394**	**26,510**
Charge-offs	(24)	(115)	(88)	(227)
Recoveries on loans previously charged off	63	565	66	694
Reversal for loan losses	(2,136)	(2,362)	(98)	(4,596)
Balance at December 31, 2021	**16,797**	**5,310**	**274**	**22,381**
Charge-offs	—	(1,095)	(104)	(1,199)
Recoveries on loans previously charged off	—	61	97	158
Provision (reversal) for loan losses	2,430	1,226	(54)	3,602
Balance at December 31, 2022	**$ 19,227**	**$ 5,502**	**$ 213**	**$ 24,942**

The following tables present the information on allowance for loan losses and recorded investments by legacy loan segments and impairment methodology as of the date indicated:

($ in thousands)	Real Estate	Commercial and Industrial	Consumer	Total
December 31, 2022				
Allowance for loan losses:				
Individually evaluated for impairment	$ —	$ —	$ —	$ —
Collectively evaluated for impairment	19,227	5,502	213	24,942
Total	**$ 19,227**	**$ 5,502**	**$ 213**	**$ 24,942**
Loans receivable:				
Individually evaluated for impairment	$ 3,889	$ —	$ —	$ 3,889
Collectively evaluated for impairment	1,770,175	249,250	22,749	2,042,174
Total	**$ 1,774,064**	**$ 249,250**	**$ 22,749**	**$ 2,046,063**

Credit Quality Indicators

The following table presents the risk categories for loans held-for-investment by legacy loan segments as of the date indicated:

($ in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
December 31, 2022					
Real estate loans:					
Commercial property	$ 1,282,044	$ 3,264	$ 3,084	$ —	$ 1,288,392
Residential property	333,354	—	372	—	333,726
SBA property	132,910	245	1,737	—	134,892
Construction	17,054	—	—	—	17,054
Commercial and industrial loans:					
Commercial term	75,473	1,248	979	—	77,700
Commercial lines of credit	152,042	2,100	—	—	154,142
SBA commercial term	16,175	—	36	—	16,211
SBA PPP	1,197	—	—	—	1,197
Other consumer loans	22,746	—	3	—	22,749
Total	**$ 2,032,995**	**$ 6,857**	**$ 6,211**	**$ —**	**$ 2,046,063**

Substandard SBA property loans included $0 of guaranteed portion by the U.S. government agency at December 31, 2022.

Past Due and Nonaccrual Loans

The following table presents the aging of past due recorded investment in accruing loans and nonaccrual loans by legacy loan segments as of the date indicated:

	Still Accruing				
($ in thousands)	30 to 59 Days Past Due	60 to 89 Days Past Due	90 or More Days Past Due	Nonaccrual	Total Past Due and Nonaccrual
December 31, 2022					
Real estate loans:					
Commercial property	$ —	$ —	$ —	$ 2,400	$ 2,400
Residential property	$ —	$ —	$ —	$ 372	$ 372
SBA property	—	—	—	585	585
Other consumer loans	47	87	—	3	137
Total	**$ 47**	**$ 87**	**$ —**	**$ 3,360**	**$ 3,494**

There were no nonaccrual loans guaranteed by the U.S. government agency at December 31, 2022.

Impaired Loans

The following table presents loans individually evaluated for impairment by legacy loan segments as of the date indicated. The recorded investment presents customer balances net of any partial charge-offs recognized on the loans and net of any deferred fees and costs.

($ in thousands)	With No Allowance Recorded: Recorded Investment	With No Allowance Recorded: Unpaid Principal Balance	With an Allowance Recorded: Recorded Investment	With an Allowance Recorded: Unpaid Principal Balance	With an Allowance Recorded: Related Allowance
December 31, 2022					
Real estate loans:					
Commercial property	$ 2,721	$ 2,727	$ —	$ —	$ —
Residential property	372	372	—	—	—
SBA property	798	840	—	—	—
Total	**$ 3,891**	**$ 3,939**	**$ —**	**$ —**	**$ —**

The following table presents information on the recorded investment in impaired loans by legacy loan segments for the periods indicated:

($ in thousands)	Year Ended December 31, 2022: Average Recorded Investment	2022: Interest Income	2021: Average Recorded Investment	2021: Interest Income
Real estate loans:				
Commercial property	$ 1,540	$ 21	$ 329	$ 22
Residential property	379	—	—	—
SBA property	862	15	1,105	16
Commercial and industrial loans:				
Commercial term	—	—	10	—
Commercial lines of credit	1,635	—	—	—
SBA commercial term	126	—	364	1
Total	**$ 4,542**	**$ 36**	**$ 1,808**	**$ 39**

The following table presents a summary of interest foregone on impaired loans for the periods indicated:

($ in thousands)	Year Ended December 31, 2022	2021
Interest income that would have been recognized had impaired loans performed in accordance with their original terms	$ 297	$ 99
Less: interest income recognized on impaired loans on a cash basis	(36)	(39)
Interest income foregone on impaired loans	**$ 261**	**$ 60**

Purchases, Sales, and Transfers

The following table presents a summary of loans held-for-investment transferred to loans held-for-sale for the periods indicated:

($ in thousands)	Year Ended December 31, 2022	2021
Real estate loans:		
Commercial property	$ —	$ 8,563
Residential property	458	189
Commercial and industrial loans:		
Commercial lines of credit	4,000	—
Total	**$ 4,458**	**$ 8,752**

The Company had no loans that were transferred from loans held-for-sale to loans held-for investment during the years ended December 31, 2021 and 2021.

The following table presents a summary of purchases of loans held-for-investment for the periods indicated:

($ in thousands)	Year Ended December 31, 2022	2021
Real estate loans:		
Residential property	$ —	$ 2,139
Total	**$ —**	**$ 2,139**

The Company had no sales of loans held-for-investment during the years ended December 31, 2022 and 2021. When the Company changes its intent to hold loans for investment, the loans are transferred to held-for-sale.

