

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, 2021

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
or
For the transition period from _____ to _____
Commission file number 001-38621

PCB Bancorp

(Exact name of registrant as specified in its charter)

California
(State or other jurisdiction of incorporation or organization)

20-8856755
(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
Common Stock, No Par Value

Trading Symbol(s)
PCB

Name of Each Exchange on Which Registered
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	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input checked="" type="checkbox"/>

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 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 its audit report.

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, 2021, the aggregate market value of the common stock held by non-affiliates of the Registrant was approximately \$184.8 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 25, 2022, the registrant had outstanding 14,913,660 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 2022 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, 2021

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Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements which reflect current views of PCB Bancorp, formerly known as Pacific City Financial Corporation, (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 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 current COVID-19 pandemic and governmental and societal responses thereto;
- our ability to successfully manage our credit risk and the sufficiency of our allowance for loan 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 and our borrowers’ actual payment performance as loan deferrals related to the COVID-19 pandemic expire;
- governmental monetary and fiscal policies, and changes in market interest rates;
- compliance with governmental and regulatory requirements, including the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”), the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act of 2020 (the “Economic Aid Act”), the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), the Economic Growth, Regulatory Relief and Consumer Protection Act (the “Economic Growth Act”) and others relating to banking, consumer protection, securities and tax matters including, but not limited to the potential adverse impact of loan modifications and payment deferrals implemented consistent with recent regulatory guidance;
- 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 for sale 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 law or policy.

The foregoing factors should not be construed as exhaustive and should be read together with the other cautionary statements 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, formerly known as Pacific City Financial Corporation, (collectively, with its consolidated subsidiary, the “Company,” “we,” “us” or “our”) 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 Pacific City Bank (the “Bank”), which was founded in 2003.

The Bank is a single operating segment that operates 11 full-service branches in Los Angeles and Orange counties, California, one full-service branch in each of Englewood Cliffs, New Jersey and Bayside, New York, and 10 loan production offices (“LPOs”) located in Irvine, Artesia and Los Angeles, California; Annandale, Virginia; Atlanta, Georgia; Chicago, Illinois; Bellevue, Washington; Aurora, Colorado; Carrollton, Texas; and New York, New York. 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.paccitybank.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.

COVID-19 Pandemic

The ongoing COVID-19 pandemic, and governmental and societal responses thereto, have had a severe impact on recent global economic and market conditions, including significant disruption of, and volatility in, financial markets; global supply chain disruptions; and the institution of social distancing and shelter-in-place requirements that have resulted in temporary closures of many businesses, lost revenues, and increased unemployment throughout the U.S., but also specifically in California, where most of the Company’s operations and a large majority of its customers are located.

On March 27, 2020, the CARES Act was enacted to address the economic impact resulted from the COVID-19 pandemic. The CARES Act included various initiatives, such as extended unemployment benefits, mortgage forbearance, the Small Business Administration (“SBA”) Paycheck Protection Program (“PPP”) and the temporary relief from troubled debt restructuring (“TDRs”). The Economic Aid Act was signed into law on December 27, 2020, and provided additional stimulus relief, reauthorized PPP, and extended the temporary relief from TDR treatment for certain loans modified in connection with COVID-19.

Since the beginning of the crisis, the Company has taken a number of steps to protect the safety of its employees and to support its customers. The Company has enabled its staff to work remotely and established safety measures within its bank premises and branches for both employees and customers. In order to support its customers, the Company has been in close contact with its customers, assessing the level of impact on their businesses, and putting a process in place to evaluate each client’s specific situation and provide relief programs where appropriate.

SBA PPP Loans

U.S. SBA launched the PPP to provide a direct incentive for small businesses to keep their workers on the payroll in response to the COVID-19 pandemic. The SBA guarantees 100% of the PPP loans made to eligible borrowers, and the loans are eligible to be forgiven if certain conditions are met, at which point the SBA will make payments to the Bank for the forgiven amounts. These loans are included in the C&I portfolio and have an interest rate of 1%. The substantial majority of the PPP loans funded during the year ended December 31, 2020 in the Company’s portfolio have a maturity of two years. On January 13, 2021, the SBA began accepting applications for second draw PPP loans. SBA PPP loans funded during the year ended December 31, 2021 have a maturity of five years.

As of December 31, 2021, the Company had 354 SBA PPP loans totaling \$65.3 million, net of unamortized deferred fees and costs and recognized \$182.7 million in forgiveness. For additional information on loans, see “Loans Held-For-Investment and Allowance for Loan Losses” included in Item 7 and Note 4 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

Loan Modifications Related to the COVID-19 Pandemic

As a part of the CARES Act, the temporary relief from TDRs provided an option for financial institutions to suspend the U.S. generally accepted accounting principles (“GAAP”) requirements and regulatory determinations for loan modifications related to the COVID-19 pandemic that would otherwise be categorized as a TDR from March 1, 2020, through the earlier of 60 days after the date of the COVID-19 National Emergency comes to an end or December 31, 2020.

On April 7, 2020, the federal banking regulators also issued the “Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus (Revised)” (the “Interagency Statement”) to encourage banks to work prudently with borrowers and describe the banking regulators’ interpretation of how accounting rules for TDR apply to certain modifications related to the COVID-19 pandemic.

On December 27, 2020, the Economic Aid Act was signed into law, which extended the applicable period of the temporary relief from TDRs under the CARES Act to the earlier of 60 days after the date of the COVID-19 National Emergency comes to an end or January 1, 2022.

As of December 31, 2021 and 2020, total loans under modified terms related to the COVID-19 pandemic, including payment deferrals and interest only payments, were none and \$36.1 million, respectively. All of these loans under modified terms related to the COVID-19 pandemic were accounted for under section 4013 of the CARES Act and not considered TDRs. All types of modifications have initial modification terms of 6-months or less and loans that were granted modifications related to the COVID-19 pandemic in excess of 6 months, on a cumulative basis, were classified as special mention or substandard. In addition, all loans under modified terms related to the COVID-19 pandemic were current and accrual status as of December 31, 2020; however, all of these loans were monitored on an ongoing basis in accordance with each loan’s covenants and conditions for potential downgrade or change in accrual status.

For additional information on loans, see “Loans Held-For-Investment and Allowance for Loan Losses” included in Item 7 and Note 4 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

Liquidity and Capital

In addition, the Company has been monitoring its liquidity and capital closely. As of December 31, 2021, the Company maintained \$203.3 million, or 9.5% of total assets, of cash and cash equivalents and \$610.4 million, or 28.4% of total assets, of available borrowing capacity. All regulatory capital ratios were also well above the regulatory well capitalized requirements as of December 31, 2021.

At this time, the Company cannot estimate the long-term impact of the COVID-19 pandemic, but these conditions impacted and are expected to impact its business, results of operations, and financial condition negatively.

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 the its common stock and simplify corporate communications while maintaining its core branding.

Initial Public Offering

On August 14, 2018, the Company issued and sold 2,385,000 shares of its common stock at an offering price of \$20.00 in an underwritten initial public offering (“IPO”), for gross proceeds of \$47.7 million. The underwriters were granted a 30-day option to purchase up to an additional 357,750 shares of common stock at the IPO price less the underwriting discount. Concurrently with the IPO, the Company’s common stock began trading on the Nasdaq Global Select Market under the symbol “PCB.” On September 5, 2018, the Company issued an additional 123,234 shares of its common stock upon the exercise by the underwriters of a portion of their 30-day option, for additional gross proceeds of \$2.5 million. Aggregate net proceeds from the IPO were \$45.0 million after deducting underwriting discounts, commissions and offering expenses.

Business Overview

Lending Activities

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., real estate loans, C&I loans, other 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.

Legal Lending Limits

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 loan losses, and certain capital notes and debentures issued by the Bank. As of December 31, 2021, the Bank's lending limit was approximately \$41.0 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 \$68.3 million to one borrower as of December 31, 2021.

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. The largest aggregate amount of loans that the Bank had outstanding to any one borrower and related entities was \$29.6 million, which were performing at December 31, 2021.

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 that will 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 allowance levels for probable loan losses inherent in the loan portfolio. 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 loan losses and other matters relating to lending practices.

Loan Category

The Company's loan portfolio consists primarily of three major categories: real estate loans, commercial and industrial loans and other consumer loans. Within these three broad categories, the loan portfolio is further segmented as follows:

- Real estate loans consist of:
 - Commercial property - loans secured by commercial real estate ("CRE") other than loans guaranteed by the U.S. SBA;
 - Residential property - loans secured by single family residential ("SFR") real estate;
 - SBA property - SBA loans secured by CRE; and
 - Construction.
- Commercial and industrial loans consist of:
 - Commercial term;
 - Commercial lines of credit;
 - SBA commercial term; and
 - SBA PPP loans.
- Other consumer loans consist of automobile secured loans and personal loans.

The following table presents the composition of the Company's loans held-for-investment (presented net of deferred fees and costs) as of the dates indicated:

(\$ in thousands)	December 31,			
	2021		2020	
	Amount	Percentage to Total	Amount	Percentage to Total
Real estate loans:				
Commercial property	\$ 1,105,843	63.9 %	\$ 880,736	55.5 %
Residential property	209,485	12.1 %	198,431	12.5 %
SBA property	129,661	7.5 %	126,570	8.0 %
Construction	8,252	0.5 %	15,199	1.0 %
Commercial and industrial loans:				
Commercial term	73,438	4.2 %	87,250	5.5 %
Commercial lines of credit	100,936	5.8 %	96,087	6.1 %
SBA commercial term	17,640	1.0 %	21,878	1.4 %
SBA PPP	65,329	3.8 %	135,654	8.6 %
Other consumer loans	21,621	1.2 %	21,773	1.4 %
Loans held-for-investment	\$ 1,732,205	100.0 %	\$ 1,583,578	100.0 %

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

(\$ in thousands)	December 31,			
	2021		2020	
	Amount	Percentage to Total	Amount	Percentage to Total
Real estate loans:				
Residential property	\$ —	— %	\$ 300	15.2 %
SBA property	33,603	90.8 %	1,411	71.3 %
Commercial and industrial loans:				
SBA commercial term	3,423	9.2 %	268	13.5 %
Loans held-for-sale	\$ 37,026	100.0 %	\$ 1,979	100.0 %

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

For commercial property 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. SBA property loans and residential property loans are typically fully amortized with terms up to 25 years and 30 years respectively. Terms for construction loans vary depending on the complexity and size of the project. On average, construction loans have a term of 18 months.

Satisfactory repayments of loans secured by CRE 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 loans secured by CRE, 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 condition and industry trends. Also, tertiary sources of repayment in the form of personal guarantees from responsible parties are generally required on loans secured by CRE. 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.

Residential property loans are typically collateralized by primary residential properties located in the Company's market areas to enable borrowers to purchase or refinance existing homes. The Company offers adjustable-rate mortgage ("ARM") loans with the interest rate fixed for the first five or seven years followed by rate adjustments each year 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 property 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 annually based on the one-year Constant Maturity Treasury ("CMT"). 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 property 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 property 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, 2021 and 2020, approximately 85.3% and 88.4%, respectively, of residential property loans were ARM loans.

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%.

Commercial and Industrial Loans (Excluding SBA PPP loans). The C&I loan category includes commercial term loans, commercial lines of credit, SBA commercial term loans, and SBA PPP loans. 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. SBA commercial term loans are provided to small businesses under the U.S. SBA guarantee program to finance permanent working capital needs and/or equipment purchases.

Commercial term loans (usually five to seven years) normally provide for monthly payments of both principal and interest. Commercial lines of credit (generally payable within one year) typically provide for periodic interest payments, with principal payable at maturity. SBA commercial term loans usually have a longer maturity (seven to ten years). 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.

Other Consumer Loans. Other consumer loans portfolio consists of automobile loans, unsecured lines of credit and term loans to high net worth individuals. Other consumer loans are underwritten primarily based on the individual borrower's income, current debt level, and past credit history. Auto loans have relatively lower LTV ratios on average, and carry higher interest rates to offset for the inherently higher default risks associated with other consumer loans.

Small Business Administration Loans (Reported as either Real Estate Loans or Commercial and Industrial Loans). In addition to PPP 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. Excluding PPP 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 loans not secured by real estate and up to 25 years for real estate secured 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. On December 27, 2020, and through September 30, 2021, the guaranty percentage provided by the SBA was temporarily increased to 90% under the Economic Aid Act.

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.

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 potential other-than-temporary impairment (“OTTI”) 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 80.9% of total deposits as of December 31, 2021.

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, 2021, the Company's top 10 customers accounted for 10.5% 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 State California Treasurer's time deposits. As of December 31, 2021, wholesale deposits totaled \$185.0 million, or 9.9% of total deposits.

As of December 31, 2021, total deposits totaled \$1.87 billion, and the average cost of deposits was 0.23% for the year ended December 31, 2021. 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"), 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, 2021, the Company had outstanding FHLB advances of \$10.0 million and maintained additional borrowing capacity of \$516.2 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, one full-service branch in each of Englewood Cliffs, New Jersey and Bayside, New York, and 10 LPOs in Irvine, Artesia and Los Angeles, California; Annandale, Virginia; Atlanta, Georgia; Chicago, Illinois; Bellevue, Washington; Aurora, Colorado; Carrollton, Texas; and New York, New York.

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

At December 31, 2021, the Company had a total of 245 full-time employees and 4 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 donating personal protective equipment such as masks and hand wipes to non-profit organizations during the COVID-19 pandemic, 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.

The Company strives to place the health and well-being of employees above all else. Never has this been more necessary than during the COVID-19 pandemic. In response to the COVID-19 pandemic, the Company has taken significant steps to protect the health and well-being of its employees and customers, including implementing a work-from-home policy, and providing automated thermometers and sanitization stations in branches and departments.

Supervision and Regulation

General

Financial 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 Federal Deposit Insurance Corporation (“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 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 material elements 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.

Financial Regulatory Reform

The Dodd-Frank Act implemented sweeping reform across the U.S. financial regulatory framework, including, among other changes:

- creating a Financial Stability Oversight Council tasked with identifying and monitoring systemic risks in the financial system;
- creating the CFPB, which is responsible for implementing, examining and enforcing compliance with federal consumer financial protection laws;
- requiring the FDIC to make its capital requirements for insured depository institutions countercyclical, so that capital requirements increase in times of economic expansion and decrease in times of economic contraction;
- imposing more stringent capital requirements on bank holding companies and subjecting certain activities, including inter-state mergers and acquisitions, to heightened capital conditions;
- with respect to mortgage lending:
 - significantly expanding requirements applicable to loans secured by SFR real property;
 - imposing strict rules on mortgage servicing, and
 - requiring the originator of a securitized loan, or the sponsor of a securitization, to retain at least 5% of the credit risk of securitized exposures unless the underlying exposures are qualified residential mortgages or meet certain underwriting standards;

- changing the assessment base for federal deposit insurance from the amount of the insured deposits held by the depository institution to the depository institution's average total consolidated assets less tangible equity, eliminating the ceiling on the size of the FDIC's Deposit Insurance Fund ("DIF") and increasing the floor of the size of the FDIC's DIF;
- eliminating all remaining restrictions on interstate banking by authorizing state banks to establish de novo banking offices in any state that would permit a bank chartered in that state to open a banking office at that location;
- repealing the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts; and
- in the so-called "Volcker Rule," subject to numerous exceptions, prohibiting depository institutions and affiliates from certain investments in, and sponsorship of, hedge funds and private equity funds and from engaging in proprietary trading.

Many aspects of the Dodd-Frank Act are subject to rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact on the Company. Although the reforms primarily target systemically important financial service providers, the Dodd-Frank Act's influence has and is expected to continue to filter down in varying degrees to smaller institutions over time. The Company will continue to evaluate the effect of the Dodd-Frank Act; however, in many respects, the ultimate impact of the Dodd-Frank Act will not be fully known for years, and no current assurance may be given that the Dodd-Frank Act, or any other new legislative changes, will not have a negative impact on the results of operations and financial condition of the Company and the Bank.

On August 24, 2018, President Trump signed the Economic Growth Act, which repealed or modified certain provisions of the Dodd-Frank Act and eased regulations on all but the largest banks. The Economic Growth Act's highlights included improving consumer access to mortgage credit that, among other things, (i) exempt banks with less than \$10 billion in assets from the ability-to-repay requirements for certain qualified residential mortgage loans; (ii) not require appraisals for certain transactions valued at less than \$400,000 in rural areas; (iii) exempt banks and credit unions that originate fewer than 500 open-end and 500 closed-end mortgages from the Home Mortgage Disclosure Act's ("HMDA") expanded data disclosures (the provision would not apply to non-banks and would not exempt institutions from HMDA reporting altogether); (iv) amend the SAFE Mortgage Licensing Act by providing registered mortgage loan originators in good standing with 120 days of transitional authority to originate loans when moving from a federal depository institution to a non-depository institution or across state lines; (v) require the CFPB to clarify how TILA-RESPA Integrated Disclosure ("TRID") applies to mortgage assumption transactions and construction-to-permanent home loans as well as outline certain liabilities related to model disclosure use, and (vi) provide that federal banking regulators may not impose higher capital standards on High Volatility Commercial Real Estate exposures unless they are for acquisition, development or construction ("ADC"), and clarifies ADC status.

In addition, the Economic Growth Act's highlights also included regulatory relief for certain institutions, whereby among other things, it simplified capital calculations by requiring regulators to adopt a threshold for a community bank leverage ratio of between 8% to 10%, institutions under \$10 billion in assets that meet such community bank leverage ratio will automatically be deemed to be well-capitalized, although regulators retain the flexibility to determine that a depository institution may not qualify for the community bank leverage ratio test based on the institution's risk profile, and exempts community banks from Section 13 of the BHCA if they have less than \$10 billion in total consolidated assets; and exempts banks with less than \$10 billion in assets, and total trading assets and liabilities not exceeding more than 5% of their total assets, from the Volcker Rule restrictions on trading with their own capital. The Economic Growth Act also added certain protections for consumers, including veterans and active duty military personnel, expanded credit freezes and creation of an identity theft protection database.

The Economic Growth Act also made changes for bank holding companies, as it raised the threshold for automatic designation as a systemically important financial institution from \$50 billion to \$250 billion in assets, subjects banks with \$100 billion to \$250 billion in total assets to periodic stress tests, exempts from stress test requirements entirely banks with under \$100 billion in assets, and required the federal banking regulators to, within 180 days of passage, raised the asset threshold under the Small Bank Holding Company Policy Statement from \$1 billion to \$3 billion. The Economic Growth Act also added certain protections for student borrowers.

On June 17, 2019, the federal bank regulatory agencies jointly issued a final rule to streamline regulatory reporting requirements and committed to further review of reporting burdens for smaller institutions. The rule permits insured depository institutions with total assets of less than \$5 billion that do not engage in certain complex or international activities to file the most streamlined version of the call report, the FFIEC 051 Call Report. This streamlined reporting reduces the data items required to be reported in the first and third quarters by approximately 37% and became effective July 22, 2019. This rule has decreased the reporting obligations for the Bank in its first and third quarter call reports.

Other legislative and regulatory initiatives which could affect the Company, the Bank and the banking industry in general may be proposed or introduced before the U.S. Congress, the California legislature and other governmental bodies in the future. In addition, the various banking regulatory agencies often adopt new rules and regulations to implement and enforce existing legislation. It cannot be predicted whether, or in what form, any such legislation or regulations may be enacted or the extent to which the business of the Company or the Bank would be affected thereby.

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 Reserve, FDIC, and Office of the Comptroller of the Currency ("OCC") issued final rules (the "Basel III Capital Rules") establishing a new comprehensive capital framework for U.S. banking organizations. The rules implement the Basel Committee's December 2010 framework, commonly referred to as Basel III, for strengthening international capital standards, as well as implementing certain provisions of the Dodd-Frank Act.

The Basel III Capital Rules became effective for the Company and the Bank on January 1, 2015 (subject to phase-in periods for some of their components). However, based on recent changes to the Federal Reserve's definition of a "Small Bank Holding Company" that increased the threshold to remain as such to \$3 billion in assets, the Company is not currently subject to separate minimum capital measurements. At such time as the Company reaches the \$3 billion asset level, it will again be subject to capital measurements independent of the Bank.

The Basel III Capital Rules: (i) introduce a new capital measure called Common Equity Tier 1 ("CET1"), and a related regulatory capital ratio of CET1 to risk-weighted assets; (ii) specify that Tier 1 capital consists of CET1 and "Additional Tier 1 capital" instruments, which are instruments treated as Tier 1 instruments under the prior capital rules that meet certain revised requirements; (iii) mandate that most deductions or adjustments to regulatory capital measures be made to CET1 and not to the other components of capital; and (iv) expand the scope of the deductions from and adjustments to capital, as compared to existing regulations. Under the Basel III Capital Rules, for most banking organizations, the most common form of additional Tier 1 capital is noncumulative perpetual preferred stock and the most common form of Tier 2 capital is subordinated notes and a portion of the allowance for loan and lease losses, in each case, subject to the Basel III Capital Rules' specific requirements.

Under the Basel III Capital Rules, the following are the initial minimum capital ratios applicable to the Bank:

- 4.0% Tier 1 leverage ratio;
- 4.5% CET1 to risk-weighted assets;
- 6.0% Tier 1 capital (that is, CET1 plus Additional Tier 1 capital) to risk-weighted assets; and
- 8.0% total capital (that is, Tier 1 capital plus Tier 2 capital) to risk-weighted assets.

The Basel III Capital Rules also introduced a "capital conservation buffer," composed entirely of CET1, on top of these minimum risk-weighted asset ratios. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the capital conservation buffer will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall. The implementation of the capital conservation buffer began on January 1, 2016 at 0.625% and was phased in over a three-year period (increasing by that amount on each subsequent January 1, until it reached 2.5% on January 1, 2019). As stated above, with the changes to the definition of Small Bank Holding Companies, the Company is not currently subject to separate capital measurements. The Bank must maintain the following minimum capital ratios:

- 4.0% Tier 1 leverage ratio;
- 4.5% CET1 to risk-weighted assets, plus the capital conservation buffer, effectively resulting in a minimum ratio of CET1 to risk-weighted assets of at least 7%;
- 6.0% Tier 1 capital to risk-weighted assets, plus the capital conservation buffer, effectively resulting in a minimum Tier 1 capital ratio of at least 8.5%; and
- 8.0% total capital to risk-weighted assets, plus the capital conservation buffer, effectively resulting in a minimum total capital ratio of at least 10.5%.

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. Implementation of the deductions and other adjustments to CET1 began on January 1, 2015 and would be phased-in over a four-year period (beginning at 40% on January 1, 2015 and an additional 20% per year thereafter).

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 the first quarter of 2015's call reports in 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 a new standardized approach for risk weightings that expands the risk weighting categories from the previous four Basel I-derived categories (0%, 20%, 50% and 100%) to a larger and more risk-sensitive number of categories, generally ranging from 0% for U.S. Government and agency securities, to 600% for certain equity exposures, depending on the nature of the assets. The new capital rules generally result in higher risk weights for a variety of asset classes, including certain CRE mortgages. Additional aspects of the Basel III Capital Rules that are relevant to the Company and the Bank include:

- consistent with the Basel I risk-based capital rules, 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 December 2017, the Basel Committee published standards that it described as the finalization of the Basel III post-crisis regulatory reforms, which standards are commonly referred to as Basel IV. Among other things, these standards revise the Basel Committee's standardized approach for credit risk (including the recalibration of the risk weights and the introduction of new capital requirements for certain "unconditionally cancellable commitments," such as unused credit card lines of credit) and provides a new standardized approach for operational risk capital. Under the Basel framework, these standards will generally be effective on January 1, 2022, with an aggregate output floor phasing in through January 1, 2027. Under the current U.S. capital rules, operational risk capital requirements and a capital floor apply only to advanced approaches institutions, and not to the Bank. The impact of Basel IV on us will depend on how it is implemented by the federal bank regulators.

As of December 31, 2021, the Bank's capital ratios exceeded the minimum capital adequacy guideline percentage requirements of the federal banking agencies for "well capitalized" institutions under the Basel III capital rules on a fully phased-in basis. With respect to the Bank, the Basel III Capital Rules also revise the prompt corrective action ("PCA"), regulations pursuant to Section 38 of the Federal Deposit Insurance Act, as discussed below under "Prompt Corrective Action."

Prompt Corrective Action

The Federal Deposit Insurance Act, as amended (“FDIA”), requires federal banking agencies to take PCA in respect of depository institutions that do not meet minimum capital requirements. The FDIA includes the following five capital tiers: “well capitalized,” “adequately capitalized,” “undercapitalized,” “significantly undercapitalized,” and “critically undercapitalized.” A depository institution’s capital tier will depend upon how its capital levels compare with various relevant capital measures and certain other factors, as established by regulation. The Basel III Capital Rules, revised the PCA requirements effective January 1, 2015. Under the revised PCA 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 PCA regulations and the capital category may not constitute an accurate representation of the bank’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, 2021, the Bank met the requirements to be “well-capitalized” based upon the aforementioned ratios for purposes of the PCA regulations, as currently in effect.

On November 4, 2019, the federal banking agencies jointly issued a final rule that provides for an optional, simplified measure of capital adequacy, the community bank leverage ratio (“CBLR”) framework, for qualifying community banking organizations consistent with Section 201 of the Economic Growth Act. The CBLR framework is designed to reduce burden by removing the requirements for calculating and reporting risk-based capital ratios for qualifying community banking organizations that opt into the framework. The final rule became effective on January 1, 2020.

In order to qualify for the CBLR framework, a community banking organization must have a tier 1 leverage ratio of greater than 9%, less than \$10 billion in total consolidated assets, off-balance-sheet exposures of 25% or less of total consolidated assets, and trading assets and liabilities of 5% or less of total consolidated assets. A qualifying community banking organization that opts into the CBLR framework and meets all requirements under the framework will be considered to have met the well-capitalized ratio requirements under the PCA regulations. Such a community banking organization would not be subject to other risk-based and leverage capital requirements (including the Basel III and Basel IV requirements). The CBLR is determined by dividing a financial institution’s tangible equity capital by its average total consolidated assets.

The rule proscribes what is included in tangible equity capital and average total consolidated assets. A CBLR bank that ceases to meet any of the qualifying criteria in a future period but maintains a leverage ratio greater than 8% will be allowed a grace period of two reporting periods to satisfy the CBLR qualifying criteria or to otherwise comply with the generally applicable capital requirements. Further, a CBLR may opt out of the framework at any time, without restriction, by reverting to the generally applicable capital requirements. Presently, the Bank does not intend to opt into the CBLR framework.

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. In accordance with Federal Reserve policy, and as now codified by the Dodd-Frank Act, the Company is legally obligated to act as a source of financial strength to the Bank and to commit resources to support the Bank in circumstances where the Company might not otherwise do so. For a discussion of the source of strength requirements, see “Supervision and Regulation - The Company - Source of Strength Doctrine” below. 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.

Acquisitions, Activities and Change in Control

The primary purpose of a bank holding company is to control and manage banks. The BHCA generally requires the prior approval by the Federal Reserve for any merger involving a bank holding company, any bank holding company’s acquisition of more than 5% of a class of voting securities of any additional bank or bank holding company or the acquisition of all or substantially all the assets of any additional bank or 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.

Subject to certain conditions (including deposit concentration limits established by the BHCA and the Dodd-Frank Act), the Federal Reserve may allow a bank holding company to acquire banks located in any state of the U.S. In approving interstate acquisitions, the Federal Reserve is required to give effect to applicable state law limitations on the aggregate amount of deposits that may be held by the acquiring bank holding company and its insured depository institution affiliates in the state in which the target bank is located (provided that those limits do not discriminate against out-of-state depository institutions or their holding companies) and state laws that require that the target bank have been in existence for a minimum period of time (not to exceed five years) before being acquired by an out-of-state bank holding company. Furthermore, in accordance with the Dodd-Frank Act, bank holding companies must be well-capitalized and well-managed in order to effect interstate mergers or acquisitions. For a discussion of the capital requirements, see “Supervision and Regulation - Regulatory Capital Requirements” above.

The BHCA generally prohibits the Company from acquiring direct or indirect ownership or control of more than 5% of the voting shares of any company that is not a bank and from engaging in any business other than that of banking, managing and controlling banks or furnishing services to banks and their subsidiaries. This general prohibition is subject to a number of exceptions. The principal exception allows bank holding companies to engage in, and to own shares of companies engaged in, certain businesses found by the Federal Reserve prior to November 11, 1999 to be “so closely related to banking as to be a proper incident thereto.” This authority would permit the Company to engage in a variety of banking-related businesses, including the ownership and operation of a savings association, or any entity engaged in consumer finance, equipment leasing, the operation of a computer service bureau (including software development) and mortgage banking and brokerage. The BHCA generally does not place territorial restrictions on the domestic activities of non-bank subsidiaries of bank holding companies. Additionally, bank holding companies that meet certain eligibility requirements prescribed by the BHCA and elect to operate as financial holding companies may engage in, or own shares in companies engaged in, a wider range of non-banking activities, including securities and insurance underwriting and sales, merchant banking and any other activity that the Federal Reserve, in consultation with the Secretary of the U.S. Treasury, determines by regulation or order is financial in nature or incidental to any such financial activity or that the Federal Reserve determines by order to be complementary to any such financial activity and does not pose a substantial risk to the safety or soundness of depository institutions or the financial system generally. The Company has not elected to be a financial holding company.

If the Company should elect to become a financial holding company, in order to maintain the Company's status as a financial holding company, the Company and the Bank must be well-capitalized, well-managed, and have at least a satisfactory CRA rating. If the Company should elect to become a financial holding company and the Federal Reserve subsequently determines that the Company, a financial holding company, is not well-capitalized or well-managed, the Company would have a period of time during which to achieve compliance, but during the period of noncompliance, the Federal Reserve may place any limitations on the Company it believes to be appropriate. Furthermore, if the Company should elect to become a financial holding company and the Federal Reserve subsequently determines that the Bank, as a financial holding company subsidiary, has not received a satisfactory CRA rating, the Company would not be able to commence any new financial activities or acquire a company that engages in such activities.

Federal law also 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.

Capital Requirements

Bank holding companies are required to maintain capital in accordance with Federal Reserve capital adequacy requirements, as affected by the Dodd-Frank Act and Basel III, and now CBLR framework. However, the Economic Growth Act mandated a change to Federal Reserve's definition of a Small Bank Holding Company, and until such time as the Company has at least \$3 billion in assets, it will not be subject to separate minimum capital measurements. For a discussion of capital requirements, see "Supervision and Regulation - Regulatory Capital Requirements" above.

Source of Strength Doctrine

The Federal Reserve policy historically required bank holding companies to act as a source of financial and managerial strength to their subsidiary banks. The Dodd-Frank Act codified this policy as a statutory requirement. 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 stand ready to use its available resources to provide adequate capital to the subsidiary bank during periods of financial stress or adversity. 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 the Federal Reserve's regulations or both. The source of strength doctrine most directly affects bank holding companies where a bank holding company's subsidiary bank fails to maintain adequate capital levels. In such a situation, the subsidiary bank will be required by the bank's federal regulator to take "prompt corrective action." Any capital loans by a bank holding company to a subsidiary bank are subordinate in right of payment to deposits and to certain other indebtedness of such bank. The BHCA provides that in the event of the bank holding company's bankruptcy any commitment by a bank holding company to a federal bank regulatory agency to maintain the capital of its subsidiary bank will be assumed by the bankruptcy trustee and entitled to priority of payment.

Dividend Payments, Stock Redemptions and Stock Repurchases

The Company's ability to pay dividends to its shareholders 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. A California corporation may specify in its articles of incorporation that distributions under the retained earnings test or balance sheet test can be made without regard to the preferential rights amount.

The Company's articles of incorporation do not address distributions under either the retained earnings test or 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 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 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 Rule, institutions that seek to pay dividends must maintain 2.5% in CET1 attributable to the capital conservation buffer, which is to be phased in over a three-year period that began on January 1, 2016. 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, but is not a member of the Federal Reserve (a "non-member bank"). The deposit accounts of the Bank are insured by the FDIC's DIF to the maximum extent provided under federal law and FDIC regulations. As a California-chartered non-member bank, the Bank is subject to examination, supervision, and regulation by the CDFPI, the chartering authority for California banks, and by the FDIC.

Depositor Preference

In the event of the "liquidation or other resolution" of an insured depository institution, the claims of depositors of the institution, including the claims of the FDIC as subrogee of insured depositors, and certain claims for administrative expenses of the FDIC as a receiver, will have priority over other general unsecured claims against the institution. If an insured depository institution fails, insured and uninsured depositors along with the FDIC, will have priority in payment ahead of unsecured, non-deposit creditors including the parent bank holding company with respect to any extensions of credit they have made to such insured depository institution.

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, 2021, 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 loan loss, 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

As an FDIC-insured institution, the Bank is required to pay deposit insurance premium assessments to the FDIC. The premiums fund the DIF. The FDIC assesses a quarterly deposit insurance premium on each insured institution based on risk characteristics of the institution and may also impose special assessments in emergency situations. Effective July 1, 2016, the FDIC changed the deposit insurance assessment system for banks, such as the Bank, with less than \$10 billion in assets that have been federally insured for at least five years. Among other changes, the FDIC eliminated risk categories for such banks and now uses the “financial ratios method” to determine assessment rates for all such banks. Under the financial ratios method, the FDIC determines assessment rates based on a combination of financial data and supervisory ratings that estimate a bank’s probability of failure within three years. The assessment rate determined by considering such information is then applied to the amount of the institution’s average assets minus average tangible equity to determine the institution’s insurance premium.

The Dodd-Frank Act required the FDIC to ensure that the DIF reserve ratio, which is the amount in the DIF as a percentage of all DIF-insured deposits, reached 1.35% by September 3, 2020. The Dodd-Frank Act also altered the minimum designated reserve ratio for the DIF, increasing the minimum from 1.15% to 1.35%, and eliminated the requirement that the FDIC pay dividends to depository institutions when the reserve ratio exceeds certain thresholds. At least semi-annually, the FDIC updates its loss and income projections for the DIF and, if needed, may increase or decrease the assessment rates, following notice and comment on proposed rulemaking if required. As a result, the Bank’s FDIC deposit insurance premiums could increase. During the year ended December 31, 2021, the Bank paid \$537 thousand 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, 2021, the Bank paid supervisory assessments to the CDFPI totaling \$144 thousand.

Capital Requirements

Banks are generally required to maintain capital levels in excess of other businesses. For a discussion of capital requirements, see “Supervision and Regulation - Regulatory Capital Requirements” above.

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 that seek to pay dividends must maintain over 2.5% in CET1 attributable to the capital conservation buffer, which was phased in over a three-year period that ended on January 1, 2019. 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, 2021.

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.

In general, the safety and soundness guidelines prescribe the goals to be achieved in each area, and each institution is responsible for establishing its own procedures to achieve those goals. If an institution fails to comply with any of the standards set forth in the guidelines, the financial institution's primary federal regulator may require the institution to submit a plan for achieving and maintaining compliance. If a financial institution fails to submit an acceptable compliance plan, or fails in any material respect to implement a compliance plan that has been accepted by its primary federal regulator, the regulator is required to issue an order directing the institution to cure the deficiency. Until the deficiency cited in the regulator's order is cured, the regulator may restrict the financial institution's rate of growth, require the financial institution to increase its capital, restrict the rates the institution pays on deposits or require the institution to take any action the regulator deems appropriate under the circumstances. Noncompliance with the standards established by the safety and soundness guidelines may also constitute grounds for other enforcement action by the federal bank regulatory agencies, including cease and desist orders and civil money penalty assessments.

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." Generally, a notification incident occurs when a banking organization has suffered a computer-security incident that has a reasonable likelihood of materially disrupting or degrading the banking organization or its operations. The rule requires an affected banking organization to notify its primary Federal regulator as soon as possible and no later than 36 hours after the banking organization has determined that a notification incident has occurred. The rule also requires bank service providers to notify each affected banking organization if that bank service provider experiences a computer-security incident that has caused, or is reasonably likely to cause, a material service disruption or degradation for four or more hours. The rule becomes effective on April 1, 2022, with a compliance date of May 1, 2022.

Branching Authority

California banks, such as the Bank, may, under California law, establish a banking office so long as the bank's board of directors approves the banking office and the CDFPI is notified of the establishment of the banking office. Deposit-taking banking offices must be approved by the FDIC, which considers a number of factors, including financial history, capital adequacy, earnings prospects, character of management, needs of the community and consistency with corporate power. The Dodd-Frank Act permits insured state banks to engage in de novo interstate branching if the laws of the state where the new banking office is to be established would permit the establishment of the banking office if it were chartered by such state. Finally, the Bank may also establish banking offices in other states by merging with banks or by purchasing banking offices of other banks in other states, subject to certain restrictions.

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 apply for regulatory approval to make certain investments, the regulators 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 December 12, 2019, the FDIC and the OCC announced a proposal to modernize the agencies' regulations under the CRA that have not been substantively updated for nearly 25 years. The proposal will clarify what qualifies for credit under the CRA, enabling banks and their partners to better implement reinvestment and other activities that can benefit communities. The agencies will also create an additional definition of "assessment areas" tied to where deposits are located, in part to address changes that have occurred due to the rise in digital banking, ensuring that banks continue to provide loans and other services to low- and moderate-income persons in those areas. Although the proposed rule was never finalized by the FDIC, it is expected that there will be inter-agency efforts to update and finalize a rule soon.

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 ("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, 2021, using regulatory definitions in the CRE Concentration Guidance, the Bank's CRE loans represented 269.8% of total risk-based capital, as compared to 256.1%, 243.6% and 253.6% as of December 31, 2020, 2019 and 2018, 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 structure of federal consumer protection regulation applicable to all providers of consumer financial products and services changed significantly on July 21, 2011, when the CFPB commenced operations to supervise and enforce consumer protection laws. The consumer protection provisions of the Dodd-Frank Act and the examination, supervision and enforcement of those laws and implementing regulations by the CFPB have created a more intense and complex environment for consumer finance regulation. The CFPB has significant authority to implement and enforce federal consumer protection laws and new requirements for financial services products provided for in the Dodd-Frank Act, 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. In addition, the Dodd-Frank Act provides the CFPB with broad supervisory, examination and enforcement authority over various consumer financial products and services, including the ability to require reimbursements and other payments to customers for alleged legal violations and to impose significant penalties, as well as injunctive relief that prohibits lenders from engaging in allegedly unlawful practices. The CFPB also has the authority to obtain cease and desist orders providing for affirmative relief or monetary penalties. The Dodd-Frank Act does not prevent states from adopting stricter consumer protection standards. State regulation of financial products and potential enforcement actions could also adversely affect the business, financial condition or results of operations.

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.

Mortgage and Mortgage-Related Products, Generally

Because abuses in connection with residential mortgages were a significant factor contributing to the financial crisis, many new rules issued by the CFPB and required by the Dodd-Frank Act address mortgage and mortgage-related products, their underwriting, origination, servicing and sales. The Dodd-Frank Act significantly expanded underwriting requirements applicable to loans secured by SFR real property and augmented federal law combating predatory lending practices.

In addition to numerous disclosure requirements, the Dodd-Frank Act imposed new standards for mortgage loan originations on all lenders, including banks and savings associations, in an effort to strongly encourage lenders to verify a borrower's ability to repay, while also establishing a presumption of compliance for certain "qualified mortgages." The Dodd-Frank Act generally required 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 below. 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.

Ability-to-Repay Requirement and Qualified Mortgage Rule

On January 10, 2013, the CFPB issued a final rule implementing the Dodd-Frank Act's ability-to-repay requirements. Under the final rule, lenders, in assessing a borrower's ability to repay a mortgage-related obligation, must consider eight underwriting factors: (i) current or reasonably expected income or assets; (ii) current employment status; (iii) monthly payment on the subject transaction; (iv) monthly payment on any simultaneous loan; (v) monthly payment for all mortgage-related obligations; (vi) current debt obligations, alimony, and child support; (vii) monthly debt-to-income ratio or residual income; and (viii) credit history. The final rule also includes guidance regarding the application of, and methodology for evaluating, these factors.

Further, the final rule clarified that qualified mortgages do not include "no-doc" loans and loans with negative amortization, interest-only payments, balloon payments, terms in excess of 30 years, or points and fees paid by the borrower that exceed 3% of the loan amount, subject to certain exceptions. In addition, for qualified mortgages, the rule mandated that the monthly payment be calculated on the highest payment that will occur in the first five years of the loan, and required that the borrower's total debt-to-income ratio generally may not be more than 43%.

The final rule also provided that certain mortgages that satisfy the general product feature requirements for qualified mortgages and that also satisfy the underwriting requirements of Fannie Mae and Freddie Mac (while they operate under federal conservatorship or receivership), HUD, the Department of Veterans Affairs, the Department of Agriculture or the Rural Housing Service are also considered to be qualified mortgages. This second category of qualified mortgages phased out and was eliminated in 2021 through an additional final rule described below.

As set forth in the Dodd-Frank Act, subprime (or higher-priced) mortgage loans are subject to the ability-to-repay requirement, and the final rule provided for a rebuttable presumption of lender compliance for those loans. The final rule also applied the ability-to-repay requirement to prime loans, while also providing a conclusive presumption of compliance (i.e., a safe harbor) for prime loans that are also qualified mortgages.

Additionally, the final rule generally prohibits prepayment penalties (subject to certain exceptions) and sets forth a 3-year record retention period with respect to documenting and demonstrating the ability-to-repay requirement and other provisions.

In 2021, the CFPB issued another final rule that amended the definition of a qualified mortgage by, among other things, eliminating the debt-to-income ratio requirement and replacing it with a price-based limitation for the interest rate charged such that the loan's annual percentage rate cannot exceed the average prime offer rate for a comparable transaction by 2.25 percentage points or more as of the date the interest rate is set.

Mortgage Loan Originator Compensation

As a part of the overhaul of mortgage origination practices, mortgage loan originators' compensation has been limited such that they may no longer receive compensation based on a mortgage transaction's terms or conditions other than the amount of credit extended under the mortgage loan. Further, the total points and fees that a bank and/or a broker may charge on conforming and jumbo loans has been limited to 3.0% of the total loan amount. Mortgage loan originators may receive compensation from a consumer or from a lender, but not both. These rules contain requirements designed to prohibit mortgage loan originators from "steering" consumers to loans that provide mortgage loan originators with greater compensation. In addition, the rules contain other requirements concerning recordkeeping.

Residential Mortgage Servicing

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. Servicers must provide periodic billing statements and certain required notices and acknowledgments, promptly credit borrowers' accounts for payments received and promptly investigate complaints by borrowers. Servicers also are required to take additional steps before purchasing insurance to protect the lender's interest in the property. The servicing rules call for additional notice, review and timing requirements with respect to delinquent borrowers, including early intervention, ongoing access to servicer personnel and specific loss mitigation and foreclosure procedures. 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.