Loans Held-For-Sale

The following table presents a composition of loans held-for-sale as of the dates indicated:

($ in thousands)	December 31, 2022
Real estate loans:	
SBA property	$ 16,473
Commercial and industrial loans:	
Commercial lines of credit	4,000
SBA commercial term	2,338
Total	**$ 22,811**

Note 5. Premises and Equipment

The following table presents a composition of premises and equipment as of the dates indicated:

($ in thousands)	December 31, 2023	December 31, 2022
Leasehold improvements	$ 10,424	$ 10,269
Furniture, fixtures and equipment	4,375	4,501
Computer equipment	3,359	3,304
Computer software	1,933	1,995
Total premises and equipment	20,091	20,069
Less: accumulated depreciation	(14,092)	(13,153)
Premises and equipment, net	**$ 5,999**	**$ 6,916**

The Company recognized depreciation expense of $2.2 million, $1.6 million and $1.4 million for the years ended December 31, 2023, 2022 and 2021, respectively.

Note 6. Operating Leases

The following table presents operating lease cost and supplemental cash flow information related to leases for the periods indicated:

($ in thousands)	Year Ended December 31, 2023	2022	2021
Operating lease cost [(1)]	$ 3,143	$ 2,752	$ 2,580
Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash flows from operating leases	3,297	2,960	2,760
Right-of-use assets obtained in exchange for lease obligations	15,317	2,150	1,459

(1) Included in Occupancy and Equipment on the Consolidated Statements of Income.

The Company used the incremental borrowing rate based on the information available in determining the present value of lease payment. The following table presents supplemental balance sheet information related to leases as of the dates indicated:

($ in thousands)	December 31, 2023	December 31, 2022
Operating leases:		
Operating lease assets	$ 18,913	$ 6,358
Operating lease liabilities	20,137	6,809
Weighted-average remaining lease term	8.3 years	4.3 years
Weighted-average discount rate	4.63%	2.66%

The following table presents maturities of operating lease liabilities as of the date indicated:

($ in thousands)	December 31, 2023
Maturities:	
2024	$ 3,385
2025	3,301
2026	2,932
2027	2,543
2028	2,416
After 2028	10,695
Total lease payment	25,272
Imputed interest	(5,135)
Present value of operating lease liabilities	$ 20,137

Note 7. Servicing Assets

The Company sells SBA and certain residential mortgage loans with servicing retained. SBA loans are included in commercial real estate loans and commercial and industrial loans. The Company sold loans of $82.3 million, $122.9 million and $126.8 million, respectively, with the servicing rights retained and recognized a net gain on sale of $3.6 million, $8.0 million and $12.8 million, respectively, during the years ended December 31, 2023, 2022 and 2021. Loan servicing income was $3.3 million, $3.0 million and $2.8 million for the years ended December 31, 2023, 2022 and 2021, respectively.

The following table presents the composition of servicing assets with key assumptions used to estimate the fair value as of the dates indicated:

	December 31,							
	2023				2022			
($ in thousands)	Residential Mortgage	CRE SBA	C&I SBA	Total	Residential Mortgage	CRE SBA	C&I SBA	Total
Carrying amount	$ 49	$ 6,135	$ 482	$ 6,666	$ 64	$ 6,831	$ 452	$ 7,347
Fair value	$ 104	$ 8,284	$ 728	$ 9,116	$ 118	$ 9,090	$ 620	$ 9,828
Discount rates	9.93%	12.30%	15.46%		7.73%	11.47%	12.55%	
Prepayment speeds	12.75%	16.71%	13.97%		17.10%	14.82%	18.93%	
Weighted average remaining life	19.8 years	21.0 years	7.1 years		20.8 years	21.4 years	6.7 years	
Underlying loans being serviced	$ 10,666	$ 461,300	$ 60,265	$ 532,231	$ 13,058	$ 461,738	$ 56,299	$ 531,095

The following table presents activity in servicing assets for the periods indicated:

($ in thousands)	Residential Mortgage	CRE SBA	C&I SBA	Total
Balance at January 1, 2021	**$ 109**	**$ 5,642**	**$ 649**	**$ 6,400**
Additions	—	2,769	109	2,878
Amortization	(23)	(1,710)	(276)	(2,009)
Balance at December 31, 2021	**86**	**6,701**	**482**	**7,269**
Additions	—	2,011	202	2,213
Amortization	(22)	(1,881)	(232)	(2,135)
Balance at December 31, 2022	**64**	**6,831**	**452**	**7,347**
Additions	—	983	219	1,202
Amortization	(15)	(1,679)	(189)	(1,883)
Balance at December 31, 2023	**$ 49**	**$ 6,135**	**$ 482**	**$ 6,666**

Note 8. Other Real Estate Owned

The following table presents activity in OREO for the periods indicated:

	Year Ended December 31,		
($ in thousands)	**2023**	**2022**	**2021**
Balance at beginning of year	**$ —**	**$ —**	**$ 1,401**
Additions	2,558	808	1,960
Sales	—	(808)	(3,361)
Net change in valuation allowance	—	—	—
Balance at end of year	**$ 2,558**	**$ —**	**$ —**

During the year ended December 31, 2023, the Company recognized an OREO of $2.6 million by transferring a SBA 7(a) loan of $593 thousand, of which its guaranteed portion was previously sold. The Company's exposure is 25% of the OREO and 75% will be submitted to the SBA upon the sale of property.

The following table presents activity in OREO valuation allowance for the periods indicated:

	Year Ended December 31,		
($ in thousands)	**2023**	**2022**	**2021**
Balance at beginning of year	$ —	$ —	$ —
Additions	—	—	—
Net direct write-downs and removal from sale	—	—	—
Balance at end of year	**$ —**	**$ —**	**$ —**

The following table presents expenses related to OREO for the periods indicated:

	Year Ended December 31,		
($ in thousands)	**2023**	**2022**	**2021**
Net (gain) loss on sales	$ —	$ 152	$ (73)
Operating expenses, net of rental income	—	(13)	81
Total	**$ —**	**$ 139**	**$ 8**

The Company did not provide loans to finance the sale of its OREO properties during the year ended December 31, 2023 or 2022. The Company provided a loan of $250 thousand to finance the sale of its OREO properties during the year ended December 31, 2021.