Incentive Compensation Guidance

In 2010, the federal bank regulatory agencies issued comprehensive guidance intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of those organizations by encouraging excessive risk-taking. The incentive compensation guidance sets expectations for banking organizations concerning their incentive compensation arrangements and related risk-management, control and governance processes. The incentive compensation guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon three primary principles: (i) balanced risk-taking incentives; (ii) compatibility with effective controls and risk management; and (iii) strong corporate governance.

Any deficiencies in compensation practices that are identified may be incorporated into the organization's supervisory ratings, which can affect its ability to make acquisitions or take other actions. In addition, under the incentive compensation guidance, a banking organization's federal supervisor may initiate enforcement action if the organization's incentive compensation arrangements pose a risk to the safety and soundness of the organization.

In 2016, several federal financial agencies (including the Federal Reserve and FDIC) re-proposed restrictions on incentive-based compensation pursuant to Section 956 of the Dodd-Frank Act for financial institutions with \$3 billion or more in total consolidated assets. For institutions with at least \$3 billion but less than \$50 billion in total consolidated assets, the proposal would impose principles-based restrictions that are broadly consistent with existing interagency guidance on incentive-based compensation. Such institutions would be prohibited from entering into incentive compensation arrangements that encourage inappropriate risks by the institution (i) by providing an executive officer, employee, director, or principal shareholder with excessive compensation, fees, or benefits, or (ii) that could lead to material financial loss to the institution. The comment period for these proposed regulations has closed, but a final rule has not been published. Depending upon the outcome of the rule making process, the application of this rule could require the Bank to revise the compensation strategy, increase the administrative costs and adversely affect the ability to recruit and retain qualified employees.

Further, as discussed above, the Basel III Capital Rules limit discretionary bonus payments to bank executives if the institution's regulatory capital ratios fail to exceed certain thresholds that started being phased in on January 1, 2016. See "Regulatory Capital Requirements" above.

The scope and content of the U.S. banking regulators' policies on executive compensation are continuing to develop and are likely to continue evolving in the near future.

Enforcement Powers of Federal and State Banking Agencies

The federal bank regulatory agencies have broad enforcement powers, including the power to terminate deposit insurance, impose substantial fines and other civil and criminal penalties, and appoint a conservator or receiver for financial institutions. Failure to comply with applicable laws and regulations could subject the Bank and its officers and directors to administrative sanctions and potentially substantial civil money penalties. The CDFPI also has 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 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 the COVID-19 Pandemic

Our business, results of operations, and financial condition have been, and will likely continue to be, adversely affected by the ongoing COVID-19 pandemic.

The ongoing COVID-19 pandemic, and governmental and societal responses thereto, have had a severe impact on recent global economic and market conditions, including significant disruption of, and volatility in, financial markets; global supply chain disruptions; and the institution of social distancing and shelter-in-place requirements that have resulted in temporary closures of many businesses, lost revenues, and increased unemployment throughout the United States, but also specifically in California, where most of our operations and a large majority of our customers are located. These conditions have impacted and are expected in the future to impact our business, results of operations, and financial condition negatively, including through lower revenue from certain of our fee-based businesses; lower net interest income resulting from lower interest rates and increased loan delinquencies; increased provisions for loan losses and unfunded loan commitments; impairments on the securities we hold; and decreased demand for certain of our products and services. Additionally, our liquidity and regulatory capital could be adversely impacted by volatility and disruptions in the capital and credit markets; deposit flows; and continued client draws on lines of credit as well as our participation in the SBA PPP. Our business operations may also be disrupted if significant portions of our workforce are unable to work effectively, including because of illness, quarantines, government actions, or other restrictions in connection with the pandemic. Negative impacts from these conditions also may include:

- Collateral securing our loans may decline in value, which could increase credit losses in our loan portfolio and increase the allowance for loan losses.
- Demand for our products and services may decline, and deposit balances may decrease making it difficult to grow assets and income.
- The decline in the target federal funds rate could decrease yields on our assets that exceed the decline in our cost of interest-bearing liabilities, which may reduce our net interest margin.
- Our borrowers’ actual payment performance may be worse than anticipated as loan deferrals related to the COVID-19 pandemic expire, and we may experience potential adverse impact from loan modifications and payment deferrals despite their implementation consistent with recent regulatory guidance.

While governmental authorities have taken unprecedented measures to provide economic assistance to individual households and businesses, stabilize the markets, and support economic growth, the success of these measures is unknown and they may not be sufficient to mitigate fully the negative impact of the ongoing pandemic. Further, some measures, such as a suspension of mortgage and other loan payments and foreclosures, may have a negative impact on our business, while our participation in other measures could result in reputational harm, litigation, or regulatory and government actions, proceedings, or penalties. The extent to which the COVID-19 pandemic impacts our business, results of operations and financial condition will depend on future developments, which are highly uncertain and are difficult to predict, including, but not limited to, the duration and spread of the outbreak, its severity, the actions to contain the virus or treat its impact, and how quickly and to what extent normal economic and operating conditions can resume, particularly in California.

Our Traditional Service Delivery Channels may be Impacted by the COVID-19 Pandemic.

In light of the external COVID-19 threat, the Board of Directors and senior management are continuously monitoring the situation, providing frequent communications, and making adjustments and accommodations for both our customers and our employees. For the most part, all branches remain open to serve our customers and local communities, with modified hours and strict social distancing protocols in place as well as limiting our branches to walk-up or drive-up visits. Our customers have been encouraged to utilize branch alternatives such as using our ATMs, online banking, and mobile banking application in lieu of in-branch transactions. In addition, many employees are working remotely, and travel as well as face-to-face meeting restrictions are in effect.

Further, given the increase of the risk of cyber-security incidents during the pandemic, we have enhanced our cyber-security protocols. If the pandemic worsens, resurges or lasts for an extended period of time, to protect the health of the Company's workforce and our customers, we may need to enact further precautionary measures to help minimize the risks to our employees and customers, thus potentially altering our service delivery channels and operations over a prolonged period. These changes to our traditional service delivery channels may negatively impact our customers' experience of banking with us, result in loss of service fees, and increase costs through equipment and services needed to support a remote workforce, and therefore negatively impact our financial condition and results of operation.

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 ("management" or "employees") 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 allowance for loan losses, 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, 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, 2021, total loans were 84.6% of our average interest-earning assets. Our net interest income exhibited a positive 8.7% sensitivity to rising interest rates in a 100 basis point parallel shock at December 31, 2021.

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 nonperforming assets 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.

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 with certain aspects of our business plan, including our acquisition plans.

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.

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, 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 clients or clients and their employees or other third-parties, and subjecting those agencies and corporations to potential fraudulent activity and their clients, clients and 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 clients, 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 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.

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 has been working 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"). In the Matter, Plaintiff seeks to form a class action and alleges causes of action for: (1) negligence; (2) unjust enrichment; (3) violations of California's Consumer Privacy Act, Civil Code § 1798.150(a); and (4) violations of California's unfair competition law (Cal. Bus. & Prof. Code § 17200, et seq.). The summons and complaint have been served on the Bank as of the date of this submission. On January 7, 2022, the Court entered a minute order staying the Matter at least until March 4, 2022, when the Court will hold an initial status conference. The Bank expresses no opinion on the merits of the Matter and intends to answer, respond, and/or otherwise defend itself from the claims and causes of action asserted in the complaint to the fullest extent permitted by applicable law.

The Company continues to monitor and evaluate the data incident for its magnitude and concomitant financial, legal or reputational consequences. To date, such consequences are not material, however the data incident is still recent and notices to affected individuals only recently began and the lawsuit mentioned above is in its very early stages. During the year ended December 31, 2021, expenses associated with the data incident, all of which are included in Other Expense in Consolidated Statements of Income (Unaudited), totaled \$100 thousand, which represents the retention amount on its insurance claims. The Company anticipates additional expenses will be incurred in future periods; however, the Company does have a cyber-liability insurance policy that should provide insurance coverage for this incident.

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, residential property loans, other 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 and New Jersey, 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 thirteen branches located principally in Los Angeles and Orange Counties of Southern California and to a lesser extent in 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 six 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, 2021, approximately 83.9% 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, 2021 was \$12.8 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 \$194.4 million and \$106.2 million, respectively, of SBA loans (total commitment basis) during the years ended December 31, 2021 and 2020. During the same time periods, we sold \$126.8 million and \$89.8 million, respectively, of the guaranteed portion of our SBA loans. As of December 31, 2021, we held \$184.3 million of SBA loans on our balance sheet, \$143.2 million of which consisted of the non-guaranteed portion of SBA loans and \$41.2 million or 22.3% 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, 2021 we had \$1.50 billion of commercial loans, consisting of \$1.11 billion of commercial property loans, \$129.7 million of SBA property loans, \$8.3 million of construction loans, and \$257.3 million of C&I loans, including \$65.3 million of SBA PPP loans, for which real estate is not the primary source of collateral. Commercial loans represented 86.7% of our total loan portfolio at December 31, 2021. 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, 2021, using regulatory definitions in the CRE Concentration Guidance, our CRE loans represented 269.8% of our total risk-based capital, as compared to 256.1%, 243.6% and 253.6% as of December 31, 2020, 2019 and 2018, 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 property 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, 2021, our residential property loan portfolio amounted to \$209.5 million or 12.1% of our total loans held-for-investment portfolio. As of such date, all of our residential property 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 \$93.2 million and \$28.6 million, respectively, for the years ended December 31, 2021 and 2020. We originated qualified residential mortgage loans of \$9.7 million and \$51.3 million, respectively, for the years ended December 31, 2021 and 2020. As of December 31, 2021, our non-qualified residential mortgage loans had a weighted average LTV of 57.8% and a weighted average Fair Isaac Corporation ("FICO") score of 784.

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.

Curtailed 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 \$12.8 million and \$6.0 million, respectively, or 69.3% and 51.4%, respectively, of the total noninterest income, for the years ended December 31, 2021 and 2020.

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 0.5% of our total loans held-for-investment portfolio as of December 31, 2021, 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, 2021, our nonperforming loans (“NPLs”) totaled \$994 thousand, or 0.06% of our loans held-for-investment portfolio. Our NPAs, which include NPLs and other real estate owned (“OREO”), totaled \$994 thousand, or 0.05% 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 \$554 thousand in accruing loans that were 30-89 days past due as of December 31, 2021.

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, 2021, we had no OREO 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. 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 accounted for approximately 10.5% of our deposits at December 31, 2021. Our largest depositor relationship accounted for approximately 3.0% of our deposits at December 31, 2021. The Bank maintained brokered deposits of \$85.0 million and \$80.0 million, respectively, and deposits from California State Treasurer of \$100.0 million and \$100.0 million, respectively, at December 31, 2021 and 2020. 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 Loan 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 probable incurred loan 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 probable incurred loan losses are inadequate, the allowance for loan losses 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 loan losses may not be adequate to cover potential 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 allowance for loan losses to provide for loan defaults and non-performance. Allowance for loan losses, expressed as a percentage of loans held-for-investment, was 1.29%, 1.67% and 0.99%, respectively, at December 31, 2021, 2020 and 2019. Allowance for loan losses is funded from a provision (reversal) for loan losses, which is a charge to our income statement. Our provision (reversal) for loan losses, was \$(4.6) million, \$13.2 million and \$4.2 million, respectively, for the years ended December 31, 2021, 2020 and 2019.

The determination of an appropriate level of allowance for loan 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 loan losses may not be adequate to cover actual loan losses, and future provision for loan losses could materially and adversely affect our business, financial condition, results of operations and cash flows.

The current expected credit loss standard established by the Financial Accounting Standards Board will require significant data requirements and changes to methodologies.

In the aftermath of the 2007-2008 financial crisis, the FASB, decided to review how banks estimate losses in allowance for loan losses calculation, and it issued the final Current Expected Credit Loss (“CECL”), standard on June 16, 2016. Currently, the impairment model used by financial institutions is based on incurred losses, and loans are recognized as impaired when there is no longer an assumption that future cash flows will be collected in full under the originally contracted terms. This model will be replaced by the CECL model. Financial institutions will be required to use historical information and current conditions to estimate the expected loss over the life of the loan. The Company has formed a committee, developed an implementation plan, and engaged a software vendor to assist the Company to build a model. The Company is in the process of completing a readiness assessment and is engaged in the implementation phase of the project. The Company is working on: (i) developing a new expected loss model with supportable assumptions; (ii) identifying data, reporting, and disclosure gaps; (iii) assessing updates to accounting and credit risk policies; and (iv) documenting new processes and controls.

The transition to the CECL model will require significantly greater data requirements and changes to methodologies to accurately account for expected loss. The Bank may be required to increase its allowance for loan losses as a result of the implementation of CECL.

The Federal Reserve, FDIC, and OCC issued a final rule regarding the implementation of CECL methodology for allowances for loan losses and related adjustments to capital that became effective in April 2019. The principal effect of the rule is that it allows banks, like the Bank, to elect to phase in over 3 years the adverse effects on regulatory capital that may result from the adoption of CECL.

On November 15, 2019, the FASB issued Accounting Standard Update (“ASU”) 2019-10 delaying the effective date for the CECL standard for smaller public business entities and nonpublic business entities. The FASB pushed back the effective date of CECL from January 2021 to January 2023 for smaller reporting companies as defined by the SEC and from January 2022 to January 2023 for nonpublic companies. The effect of this ASU, is that the Bank will not need to implement CECL until January 2023. In addition to this action, by FASB, the CARES Act and the Economic Aid Act both contain optional extensions for the implementation of CECL.

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 \$1.44 billion as of December 31, 2017 to \$2.15 billion as of December 31, 2021, and our deposits from \$1.25 billion as of December 31, 2017 to \$1.87 billion as of December 31, 2021. 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 10 LPOs that primarily originate SBA loans. During the year ended December 31, 2021, these LPOs accounted for approximately 18.6% 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

As a result of the Dodd-Frank Act and related rulemaking, we are subject to more stringent capital requirements.

In July 2013, the U.S. federal banking authorities approved the implementation of the Basel III regulatory capital reforms, and issued rules effecting certain changes required by the Dodd-Frank Act. Basel III is applicable to all U.S. banks that are subject to minimum capital requirements as well as to bank and saving and loan holding companies, other than “small bank holding companies” (generally bank holding companies with consolidated assets of less than \$3 billion). Basel III not only increases most of the required minimum regulatory capital ratios but also introduces a new common equity Tier 1 capital ratio and the concept of a capital conservation buffer. Basel III also expands the current definition of capital by establishing additional criteria that capital instruments must meet to be considered additional Tier 1 and Tier 2 capital. In order to be a “well-capitalized” depository institution under the new regime, an institution must maintain a common equity Tier 1 capital ratio of 6.5% or more; a Tier 1 capital ratio of 8% or more; a total capital ratio of 10% or more; and a Tier 1 leverage ratio of 5% or more. The Basel III capital rules became effective as applied to us and the Bank on January 1, 2015 with the finalized phase-in for many of the changes taking effect from January 2022 over a five-year phase-in period.

On November 4, 2019, the federal banking agencies jointly issued a final rule that provides for an optional, simplified measure of capital adequacy, the CBLR framework, for qualifying community banking organizations. In order to qualify for the CBLR framework, a community banking organization must have a tier 1 leverage ratio of greater than 9%, less than \$10 billion in total consolidated assets, off-balance-sheet exposures of 25% or less of total consolidated assets, and trading assets and liabilities of 5% or less of total consolidated assets. A qualifying community banking organization that opts into the CBLR framework and meets all requirements under the framework will be considered to have met the well-capitalized ratio requirements under the PCA regulations and will not be required to report or calculate risk-based capital.

A CBLR bank that ceases to meet any of the qualifying criteria in a future period but maintains a leverage ratio greater than 8% will be allowed a grace period of two reporting periods to satisfy the CBLR qualifying criteria or to otherwise comply with the generally applicable capital requirements. Further, a CBLR may opt out of the framework at any time, without restriction, by reverting to the generally applicable capital requirements. Presently, the Bank does not intend to opt into the CBLR framework.

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.

Company Relies on Dividends from the Bank to Pay Cash Dividends to Shareholders

Company is a separate legal entity from its subsidiary, the Bank. Company receives substantially all of its revenue from the Bank in the form of dividends, which is Company's principal source of funds to pay cash dividends to Company's common shareholders 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, capital distributions from the Bank would become prohibited, with limited exceptions, if the Bank were categorized as "undercapitalized" under applicable FRB or FDIC regulations. 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. The effects of such policies upon our business, financial condition and results of operations cannot be predicted.

The Federal Reserve may require us to commit capital resources to support the Bank.

As a matter of policy, the Federal Reserve expects a bank holding company to act as a source of financial and managerial strength to a subsidiary bank and to commit resources to support such subsidiary bank. The Dodd-Frank Act codified the Federal Reserve's policy on serving as a source of financial strength. Under the "source of strength" doctrine, the Federal Reserve may require a bank holding company to make capital injections into a troubled subsidiary bank and may charge the bank holding company with engaging in unsafe and unsound practices for failure to commit resources to a subsidiary bank. A capital injection may be required at times when the holding company may not have the resources to provide it and therefore may require the holding company to borrow the funds or raise capital. Any loans by a holding company to its subsidiary banks are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary bank. In the event of a bank holding company's bankruptcy, the bankruptcy trustee will assume any commitment by the holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank. Moreover, bankruptcy law provides that claims based on any such commitment will be entitled to a priority of payment over the claims of the institution's general unsecured creditors, including the holders of its note obligations. Thus, any borrowing that must be done by the Company to make a required capital injection becomes more difficult and expensive and could have an adverse effect on our business, financial condition and results of operations.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2021, 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, trade finance, credit administration and administrative groups. The lease expires in September 2023. The Bank leases all of its LPO and retail branch locations.

The Bank maintains 13 branch locations, with eight in Los Angeles County (Koreatown/Mid-Wilshire, Koreatown/W. Olympic, Rowland Heights, Downtown Fashion District, Cerritos, Torrance, Little Tokyo and Western Avenue), three in Orange County (Fullerton, Buena Park and Irvine), and two on the East Coast (Bayside, New York and Englewood Cliffs, New Jersey). The Bank also maintains 10 LPOs located in Irvine, Artesia and Los Angeles, California; Annandale, Virginia; Atlanta, Georgia; Chicago, Illinois; Bellevue, Washington; Aurora, Colorado; Carrollton, Texas; and New York, New York..

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 no accrued loss contingencies for certain legal claims at December 31, 2021. 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 has been working 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"). In the Matter, Plaintiff seeks to form a class action and alleges causes of action for: (1) negligence; (2) unjust enrichment; (3) violations of California's Consumer Privacy Act, Civil Code § 1798.150(a); and (4) violations of California's unfair competition law (Cal. Bus. & Prof. Code § 17200, et seq.). The summons and complaint have been served on the Bank as of the date of this submission. On January 7, 2022, the Court entered a minute order staying the Matter at least until March 4, 2022, when the Court will hold an initial status conference. The Bank expresses no opinion on the merits of the Matter and intends to answer, respond, and/or otherwise defend itself from the claims and causes of action asserted in the complaint to the fullest extent permitted by applicable law.

The Company continues to monitor and evaluate the data incident for its magnitude and concomitant financial, legal or reputational consequences. To date, such consequences are not material, however the data incident is still recent and notices to affected individuals only recently began and the lawsuit mentioned above is in its very early stages. During the year ended December 31, 2021, expenses associated with the data incident, all of which are included in Other Expense in Consolidated Statements of Income (Unaudited), totaled \$100 thousand, which represents the retention amount on its insurance claims. The Company anticipates additional expenses will be incurred in future periods; however, the Company does have a cyber-liability insurance policy that should provide insurance coverage for this incident.

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, 2021 was 255. Certain shares are held in "nominee" or "street" name and accordingly, the number of beneficial owners of such shares is not known or included in the foregoing number.

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 Notes 11 and 17 to the Consolidated Financial Statements included in 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 Bank - Dividend Payments" included in Item 1 of this Annual Report on Form 10-K.

Issuer Purchase of Equity Securities

The following table presents share repurchase activities during the three months ended December 31, 2021:

(\$ 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	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Program
From October 1, 2021 to October 31, 2021	—	\$ —	—	\$ —
From November 1, 2021 to November 30, 2021	—	—	—	—
From December 1, 2021 to December 31, 2021	—	—	—	—
Total	—	\$ —	—	—

On March 28, 2019, the Company's Board of Directors approved the repurchase of up to \$6.5 million of the Company's common stock through March 27, 2020. During the year ended December 31, 2019, the Company completed the repurchase program, and repurchased and retired 396,715 shares of common stock at a weighted-average price of \$16.33 per share.

On January 23, 2020, the Company announced that on November 22, 2019, its Board of Directors approved a \$6.5 million stock repurchase program to commence upon the opening of the Company's trading window for the first quarter of 2020 and continue through November 20, 2021. The Company completed the repurchase program in March 2020. The Company repurchased and retired 428,474 shares of common stock at a weighted-average price of \$15.14 per share.

On April 8, 2021, the Company's Board of Directors approved a repurchase program authorizing the repurchase of up to 5% of the Company's outstanding common stock as of the date of the board meeting, which represented 775,000 shares, through September 7, 2021. The Company repurchased and retired 680,269 shares of common stock at a weighted-average price of \$15.99 per share under this repurchase program.

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 Loan Losses

Allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance for loan losses when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance for loan losses. The Company estimates the allowance for loan losses required 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. Allocations of the allowance for loan losses may be made for specific loans, but the entire allowance for loan losses is available for any loan that, in management's judgment, should be charged-off. Amounts are charged-off when available information confirms that specific loans or portions thereof, are uncollectible. This methodology for determining charge-offs is consistently applied to each segment.