Note 9. Deposits

At December 31, 2023 and 2022, total deposits were $2.35 billion and $2.05 billion, respectively, and total interest-bearing deposits were $1.76 billion and $1.31 billion, respectively. The aggregate amount of deposits reclassified as loans, such as overdrafts, was $126 thousand and $81 thousand at December 31, 2023 and 2022, respectively.

Total deposits not covered by deposit insurance were $954.6 million and $1.06 billion, respectively, and total time deposits not covered by deposit insurance were $408.6 million and $294.0 million, respectively, at December 31, 2023 and 2022.

The Company had California State Treasurer's deposits of $60.0 million and $60.0 million in time deposits of more than $250,000 at December 31, 2023 and 2022, respectively. The California State Treasurer's deposits are subject to withdrawal based on the State's periodic evaluations. At December 31, 2023 and 2022, the Company pledged securities with amortized cost of $70.9 million and $69.0 million, respectively, for the California State Treasurer's deposits. At December 31, 2023 and 2022, the Company had brokered deposits of $303.7 million and $87.0 million, respectively.

Deposits from certain officers, directors and their related interests with which they are associated held by the Company were $3.7 million and $2.8 million at December 31, 2023 and 2022, respectively.

The following table presents scheduled maturities of time deposits as of the date indicated:

	December 31,						
($ in thousands)	**2024**	**2025**	**2026**	**2027**	**2028**	**Thereafter**	**Total**
Time deposits of $250,000 or less	$ 757,592	$ 1,923	$ 333	$ 115	$ 71	$ —	$ 760,034
Time deposits of more than $250,000	572,679	3,023	—	—	—	—	575,702
Total time deposits	**$ 1,330,271**	**$ 4,946**	**$ 333**	**$ 115**	**$ 71**	**$ —**	**$ 1,335,736**

Note 10. Federal Home Loan Bank Advances and Other Borrowings

FHLB Advances

The Company had $39.0 million and $20.0 million in FHLB advances at December 31, 2023 and 2022, respectively. FHLB advances as of December 31, 2023 consisted of a term borrowing with a maturity date of February 21, 2024 (term of 92 days).

The following table presents scheduled maturities of FHLB advances as of the date indicated:

	December 31,					
($ in thousands)	**2024**	**2025**	**2026**	**2027**	**Thereafter**	**Total**
Fixed Rate	$ 39,000	$ —	$ —	$ —	$ —	$ 39,000
Variable Rate	—	—	—	—	—	—
Total	**$ 39,000**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 39,000**

The following table presents financial data of FHLB advances as of the dates or for the periods indicated:

	As of or For the Year Ended December 31,		
($ in thousands)	**2023**	**2022**	**2021**
Weighted-average interest rate at end of year	5.63 %	4.65 %	2.07 %
Average interest rate during the year	5.51 %	2.18 %	0.97 %
Average balance	$ 8,189	$ 5,556	$ 30,096
Maximum amount outstanding at any month-end	$ 39,000	$ 20,000	$ 80,000
Balance at end of year	$ 39,000	$ 20,000	$ 10,000

Advances paid early are subject to a prepayment penalty. At December 31, 2023 and 2022, loans pledged to secure FHLB advances were $1.04 billion and $1.16 billion, respectively. The Company's investment in capital stock of the FHLB of San Francisco totaled $12.5 million and $10.0 million, respectively, at December 31, 2023 and 2022. The Company had additional borrowing capacity of $603.0 million and $561.7 million, respectively, from the FHLB as of December 31, 2023 and 2022.

Other Borrowing Arrangements

At December 31, 2023, the Company had $528.9 million of unused borrowing capacity from the Federal Reserve Discount Window, to which the Company pledged loans with a carrying value of $681.8 million with no outstanding borrowings. In addition, the Company may borrow up to approximately $65.0 million overnight federal funds lines on an unsecured basis with correspondent banks at December 31, 2023.

Note 11. Shareholders' Equity

Preferred Stock

Series C, Senior Non-Cumulative Perpetual Preferred Stock

On May 24, 2022, the Company issued 69,141 shares of Senior Non-Cumulative Perpetual Preferred Stock, Series C, liquidation preference of $1,000 per share for the capital investment of $69.1 million from the U.S. Treasury under the ECIP. ECIP investment is treated as tier 1 capital for the regulatory capital treatment.

The Series C Preferred Stock bears no dividend for the first 24 months following the investment date. Thereafter, the dividend rate will be adjusted based on the lending growth criteria listed in the terms of the ECIP investment with the annual dividend rate up to 2%. After the tenth anniversary of the investment date, the dividend rate will be fixed based on the average annual amount of lending in years 2 through 10. Dividends will be payable quarterly in arrears on March 15, June 15, September 15, and December 15.

The Series C Preferred Stock may be redeemed at the option of the Company on or after the fifth anniversary of issuance (or earlier in the event of loss of regulatory capital treatment), subject to the approval of the appropriate federal banking regulator and in accordance with the federal banking agencies' regulatory capital regulations.

Common Stock

Stock Repurchases

During the year ended December 31, 2023, the Company repurchased and retired 512,657 shares of common stock at a weighted-average price of $17.22 per share under a stock repurchase program approved by the Board of Directors on August 2, 2023 and a legacy stock repurchase program approved on July 28, 2022. As of December 31, 2023, the Company is authorized to purchase 592,724 additional shares under the 2023 stock repurchase program, which expires on August 2, 2024.

During the year ended December 31, 2022, the Company repurchased and retired 362,557 shares of common stock at a weighted-average price of $18.57 per share.

During the year ended December 31, 2021, the Company repurchased and retired 680,269 shares of common stock at a weighted-average price of $15.99 per share.