The Company determines a separate allowance for loan losses for each portfolio segment. The allowance for loan losses consists of specific and general reserves. Specific reserves relate to loans that are individually classified as impaired. A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Factors considered in determining impairment include payment status, collateral value and the probability of collecting all amounts when due. Measurement of impairment is based on the expected future cash flows of an impaired loan, which are 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 selects the measurement method on a loan-by-loan basis except that collateral-dependent loans for which foreclosure is probable are measured at the fair value of the collateral.

The Company recognizes interest income on impaired loans based on its existing methods of recognizing interest income on nonaccrual loans. Loans, for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered TDRs and classified as impaired with measurement of impairment as described above.

If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral.

General reserves cover non-impaired loans and are based on the Company's historical loss rates for each portfolio segment, adjusted for the effects of qualitative factors that are likely to cause estimated credit losses as of the evaluation date to differ from the portfolio segment's historical loss experience.

Qualitative factors include 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.

In June 2016, the FASB issued 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 is 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 delays the effective date to 2023 for certain SEC filers that are Smaller Reporting Companies, which would apply to the Company. The Company plans to adopt this ASU at the delayed effective date of January 1, 2023.

The Company has formed a committee, developed an implementation plan, and engaged a software vendor to assist the Company to build a model. The Company is in the process of completing a readiness assessment and is engaged in the implementation phase of the project. The Company is working on: (i) developing a new expected loss model with supportable assumptions; (ii) identifying data, reporting, and disclosure gaps; (iii) assessing updates to accounting and credit risk policies; and (iv) documenting new processes and controls. Based on the Company’s initial assessment of this ASU, the Company expects to recognize a one-time cumulative effect adjustment to the allowance for loan losses which could potentially have a material impact on its consolidated financial statements as of the beginning of the first reporting period in which this ASU is effective.

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 table presents reconciliation of allowance for loan losses to loans held-for-investment, excluding SBA PPP loans to its most comparable GAAP measure. The Company believes that this non-GAAP measure enhances comparability to prior periods in which there were no SBA PPP loans and provides supplemental information regarding the Company’s credit quality trend.

(\$ in thousands)	December 31,				
	2021	2020	2019	2018	2017
Loans held-for-investment	\$ 1,732,205	\$ 1,583,578	\$ 1,450,831	\$ 1,338,682	\$ 1,189,999
Less: SBA PPP loans	65,329	135,654	—	—	—
Loans held-for-investment, excluding SBA PPP loans	\$ 1,666,876	\$ 1,447,924	\$ 1,450,831	\$ 1,338,682	\$ 1,189,999
Allowance for loan losses	\$ 22,381	\$ 26,510	\$ 14,380	\$ 13,167	\$ 12,224
Allowance for loan losses to loans held-for-investment	1.29 %	1.67 %	0.99 %	0.98 %	1.03 %
Allowance for loan losses to loans held-for-investment, excluding SBA PPP loans	1.34 %	1.83 %	0.99 %	0.98 %	1.03 %

Five-Year Summary of Selected Financial Data

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

(\$ in thousands, except per share data)	As of or For the Year Ended December 31,				
	2021	2020	2019	2018	2017
Selected balance sheet data:					
Cash and cash equivalents	\$ 203,285	\$ 194,098	\$ 146,228	\$ 162,273	\$ 73,658
Securities available-for-sale	123,198	120,527	97,566	146,991	129,689
Securities held-to-maturity	—	—	20,154	21,760	21,070
Loans held-for-sale	37,026	1,979	1,975	5,781	5,297
Loans held-for-investment	1,732,205	1,583,578	1,450,831	1,338,682	1,189,999
Allowance for loan losses	(22,381)	(26,510)	(14,380)	(13,167)	(12,224)
Total assets	2,149,735	1,922,853	1,746,328	1,697,028	1,441,999
Total deposits	1,867,134	1,594,851	1,479,307	1,443,753	1,251,290
Shareholders' equity	256,286	233,788	226,834	210,296	142,184
Selected income statement data:					
Interest income	\$ 81,472	\$ 79,761	\$ 92,945	\$ 83,699	\$ 65,267
Interest expense	4,335	13,572	23,911	17,951	10,097
Net interest income	77,137	66,189	69,034	65,748	55,170
Provision for loan losses	(4,596)	13,219	4,237	1,231	1,827
Noninterest income	18,434	11,740	11,869	10,454	13,894
Noninterest expense	43,208	41,699	42,315	40,226	35,895
Income before income taxes	56,959	23,011	34,351	34,745	31,342
Income tax expense	16,856	6,836	10,243	10,444	14,939
Net income	40,103	16,175	24,108	24,301	16,403
Per share data:					
Earnings per common share, basic	\$ 2.66	\$ 1.05	\$ 1.52	\$ 1.69	\$ 1.22
Earnings per common share, diluted	2.62	1.04	1.49	1.65	1.21
Book value per common share ⁽¹⁾	17.24	15.19	14.44	13.16	10.60
Cash dividends declared per common share	0.44	0.40	0.25	0.12	0.12
Outstanding share data:					
Number of common shares outstanding	14,865,825	15,385,878	15,707,016	15,977,754	13,417,899
Weighted-average common shares outstanding, basic	15,017,637	15,384,231	15,873,383	14,397,075	13,408,030
Weighted-average common shares outstanding, diluted	15,253,820	15,448,892	16,172,282	14,691,370	13,540,293
Selected performance ratios:					
Return on average assets	1.96 %	0.84 %	1.40 %	1.53 %	1.22 %
Return on average shareholders' equity	16.52 %	7.08 %	10.88 %	14.26 %	12.00 %
Dividend payout ratio ⁽²⁾	16.54 %	38.10 %	16.45 %	7.10 %	9.84 %
Efficiency ratio ⁽³⁾	45.21 %	53.51 %	52.30 %	52.79 %	51.97 %
Yield on average interest-earning assets	4.05 %	4.25 %	5.53 %	5.38 %	4.99 %
Cost of average interest-bearing liabilities	0.41 %	1.15 %	2.09 %	1.65 %	1.14 %
Net interest spread	3.64 %	3.10 %	3.44 %	3.73 %	3.85 %
Net interest margin ⁽⁴⁾	3.83 %	3.53 %	4.11 %	4.23 %	4.22 %
Total loans to total deposits ratio ⁽⁵⁾	94.76 %	99.42 %	98.21 %	93.12 %	95.53 %

(\$ in thousands, except per share data)	As of or For the Year Ended December 31,				
	2021	2020	2019	2018	2017
Asset quality:					
Loans 30 to 89 days past due and still accruing	\$ 554	\$ 338	\$ 1,818	\$ 377	\$ 1,341
Loans past due 90 days or more and still accruing	—	—	287	—	—
Nonaccrual loans	994	3,163	2,537	1,061	3,234
Nonperforming loans	994	3,163	2,824	1,061	3,234
Nonperforming assets ⁽⁶⁾	994	4,564	2,824	1,061	3,333
Net charge-offs (recoveries)	(467)	1,089	3,024	288	923
Loans 30 to 89 days past due and still accruing to loans held-for-investment	0.03 %	0.02 %	0.13 %	0.03 %	0.11 %
Nonaccrual loans to loans held-for-investment	0.06 %	0.20 %	0.17 %	0.08 %	0.27 %
Nonaccrual loans to allowance for loan losses	4.44 %	11.93 %	17.64 %	8.06 %	26.46 %
Nonperforming loans to loans held-for-investment	0.06 %	0.20 %	0.19 %	0.08 %	0.27 %
Nonperforming loans to allowance for loan losses	4.44 %	11.93 %	19.64 %	8.06 %	26.46 %
Nonperforming assets to total assets	0.05 %	0.24 %	0.16 %	0.06 %	0.23 %
Allowance for loan losses to loans held-for-investment	1.29 %	1.67 %	0.99 %	0.98 %	1.03 %
Allowance for loan losses to loans held-for-investment, excluding SBA PPP loans ⁽⁷⁾	1.34 %	1.83 %	0.99 %	0.98 %	1.03 %
Allowance for loan losses to nonaccrual loans	2,251.61 %	838.13 %	566.81 %	1,241.00 %	377.98 %
Allowance for loan losses to nonperforming loans	2,251.61 %	838.13 %	509.21 %	1,241.00 %	377.98 %
Net charge-offs (recoveries) to average loans held-for-investment	(0.03)%	0.07 %	0.22 %	0.02 %	0.08 %
Capital ratios:					
Shareholders' equity to total assets	11.92 %	12.16 %	12.99 %	12.39 %	9.86 %
Average equity to average assets	11.86 %	11.94 %	12.88 %	10.72 %	10.20 %
PCB Bancorp					
Common tier 1 capital (to risk-weighted assets)	14.79 %	15.97 %	15.87 %	16.28 %	12.15 %
Total capital (to risk-weighted assets)	16.04 %	17.22 %	16.90 %	17.31 %	13.20 %
Tier 1 capital (to risk-weighted assets)	14.79 %	15.97 %	15.87 %	16.28 %	12.15 %
Tier 1 capital (to average assets)	12.11 %	11.94 %	13.23 %	12.60 %	10.01 %
Pacific City Bank					
Common tier 1 capital (to risk-weighted assets)	14.48 %	15.70 %	15.68 %	16.19 %	12.06 %
Total capital (to risk-weighted assets)	15.73 %	16.95 %	16.71 %	17.21 %	13.12 %
Tier 1 capital (to risk-weighted assets)	14.48 %	15.70 %	15.68 %	16.19 %	12.06 %
Tier 1 capital (to average assets)	11.85 %	11.74 %	13.06 %	12.53 %	9.94 %

(1) Shareholders' equity divided by common shares outstanding

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

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

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

(5) Total loans include both loans held-for-sale and loans held-for-investment, net of unearned loan costs (fees).

(6) Nonperforming assets include nonperforming loans (nonaccrual loans plus loans past due 90 days or more and still accruing) and other real estate owned.

(7) This ratio is not presented in accordance with GAAP. See "Non-GAAP measure" for reconciliation of this measure to its most comparable GAAP measure.

Executive Summary

Financial Highlights

- Net income was \$40.1 million for the year ended December 31, 2021, an increase of \$23.9 million, or 147.9%, from \$16.2 million for the year ended December 31, 2020;
 - Provision (reversal) for loan losses was \$(4.6) million, \$13.2 million and \$4.2 million for the years ended December 31, 2021, 2020 and 2019, respectively.
 - Diluted earnings per common share was \$2.62, \$1.04 and \$1.49 for the years ended December 31, 2021, 2020 and 2019, respectively.
 - Net interest margin was 3.83%, 3.53% and 4.11% for the years ended December 31, 2021, 2020 and 2019, respectively.
- Total assets were \$2.15 billion at December 31, 2021, an increase of \$226.9 million, or 11.8%, from \$1.92 billion at December 31, 2020;
- Loans held-for-investment, net of deferred costs (fees), were \$1.73 billion at December 31, 2021, an increase of \$148.6 million, or 9.4%, from \$1.58 billion at December 31, 2020. Excluding SBA PPP loans, loans held-for-investment were \$1.67 billion at December 31, 2021, an increase of \$219.0 million, or 15.1%, from \$1.45 billion at December 31, 2020;
 - SBA PPP loans were \$65.3 million and \$135.7 million at December 31, 2021 and 2020, respectively.
 - Loans with modifications related to COVID-19 were none and \$36.1 million at December 31, 2021 and 2020, respectively.
- Total deposits were \$1.87 billion at December 31, 2021, an increase of \$272.3 million, or 17.1%, from \$1.59 billion at December 31, 2020;
- BOLI of \$29.3 million was purchased during the year ended December 31, 2021; and
- The Company declared and paid cash dividends of \$0.44, \$0.40, and \$0.25 per common share for the years ended December 31, 2021, 2020 and 2019, respectively.

The increase in net income for the year ended December 31, 2021 compared with the year ended December 31, 2020 was primarily due to increases in net interest income and noninterest income and the reversal for loan losses. Net interest income increased primarily due to a decrease in cost of interest-bearing liabilities and an increase in average earning assets. Noninterest income increased primarily due to an increase in gain on sale of SBA loans. Reversal for loan losses was primarily due to a decrease in qualitative adjustment factor allocations related to economic implications of the COVID-19 pandemic during the year ended December 31, 2021.

The decrease in net income for the year ended December 31, 2020 compared with the year ended December 31, 2019 was primarily due to an increase in provision for loan losses and a decrease in net interest income. Provision for loan losses increased primarily due to the increase in risks associated with economic and business conditions, as well as an increase in special mention and substandard loans, as a result of the COVID-19 pandemic, and net interest income decreased primarily due to the lower market rates during the year ended December 31, 2020.

The increase in total assets for the year ended December 31, 2021 was primarily due to increases in loans held-for-investment and loans held-for-sale and the BOLI purchase of \$29.3 million. Loans held-for-investment increased primarily due to the increased commercial property and residential property loan production. Loans held-for-sale increased primarily due to the increased SBA loan production.

The Company is committed to making corporate decisions that directly benefit its shareholders, and during the year ended December 31, 2021, increased its dividend per common share by \$0.04, or 10.0%, to \$0.44 from \$0.40 for the year ended December 31, 2020. During the year ended December 31, 2021, the Company also repurchased 680,269 shares of common stock, totaling \$10.9 million. Overall, the Company returned 43.7% of its earnings to common shareholders through dividends and common share repurchases during the year ended December 31, 2021.

COVID-19 Pandemic

The ongoing COVID-19 pandemic, and governmental and societal responses thereto, have had a severe impact on global economic and market conditions. The U.S. government has enacted a number of monetary and fiscal policies to provide fiscal stimulus and relief in order to mitigate the impact of the COVID-19 pandemic. However, the COVID-19 pandemic continues to be a challenge to public health, including the emergence of new variants, and impact global economic and market conditions, including global supply chain disruptions and high inflation.

Since the beginning of the crisis, the Company has taken a number of steps to protect the safety of its employees and to support its customers. The Company has enabled its staff to work remotely and established safety measures within its bank premises and branches for both employees and customers. In order to support its customers, the Company has been in close contact with them, assessing the level of impact on their businesses, and putting a process in place to evaluate each client's specific situation and provide relief programs where appropriate, including SBA PPP loans and loan modifications related to the COVID-19 pandemic.

In addition, the Company has been monitoring its liquidity and capital closely. As of December 31, 2021, the Company maintained \$203.3 million, or 9.5% of total assets, of cash and cash equivalents and \$610.4 million, or 28.4% of total assets, of available borrowing capacity. All regulatory capital ratios were also well above the regulatory well-capitalized requirements as of December 31, 2021.

At this time, the Company cannot estimate the long term impact of the COVID-19 pandemic, but these conditions are expected to continue to impact its business, results of operations, and financial condition negatively.

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 has been working 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. The Bank expresses no opinion on the merits of the Matter and intends to answer, respond, and/or otherwise vigorously defend itself from the claims and causes of action asserted in the complaint to the fullest extent permitted by applicable law. Those defenses will be based in part on the fact that the Bank has implemented security procedures, practices, and a robust information security program pursuant to guidance from financial regulators. Please see Part I Item 3 for more information about the litigation.

The Company continues to monitor and evaluate the data incident for its magnitude and concomitant financial, legal or reputational consequences. To date, such consequences are not material, however the data incident is still recent and notices to affected individuals only recently began and the lawsuit mentioned above is in its very early stages. During the year ended December 31, 2021, expenses associated with the data incident, all of which are included in Other Expense in Consolidated Statements of Income (Unaudited), totaled \$100 thousand, which represents the retention amount on its insurance claims. The Company anticipates additional expenses will be incurred in future periods; however, the Company does have a cyber-liability insurance policy that should provide insurance coverage for this incident.

During its most recent review of disclosure controls and procedures, the Company considered the data incident and concluded that its disclosure controls and procedures were effective. Nevertheless, the Company continues to enhance and update its disclosure controls and procedures, including as part of its efforts to enhance its cybersecurity safeguards and measures. With respect to the data incident, upon discovery the Bank engaged experienced outside counsel and continues to work with its experienced third-party forensics firm to investigate and remediate the matter. The Board of Directors was kept apprised of, and a director with experience in data security participated in, the investigation and remediation efforts. As a result of this incident and based on information known at this date, the Company determined that its disclosure controls and procedures were effective and the data incident did not materially affect, nor was it reasonably likely to affect, the Company's internal control over financial reporting.

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:

(\$ in thousands)	Year Ended December 31,									
	2021			2020			2019			
	Average Balance	Interest	Yield/Cost	Average Balance	Interest	Yield/Cost	Average Balance	Interest	Yield/Cost	
Interest-earning assets:										
Total loans ⁽¹⁾	\$ 1,702,073	\$ 79,155	4.65 %	\$ 1,541,740	\$ 76,546	4.96 %	\$ 1,383,562	\$ 85,667	6.19 %	
Mortgage-backed securities	89,693	989	1.10 %	68,496	1,260	1.84 %	82,848	2,081	2.51 %	
Collateralized mortgage obligation	22,633	221	0.98 %	35,299	462	1.31 %	51,441	1,185	2.30 %	
SBA loan pool securities	10,515	189	1.80 %	13,120	255	1.94 %	20,681	536	2.59 %	
Municipal securities - tax exempt ⁽²⁾	5,755	146	2.54 %	5,811	150	2.58 %	5,833	154	2.64 %	
Corporate bonds	1,841	68	3.69 %	—	—	— %	—	—	— %	
Interest-bearing deposits in other financial institutions	170,814	220	0.13 %	204,708	631	0.31 %	126,803	2,781	2.19 %	
FHLB and other bank stock	8,539	484	5.67 %	8,416	457	5.43 %	8,067	541	6.71 %	
Total interest-earning assets	2,011,863	81,472	4.05 %	1,877,590	79,761	4.25 %	1,679,235	92,945	5.53 %	
Noninterest-earning assets:										
Cash and cash equivalents	19,676			17,542			18,614			
Allowances for loan losses	(25,270)			(19,693)			(13,197)			
Other assets	41,187			39,385			35,010			
Total noninterest-earning assets	35,593			37,234			40,427			
Total assets	\$ 2,047,456			\$ 1,914,824			\$ 1,719,662			
Interest-bearing liabilities:										
Deposits:										
NOW and money market accounts	\$ 400,446	1,242	0.31 %	\$ 371,315	2,385	0.64 %	\$ 329,562	5,162	1.57 %	
Savings	12,302	6	0.05 %	8,543	9	0.11 %	7,965	32	0.40 %	
Time deposits	609,351	2,795	0.46 %	708,306	10,564	1.49 %	783,353	18,245	2.33 %	
Other borrowings	31,302	292	0.93 %	94,319	614	0.65 %	25,388	472	1.86 %	
Total interest-bearing liabilities	1,053,401	4,335	0.41 %	1,182,483	13,572	1.15 %	1,146,268	23,911	2.09 %	
Noninterest-bearing liabilities:										
Demand deposits	737,216			486,820			329,731			
Other liabilities	14,073			16,968			22,087			
Total noninterest-bearing liabilities	751,289			503,788			351,818			
Total liabilities	1,804,690			1,686,271			1,498,086			
Shareholders' equity	242,766			228,553			221,576			
Total liabilities and shareholders' equity	\$ 2,047,456			\$ 1,914,824			\$ 1,719,662			
Net interest income		\$ 77,137			\$ 66,189			\$ 69,034		
Net interest spread ⁽³⁾			3.64 %			3.10 %			3.44 %	
Net interest margin ⁽⁴⁾			3.83 %			3.53 %			4.11 %	
Cost of funds ⁽⁵⁾			0.24 %			0.81 %			1.62 %	

(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 \$6.1 million, \$2.9 million and \$452 thousand, respectively, and net accretion of discount on loans of \$3.5 million, \$3.3 million and \$4.0 million, respectively, are included in the interest income for the years ended December 31, 2021, 2020 and 2019, 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 interest expense on deposits by the sum of interest-bearing 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.

(\$ in thousands)	Year Ended December 31, 2021 vs. 2020			Year Ended December 31, 2020 vs. 2019		
	Increase (Decrease) Due to		Net Increase (Decrease)	Increase (Decrease) Due to		Net Increase (Decrease)
	Volume	Rate		Volume	Rate	
Interest earned on:						
Total loans	\$ 7,960	\$ (5,351)	\$ 2,609	\$ 9,794	\$ (18,915)	\$ (9,121)
Investment securities	134	(648)	(514)	(937)	(892)	(1,829)
Other interest-earning assets	(172)	(212)	(384)	1,927	(4,161)	(2,234)
Total interest income	7,922	(6,211)	1,711	10,784	(23,968)	(13,184)
Interest paid on:						
Savings, NOW, and money market deposits	207	(1,353)	(1,146)	651	(3,451)	(2,800)
Time deposits	(1,476)	(6,293)	(7,769)	(1,748)	(5,933)	(7,681)
Other borrowings	(410)	88	(322)	1,282	(1,140)	142
Total interest expense	(1,679)	(7,558)	(9,237)	185	(10,524)	(10,339)
Change in net interest income	\$ 9,601	\$ 1,347	\$ 10,948	\$ 10,599	\$ (13,444)	\$ (2,845)

Year Ended December 31, 2021 Compared to Year Ended December 31, 2020

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

(\$ in thousands)	Year Ended December 31,		Amount Change	Percentage Change
	2021	2020		
Interest income:				
Interest and fees on loans	\$ 79,155	\$ 76,546	\$ 2,609	3.4 %
Interest on investment securities	1,613	2,127	(514)	(24.2) %
Interest and dividends on other interest-earning assets	704	1,088	(384)	(35.3) %
Total interest income	81,472	79,761	1,711	2.1 %
Interest expense:				
Interest on deposits	4,043	12,958	(8,915)	(68.8) %
Interest on other borrowings	292	614	(322)	(52.4) %
Total interest expense	4,335	13,572	(9,237)	(68.1) %
Net interest income	\$ 77,137	\$ 66,189	\$ 10,948	16.5 %

Net interest income increased primarily due to a 7.2% increase in average balance of interest-earning assets and a 74 basis point decrease in average cost of interest-bearing liabilities, partially offset by a 20 basis point decrease in average yield on interest-earning assets and a 10.9% decrease in average balance of interest-bearing liabilities. The increase in average balance of interest-earning assets was primarily due to growth in the loan and investment securities, supported by deposit growth. The decreases in average yield on interest-earning assets and average cost of interest-bearing liabilities were primarily due to the lower market rates during the year ended December 31, 2021.