Note 12. Share-Based Compensation

On May 25, 2023, the Company adopted the 2023 Equity Based Compensation Plan ("2023 EBC Plan") approved by its shareholders to replace the 2013 Equity Based Stock Compensation Plan. The 2023 EBC Plan provides 700,000 shares of common stock for equity-based compensation awards including incentive and non-qualified stock options and restricted stock awards. As of December 31, 2023, there were 489,000 shares available for future grants.

Share-Based Compensation Expense

The following table presents share-based compensation expense and the related tax benefits for the periods indicated:

	Year Ended December 31,		
($ in thousands)	**2023**	**2022**	**2021**
Share-based compensation expense related to:			
Stock options	$ 143	$ 168	$ 187
Restricted stock awards	345	371	266
Total share-based compensation expense	**$ 488**	**$ 539**	**$ 453**
Related tax benefits	**$ 112**	**$ 113**	**$ 84**

The following table presents unrecognized share-based compensation expense as of the date indicated:

	December 31, 2023	
($ in thousands)	**Unrecognized Expense**	**Weighted-Average Remaining Expected Recognition Period**
Unrecognized share-based compensation expense related to:		
Stock options	$ 784	2.9 years
Restricted stock awards	461	2.6 years
Total unrecognized share-based compensation expense	**$ 1,245**	2.8 years

Stock Options

The Company has issued stock options to certain employees, officers and directors. Stock options are issued at the exercise price of the closing market price on the grant date, and generally have a three-to five-year vesting period and contractual terms of ten years. The Company recognizes an income tax deduction upon exercise of the non-qualified stock option by the option holder in an amount equal to the taxable income reported by the option holders. The option holder of non-qualified stock option recognizes taxable income based on the closing market price immediately before the exercise date less the exercise price stated in the grant agreement. The following table presents the weighted-average assumptions used to determine the fair value of options granted for the periods indicated:

	Year Ended December 31,		
	2023	**2022**	**2021**
Risk-free interest rate	4.92 %	1.55 %	1.13 %
Expected term	6.04 years	6.50 years	6.71 years
Expected stock price volatility	28.76 %	27.66 %	27.54 %
Dividend yield	4.79 %	2.30 %	2.64 %

The following table presents information related to the stock option plan for the periods indicated:

	Year Ended December 31,		
($ in thousands, except per share data)	**2023**	**2022**	**2021**
Intrinsic value of options exercised	$ 883	$ 1,225	$ 794
Cash received from options exercised	$ 1,350	$ 840	$ 1,279
Tax benefit from options exercised	$ 103	$ 46	$ 60
Weighted-average estimated fair value per share of options granted	$ 3.14	$ 5.03	$ 3.76

The following table represents stock option activity as of and for the period indicated:

	Year Ended December 31, 2023						
($ in thousands except per share data)	Number of Shares		Weighted-Average Exercise Price Per Share	Weighted-Average Contractual Term		Aggregated Intrinsic Value
Outstanding at beginning of year	566,637	$	12.49	4.08 years	$	2,946
Granted	208,000	$	15.04	10.00 years		
Exercised	(144,922)	$	9.31	1.92 years		
Forfeited	(15,000)	$	20.96	2.18 years		
Balance at end of year	**614,715**	**$**	**13.90**	5.68 years	**$**	**2,788**
Exercisable at end of year	**345,715**	**$**	**12.36**	2.83 years	**$**	**2,087**

The following table represents information regarding unvested stock options for the period indicated:

	Year Ended December 31, 2023		
	Number of Shares		Weighted-Average Exercise Price Per Share
Outstanding at beginning of year	94,000	$	18.95
Granted	208,000	$	15.04
Vested	(23,000)	$	18.64
Forfeited	(8,000)	$	23.24
Balance at end of year	**271,000**	**$**	**15.85**

Restricted Stock Awards

The Company also has granted RSAs to certain employees and officers. The RSAs are valued at the closing market price of the Company's stock on the grant date and generally have a three-to five-year vesting period. The Company recognizes an income tax deduction in an amount equal to the taxable income reported by the holders of the restricted stock, when vested. The following table represents RSAs activity for the year ended December 31, 2023:

	Year Ended December 31, 2023		
	Number of Shares		Weighted-Average Grant Date Fair Value Per Share
Outstanding at beginning of period	62,022	$	16.59
Granted	3,300	$	15.80
Vested	(23,161)	$	14.77
Forfeited	(500)	$	17.06
Outstanding at end of period	**41,661**	**$**	**17.53**

Note 13. Employee Benefit Plans

The Company has adopted a defined contribution 401(k) plan for the benefit of its employees. The Company matches 75% of an employee's contribution up to 8% of the employee's salary each year. The Board of Directors may make a discretionary contribution to the plan annually. The Company's contribution to the plan was $1.2 million, $1.1 million and $901 thousand for the years ended December 31, 2023, 2022 and 2021, respectively.

Note 14. Income Taxes

The following table presents the components of income tax expense for the periods indicated:

	Year Ended December 31,		
($ in thousands)	2023	2022	2021
Current:			
Federal	$ 5,506	$ 769	$ 12,117
State	2,948	1,475	6,692
Total current income tax expense	8,454	2,244	18,809
Deferred:			
Federal	2,489	8,434	(1,428)
State	1,614	3,738	(525)
Total deferred income tax expense (benefit)	4,103	12,172	(1,953)
Total	**$ 12,557**	**$ 14,416**	**$ 16,856**

The following table presents a reconciliation of the recorded income tax expense to the amount of taxes computed by applying the applicable statutory Federal income tax rate for the periods indicated:

	Year Ended December 31,		
	2023	2022	2021
Statutory federal tax rate	21.00 %	21.00 %	21.00 %
State and local income taxes, net of federal tax benefit	8.33 %	8.34 %	8.55 %
Share-based compensation	0.05 %	0.07 %	0.05 %
Bank-owned life insurance	(0.36) %	(0.30) %	(0.04) %
Other items, net	0.01 %	0.07 %	0.03 %
Effective income tax rate	**29.03 %**	**29.18 %**	**29.59 %**