Interest and fees on loans increased primarily due to a 10.4% increase in average balance, partially offset by a 31 basis point decrease in average yield. The increase in average balance was primarily due to an increase in commercial property loans, partially offset by decreases in commercial term and SBA PPP loans. The decrease in average yield was primarily due to the lower market rates, partially offset by increases in net amortization of deferred fees on SBA PPP loans and net accretion of discount.

Interest on investment securities decreased primarily due to a 49 basis point decrease in average yield, partially offset by a 6.3% increase in average balance. The decrease in average yield was primarily due to new investment securities purchased at lower market rates. The Company purchased \$47.3 million and \$39.4 million, respectively, of investment securities during the years ended December 31, 2021 and 2020. For the years ended December 31, 2021 and 2020, average yield on total investment securities was 1.24% and 1.73%, respectively.

Interest income on other interest-earning assets decreased primarily due to a 12 basis point decrease in average yield and a 15.8% decrease in average balance. The decrease in average yield was primarily due to the lower market rates. The decrease in average balance was primarily due to increases in loans and investment securities. For the years ended December 31, 2021 and 2020, yield on total other interest-earning assets was 0.39% and 0.51%, respectively.

Interest expense on deposits decreased primarily due to a 6.1% decrease in average balance of interest-bearing deposits and a 79 basis point decrease in average cost of interest-bearing deposits. The decrease in average balance was primarily due to a decrease in time deposits, partially offset by increases in savings, NOW and money market accounts. The decrease in average cost was primarily due to the lower market rates. For the years ended December 31, 2021 and 2020, average cost on total interest-bearing deposits was 0.40% and 1.19%, respectively.

Interest expense on other borrowings decreased primarily due to a 66.8% decrease in average balance, partially offset by a 28 basis point increase in average cost. The increase in average cost was primarily due to matured borrowings with lower interest rates during the year ended December 31, 2021. Matured FHLB advances totaled \$70.0 million with a weighted-average rate of 0.47% for the year ended December 31, 2021.

Year Ended December 31, 2020 Compared to Year Ended December 31, 2019

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

(\$ in thousands)	Year Ended December 31,		Amount Change	Percentage Change
	2020	2019		
Interest income:				
Interest and fees on loans	\$ 76,546	\$ 85,667	\$ (9,121)	(10.6) %
Interest on investment securities	2,127	3,956	(1,829)	(46.2) %
Interest and dividends on other interest-earning assets	1,088	3,322	(2,234)	(67.2) %
Total interest income	79,761	92,945	(13,184)	(14.2) %
Interest expense:				
Interest on deposits	12,958	23,439	(10,481)	(44.7) %
Interest on borrowings	614	472	142	30.1 %
Total interest expense	13,572	23,911	(10,339)	(43.2) %
Net interest income	\$ 66,189	\$ 69,034	\$ (2,845)	(4.1) %

Net interest income decreased primarily due to a 128 basis point decrease in average yield on interest-earning assets and a 3.2% increase in average balance of interest-bearing liabilities, partially offset by a 11.8% increase in average balance of interest-earning assets and a 94 basis point decrease in average cost of interest-bearing liabilities. The increase in average balance of interest-earning assets was primarily due to growth in the loan and other interest-earning assets, supported by deposit growth. The decreases in average yield on interest-earning assets and average cost of interest-bearing liabilities were primarily due to the lower market rates during the year ended December 31, 2020.

Interest and fees on loans decreased primarily due to a 123 basis point decrease in average yield, partially offset by an 11.4% increase in average balance. The decrease in average yield was primarily due to the lower market rates, the 1% interest rate on SBA PPP loans, and a decrease in net accretion of discount, partially offset by an increase in net amortization of deferred fees on SBA PPP loans. The increase in average balance was primarily due to the SBA PPP loan production as well as an increase in commercial property loans.

Interest on investment securities decreased primarily due to a 23.7% decrease in average balance and a 73 basis point decrease in average yield. The decrease in average balance was primarily due to a sale of investment securities of \$32.8 million in December 2019, which lead to a lower average balance in 2020, partially offset by new investment securities purchased in 2020. The decrease in average yield was primarily due to new investment securities purchased at lower market rates, as well as the sales of securities available-for-sale in December 2019 with a weighted-average book yield of 3.02%. The Company purchased \$39.4 million and \$14.1 million, respectively, of investment securities during the years ended December 31, 2020 and 2019. For the years ended December 31, 2020 and 2019, average yield on total investment securities was 1.73% and 2.46%, respectively.

Interest income on other interest-earning assets decreased primarily due to a 195 basis point decrease in average yield, partially offset by a 58.0% increase in average balance. The decrease in average yield was primarily due to the lower market rates. The increase in average balance was primarily due to increases in deposits and other borrowings as the Company maintains most of its cash at the Federal Reserve Bank account. For the years ended December 31, 2020 and 2019, yield on total other interest-earning assets was 0.51% and 2.46%, respectively.

Interest expense on deposits decreased primarily due to a 2.9% decrease in average balance of interest-bearing deposits and a 90 basis point decrease in average cost of interest-bearing deposits. The decrease in average balance was primarily due to a decrease in time deposits, partially offset by increases in savings, NOW and money market accounts. The decrease in average cost was primarily due to the lower market rates. For the years ended December 31, 2020 and 2019, average cost on total interest-bearing deposits was 1.19% and 2.09%, respectively.

Interest expense on other borrowings increased primarily due to a 271.5% increase in average balance, partially offset by a 121 basis point decrease in average cost. The decrease in average cost was primarily due to the lower market rates. The increase in average balance was primarily due to the Company's liquidity management plan in response to the COVID-19 pandemic.

Provision (reversal) for Loan Losses

Provision (reversal) for loan losses was \$(4.6) million, \$13.2 million and \$4.2 million for the years ended December 31, 2021, 2020 and 2019. The reversal for loan losses for the year ended December 31, 2021 was primarily due to a decrease in qualitative adjustment factor allocations related to economic implications of the COVID-19 pandemic. The increase for the year ended December 31, 2020 in provision for loan losses was primarily due to the increase in risks associated with economic and business conditions and uncertainty, as well as the increases in special mention and classified loans, as a result of the COVID-19 pandemic.

See further discussion in "Loans Held-For-Investment and Allowance for Loan Losses."

Noninterest Income

Year Ended December 31, 2021 Compared to Year Ended December 31, 2020

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

(\$ in thousands)	Year Ended December 31,		Amount Change	Percentage Change
	2021	2020		
Service charges and fees on deposits	\$ 1,195	\$ 1,256	\$ (61)	(4.9) %
Loan servicing income	2,770	2,710	60	2.2 %
Bank-owned life insurance income	108	—	108	— %
Gain on sale of loans	12,932	6,527	6,405	98.1 %
Other income	1,429	1,247	182	14.6 %
Total noninterest income	\$ 18,434	\$ 11,740	\$ 6,694	57.0 %

Service charges and fees on deposits decreased primarily due to a decrease 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 during November 2021. Bank-owned life insurance income represents the increase in cash surrender value of the insurance policy.

Gain on sale of loans increased primarily due to increases in sales volume and gain margin. The increase in gain margin on SBA loans was primarily due to the temporary increase of SBA guaranteed portion until September 30, 2021 under the Economic Aid Act. The Company sold SBA loans of \$126.8 million with a gain of \$12.8 million, residential property 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 during the year ended December 31, 2021. During the year ended December 31, 2020, the Company sold SBA loans of \$89.8 million with a gain of \$6.0 million and residential property loans of \$51.9 million with a gain of \$489 thousand.

Other income included wire and remittance fees of \$596 thousand and \$530 thousand, respectively, and debit card interchange fees of \$306 thousand and \$252 thousand, respectively, for the years ended December 31, 2021 and 2020.

Year Ended December 31, 2020 Compared to Year Ended December 31, 2019

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

(\$ in thousands)	Year Ended December 31,		Amount Change	Percentage Change
	2020	2019		
Service charges and fees on deposits	\$ 1,256	\$ 1,544	\$ (288)	(18.7) %
Loan servicing income	2,710	2,309	401	17.4 %
Gain on sale of loans	6,527	5,996	531	8.9 %
Gain on sale of securities available-for-sale	—	786	(786)	(100.0) %
Other income	1,247	1,234	13	1.1 %
Total noninterest income	\$ 11,740	\$ 11,869	\$ (129)	(1.1) %

Service charges and fees on deposits decreased primarily due to a decrease in fee-based transactions.

The increase was primarily due to a decrease in amortization of servicing assets from decreased prepayments of loans being serviced.

Gain on sale of loans increased primarily due to increases in sales volume and premium. The increase in premium on SBA loans was primarily due to the market condition and the increase in sale volume of residential property loans was primarily due to increased refinancing activities during the year ended December 31, 2020. The Company sold SBA loans of \$89.8 million with a gain of \$6.0 million and residential property loans of \$51.9 million with a gain of \$489 thousand during the year ended December 31, 2020. During the year ended December 31, 2019, the Company sold SBA loans of \$99.6 million with a gain of \$5.9 million and residential property loans of \$10.1 million with a gain of \$81 thousand.

The Company sold securities available-for-sale of \$32.8 million during the year ended December 31, 2019, while the Company did not sell any securities for the year ended December 31, 2020.

Other income included wire and remittance fees of \$529 thousand and \$515 thousand, respectively, and debit card interchange fees of \$252 thousand and \$272 thousand, respectively, for the years ended December 31, 2020 and 2019.

Noninterest Expense

Year Ended December 31, 2021 Compared to Year Ended December 31, 2020

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

(\$ in thousands)	Year Ended December 31,		Amount Change	Percentage Change
	2021	2020		
Salaries and employee benefits	\$ 27,974	\$ 26,147	\$ 1,827	7.0 %
Occupancy and equipment	5,575	5,620	(45)	(0.8) %
Professional fees	2,159	2,256	(97)	(4.3) %
Marketing and business promotion	1,656	1,360	296	21.8 %
Data processing	1,572	1,472	100	6.8 %
Director fees and expenses	594	599	(5)	(0.8) %
Regulatory assessments	537	978	(441)	(45.1) %
Other expenses	3,141	3,267	(126)	(3.9) %
Total noninterest expense	\$ 43,208	\$ 41,699	\$ 1,509	3.6 %

Salaries and employee benefits increased primarily due to increases in wages, bonus accrual, and incentives tied to LPO originated SBA loan sales, partially offset by decreases in vacation and stock compensation expense. The number of full-time equivalent employees averaged 247.9 for the year ended December 31, 2021 compared to 251.8 for the year ended December 31, 2020.

Occupancy and equipment expense decreased primarily due to a decrease in depreciation, partially offset by an increase in equipment maintenance expense.

Professional fees decreased primarily due to a decrease in expense related to enhancement of the Bank's controls and processes on BSA/AML compliance programs, partially offset by an increase in 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 decreased primarily due to a severance payment of \$45 thousand for a former director during the year ended December 31, 2020.

Regulatory assessment expense decreased primarily due to a decrease in assessment rate, partially offset by an increase in balance sheet.

Other expense decreased primarily due to a decrease in other loan related legal expense, partially offset by an increase in armed guard expenses. Other loan related legal expenses were \$302 thousand and \$426 thousand, respectively, and armed guard expense of \$546 thousand and \$506 thousand, respectively, for the years ended December 31, 2021 and 2020, respectively. Other expenses also included office expenses of \$1.4 million and \$1.4 million, respectively, and reversal for unfunded loan commitments was \$24 thousand and \$63 thousand, respectively for the years ended December 31, 2021 and 2020, respectively.

Year Ended December 31, 2020 Compared to Year Ended December 31, 2019

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

(\$ in thousands)	Year Ended December 31,		Amount Change	Percentage Change
	2020	2019		
Salaries and employee benefits	\$ 26,147	\$ 26,139	\$ 8	— %
Occupancy and equipment	5,620	5,545	75	1.4 %
Professional fees	2,256	2,730	(474)	(17.4) %
Marketing and business promotion	1,360	1,550	(190)	(12.3) %
Data processing	1,472	1,365	107	7.8 %
Director fees and expenses	599	751	(152)	(20.2) %
Regulatory assessments	978	551	427	77.5 %
Other expenses	3,267	3,684	(417)	(11.3) %
Total noninterest expense	\$ 41,699	\$ 42,315	\$ (616)	(1.5) %

Salaries and employee benefits increased primarily due to increases in wages, other employee benefits and vacation accrual, partially offset by a direct loan origination cost of \$1.1 million related to SBA PPP loan production and a decrease in bonus accrual. The number of full-time equivalent employees averaged 251.8 for the year ended December 31, 2020 compared to 250.2 for the year ended December 31, 2019.

Occupancy and equipment expense increased primarily due to increases in rent and equipment maintenance expenses.

Professional fees decreased primarily due to a decrease in expense related to enhancement of the Bank's controls and processes on BSA/AML compliance programs. The consent order with the FDIC and CDFPI related to the BSA/AML compliance was terminated on September 30, 2020.

Marketing and business promotion expense decreased primarily due to fewer marketing activities related to the COVID-19 pandemic for the year ended December 31, 2020.

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

Director fees and expenses decreased primarily due to the Company's Board of Directors decision to temporarily decrease director fees from the second quarter of 2020, partially offset by a severance payment of \$45 thousand for a former director during the year ended December 31, 2020.

Regulatory assessment expense increased primarily due to a small bank credit of \$345 thousand received from the FDIC during the year ended December 31, 2019, as well as an increase in balance sheet.

Other expense decreased primarily due to decreases in office expenses, provision for unfunded loan commitments, other loan related legal expenses, and armed guard expenses. Other expenses included office expenses of \$1.4 million and \$1.7 million, respectively, provision (reversal) for unfunded loan commitments was \$(63) thousand and \$162 thousand, respectively, Other loan related legal expenses were \$426 thousand and \$486 thousand, respectively, and armed guard expense of \$506 thousand and \$555 thousand, respectively, for the years ended December 31, 2020 and 2019, respectively.

Income Tax Expense

Income tax expense was \$16.9 million, \$6.8 million and \$10.2 million, respectively, and the effective tax rate was 29.6%, 29.7% and 29.8%, respectively, for the years ended December 31, 2021, 2020 and 2019.

Financial Condition

Investment Securities

On June 30, 2020, the Company transferred securities held-to-maturity to securities available-for-sale as a part of the Company's liquidity management plan in response to the COVID-19 pandemic. Management determined that its securities held-to-maturity no longer adhere to the Company's current liquidity management plan and could be sold to potentially improve the Company's liquidity position. Accordingly, the Company was no longer able to assert that it had the intent to hold these securities until maturity and the Company's ability to assert that it has the intent and ability to hold to maturity debt securities will be limited for up to two years from the date of transfer. The Company transferred all securities held-to-maturity of \$18.8 million to securities available-for-sale, which resulted in a pre-tax increase to accumulated other comprehensive income of \$787 thousand.

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

(\$ in thousands)	December 31,					
	2021			2020		
	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	\$ 85,346	\$ 84,713	\$ (633)	\$ 74,622	\$ 76,154	\$ 1,532
Collateralized mortgage obligations	18,990	19,056	66	26,216	26,467	251
SBA loan pool securities	8,520	8,672	152	11,753	12,080	327
Municipal bonds	5,329	5,686	357	5,370	5,826	456
Corporate bonds	5,000	5,071	71	—	—	—
Total securities available-for-sale	\$ 123,185	\$ 123,198	\$ 13	\$ 117,961	\$ 120,527	\$ 2,566

Total carrying value of investment securities were \$123.2 million at December 31, 2021, an increase of \$2.7 million, or 2.2%, from \$120.5 million at December 31, 2020. The increase was primarily due to purchases of \$47.3 million, partially offset by principal paydowns and calls of \$41.1 million, a decrease in fair value of securities available-for-sale of \$2.6 million and net premium amortization of \$1.0 million.

All individual securities in a continuous unrealized loss position for 12 months or more as of December 31, 2021 and December 31, 2020 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, 2021 and 2020. 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 determined that the investment securities with unrealized losses for twelve months or more are not other-than-temporary impaired, and, therefore, no impairment was recognized at December 31, 2021 and 2020.

The following table presents the contractual maturity schedule for securities, at amortized cost, and their weighted-average yields as of December 31, 2021. 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.

(\$ in thousands)	December 31, 2021									
	Within One Year		More than One Year through Five Years		More than Five Years through Ten Years		More than Ten Years		Total	
	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	\$ —	— %	\$ 623	1.56 %	\$ 7,932	1.59 %	\$ 76,791	1.45 %	\$ 85,346	1.47 %
Collateralized mortgage obligations	—	— %	—	— %	9,927	0.71 %	9,063	1.51 %	18,990	1.09 %
SBA loan pool securities	—	— %	519	2.57 %	1,426	0.66 %	6,575	2.03 %	8,520	1.84 %
Municipal bonds	305	1.72 %	1,851	2.07 %	830	2.27 %	2,343	3.53 %	5,329	2.72 %
Corporate bonds	—	— %	—	— %	5,000	3.75 %	—	— %	5,000	3.75 %
Total securities available-for-sale	\$ 305	1.72 %	\$ 2,993	2.05 %	\$ 25,115	1.64 %	\$ 94,772	1.55 %	\$ 123,185	1.58 %

Loans Held-For-Investment and Allowance for Loan Losses

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

(\$ in thousands)	December 31,									
	2021		2020		2019		2018		2017	
	Amount	Percentage to Total	Amount	Percentage to Total	Amount	Percentage to Total	Amount	Percentage to Total	Amount	Percentage to Total
Real estate loans:										
Commercial property	1,105,843	63.9 %	880,736	55.5 %	803,014	55.4 %	709,409	53.1 %	662,031	55.5 %
Residential property	209,485	12.1 %	198,431	12.5 %	235,046	16.3 %	233,816	17.5 %	168,560	14.2 %
SBA property	129,661	7.5 %	126,570	8.0 %	129,837	8.9 %	120,939	9.0 %	131,740	11.1 %
Construction	8,252	0.5 %	15,199	1.0 %	19,164	1.3 %	27,323	2.0 %	23,117	1.9 %
Total real estate loans	1,453,241	84.0 %	1,220,936	77.0 %	1,187,061	81.9 %	1,091,487	81.6 %	985,448	82.7 %
Commercial and industrial loans:										
Commercial term	73,438	4.2 %	87,250	5.5 %	103,380	7.1 %	102,133	7.6 %	77,402	6.5 %
Commercial lines of credit	100,936	5.8 %	96,087	6.1 %	111,768	7.7 %	91,994	6.9 %	62,751	5.3 %
SBA commercial term	17,640	1.0 %	21,878	1.4 %	25,332	1.7 %	27,147	2.0 %	30,376	2.6 %
SBA PPP	65,329	3.8 %	135,654	8.6 %	—	— %	—	— %	—	— %
Total commercial and industrial loans	257,343	14.8 %	340,869	21.6 %	240,480	16.5 %	221,274	16.5 %	170,529	14.4 %
Other consumer loans	21,621	1.2 %	21,773	1.4 %	23,290	1.6 %	25,921	1.9 %	34,022	2.9 %
Loans held-for-investment	1,732,205	100.0 %	1,583,578	100.0 %	1,450,831	100.0 %	1,338,682	100.0 %	1,189,999	100.0 %
Allowance for loan losses	(22,381)		(26,510)		(14,380)		(13,167)		(12,224)	
Net loans held-for-investment	\$ 1,709,824		\$ 1,557,068		\$ 1,436,451		\$ 1,325,515		\$ 1,177,775	

Loans held-for-investment were \$1.73 billion at December 31, 2021, an increase of \$148.6 million, or 9.4%, from \$1.58 billion at December 31, 2020. The increase was primarily due to new funding of \$619.7 million and advances of \$118.9 million, partially offset by paydowns and payoffs of \$581.0 million, transfers to loans held-for-sale of \$8.8 million and charge-offs of \$227 thousand. The increase for the year ended December 31, 2021 was primarily due to increases in commercial property and residential property loans, partially offset by decreases in SBA PPP and commercial term loans. As of December 31, 2021, the Company recognized \$181.8 million in forgiveness.