The following table presents the components of the net deferred tax assets recognized in the accompanying consolidated balance sheets as of the dates indicated:

	December 31,	
($ in thousands)	2023	2022
Deferred tax assets:		
ACL on loans	$ 8,105	$ 7,359
Share-based compensation	199	298
Unrealized loss on investment securities	3,783	4,459
Operating lease liabilities	5,928	2,009
State tax benefit	617	322
Other	931	511
Total deferred tax assets	19,563	14,958
Deferred tax liabilities:		
Loans held-for-sale market adjustment		
Depreciation on premises and equipment	843	1,051
Loans held-for-sale market adjustment	13,872	8,745
Deferred loan origination costs	75	98
Operating lease assets	5,567	1,876
Other	82	73
Total deferred tax liabilities	20,439	11,843
Deferred tax assets, net	**$ (876)**	**$ 3,115**

The Company had no valuation allowance for deferred tax assets as of December 31, 2023 and 2022. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the temporary differences become deductible, management believes it is more likely than not that the Company will realize the benefits of these deferred tax assets, and a valuation allowance was not necessary as of December 31, 2023 and 2022.

At December 31, 2023 and 2022, the Company had no unrecognized tax benefits or related accrued interest. In the event the Company is assessed interest and/or penalties by federal or state tax authorities, such amounts will be classified in the consolidated financial statements as income taxes. The Company does not expect the total amount of unrecognized tax benefit to significantly increase or decrease in the next twelve months.

The Company and the Bank are subject to U.S. federal and various state jurisdictions income tax examinations. As of December 31, 2023, the Company is no longer subject to examination by taxing authorities for tax years before 2020 for federal taxes and before 2019 for various state jurisdictions. The statute of limitations vary by state, and state taxes other than California have been immaterial to the Company's financial results.

Note 15. Earnings Per Share

The following is a reconciliation of net income and shares outstanding to the income and number of shares used to compute earnings per share for the periods indicated:

	Year Ended December 31,		
($ in thousands, except per share)	**2023**	**2022**	**2021**
Basic earnings per share:			
Net income	$ 30,705	$ 34,987	$ 40,103
Less: income allocated to unvested restricted stock	(95)	(157)	(156)
Net income allocated to common stock	$ 30,610	$ 34,830	$ 39,947
Weighted-average total common shares outstanding	14,345,860	14,888,633	15,076,183
Less: weighted-average unvested restricted stock	(44,169)	(66,615)	(58,546)
Weighted-average common shares outstanding, basic	14,301,691	14,822,018	15,017,637
Basic earnings per share	**$ 2.14**	**$ 2.35**	**$ 2.66**
Diluted earnings per share:			
Net income allocated to common stock	$ 30,610	$ 34,830	$ 39,947
Weighted-average commons shares outstanding	14,301,691	14,822,018	15,017,637
Diluted effect of stock options	116,247	243,157	236,183
Diluted weighted-average common shares outstanding	14,417,938	15,065,175	15,253,820
Diluted earnings per share	**$ 2.12**	**$ 2.31**	**$ 2.62**

There were 286,700, 65,000, and 65,000 stock options excluded in computing diluted earnings per share because they were anti-dilutive for years ended December 31, 2023, 2022, and 2021, respectively.

Note 16. Commitments and Contingencies

In the ordinary course of business, the Company enters into financial commitments to meet the financing needs of its customers. These financial commitments include commitments to extend credit and letters of credit. Those instruments involve to varying degrees, elements of credit, and interest rate risk not recognized in the Company's consolidated financial statements.

The following table presents outstanding financial commitments whose contractual amount represents credit risk as of the dates indicated:

	December 31,			
	2023		2022	
($ in thousands)	**Fixed Rate**	**Variable Rate**	**Fixed Rate**	**Variable Rate**
Unused lines of credit	$ 2,808	$ 347,652	$ 3,117	$ 251,178
Unfunded loan commitments	4,020	47,038	692	38,486
Standby letters of credit	4,638	1,786	2,989	1,901
Commercial letters of credit	—	160	—	502
Total	**$ 11,466**	**$ 396,636**	**$ 6,798**	**$ 292,067**

Unfunded loan commitments are generally made for periods of 90 days or less, except for SBA loans that are generally made for periods of 180 days or less.

The Company applies an expected credit loss estimation methodology applied to each respective loan segment for determining the ACL on off-balance sheet credit exposures. The loss estimation process includes assumptions for utilization at default. These assumptions are based on the Company's own historical internal loan data. As a part of adoption of ASC 326, the Company recorded an initial adjustment to the ACL on off-balance sheet credit exposures of $1.6 million. As of December 31, 2023 and 2022, the Company maintained an ACL on off-balance sheet credit exposures of $1.3 million and $299 thousand in Accrued Interest Payable and Other Liabilities in the Consolidated Balance Sheets, respectively.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Since many of the commitments are expected to expire without being drawn upon, the total amounts do not necessarily represent future cash requirements. The Company evaluates each client's credit worthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Company is based on management's credit evaluation of the customer.

Litigation

The Company is involved in various matters of litigation, which have arisen in the ordinary course of business. In the opinion of management, the disposition of pending matters of litigation will not have a material effect on the Company's consolidated financial statements.

Network and Data Incident

On August 30, 2021, the Bank identified unusual activity on its network. The Bank responded promptly to disable the activity, investigate its source and monitor the Bank's network. The Bank subsequently became aware of claims that it had been the target of a ransomware attack. On September 7, 2021, the Bank determined that an external actor had illegally accessed and/or acquired certain data on its network. The Bank worked with third-party forensic investigators to understand the nature and scope of the incident and determine what information may have been accessed and/or acquired and who may have been impacted. The investigation revealed that this incident impacted certain files containing certain Bank customer information. Some of these files contained documents related to loan applications, such as tax returns, Form W-2 information of their employees, and payroll records. The Bank has notified all individuals identified as impacted, consistent with applicable laws. All impacted individuals were offered free Equifax Complete Premier credit monitoring and identify theft protection services. The Bank has notified law enforcement and appropriate authorities of the incident.

On December 16, 2021, a complaint based on the incident was filed in the Los Angeles County Superior Court seeking damages, injunctive relief, and equitable relief. During the three months ended September 30, 2023, the Bank agreed to settle this matter in exchange for $700 thousand to the putative class members, including costs of settlement administration, and attorneys' fees and costs. The Bank received preliminary court approval of the settlement and notice was provided to members of the proposed class during the three months ended September 30, 2023. However, due to the low claims rate by the members of the proposed class, Plaintiff had requested and the Court had agreed to extend the claims deadline for another 45 days. March 21, 2024 is now the new claims deadline. No new final approval hearing date has been set by the Court.

The Company expects that the full amount of the final settlement will be covered under the Company's applicable insurance policies.

Note 17. Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional, discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under the Basel III rules, the Bank must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios minimums in order to avoid restrictions on dividend payments and certain incentive compensation payments. Management believes as of December 31, 2023 and 2022, the Bank met all capital adequacy requirements to which it is subject to. Under the Federal Reserve's "Small Bank Holding Company" policy statement, as a bank holding company with less than $3 billion in assets, the Company is not currently subject to separate consolidated capital requirements. At such time as the Company reaches the $3 billion asset level, it will be subject to capital requirements independent of the Bank. For comparison purposes, the Company's ratios are included in the following discussion as well, all of which would have exceeded the "well-capitalized" level had the Company been subject to separate capital minimums. The Company and the Bank's capital conservation buffer was 7.73% and 8.07%, respectively, as of December 31, 2023, and 8.79% and 9.52%, respectively, as of December 31, 2022. Unrealized gain or loss on securities available-for-sale is not included in computing regulatory capital. The following table presents the regulatory capital amounts and ratios for the Company and the Bank as of the dates indicated:

	Actual		Minimum Capital Requirement		To Be Well Capitalized Under Prompt Corrective Provisions	
($ in thousands)	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
December 31, 2023						
PCB Bancorp						
Common tier 1 capital (to risk-weighted assets)	$ 288,174	12.23 %	$ 106,043	4.5 %	N/A	N/A
Total capital (to risk-weighted assets)	386,125	16.39 %	188,521	8.0 %	N/A	N/A
Tier 1 capital (to risk-weighted assets)	357,315	15.16 %	141,391	6.0 %	N/A	N/A
Tier 1 capital (to average assets)	357,315	13.43 %	106,423	4.0 %	N/A	N/A
PCB Bank						
Common tier 1 capital (to risk-weighted assets)	$ 350,038	14.85 %	$ 106,081	4.5 %	$ 153,228	6.5 %
Total capital (to risk-weighted assets)	378,849	16.07 %	188,588	8.0 %	235,735	10.0 %
Tier 1 capital (to risk-weighted assets)	350,038	14.85 %	141,441	6.0 %	188,588	8.0 %
Tier 1 capital (to average assets)	350,038	13.16 %	106,421	4.0 %	133,026	5.0 %
December 31, 2022						
PCB Bancorp						
Common tier 1 capital (to risk-weighted assets)	$ 276,360	13.29 %	$ 93,554	4.5 %	N/A	N/A
Total capital (to risk-weighted assets)	370,742	17.83 %	166,319	8.0 %	N/A	N/A
Tier 1 capital (to risk-weighted assets)	345,501	16.62 %	124,739	6.0 %	N/A	N/A
Tier 1 capital (to average assets)	345,501	14.33 %	96,472	4.0 %	N/A	N/A
PCB Bank						
Common tier 1 capital (to risk-weighted assets)	$ 338,891	16.30 %	$ 93,553	4.5 %	$ 135,131	6.5 %
Total capital (to risk-weighted assets)	364,132	17.52 %	166,316	8.0 %	207,895	10.0 %
Tier 1 capital (to risk-weighted assets)	338,891	16.30 %	124,737	6.0 %	166,316	8.0 %
Tier 1 capital (to average assets)	338,891	14.05 %	96,469	4.0 %	120,586	5.0 %

The California Financial Code provides that a bank may not make a cash distribution to its shareholders in excess of the lesser of the bank's undivided profits or the bank's net income for its last three fiscal years less the amount of any distribution made to the bank's shareholder during the same period. As a California corporation, the Company is subject to the limitations of California law, which allows a corporation to distribute cash or property to shareholders, including a dividend or repurchase or redemption of shares, if the corporation meets either a retained earnings test or a "balance sheet" test. Under the retained earnings test, the Company may make a distribution from retained earnings to the extent that its retained earnings exceed the sum of (a) the amount of the distribution plus (b) the amount, if any, of dividends in arrears on shares with preferential dividend rights. The Company may also make a distribution if, immediately after the distribution, the value of its assets equals or exceeds the sum of (a) its total liabilities plus (b) the liquidation preference of any shares which have a preference upon dissolution over the rights of shareholders receiving the distribution. Indebtedness is not considered a liability if the terms of such indebtedness provide that payment of principal and interest thereon are to be made only if, and to the extent that, a distribution to shareholders could be made under the balance sheet test.

The Federal Reserve, the FDIC and CDFPI periodically examine the Company's business, including compliance with laws and regulations. If, as a result of an examination, a banking agency were to determine that the Company's financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of any of the Company's operations had become unsatisfactory, or that the Company was in violation of any law or regulation, they may take a number of different remedial actions as they deem appropriate. These actions include the power to enjoin "unsafe or unsound" practices, to require affirmative action to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in the Company's or the Bank's capital, to restrict growth, to assess civil money penalties, to fine or remove officers and directors and, if it is concluded that such conditions cannot be corrected or there is an imminent risk of loss to depositors, to terminate the Bank's deposit insurance and place the Bank into receivership or conservatorship.