The following table shows the contractual maturities of loans held-for-investment and the distribution between fixed and floating interest rate loans at December 31, 2021:

(\$ in thousands)	December 31, 2021				
	Within One Year	Due After One Year to Five Years	Due After Five Years to 15 Years	Due After 15 Years	Total
Real estate loans:					
Commercial property	\$ 96,753	\$ 669,819	\$ 338,503	\$ 768	\$ 1,105,843
Residential property	—	—	—	209,485	209,485
SBA property	10	116	10,011	119,524	129,661
Construction	8,252	—	—	—	8,252
Total real estate loans	105,015	669,935	348,514	329,777	1,453,241
Commercial and industrial loans:					
Commercial term	3,401	55,900	14,137	—	73,438
Commercial lines of credit	100,936	—	—	—	100,936
SBA commercial term	52	5,597	11,991	—	17,640
SBA PPP	5,158	60,171	—	—	65,329
Total commercial and industrial loans	109,547	121,668	26,128	—	257,343
Other consumer loans	3,079	17,930	612	—	21,621
Loans held-for-investment	\$ 217,641	\$ 809,533	\$ 375,254	\$ 329,777	\$ 1,732,205
Loans with variable (floating) interest rates	\$ 187,046	\$ 307,905	\$ 91,050	\$ 150,224	\$ 736,225
Loans with adjustable (fixed to floating) interest rates	—	62,899	263,135	178,606	504,640
Loans with predetermined (fixed) interest rates	30,595	438,729	21,069	947	491,340
Total	\$ 217,641	\$ 746,634	\$ 112,119	\$ 329,777	\$ 1,732,205

SBA Paycheck Protection Program

The following table presents a summary of SBA PPP loans as of the dates indicated:

(\$ in thousands)	December 31,					
	2021			2020		
	Number of Loans	Carrying Value	Contractual Balance	Number of Loans	Carrying Value	Contractual Balance
Loan amount:						
\$50,000 or less	145	\$ 2,915	\$ 3,074	1,017	\$ 20,518	\$ 20,632
Over \$50,000 and less than \$350,000	156	25,417	26,146	496	60,692	62,011
Over \$350,000 and less than \$2,000,000	52	33,812	34,432	69	46,054	46,718
\$2,000,000 or more	1	3,185	3,187	3	8,390	8,427
Total	354	\$ 65,329	\$ 66,839	1,585	\$ 135,654	\$ 137,788

Loan Modifications Related to the COVID-19 Pandemic

The Company started providing modifications related to the COVID-19 pandemic during the three months ended June 30, 2020. The Company had no outstanding modification since September 30, 2021. The following table presents activity in loans under modified terms related to the COVID-19 pandemic for the year ended December 31, 2021.

(\$ in thousands)	Real Estate Loans			Commercial and Industrial Loans		Total
	Commercial Property	Residential Property	SBA Property	Commercial Term	SBA Commercial Term	
Balance at December 31, 2020	\$ 24,132	\$ 425	\$ 4,192	\$ 5,527	\$ 1,841	\$ 36,117
Modification early terminated ⁽¹⁾	—	—	(2,576)	—	(1,338)	(3,914)
Modification expired	(33,943)	(1,100)	(1,627)	(8,330)	(513)	(45,513)
Subsequent modification	11,829	328	—	2,878	—	15,035
New modification	—	349	—	—	—	349
Amortization	(2,018)	(2)	11	(75)	10	(2,074)
Balance at December 31, 2021	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

(1) Termination of modifications at the request of the borrower.

The following table presents the risk categories and accrued interest receivable for loans previously modified in response to the COVID-19 pandemic, but that have reverted back to previous contractual payment terms as of December 31, 2021:

(\$ in thousands)	December 31, 2021					Accrued Interest Receivable
	Carrying Value Per Risk Category					
	Pass	Special Mention	Substandard	Doubtful	Total	
Real estate loans:						
Commercial property	\$ 291,759	\$ 11,739	\$ 1,525	\$ —	\$ 305,023	\$ 730
Residential property	25,620	—	—	—	25,620	537
SBA property	3,683	251	—	—	3,934	15
Commercial and industrial loans:						
Commercial term	29,744	3,563	1,114	—	34,421	84
SBA commercial term	1,663	—	57	—	1,720	6
Other consumer loans	699	—	—	—	699	2
Total	\$ 353,168	\$ 15,553	\$ 2,696	\$ —	\$ 371,417	\$ 1,374

Loans that were granted modifications related to the COVID-19 pandemic in excess of 6 months, on a cumulative basis, were classified as special mention or substandard. There were no past due or nonaccrual loans that were previously modified in response to the COVID-19 pandemic, but that had reverted back to previous contractual payment terms as of December 31, 2021.

Allowance for loan losses

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

(\$ in thousands)	December 31,									
	2021		2020		2019		2018		2017	
	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	Allowance for Loan Losses	Percentage of Loans to Total Loans
Real estate loans:										
Commercial property	\$ 13,586	63.9 %	\$ 13,810	55.5 %	\$ 6,942	55.4 %	\$ 6,216	53.1 %	\$ 6,366	55.5 %
Residential property	1,869	12.1 %	2,680	12.5 %	1,167	16.3 %	1,152	17.5 %	833	14.2 %
SBA property	1,253	7.5 %	2,179	8.0 %	1,446	8.9 %	1,225	9.0 %	1,124	11.1 %
Construction	89	0.5 %	225	1.0 %	299	1.3 %	511	2.0 %	184	1.9 %
Total real estate loans	16,797	84.0 %	18,894	77.0 %	9,854	81.9 %	9,104	81.6 %	8,507	82.7 %
Commercial and industrial loans:										
Commercial term	2,715	4.2 %	4,090	5.5 %	1,848	7.1 %	1,525	7.6 %	1,513	6.5 %
Commercial lines of credit	2,071	5.8 %	2,359	6.1 %	1,805	7.7 %	1,443	6.9 %	1,126	5.3 %
SBA commercial term	524	1.0 %	773	1.4 %	701	1.7 %	909	2.0 %	909	2.6 %
SBA PPP	—	3.8 %	—	8.6 %	—	— %	—	— %	—	— %
Total commercial and industrial loans	5,310	14.8 %	7,222	21.6 %	4,354	16.5 %	3,877	16.5 %	3,548	14.4 %
Other consumer loans	274	1.2 %	394	1.4 %	172	1.6 %	186	1.9 %	169	2.9 %
Total	\$ 22,381	100.0 %	\$ 26,510	100.0 %	\$ 14,380	100.0 %	\$ 13,167	100.0 %	\$ 12,224	100.0 %
Allowance for loan losses to loans held-for-investment	1.29 %		1.67 %		0.99 %		0.98 %		1.03 %	
Allowance for loan losses to loans held-for-investment, excluding SBA PPP loans ⁽¹⁾	1.34 %		1.83 %		0.99 %		0.98 %		1.03 %	

(1) This ratio is not presented in accordance with GAAP. See "Non-GAAP measure" for reconciliation of this measure to its most comparable GAAP measure.

The SBA guarantee on PPP loans cannot be separated from the loan and therefore is not a separate unit of account. The Company considered the SBA guarantee in the allowance for loan losses evaluation and determined that it is not required to reserve an allowance on SBA PPP loans at December 31, 2021 and 2020.

The decrease in allowance for loan losses for the year ended December 31, 2021 was primarily due to a decrease in qualitative adjustment factor allocations related to economic implications of the COVID-19 pandemic.

The increase in allowance for loan losses for the year ended December 31, 2020 was primarily due to increased risks associated with economic and business conditions, as well as increases in special mention and substandard loans, as a result of the COVID-19 pandemic.

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

(\$ in thousands)	For the Year Ended December 31,								
	2021			2020			2019		
	Average Balance	Net Charge-offs (Recoveries)	Percentage	Average Balance	Net Charge-offs (Recoveries)	Percentage	Average Balance	Net Charge-offs (Recoveries)	Percentage
Real estate loans:									
Commercial property	\$ 983,129	\$ —	— %	\$ 826,288	\$ —	— %	\$ 744,513	\$ —	— %
Residential property	197,741	—	— %	221,296	—	— %	237,825	—	— %
SBA property	125,051	(39)	(0.03) %	124,996	117	0.09 %	125,785	25	0.02 %
Construction	12,715	—	— %	20,285	—	— %	22,384	—	— %
Total real estate loans	1,318,636	(39)	(0.01) %	1,192,865	117	0.01 %	1,130,507	25	0.01 %
Commercial and industrial loans:									
Commercial term	77,383	(200)	(0.26) %	97,247	(96)	(0.10) %	104,427	179	0.17 %
Commercial lines of credit	92,874	(146)	(0.16) %	100,154	709	0.71 %	93,344	2,597	2.78 %
SBA commercial term	19,390	(104)	(0.54) %	23,868	255	1.07 %	25,911	196	0.76 %
SBA PPP	150,043	—	— %	92,818	—	— %	—	—	— %
Total commercial and industrial loans	339,690	(450)	(0.13) %	314,087	868	0.28 %	223,682	2,972	1.33 %
Other consumer loans	21,101	22	0.10 %	22,033	104	0.47 %	22,884	27	0.12 %
Total loans held-for-investment	\$ 1,679,427	\$ (467)	(0.03) %	\$ 1,528,985	\$ 1,089	0.07 %	\$ 1,377,073	\$ 3,024	0.22 %

(\$ in thousands)	For the Year Ended December 31,					
	2018			2017		
	Average Balance	Net Charge-offs (Recoveries)	Percentage	Average Balance	Net Charge-offs (Recoveries)	Percentage
Real estate loans:						
Commercial property	\$ 683,739	\$ 4	0.01 %	\$ 623,203	\$ —	— %
Residential property	200,061	—	— %	149,168	—	— %
SBA property	129,472	164	0.13 %	117,154	167	0.14 %
Construction	26,907	—	— %	21,035	—	— %
Total real estate loans	1,040,179	168	0.02 %	910,560	167	0.02 %
Commercial and industrial loans:						
Commercial term	86,168	(170)	(0.20) %	73,239	281	0.38 %
Commercial lines of credit	69,080	(28)	(0.04) %	53,782	—	— %
SBA commercial term	28,950	114	0.39 %	29,193	459	1.57 %
Total commercial and industrial loans	184,198	(84)	(0.05) %	156,214	740	0.47 %
Other consumer loans	30,135	204	0.68 %	32,951	16	0.05 %
Total loans held-for-investment	\$ 1,254,512	\$ 288	0.02 %	\$ 1,099,725	\$ 923	0.08 %

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:

(\$ in thousands)	December 31,				
	2021	2020	2019	2018	2017
Real estate loans:					
Residential property	\$ 461	\$ 182	\$ 697	\$ 95	\$ 1,045
SBA property	—	—	794	183	—
Total real estate loans	461	182	1,491	278	1,045
Commercial and industrial loans:					
SBA commercial term	—	—	189	—	2
Total commercial and industrial loans	—	—	189	—	2
Other consumer loans	93	156	138	99	294
Total	\$ 554	\$ 338	\$ 1,818	\$ 377	\$ 1,341

Nonperforming Loans and Nonperforming Assets

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

(\$ in thousands)	December 31,				
	2021	2020	2019	2018	2017
Nonaccrual loans:					
Real estate loans:					
Commercial property	\$ —	\$ 524	\$ —	\$ —	\$ 318
Residential property	—	189	—	302	730
SBA property	746	885	442	540	1,810
Total real estate loans	746	1,598	442	842	2,858
Commercial and industrial loans:					
Commercial term	—	—	—	—	4
Commercial lines of credit	—	904	1,888	—	10
SBA commercial term	213	595	159	203	338
Total commercial and industrial loans	213	1,499	2,047	203	352
Other consumer loans	35	66	48	16	24
Total nonaccrual loans	994	3,163	2,537	1,061	3,234
Loans past due 90 days or more still on accrual	—	—	287	—	—
Total nonperforming loans	994	3,163	2,824	1,061	3,234
Other real estate owned	—	1,401	—	—	99
Total nonperforming assets	\$ 994	\$ 4,564	\$ 2,824	\$ 1,061	\$ 3,333
Nonaccrual loans to loans held-for-investment	0.06 %	0.20 %	0.17 %	0.08 %	0.27 %
Nonperforming loans to loans held-for-investment	0.06 %	0.20 %	0.19 %	0.08 %	0.27 %
Allowance for loan losses to:					
Nonaccrual loans	2,251.61 %	838.13 %	566.81 %	1,241.00 %	377.98 %
Nonperforming loans	2,251.61 %	838.13 %	509.21 %	1,241.00 %	377.98 %
Nonperforming assets to total assets	0.05 %	0.24 %	0.16 %	0.06 %	0.23 %

Total nonaccrual loans were \$994 thousand at December 31, 2021, a decrease of \$2.2 million, or 68.6%, from \$3.2 million at December 31, 2020. The decrease was primarily due to payoffs and paydowns of \$2.1 million, a loan transferred to OREO of \$905 thousand and charge-offs of \$86 thousand, partially offset by loans placed on nonaccrual status during the year ended December 31, 2021 of \$958 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 \$54 thousand would have been recorded during the year ended December 31, 2021, 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 5.8% and 9.5%, respectively, at December 31, 2021 and 2020. As of December 31, 2021, using regulatory definitions in the CRE Concentration Guidance, CRE loans represented 269.8% of total risk-based capital, as compared to 256.1%, 243.6%, 253.6% and 355.1% as of December 31, 2020, 2019, 2018 and 2017, respectively. The reduction in CRE concentration ratio in 2018 was primarily due to the additional capital from the Company's IPO during the year ended December 31, 2018.

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 allowance for loan losses, potentially implementing more conservative growth/lending strategies if necessary, maintaining liquidity within the CRE portfolio, and strengthening the loan workout infrastructure.

Troubled Debt Restructurings

Loans that the Bank modifies or restructures where the debtor is experiencing financial difficulties and makes a concession to the borrower in the form of changes in the amortization terms, reductions in the interest rates, the acceptance of interest only payments and, in limited cases, reductions in the outstanding loan balances are classified as TDRs. TDRs are loans modified for the purpose of alleviating temporary impairments to the borrower's financial condition. A workout plan between a borrower and the Bank is designed to provide a bridge for the cash flow shortfalls in the near term. If the borrower works through the near term issues, in most cases, the original contractual terms of the loan will be reinstated. The following table presents the composition of loans that were modified as TDRs by portfolio segment as of the dates indicated:

(\$ in thousands)	December 31,				
	2021	2020	2019	2018	2017
Real estate loans:					
Commercial property	\$ 326	\$ 333	\$ 339	\$ —	\$ 318
SBA property	259	275	415	315	1,373
Total real estate loans	585	608	754	315	1,691
Commercial and industrial loans:					
Commercial term	2	18	28	68	199
Commercial lines of credit	—	—	—	—	10
SBA commercial term	6	13	39	180	367
Total commercial and industrial loans	8	31	67	248	576
Total TDRs	\$ 593	\$ 639	\$ 821	\$ 563	\$ 2,267
Total nonaccrual TDRs, included above	\$ 17	\$ 5	\$ 121	\$ 131	\$ 1,675

Total TDRs were \$593 thousand at December 31, 2021, a decrease of \$46 thousand, or 7.2%, from \$639 thousand at December 31, 2020. The decrease was primarily due to payoffs and paydowns of \$39 thousand and charge-offs of \$6 thousand. There were no new TDRs for the year ended December 31, 2021.

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 allowance for loan losses.

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

(\$ in thousands)	December 31,				
	2021	2020	2019	2018	2017
Real estate loans:					
Residential property	\$ —	300	\$ 760	\$ —	\$ 270
SBA property	33,603	1,411	150	5,481	3,857
Commercial and industrial loans:					
SBA commercial term	3,423	268	1,065	300	1,170
Loans held-for-sale	\$ 37,026	1,979	\$ 1,975	\$ 5,781	\$ 5,297

Loans held-for-sale were \$37.0 million at December 31, 2021, an increase of \$35.0 million, or 1,770.9%, from \$2.0 million at December 31, 2020. The increase was primarily due to originations of \$172.2 million and transfers from loans held-for-investment of \$8.8 million, partially offset by sales of \$145.8 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 summary of the Company's deposit as of the dates indicated:

(\$ in thousands)	December 31,		Amount Change	Percentage Change
	2021	2020		
Noninterest-bearing demand deposits	\$ 830,383	\$ 538,009	\$ 292,374	54.3 %
Interest-bearing deposits:				
Savings	16,299	10,481	5,818	55.5 %
NOW	20,185	21,604	(1,419)	(6.6) %
Retail money market accounts	386,041	351,739	34,302	9.8 %
Brokered money market accounts	1	25,002	(25,001)	(100.0) %
Retail time deposits of:				
\$250,000 or less	256,956	299,431	(42,475)	(14.2) %
More than \$250,000	172,269	168,683	3,586	2.1 %
Time deposits from internet rate service providers	—	24,902	(24,902)	— %
Brokered time deposits	85,000	55,000	30,000	54.5 %
Time deposits from California State Treasurer	100,000	100,000	—	— %
Total interest-bearing deposits	1,036,751	1,056,842	(20,091)	(1.9) %
Total deposits	\$ 1,867,134	\$ 1,594,851	\$ 272,283	17.1 %
Total deposits not covered by deposit insurance	\$ 919,584	\$ 737,215	\$ 182,369	24.7 %
Time deposits not covered by deposit insurance	\$ 216,269	\$ 224,718	\$ (8,449)	(3.8) %

The increase in noninterest-bearing demand deposits was primarily due to the overall liquid deposit market. A total of \$93.9 million of SBA PPP loans were funded through the Bank's noninterest-bearing demand deposits and deposit customers also received \$201.1 million of SBA Economic Injury Disaster Loans and SBA Revitalization Funds during the year ended December 31, 2021.

The decrease in retail time deposits was primarily due to matured and closed accounts of \$583.2 million, partially offset by new accounts of \$101.6 million, renewals of the matured accounts of \$428.8 million, and balance increases of \$13.9 million.

As of December 31, 2021 and 2020, total deposits were comprised of 44.5% and 33.7%, respectively, of noninterest-bearing demand accounts, 22.6% and 25.7%, respectively, of savings, NOW and money market accounts and 32.9% and 40.6%, 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	One to Three Years	Total
December 31, 2021					
Time deposits of \$250,000 or less	\$ 143,594	\$ 60,686	\$ 129,627	\$ 8,049	\$ 341,956
Time deposits of more than \$250,000	156,502	57,301	55,304	3,162	272,269
Total	\$ 300,096	\$ 117,987	\$ 184,931	\$ 11,211	\$ 614,225
Not covered by deposit insurance	\$ 136,219	\$ 38,229	\$ 38,780	\$ 3,041	\$ 216,269
December 31, 2020					
Time deposits of \$250,000 or less	\$ 175,478	\$ 76,197	\$ 113,734	\$ 13,924	\$ 379,333
Time deposits of more than \$250,000	156,507	35,000	72,553	4,623	268,683
Total	\$ 331,985	\$ 111,197	\$ 186,287	\$ 18,547	\$ 648,016
Not covered by deposit insurance	\$ 145,247	\$ 23,338	\$ 51,820	\$ 4,313	\$ 224,718

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 \$256.3 million at December 31, 2021, an increase of \$22.5 million, or 9.6%, from \$233.8 million at December 31, 2020. The increase was primarily due to the net income of \$40.1 million and stock option exercised of \$1.3 million, partially offset by repurchase of common stock of \$10.9 million, cash dividends declared on common stock of \$6.7 million and other comprehensive loss from the fair value change in securities available-for-sale of \$1.8 million.

Stock Repurchase

On April 8, 2021, the Company's Board of Directors approved a repurchase program authorizing the repurchase of up to 5% of the Company's outstanding common stock as of the date of the board meeting, which represented 775,000 shares, through September 7, 2021. The Company repurchased and retired 680,269 shares of common stock at a weighted-average price of \$15.99 per share, totaling \$10.9 million under this repurchase program.

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 December 31, 2021 and 2020. 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 minimums.

	<u>PCB Bancorp</u>	<u>Pacific City Bank</u>	<u>Minimum Regulatory Requirements</u>	<u>Well Capitalized Requirements (Bank)</u>
December 31, 2021				
Common tier 1 capital (to risk-weighted assets)	14.79 %	14.48 %	4.5 %	6.5 %
Total capital (to risk-weighted assets)	16.04 %	15.73 %	8.0 %	10.0 %
Tier 1 capital (to risk-weighted assets)	14.79 %	14.48 %	6.0 %	8.0 %
Tier 1 capital (to average assets)	12.11 %	11.85 %	4.0 %	5.0 %
December 31, 2020				
Common tier 1 capital (to risk-weighted assets)	15.97 %	15.70 %	4.5 %	6.5 %
Total capital (to risk-weighted assets)	17.22 %	16.95 %	8.0 %	10.0 %
Tier 1 capital (to risk-weighted assets)	15.97 %	15.70 %	6.0 %	8.0 %
Tier 1 capital (to average assets)	11.94 %	11.74 %	4.0 %	5.0 %

The Company and the Bank's capital conservation buffer was 8.04% and 7.73%, respectively, as of December 31, 2021, and 9.22% and 8.95%, respectively, as of December 31, 2020.

Emergency Capital Investment Program

On December 14, 2021, the U.S. Treasury informed the Company that the U.S Treasury has reviewed the Company's application to receive a capital investment from the U.S Treasury under the Emergency Capital Investment Program ("ECIP"), and that the Company would be eligible to receive an ECIP investment in an amount up to \$69,141,000 in the form of non-dilutive Tier 1 senior perpetual preferred capital. The Company determined to accept the offer to receive the ECIP investment for the full amount.

In order to receive the ECIP investment from the U.S Treasury, the Company will be required to fulfill certain conditions established by the U.S Treasury and will be subject to certain restrictions following its acceptance of the investment. In addition, the final amount of the ECIP will be determined by the U.S. Treasury and it may differ from the eligible amount. The Company expects to close the investment in the second quarter of 2022, but the ultimate timing will be controlled by the U.S. Treasury.

Established by the Consolidated Appropriations Act, 2021, the ECIP was created to encourage low- and moderate-income community financial institutions and minority depository institutions such as the Bank to augment their efforts to support small businesses and consumers in their communities.