Note 18. Revenue Recognition

The following table presents revenue from contracts with customers within the scope of ASC 606 for the periods indicated:

	Year Ended December 31,		
($ in thousands)	**2023**	**2022**	**2021**
Noninterest income in-scope of Topic 606			
Service charges and fees on deposits:			
Monthly service fees	$ 107	$ 90	$ 81
Account analysis fees	951	936	885
Non-sufficient funds charges	328	221	165
Other deposit related fees	89	79	64
Total service charges and fees on deposits	1,475	1,326	1,195
Debit card fees	339	335	306
Gain (loss) on sale of other real estate owned	—	152	74
Wire transfer fees	625	643	596
Other service charges	211	186	198
Total	**$ 2,650**	**$ 2,642**	**$ 2,369**

Note 19. Condensed Financial Statements for Parent Company

The parent company's condensed statements of financial condition as of December 31, 2023 and 2022, and the related condensed statements of income and comprehensive income, and condensed statements of cash flows for the years ended December 31, 2023, 2022, and 2021 are presented below:

Condensed Balance Sheets

	December 31,	
($ in thousands)	2023	2022
Assets		
Cash	$ 7,297	$ 6,549
Investment in subsidiary	341,595	328,832
Other assets	56	61
Total assets	**$ 348,948**	**$ 335,442**
Liabilities and Shareholders' Equity		
Other liabilities	$ 76	$ —
Total liabilities	76	—
Total shareholders' equity	348,872	335,442
Total liabilities and shareholders' equity	**$ 348,948**	**$ 335,442**

Condensed Statements of Income and Comprehensive Income

	Year Ended December 31,		
($ in thousands)	2023	2022	2021
Income:			
Dividends from subsidiary	$ 18,846	$ 16,597	$ 18,375
Other income	6	—	—
Total income	18,852	16,597	18,375
Expense:			
Other expense	1,014	912	753
Total expense	1,014	912	753
Income before taxes and equity in undistributed subsidiary income	17,838	15,685	17,622
Income tax benefit	(293)	(265)	(223)
Income before equity in undistributed subsidiary income	18,131	15,950	17,845
Equity in undistributed subsidiary income	12,574	19,037	22,258
Net income	**30,705**	**34,987**	**40,103**
Other comprehensive income (loss), net of tax	1,587	(10,665)	(1,802)
Comprehensive income	**$ 32,292**	**$ 24,322**	**$ 38,301**

Condensed Statements of Cash Flows

($ in thousands)	Year Ended December 31, 2023	2022	2021
Cash flows from operating activities			
Net income	$ 30,705	$ 34,987	$ 40,103
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed subsidiary income	(12,574)	(19,037)	(22,258)
Change in other assets	5	(6)	(11)
Net cash provided by operating activities	18,136	15,944	17,834
Cash flows from investing activities:			
Capital contribution to subsidiary	—	(69,141)	—
Net cash used in investing activities	—	(69,141)	—
Cash flows from financing activities:			
Issuance of preferred stock	—	69,141	—
Stock options exercised	1,350	840	1,279
Restricted stock surrendered due to employee tax liability	(2)	(8)	(4)
Repurchase of common stock	(8,828)	(6,732)	(10,876)
Cash dividends paid on common stock	(9,908)	(8,946)	(6,655)
Net cash used in financing activities	(17,388)	54,295	(16,256)
Net increase in cash and cash equivalents	748	1,098	1,578
Cash and cash equivalents at beginning of year	6,549	5,451	3,873
Cash and cash equivalents at end of year	**$ 7,297**	**$ 6,549**	**$ 5,451**

Note 20. Subsequent Events

Dividend Declared on Common Stock. On January 25, 2024, the Company's Board of Directors declared a quarterly cash dividend of $0.18 per common share for the first quarter of 2024. The dividend was paid on February 16, 2024, to shareholders of record as of the close of business on February 9, 2024.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) or 15d-15(e)) designed at a reasonable assurance level to ensure that information required to be disclosed in reports filed or submitted under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in its reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

As required by Rules 13a-15 and 15d-15 under the Exchange Act, in connection with the filing of this Annual Report on Form 10-K, the Company conducted an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e). Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2023, the Company's disclosure controls and procedures were effective.

There have been no changes in the Company's disclosure controls and procedures during its fourth fiscal quarter of 2023 that have materially affected, or are reasonably likely to materially affect, these controls and procedures.

Management's Report on Internal Control Over Financial Reporting

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in Rule 13a-15(f) under the Exchange Act. The Company's internal control over financial reporting is a process designed under the supervision of the Company's Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external purposes in accordance with U.S. generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Company's assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that the Company's receipts and expenditures are being made only in accordance with the authorization of its management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2023. Management based this assessment on criteria for effective internal control over financial reporting described in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management's assessment included an evaluation of the design of the Company's internal control over financial reporting and testing of the operational effectiveness of its internal control over financial reporting. Management reviewed the results of its assessment with the Audit Committee of our Board of Directors.

Based on this assessment, management determined that, as of December 31, 2023, the Company maintained effective internal control over financial reporting.

Crowe LLP, the independent registered public accounting firm that audited the Company's consolidated financial statements included in this Annual Report on Form 10-K, issued an audit report on effectiveness of the Company's internal control over financial reporting as of December 31, 2023. The audit report is presented in Item 8 of this Annual Report on Form 10-K.

Changes in Internal Control over Financial Reporting

As of January 1, 2023, the Company adopted the CECL model under ASU 2016-13, *"Financial Instruments - Credit Losses (Topic 326)."* The Company made changes to the loan loss reserve policies, processes and controls and incorporated new policies, process and controls over the estimation of ACL as a result. New controls were established over the review of PD and LGD model to calculate cash flows, economic forecasting projections and historical loss rate model provided by an independent third party. There has been no other changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) under the Exchange Act) during the fiscal quarter ended December 31, 2023 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

On March 11, 2024, the Company's Board of Directors amended and restated the Company's bylaws (1) to make a technical correction to the provision fixing the range of authorized directors, which is no less than five nor more than nine, with the exact number of directors within such range to be fixed by resolution of the Board or shareholders and (2) to eliminate a provision enabling holders of its formerly outstanding Fixed Rate Cumulative Perpetual Preferred Stock, Series A and Fixed Rate Cumulative Perpetual Preferred Stock, Series B to elect up to two representatives as directors of the Company. A copy of the Company's bylaws as so amended and restated is filed as Exhibit 3.2 to this Annual Report on Form 10-K.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

None.