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 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 Company had \$10.0 million and \$80.0 million of outstanding FHLB advances at December 31, 2021 and 2020, respectively. Based on the values of loans pledged as collateral, the Company had \$516.2 million and \$425.3 million of additional borrowing capacity with FHLB as of December 31, 2021 and 2020, respectively. As of December 31, 2021 and 2020, the Company had \$65.0 million and \$65.0 million of available unused unsecured federal funds lines, respectively.

In addition, available unused secured borrowing capacity from Federal Reserve Discount Window at December 31, 2021 and 2020 was \$29.2 million and \$35.8 million, respectively. Federal Reserve Discount Window was collateralized by loans totaling \$36.6 million and \$44.1 million as of December 31, 2021 and 2020, respectively. The Company's borrowing capacity from the Federal Reserve Discount Window is limited by eligible collateral. The Company also maintains relationships in the capital markets with brokers and dealers to issue certificates of deposit. As of December 31, 2021 and 2020, total cash and cash equivalents represented 9.5% and 10.1% of total assets, respectively.

On June 30, 2020, the Company also transferred securities held-to-maturity of \$18.8 million to securities available-for-sale in order to secure additional liquidity on balance sheet. Since the beginning of the crisis, management has been able to maintain strong on-and off-balance sheet liquidity as a result of proactive liquidity management in response to the COVID-19 pandemic evidenced by the fact that as of December 31, 2021, the Company maintained \$203.3 million, or 9.5% of total assets, of cash and cash equivalents and \$610.4 million, or 28.4% of total assets, of available borrowing capacity.

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.

The Company's exposure to loan loss in the event of nonperformance on these financial commitments is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments as it does for loans reflected in the 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:

(\$ in thousands)	December 31,			
	2021		2020	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Unused lines of credit	\$ 8,261	\$ 160,739	\$ 6,623	\$ 150,247
Unfunded loan commitments	595	29,688	1,752	34,874
Standby letters of credit	3,078	1,431	2,971	1,814
Commercial letters of credit	91	524	—	—
Total	\$ 12,025	\$ 192,382	\$ 11,346	\$ 186,935

The Company's exposure to loan loss in the event of nonperformance on commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments as it does for the loans reflected in the consolidated financial statements. The Company maintained reserve for off-balance sheet items of \$214 thousand and \$238 thousand, respectively, at December 31, 2021 and 2020.

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, 2021					
Time deposits	\$ 603,014	\$ 10,850	\$ 361	\$ —	\$ 614,225
FHLB advances	10,000	—	—	—	10,000
Operating leases	2,706	3,023	1,235	710	7,674
Total	\$ 615,720	\$ 13,873	\$ 1,596	\$ 710	\$ 631,899
December 31, 2020					
Time deposits	\$ 629,469	\$ 17,019	\$ 1,528	\$ —	\$ 648,016
FHLB advances	70,000	10,000	—	—	80,000
Operating leases	2,494	4,342	1,413	818	9,067
Total	\$ 701,963	\$ 31,361	\$ 2,941	\$ 818	\$ 737,083

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 London Interbank Offered Rate ("LIBOR") (basis risk).

The Company's Board ALCO establishes broad policy limits with respect to interest rate risk. 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. Board ALCO meets quarterly to monitor the level of interest rate risk sensitivity to ensure compliance with the Board of Directors' approved risk limits. As discussed earlier, the Company also has a Management ALCO, which is comprised of senior management team and 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 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. 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 is a period end measurement.

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:

Simulated Rate Changes	December 31,			
	2021		2020	
	Net Interest Income Sensitivity	Economic Value of Equity Sensitivity	Net Interest Income Sensitivity	Economic Value of Equity Sensitivity
+300	26.2 %	14.0 %	28.9 %	17.4 %
+200	17.5 %	10.6 %	19.4 %	13.3 %
+100	8.7 %	6.2 %	9.8 %	7.6 %

Item 8. Financial Statements

PCB Bancorp and Subsidiary
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Report of Independent Registered Public Accounting Firm

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

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of PCB Bancorp and Subsidiary (the “Company”) as of December 31, 2021 and 2020, the related consolidated statements of income, comprehensive income, changes in shareholders’ equity, and cash flows for each of the three years in the period ended December 31, 2021, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Crowe LLP

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

Los Angeles, California
March 4, 2022

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

	December 31,	
	2021	2020
Assets		
Cash and due from banks	\$ 15,222	\$ 19,605
Interest-bearing deposits in other financial institutions	188,063	174,493
Total cash and cash equivalents	203,285	194,098
Securities available-for-sale, at fair value	123,198	120,527
Loans held-for-sale	37,026	1,979
Loans held-for-investment, net of deferred loan costs (fees)	1,732,205	1,583,578
Allowance for loan losses	(22,381)	(26,510)
Net loans held-for-investment	1,709,824	1,557,068
Premises and equipment, net	3,098	4,048
Federal Home Loan Bank and other restricted stock, at cost	8,577	8,447
Other real estate owned, net	—	1,401
Bank-owned life insurance	29,358	—
Deferred tax assets, net	10,824	8,120
Servicing assets	7,269	6,400
Operating lease assets	6,786	7,616
Accrued interest receivable	5,368	9,334
Other assets	5,122	3,815
Total assets	\$ 2,149,735	\$ 1,922,853
Liabilities and Shareholders' Equity		
Deposits:		
Noninterest-bearing demand	\$ 830,383	\$ 538,009
Savings, NOW and money market accounts	422,526	408,826
Time deposits of \$250,000 or less	341,956	379,333
Time deposits of more than \$250,000	272,269	268,683
Total deposits	1,867,134	1,594,851
Federal Home Loan Bank advances	10,000	80,000
Operating lease liabilities	7,444	8,455
Accrued interest payable and other liabilities	8,871	5,759
Total liabilities	1,893,449	1,689,065
Commitments and contingent liabilities		
Preferred stock, 10,000,000 shares authorized, no par value, no issued and outstanding shares	—	—
Common stock, 60,000,000 shares authorized, no par value; issued and outstanding 14,865,825 and 15,385,878 shares, respectively, and included 55,284 and 30,300 shares of unvested restricted stock, respectively, at December 31, 2021 and 2020	154,992	164,140
Retained earnings	101,140	67,692
Accumulated other comprehensive income, net	154	1,956
Total shareholders' equity	256,286	233,788
Total liabilities and shareholders' equity	\$ 2,149,735	\$ 1,922,853

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,		
	2021	2020	2019
Interest and dividend income:			
Loans, including fees	\$ 79,155	\$ 76,546	\$ 85,667
Tax-exempt investment securities	146	150	154
Taxable investment securities	1,467	1,977	3,802
Other interest-earning assets	704	1,088	3,322
Total interest income	81,472	79,761	92,945
Interest expense:			
Deposits	4,043	12,958	23,439
Other borrowings	292	614	472
Total interest expense	4,335	13,572	23,911
Net interest income	77,137	66,189	69,034
Provision (reversal) for loan losses	(4,596)	13,219	4,237
Net interest income after provision (reversal) for loan losses	81,733	52,970	64,797
Noninterest income:			
Service charges and fees on deposits	1,195	1,256	1,544
Loan servicing income	2,770	2,710	2,309
Bank-owned life insurance income	108	—	—
Gain on sale of loans	12,932	6,527	5,996
Gain on sale of securities available-for-sale	—	—	786
Other income	1,429	1,247	1,234
Total noninterest income	18,434	11,740	11,869
Noninterest expense:			
Salaries and employee benefits	27,974	26,147	26,139
Occupancy and equipment	5,575	5,620	5,545
Professional fees	2,159	2,256	2,730
Marketing and business promotion	1,656	1,360	1,550
Data processing	1,572	1,472	1,365
Director fees and expenses	594	599	751
Regulatory assessments	537	978	551
Other expenses	3,141	3,267	3,684
Total noninterest expense	43,208	41,699	42,315
Income before income taxes	56,959	23,011	34,351
Income tax expense	16,856	6,836	10,243
Net income	\$ 40,103	\$ 16,175	\$ 24,108
Earnings per common share, basic	\$ 2.66	\$ 1.05	\$ 1.52
Earnings per common share, diluted	\$ 2.62	\$ 1.04	\$ 1.49
Weighted-average common shares outstanding, basic	15,017,637	15,384,231	15,873,383
Weighted-average common shares outstanding, diluted	15,253,820	15,448,892	16,172,282

See Accompanying Notes to Consolidated Financial Statements

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

	Year Ended December 31,		
	2021	2020	2019
Net income	\$ 40,103	\$ 16,175	\$ 24,108
Other comprehensive income (loss):			
Unrealized gain (loss) on securities available-for-sale arising during the year	(2,553)	2,064	3,038
Reclassification adjustment for net gain included in net income	—	—	(786)
Unrealized gain arising from the reclassification of securities held-to-maturity to securities available-for-sale	—	787	—
Income tax benefit (expense) related to items of other comprehensive income (loss)	751	(838)	(662)
Total other comprehensive income (loss), net of tax	<u>(1,802)</u>	<u>2,013</u>	<u>1,590</u>
Total comprehensive income	\$ 38,301	\$ 18,188	\$ 25,698

See Accompanying Notes to Consolidated Financial Statements

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

	Shareholders' Equity				
	Common Stock Outstanding Shares	Common stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2019	15,977,754	\$ 174,366	\$ 37,577	\$ (1,647)	\$ 210,296
Cumulative effect adjustment upon adoption of new lease accounting standard	—	—	(53)	—	(53)
Adjusted balance at January 1, 2019	15,977,754	174,366	37,524	(1,647)	210,243
Comprehensive income					
Net income	—	—	24,108	—	24,108
Other comprehensive income, net of tax	—	—	—	1,590	1,590
Issuance of restricted stock	37,700	—	—	—	—
Repurchase of common stock	(396,715)	(6,480)	—	—	(6,480)
Share-based compensation expense	—	709	—	—	709
Stock options exercised	88,277	626	—	—	626
Cash dividends declared on common stock (\$0.25 per share)	—	—	(3,962)	—	(3,962)
Balance at December 31, 2019	15,707,016	169,221	57,670	(57)	226,834
Comprehensive income					
Net income	—	—	16,175	—	16,175
Other comprehensive income, net of tax	—	—	—	2,013	2,013
Issuance of restricted stock	1,900	—	—	—	—
Restricted stock surrendered due to employee tax liability	(165)	(2)	—	—	(2)
Repurchase of common stock	(428,474)	(6,487)	—	—	(6,487)
Share-based compensation expense	—	715	—	—	715
Stock options exercised	105,601	693	—	—	693
Cash dividends declared on common stock (\$0.40 per share)	—	—	(6,153)	—	(6,153)
Balance at December 31, 2020	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

See Accompanying Notes to Consolidated Financial Statements

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

	Year Ended December 31,		
	2021	2020	2019
Cash flows from operating activities			
Net income	\$ 40,103	\$ 16,175	\$ 24,108
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation of premises and equipment	1,375	1,487	1,534
Net amortization of premiums on securities	1,004	938	883
Net accretion of discounts on loans	(3,504)	(3,292)	(4,022)
Net accretion of deferred loan fees	(6,096)	(2,901)	(452)
Amortization of servicing assets	2,009	1,948	2,382
Provision (reversal) for loan losses	(4,596)	13,219	4,237
Bank-owned life insurance income	(108)	—	—
Deferred tax benefit	(1,953)	(3,670)	(2,573)
Share-based compensation	453	715	709
Gain on sale of securities available-for-sale	—	—	(786)
Gain on sale of loans	(12,932)	(6,527)	(5,996)
Originations of loans held-for-sale	(172,211)	(141,215)	(105,153)
Proceeds from sales of and principal collected on loans held-for-sale	150,236	149,388	116,544
Change in accrued interest receivable and other assets	2,660	(2,338)	801
Change in accrued interest payable and other liabilities	1,943	(6,834)	(2,096)
Net cash provided by (used in) operating activities	(1,617)	17,093	30,120
Cash flows from investing activities:			
Purchase of securities available-for-sale	(47,306)	(39,385)	(11,961)
Proceeds from sale of securities available-for-sale	—	—	33,627
Proceeds from maturities, calls, and paydowns of securities available-for-sale	41,078	37,182	30,134
Purchase of securities held-to-maturity	—	—	(2,150)
Proceeds from maturities, calls, and paydowns of securities held-to-maturity	—	1,309	3,600
Proceeds from sale of loans held-for-sale previously classified as held-for-investment	8,757	664	826
Net increase in loans held-for-investment	(149,237)	(134,626)	(113,139)
Purchase of loans held-for-investment	(2,139)	—	(1,539)
Purchase of Federal Home Loan Bank and other restricted stock	(130)	(102)	(912)
Proceeds from sale of other real estate owned	3,434	3,924	321
Purchases of premises and equipment	(430)	(1,784)	(710)
Purchase of bank-owned life insurance	(29,250)	—	—
Net cash used in investing activities	(175,223)	(132,818)	(61,903)
Cash flows from financing activities:			
Net increase in deposits	272,283	115,544	35,554
Proceeds from long-term Federal Home Loan Bank advances	—	140,000	—
Repayment of long-term Federal Home Loan Bank advances	(70,000)	(80,000)	(10,000)
Stock options exercised	1,279	693	626
Restricted stock surrendered due to employee tax liability	(4)	(2)	—
Repurchase of common stock	(10,876)	(6,487)	(6,480)
Cash dividends paid on common stock	(6,655)	(6,153)	(3,962)
Net cash provided by financing activities	186,027	163,595	15,738
Net increase (decrease) in cash and cash equivalents	9,187	47,870	(16,045)
Cash and cash equivalents at beginning of year	194,098	146,228	162,273
Cash and cash equivalents at end of year	\$ 203,285	\$ 194,098	\$ 146,228

See Accompanying Notes to Consolidated Financial Statements

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

	Year Ended December 31,		
	2021	2020	2019
Supplemental disclosures of cash flow information:			
Interest paid	\$ 5,790	\$ 17,350	\$ 24,130
Income taxes paid	14,982	10,051	13,379
Supplemental disclosures of non-cash investment activities:			
Loans transferred to loans held-for-sale	\$ 8,752	\$ 1,355	\$ 824
Loans transferred to other real estate owned	905	3,079	50
Right-of-use assets obtained in exchange for lease obligations	1,459	950	1,616
Reclassification of securities held-to-maturity to securities available-for-sale	—	18,777	—

See Accompanying Notes to Consolidated Financial Statements

PCB Bancorp and Subsidiary
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 Pacific City Bank. On July 1, 2019, the Company changed its corporate name to “PCB Bancorp” from “Pacific City Financial Corporation.” The Bank is a single operating segment that operates 11 full-service branches in Los Angeles and Orange counties, California, one full-service branch in each of Englewood Cliffs, New Jersey and Bayside, New York, and 10 LPOs in Irvine, Artesia and Los Angeles, California; Annandale, Virginia; Atlanta, Georgia; Chicago, Illinois; Bellevue, Washington; Aurora, Colorado; Carrollton, Texas; and New York, New York. 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, 2021 and 2020 and for the years ended December 31, 2021, 2020 and 2019. 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 policies 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.

In response to the COVID-19 pandemic, on March 26, 2020, the Federal Reserve reduced reserve requirement ratios to 0%, eliminating the reserve requirement for all depository institutions, an action that provides liquidity in the banking system to support lending to households and businesses. There was no reserve and clearing requirement balance at December 31, 2021 and 2020.

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.

On June 30, 2020, the Company transferred securities held-to-maturity to securities available-for-sale as a part of the Company’s liquidity management plan in response to the COVID-19 pandemic. Management determined that its securities held-to-maturity no longer adhere to the Company’s current liquidity management plan and could be sold to potentially improve its liquidity position. Accordingly, the Company was no longer able to assert that it had the intent to hold these securities until maturity and the Company’s ability to assert that it has the intent and ability to hold to maturity debt securities will be limited for up to two years from the date of transfer. The Company transferred all securities held-to-maturity of \$18.8 million to securities available-for-sale, which resulted in a pre-tax increase to accumulated other comprehensive income of \$787 thousand.

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.

Management evaluates securities for OTTI at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings.

For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: OTTI related to credit loss, which is recognized as a charge against earnings, and OTTI related to other factors, which is recognized in other comprehensive income, net of tax. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

Loans Held-For-Sale

The Company originates SBA loans, and certain residential property and commercial property loans with the intention for sale in the secondary market. The Company records the guaranteed portion of SBA loans and these residential property and commercial property 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 allowance for loan losses 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 property 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: real estate (commercial property, residential property, SBA property and construction), commercial and industrial (commercial term, commercial lines of credit, and SBA commercial term), and other consumer loans.

Risks associated with the Company's real estate loans include a decline in the economy and a reduction in real estate values in the Company's primary markets, an increase in market interest rates, increased competition in pricing and loan structure, and environmental risks. Risks associated with the Company's commercial and industrial loans include a decline in the economy in the primary markets, an increase in market interest rates, and deterioration of a borrower's or guarantor's financial capabilities. Risk associated with the Company's other consumer loans include the same risks associated with the commercial and industrial loans, but also includes risks related to consumer bankruptcy laws which allow consumers to discharge certain debts.

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 property 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.

Loan Modifications Related to the COVID-19 Pandemic: As a part of the CARES Act, the temporal relief from TDRs provided an option for financial institutions to suspend the GAAP requirements and regulatory determinations for loan modifications related to the COVID-19 pandemic that would otherwise be categorized as a TDR from March 1, 2020, through the earlier of 60 days after the date of the COVID-19 National Emergency comes to an end or December 31, 2020.

On April 7, 2020, the federal banking regulators also issued the Interagency Statement to encourage banks to work prudently with borrowers and describe the banking regulators' interpretation of how accounting rules for TDR apply to certain modifications related to the COVID-19 pandemic.

On December 27, 2020, the Economic Aid Act was signed into law, which extended the applicable period of the temporary relief from TDRs under the CARES Act to the earlier of 60 days after the date of the COVID-19 National Emergency comes to an end or January 1, 2022.

As of December 31, 2021 and 2020, total loans under modified terms related to the COVID-19 pandemic, including payment deferrals and interest only payments, were none and \$36.1 million, respectively. All of these loans under modified terms related to the COVID-19 pandemic were accounted for under section 4013 of the CARES Act and not considered TDRs. All types of modifications have initial modification terms of 6-months or less and loans that were granted modifications related to the COVID-19 pandemic in excess of 6 months, on a cumulative basis, were classified as special mention or substandard. In addition, all loans under modified terms related to the COVID-19 pandemic were current and accrual status as of December 31, 2020; however, all of these loans were monitored on an ongoing basis in accordance with each loan's covenants and conditions for potential downgrade or change in accrual status.

Small Business Administration Paycheck Protection Program: U.S. SBA launched the PPP to provide a direct incentive for small businesses to keep their workers on the payroll in response to the COVID-19 pandemic. The SBA guarantees 100% of the PPP loans made to eligible borrowers, and the loans are eligible to be forgiven if certain conditions are met, at which point the SBA will make payments to the Bank for the forgiven amounts. These loans are included in the C&I portfolio and have an interest rate of 1%. The substantial majority of the PPP loans funded during the year ended December 31, 2020 in the Company's portfolio have a maturity of two years. On January 13, 2021, the SBA began accepting applications for second draw PPP loans. SBA PPP loans funded during the year ended December 31, 2021 have a maturity of five years.

As of December 31, 2021 and 2020, the Company had 354 and 1,585 SBA PPP loans totaling \$65.3 million and \$135.7 million, net of unamortized deferred fees and costs, respectively. As of December 31, 2021, the Company recognized \$181.8 million in forgiveness. The Company amortizes these deferred fees and costs without prepayment assumption using the contractual lives of SBA PPP loans.

The SBA guarantee on PPP loans cannot be separated from the loan and therefore is not a separate unit of account. The Company considered the SBA guarantee in the allowance for loan losses evaluation and determined that it is not required to reserve an allowance on SBA PPP loans at December 31, 2021 and 2020.

Allowance for Loan Losses

Allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the loan is uncollectible. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required 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. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off.

Amounts are charged-off when available information confirms that specific loans or portions thereof, are uncollectible. 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.

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

The Company utilizes 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 include 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 relate to loans that are individually classified as impaired. A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Factors considered in determining impairment include payment status, collateral value, and the probability of collecting all amounts when due. Measurement of impairment is based on the expected future cash flows of an impaired loan, which are 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 selects the measurement method on a loan-by-loan basis, with the exception of collateral-dependent loans for which the most viable source of repayment is the continued operation of the collateral or liquidation of the collateral. The impairment for these loans are measured at the fair value of the collateral, less estimated selling cost. If a loan is impaired, the loan is reported, net of the allocated allowance, at the present value of estimated future cash flows using the loan's effective interest rate or at the fair value of collateral if repayment is expected solely from the collateral.

Interest payments received on impaired loans are first applied to principal, then recognized as income based on existing methods to recognize income on nonaccrual loans. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered TDRs and classified as impaired with measurement of impairment as described above.

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 allowance for loan losses. 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 property 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 \$1.6 million and \$1.9 million, respectively, and unfunded commitments were \$51 thousand and \$57 thousand, respectively, at December 31, 2021 and 2020. 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 amortizations of \$247 thousand, \$240 thousand and \$261 thousand, respectively, and federal tax credits and other benefits of \$299 thousand, \$300 thousand and \$304 thousand, respectively, for the years ended December 31, 2021, 2020 and 2019. 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 at December 31, 2021 and 2020.