Part III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this Item is incorporated by reference from the Company's definitive Proxy Statement for its 2024 Annual Meeting of Shareholders (the "2024 Proxy Statement"), which will be filed with the SEC not later than April 30, 2024.

The Company adopted a written Code of Ethics and Business Conduct based upon the standards set forth under Item 406 of Regulation S-K of the Securities Exchange Act. The Code of Ethics and Business Conduct applies to all of the Company's directors, officers and employees. The full text of the Code is available on the Company's website at www.mypcbbank.com, by clicking "About Us," then "Investor Relations," then "Corporate Governance" and then "Governance Documents."

During the year ended December 31, 2023, there were no changes in the procedures by which security holders may recommend nominees to the Company's board of directors.

Item 11. Executive Compensation

The information required by this Item is incorporated by reference from the Company's 2024 Proxy Statement which will be filed with the SEC not later than April 30, 2024.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item is incorporated by reference from the Company's 2024 Proxy Statement which will be filed with the SEC not later than April 30, 2024.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item is incorporated by reference from the Company's 2024 Proxy Statement which will be filed with the SEC not later than April 30, 2024.

Item 14. Principal Accounting Fees and Services

The information required by this Item is incorporated by reference from the Company's 2024 Proxy Statement which will be filed with the SEC not later than April 30, 2024.

Part IV

Item 15. Exhibits, Financial Statement Schedules

(a)(1) Financial Statements: See Part II - Item 8. Financial Statements and Supplementary Data

(a)(2) Financial Statement Schedule: All financial statements schedules have been omitted as the information is not required under the related instructions or is not applicable.

(a)(3) Exhibits

Exhibit Number	Description	Form	File No.	Exhibit	Filing Date
3.1	Articles of Incorporation of PCB Bancorp, as amended	10-Q	001-38621	3.1	August 8, 2019
3.2	Bylaws of PCB Bancorp*				
3.3	Certificate of Determination for Senior Non-Cumulative Perpetual Preferred Stock, Series C	8-K	001-38621	3.1	May 24, 2022
4.1	Specimen common stock certificate of PCB Bancorp	10-Q	001-38621	4.1	August 8, 2019
4.2	Description of Capital Stock	10-Q	001-38621	4.2	August 4, 2022
4.3	Form of Certificate for Senior Non-Cumulative Perpetual Preferred Stock, Series C	8-K	001-38621	4.1	May 24, 2022
10.1	Employment Agreement, dated January 1, 2018, between Pacific City Financial Corporation and Henry Kim	S-1	333-226208	10.1	July 17, 2018
10.1A	First Amendment to Employment Agreement, dated August 26, 2021, among PCB Bancorp, Pacific City Bank and Henry Kim	10-Q	001-38621	10.1A	November 8, 2021
10.1B	Second Amendment to Employment Agreement, dated December 28, 2021, among PCB Bancorp, Pacific City Bank and Henry Kim	10-K	001-38621	10.1B	March 4, 2022
10.2	2023 Equity Based Compensation Plan	S-8	333-272874	4.1	June 23, 2023
10.3	Form of Stock Option Award Agreement under 2023 Equity Based Compensation Plan	8-K	001-38621	10.1	July 27, 2023
10.4	Form of Restricted Stock Award Agreement under 2023 Equity Based Compensation Plan	8-K	001-38621	10.2	July 27, 2023
10.5	2013 Equity Based Compensation Plan, as amended	S-1	333-226208	10.2	July 17, 2018
10.6	Form of Stock Option Award Agreement under 2013 Equity Based Compensation Plan	S-1	333-226208	10.3	July 17, 2018
10.7	Form of Restricted Stock Award Agreement under 2013 Equity Based Compensation Plan	S-1	333-226208	10.4	July 17, 2018
10.8	Letter Agreement, dated May 24, 2022, between PCB Bancorp and the U.S. Department of Treasury, with respect to the issuance of Senior Non-Cumulative Perpetual Preferred Stock, Series C	8-K	001-38621	10.1	May 24, 2022
21.1	Subsidiaries of the Registrant	10-K	001-38621	21.1	March 9, 2023
23.1	Consent of Crowe LLP*				
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*				
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*				
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**				
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**				
97	PCB Bancorp Compensation Clawback Policy dated March 11, 2024*				
101.INS	XBRL Instance Document*				
101.SCH	XBRL Taxonomy Extension Schema Document*				
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document*				
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document*				
101.LAB	XBRL Taxonomy Extension Label Linkbase Document*				
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document*				

* Filed herewith

** Furnished herewith

Item 16. Form 10-K Summary

None.

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.

PCB Bancorp

Date: March 12, 2024

/s/ Henry Kim

Henry Kim

President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

	Signature/Name	Title	Date
By:	/s/ Henry Kim Henry Kim	Director, President and Chief Executive Officer (Principal Executive Officer)	March 12, 2024
By:	/s/ Timothy Chang Timothy Chang	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 12, 2024
By:	/s/ Sang Young Lee Sang Young Lee	Chairman of the Board of Directors	March 12, 2024
By:	/s/ Kijun Ahn Kijun Ahn	Director	March 12, 2024
By:	/s/ Daniel Cho Daniel Cho	Director	March 12, 2024
By:	/s/ Haeyoung Cho Haeyoung Cho	Director	March 12, 2024
By:	/s/ Janice Chung Janice Chung	Director	March 12, 2024
By:	/s/ Hong Kyun “Daniel” Park Hong Kyun “Daniel” Park	Director	March 12, 2024
By:	/s/ Don Rhee Don Rhee	Director	March 12, 2024

PCB BANCORP
3701 Wilshire Blvd., Suite 900, Los Angeles, CA 90010
Tel: (213)210-2000 / www.mypcbbank.com