Bank-owned Life Insurance

The Company purchased life insurance policies on certain officers and directors during the year ended December 31, 2021. 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.

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, 2021, there were no significant accounting pronouncements applicable to the Company that became effective.

Recent Accounting Pronouncements Not Yet Adopted

The following are recently issued accounting pronouncements applicable to the Company that have not yet been adopted:

In June 2016, the FASB issued 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 is 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 delays the effective date to 2023 for certain SEC filers that are Smaller Reporting Companies, which would apply to the Company. The Company plans to adopt this ASU at the delayed effective date of January 1, 2023.

The Company has formed a committee, developed an implementation plan, and engaged a software vendor to assist the Company to build a model. The Company is in the process of completing a readiness assessment and is engaged in the implementation phase of the project. The Company is working on: (i) developing a new expected loss model with supportable assumptions; (ii) identifying data, reporting, and disclosure gaps; (iii) assessing updates to accounting and credit risk policies; and (iv) documenting new processes and controls. Based on the Company's initial assessment of this ASU, the Company expects to recognize a one-time cumulative effect adjustment to the allowance for loan losses which could potentially have a material impact on its consolidated financial statements as of the beginning of the first reporting period in which this ASU is effective.

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, impaired 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 property 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.

Impaired loans: The Company records fair value adjustments on certain loans that reflect (i) partial write-downs, through charge-offs or specific 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 impaired 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 dates indicated:

(\$ in thousands)	Fair Value Measurement Level			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
December 31, 2021				
Securities available-for-sale:				
U.S. government agency and U.S. government sponsored enterprise securities:				
Mortgage-backed securities	\$ —	\$ 84,713	\$ —	\$ 84,713
Collateralized mortgage obligations	—	19,056	—	19,056
SBA loan pool securities	—	8,672	—	8,672
Municipal bonds	—	5,686	—	5,686
Corporate bonds	—	5,071	—	5,071
Total securities available-for-sale	—	123,198	—	123,198
Total assets measured at fair value on a recurring basis	\$ —	\$ 123,198	\$ —	\$ 123,198
Total liabilities measured at fair value on a recurring basis	\$ —	\$ —	\$ —	\$ —
December 31, 2020				
Securities available-for-sale:				
U.S. government agency and U.S. government sponsored enterprise securities:				
Mortgage-backed securities	\$ —	\$ 76,154	\$ —	\$ 76,154
Collateralized mortgage obligations	—	26,467	—	26,467
SBA loan pool securities	—	12,080	—	12,080
Municipal bonds	—	5,826	—	5,826
Total securities available-for-sale	—	120,527	—	120,527
Total assets measured at fair value on a recurring basis	\$ —	\$ 120,527	\$ —	\$ 120,527
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 dates indicated:

(\$ in thousands)	Fair Value Measurement Level			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
December 31, 2021				
Impaired loans:				
SBA property	\$ —	\$ —	\$ 17	\$ 17
Total impaired loans	—	—	17	17
Total assets measured at fair value on a non-recurring basis	\$ —	\$ —	\$ 17	\$ 17
Total liabilities measured at fair value on a non-recurring basis	\$ —	\$ —	\$ —	\$ —
December 31, 2020				
Impaired loans:				
SBA property	\$ —	\$ —	\$ 218	\$ 218
Commercial lines of credit	—	—	904	904
SBA commercial term	—	—	255	255
Total impaired loans	—	—	1,377	1,377
Total assets measured at fair value on a non-recurring basis	\$ —	\$ —	\$ 1,377	\$ 1,377
Total liabilities measured at fair value on a non-recurring basis	\$ —	\$ —	\$ —	\$ —

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, 2021				
Impaired loans:				
SBA property	\$ 17	Fair value of collateral	NM	NM
December 31, 2020				
Impaired loans:				
SBA property	\$ 218	Fair value of collateral	NM	NM
Commercial lines of credit	\$ 904	Sales comparison approach	Adjustment for differences between the comparable estate sales	5% to 9% (7.6%)
SBA commercial term	\$ 255	Fair value of collateral	NM	NM

For assets measured at fair value, the following table presents the total net losses, which include charge-offs, recoveries, specific 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,		
	2021	2020	2019
Collateral dependent impaired loans:			
SBA property	\$ (8)	\$ (138)	\$ (31)
Commercial lines of credit	136	(720)	(2,475)
SBA commercial property	(5)	(221)	—
Other real estate owned	73	9	(18)
Net gain (losses) recognized	\$ 196	\$ (1,070)	\$ (2,524)

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, 2021					
Financial assets:					
Interest-bearing deposits in other financial institutions	\$ 188,063	\$ 188,063	\$ 188,063	\$ —	\$ —
Securities available-for-sale	123,198	123,198	—	123,198	—
Loans held-for-sale	37,026	41,079	—	41,079	—
Net loans held-for-investment	1,709,824	1,725,022	—	—	1,725,022
FHLB and other restricted stock	8,577	N/A	N/A	N/A	N/A
Accrued interest receivable	5,368	5,368	1	337	5,030
Financial liabilities:					
Deposits	\$ 1,867,134	\$ 1,867,635	\$ —	\$ —	\$ 1,867,635
FHLB advances	10,000	10,087	—	10,087	—
Accrued interest payable	771	771	—	1	770
December 31, 2020					
Financial assets:					
Interest-bearing deposits in other financial institutions	\$ 174,493	\$ 174,493	\$ 174,493	\$ —	\$ —
Securities available-for-sale	120,527	120,527	—	120,527	—
Loans held-for-sale	1,979	2,112	—	2,112	—
Net loans held-for-investment	1,557,068	1,574,063	—	—	1,574,063
FHLB and other restricted stock	8,447	N/A	N/A	N/A	N/A
Accrued interest receivable	9,334	9,334	1	322	9,011
Financial liabilities:					
Deposits	\$ 1,594,851	\$ 1,594,112	\$ —	\$ —	\$ 1,594,112
FHLB advances	80,000	80,321	—	80,321	—
Accrued interest payable	2,226	2,226	—	2	2,224

Note 3. Investment Securities

Debt securities have been classified as available-for-sale or held-to-maturity in the consolidated balance sheets according to management's intent. On June 30, 2020, the Company transferred securities held-to-maturity to securities available-for-sale as a part of the Company's liquidity management plan in response to the COVID-19 pandemic. Management determined that its securities held-to-maturity no longer adhere to the Company's current liquidity management plan and could be sold to potentially improve its liquidity position. Accordingly, the Company was no longer able to assert that it had the intent to hold these securities until maturity and the Company's ability to assert that it has the intent and ability to hold to maturity debt securities will be limited for up to two years from the date of transfer. The Company transferred all securities held-to-maturity of \$18.8 million to securities available-for-sale, which resulted in a pre-tax increase to accumulated other comprehensive income of \$787 thousand.

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, 2021				
Securities available-for-sale:				
U.S. government agency and U.S. government sponsored enterprise securities:				
Mortgage-backed securities	\$ 85,346	\$ 625	\$ (1,258)	\$ 84,713
Collateralized mortgage obligations	18,990	113	(47)	19,056
SBA loan pool securities	8,520	156	(4)	8,672
Municipal bonds	5,329	357	—	5,686
Corporate bonds	5,000	71	—	5,071
Total securities available-for-sale	\$ 123,185	\$ 1,322	\$ (1,309)	\$ 123,198
December 31, 2020				
Securities available-for-sale:				
U.S. government agency and U.S. government sponsored enterprise securities:				
Mortgage-backed securities	\$ 74,622	\$ 1,558	\$ (26)	\$ 76,154
Collateralized mortgage obligations	26,216	294	(43)	26,467
SBA loan pool securities	11,753	349	(22)	12,080
Municipal bonds	5,370	456	—	5,826
Total securities available-for-sale	\$ 117,961	\$ 2,657	\$ (91)	\$ 120,527

As of December 31, 2021 and 2020, pledged securities were \$110.9 million and \$117.8 million, respectively. These securities were pledged for the State Deposit from the California State Treasurer.

The following table presents the amortized cost and fair value of the investment securities by contractual maturity as of December 31, 2021. 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.

(\$ in thousands)	Securities Available-For-Sale	
	Amortized Cost	Fair Value
Within one year	\$ 305	\$ 307
One to five years	1,851	1,901
Five to ten years	5,830	5,917
Greater than ten years	2,343	2,632
Mortgage-backed securities, collateralized mortgage obligations and SBA loan pool securities	112,856	112,441
Total	\$ 123,185	\$ 123,198

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:

(\$ in thousands)	Year Ended December 31,		
	2021	2020	2019
Gross realized gains on sales and calls of securities available-for-sale	\$ —	\$ —	\$ 786
Gross realized losses on sales and calls of securities available-for-sale	—	—	—
Net realized gains on sales and calls of securities available-for-sale	\$ —	\$ —	\$ 786
Proceeds from sales and calls of securities available-for-sale	\$ —	\$ 185	\$ 33,627
Tax expense on sales and calls of securities available-for-sale	\$ —	\$ —	\$ 234

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:

(\$ in thousands)	Length of Time That Individual Securities Have Been In a Continuous Unrealized Loss Position								
	Less Than 12 Months			12 Months or Longer			Total		
	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, 2021									
Securities available-for-sale:									
U.S. government agency and U.S. government sponsored enterprise securities:									
Mortgage-backed securities	\$ 46,945	\$ (931)	32	\$ 8,885	\$ (327)	5	\$ 55,830	\$ (1,258)	37
Collateralized mortgage obligations	2,897	(47)	4	—	—	—	2,897	(47)	4
SBA loan pool securities	—	—	—	156	(4)	1	156	(4)	1
Total securities available-for-sale	\$ 49,842	\$ (978)	36	\$ 9,041	\$ (331)	6	\$ 58,883	\$ (1,309)	42
December 31, 2020									
Securities available-for-sale:									
U.S. government agency and U.S. government sponsored enterprise securities:									
Mortgage-backed securities	\$ 5,773	\$ (26)	4	\$ —	\$ —	—	\$ 5,773	\$ (26)	4
Collateralized mortgage obligations	2,424	(4)	3	5,127	(39)	6	7,551	(43)	9
SBA loan pool securities	1,677	(4)	2	1,869	(18)	4	3,546	(22)	6
Total securities available-for-sale	\$ 9,874	\$ (34)	9	\$ 6,996	\$ (57)	10	\$ 16,870	\$ (91)	19

In accordance with FASB ASC 320, *Investments - Debt and Equity Securities*, the Company performs an OTTI assessment at least on a quarterly basis. OTTI is recognized when fair value is below the amortized cost where: (i) an entity has the intent to sell the security; (ii) it is more likely than not that an entity will be required to sell the security before recovery of its amortized cost basis; or (iii) an entity does not expect to recover the entire amortized cost basis of the security.

All individual securities in a continuous unrealized loss position for 12 months or more as of December 31, 2021 and 2020 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, 2021 and 2020. 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 determined that the investment securities with unrealized losses for twelve months or more are not other-than-temporary impaired, and, therefore, no impairment was recognized during the years ended December 31, 2021, 2020 and 2019.

Note 4. Loans and Allowance for Loan Losses

Loans Held-For-Investment

The following table presents, by recorded investment, the composition of the Company's loans held-for-investment (net of deferred fees and costs) as of the dates indicated:

(\$ in thousands)	December 31,	
	2021	2020
Real estate loans:		
Commercial property	\$ 1,105,843	\$ 880,736
Residential property	209,485	198,431
SBA property	129,661	126,570
Construction	8,252	15,199
Total real estate loans	1,453,241	1,220,936
Commercial and industrial loans:		
Commercial term	73,438	87,250
Commercial lines of credit	100,936	96,087
SBA commercial term	17,640	21,878
SBA PPP	65,329	135,654
Total commercial and industrial loans	257,343	340,869
Other consumer loans	21,621	21,773
Loans held-for-investment	1,732,205	1,583,578
Allowance for loan losses	(22,381)	(26,510)
Net loans held-for-investment	\$ 1,709,824	\$ 1,557,068

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, 2021 and 2020, the Company had \$398 thousand and \$3.9 million, respectively, of such loans outstanding.

Allowance for Loan Losses

The following table presents the activities in allowance for loan losses by portfolio segment, which is consistent with the Company's methodology for determining allowance for loan losses, for the periods indicated:

(\$ in thousands)	Real Estate	Commercial and Industrial	Consumer	Total
Balance at January 1, 2019	\$ 9,104	\$ 3,877	\$ 186	\$ 13,167
Charge-offs	(31)	(3,350)	(198)	(3,579)
Recoveries on loans previously charged off	6	378	171	555
Provision for loan losses	775	3,449	13	4,237
Balance at December 31, 2019	9,854	4,354	172	14,380
Charge-offs	(175)	(1,104)	(250)	(1,529)
Recoveries on loans previously charged off	58	236	146	440
Provision for loan losses	9,157	3,736	326	13,219
Balance at December 31, 2020	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

The following tables present the information on allowance for loan losses and recorded investments by portfolio segment and impairment methodology as of the dates indicated:

(\$ in thousands)	Real Estate	Commercial and Industrial	Consumer	Total
December 31, 2021				
Allowance for loan losses:				
Individually evaluated for impairment	\$ —	\$ —	\$ —	\$ —
Collectively evaluated for impairment	16,797	5,310	274	22,381
Total	\$ 16,797	\$ 5,310	\$ 274	\$ 22,381
Loans receivable:				
Individually evaluated for impairment	\$ 1,314	\$ 221	\$ —	\$ 1,535
Collectively evaluated for impairment	1,451,927	257,122	21,621	1,730,670
Total	\$ 1,453,241	\$ 257,343	\$ 21,621	\$ 1,732,205
December 31, 2020				
Allowance for loan losses:				
Individually evaluated for impairment	\$ 3	\$ 2	\$ —	\$ 5
Collectively evaluated for impairment	18,891	7,220	394	26,505
Total	\$ 18,894	\$ 7,222	\$ 394	\$ 26,510
Loans receivable:				
Individually evaluated for impairment	\$ 2,200	\$ 1,531	\$ —	\$ 3,731
Collectively evaluated for impairment	1,218,736	339,338	21,773	1,579,847
Total	\$ 1,220,936	\$ 340,869	\$ 21,773	\$ 1,583,578

Credit Quality Indicators

The following table presents the risk categories for the recorded investment in loans by portfolio segment as of dates indicated:

(\$ in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
December 31, 2021					
Real estate loans:					
Commercial property	\$ 1,092,253	\$ 11,739	\$ 1,851	\$ —	\$ 1,105,843
Residential property	209,485	—	—	—	209,485
SBA property	127,518	251	1,892	—	129,661
Construction	8,252	—	—	—	8,252
Commercial and industrial loans:					
Commercial term	68,626	3,698	1,114	—	73,438
Commercial lines of credit	98,785	2,151	—	—	100,936
SBA commercial term	17,111	253	276	—	17,640
SBA PPP	65,329	—	—	—	65,329
Other consumer loans	21,586	—	35	—	21,621
Total	\$ 1,708,945	\$ 18,092	\$ 5,168	\$ —	\$ 1,732,205
December 31, 2020					
Real estate loans:					
Commercial property	\$ 866,508	\$ 10,268	\$ 3,960	\$ —	\$ 880,736
Residential property	198,242	—	189	—	198,431
SBA property	123,147	251	3,172	—	126,570
Construction	15,199	—	—	—	15,199
Commercial and industrial loans:					
Commercial term	81,724	4,362	1,164	—	87,250
Commercial lines of credit	93,884	1,299	904	—	96,087
SBA commercial term	20,922	281	675	—	21,878
SBA PPP	135,654	—	—	—	135,654
Other consumer loans	21,707	—	66	—	21,773
Total	\$ 1,556,987	\$ 16,461	\$ 10,130	\$ —	\$ 1,583,578

Substandard SBA property loans included \$109 thousand and \$113 thousand of guaranteed portion by the U.S. government agency at December 31, 2021 and 2020, respectively.

The Company had no loans under modified terms related to the COVID-19 pandemic as of December 31, 2021. The following table presents the risk categories for the recorded investment in loans under modified terms related to the COVID-19 pandemic by portfolio segment as of December 31, 2020:

(\$ in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
December 31, 2020					
Real estate loans:					
Commercial property	\$ 13,158	\$ 10,268	\$ 706	\$ —	\$ 24,132
Residential property	425	—	—	—	425
SBA property	3,941	251	—	—	4,192
Commercial and industrial loans:					
Commercial term	—	4,362	1,165	—	5,527
SBA commercial term	1,769	—	72	—	1,841
Total	\$ 19,293	\$ 14,881	\$ 1,943	\$ —	\$ 36,117

Loans that were granted modifications related to the COVID-19 pandemic in excess of 6 months, on a cumulative basis, were classified as special mention or substandard.

Past Due and Nonaccrual Loans

The following table presents the aging of past due recorded investment in accruing loans and nonaccrual loans by portfolio segment as of dates indicated:

(\$ in thousands)	Still Accruing			Nonaccrual	Total Past Due and Nonaccrual
	30 to 59 Days Past Due	60 to 89 Days Past Due	90 or More Days Past Due		
December 31, 2021					
Real estate loans:					
Residential property	\$ 461	\$ —	\$ —	\$ —	\$ 461
SBA property	—	—	—	746	746
Commercial and industrial loans:					
SBA commercial term	—	—	—	213	213
Other consumer loans	88	5	—	35	128
Total	\$ 549	\$ 5	\$ —	\$ 994	\$ 1,548
December 31, 2020					
Real estate loans:					
Commercial property	\$ —	\$ —	\$ —	\$ 524	\$ 524
Residential property	182	—	—	189	371
SBA property	—	—	—	885	885
Commercial and industrial loans:					
Commercial lines of credit	—	—	—	904	904
SBA commercial term	—	—	—	595	595
Other consumer loans	120	36	—	66	222
Total	\$ 302	\$ 36	\$ —	\$ 3,163	\$ 3,501

There were no nonaccrual loans guaranteed by the U.S. government agency at December 31, 2021 and 2020.

All loans under modified terms related to the COVID-19 pandemic were on accrual status and current at December 31, 2020.

Impaired Loans

The following table presents loans individually evaluated for impairment by portfolio segment as of the dates 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		With an Allowance Recorded		
	Recorded Investment	Unpaid Principal Balance	Recorded Investment	Unpaid Principal Balance	Related Allowance
December 31, 2021					
Real estate loans:					
Commercial property	\$ 326	\$ 325	\$ —	\$ —	\$ —
SBA property	988	1,033	—	—	—
Commercial and industrial loans:					
Commercial term	2	2	—	—	—
SBA commercial term	219	227	—	—	—
Total	\$ 1,535	\$ 1,587	\$ —	\$ —	\$ —
December 31, 2020					
Real estate loans:					
Commercial property	\$ 856	\$ 855	\$ —	\$ —	\$ —
Residential property	189	189	—	—	—
SBA property	1,108	1,198	47	45	3
Commercial and industrial loans:					
Commercial term	18	18	—	—	—
Commercial lines of credit	904	904	—	—	—
SBA commercial term	593	633	16	18	2
Total	\$ 3,668	\$ 3,797	\$ 63	\$ 63	\$ 5

The following table presents information on the recorded investment in impaired loans by portfolio segment for the periods indicated:

(\$ in thousands)	Year Ended December 31,					
	2021		2020		2019	
	Average Recorded Investment	Interest Income	Average Recorded Investment	Interest Income	Average Recorded Investment	Interest Income
Real estate loans:						
Commercial property	\$ 329	\$ 22	\$ 467	\$ 23	\$ 170	\$ 12
Residential property	—	—	47	—	38	—
SBA property	1,105	16	1,459	17	1,685	41
Commercial and industrial loans:						
Commercial term	10	—	24	1	47	3
Commercial lines of credit	—	—	1,869	—	921	—
SBA commercial term	364	1	499	1	224	9
Total	\$ 1,808	\$ 39	\$ 4,365	\$ 42	\$ 3,085	\$ 65

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

(\$ in thousands)	Year Ended December 31,		
	2021	2020	2019
Interest income that would have been recognized had impaired loans performed in accordance with their original terms	\$ 99	\$ 256	\$ 213
Less: interest income recognized on impaired loans on a cash basis	(39)	(42)	(65)
Interest income foregone on impaired loans	\$ 60	\$ 214	\$ 148

Troubled Debt Restructurings

A TDR is a restructuring in which the Company, for economic or legal reasons related to a borrower's financial difficulties, grants a concession to the borrower that it would not otherwise consider. The restructuring of a loan includes, but is not limited to: (i) the transfer from the borrower to the Company of real estate, receivables from third parties, other assets, or an equity interest in full or partial satisfaction of the loan, (ii) a modification of the loan terms, such as a reduction of the stated interest rate, principal, or accrued interest or an extension of the maturity date at a stated interest rate lower than the current market rate for new debt with similar risk, or (iii) a combination of the above. A loan extended or renewed at a stated interest rate equal to the current interest rate for new debt with similar risk is not to be reported as a restructured loan.

The following table presents the composition of loans that were modified as TDRs by portfolio segment as of the dates indicated:

(\$ in thousands)	December 31,					
	2021			2020		
	Accruing	Nonaccrual	Total	Accruing	Nonaccrual	Total
Real estate loans:						
Commercial property	\$ 326	\$ —	\$ 326	\$ 333	\$ —	\$ 333
SBA property	242	17	259	270	5	275
Commercial and industrial loans:						
Commercial term	2	—	2	18	—	18
SBA commercial term	6	—	6	13	—	13
Total	\$ 576	\$ 17	\$ 593	\$ 634	\$ 5	\$ 639

The Company had no commitments to lend to customers with outstanding loans that were classified as TDRs as of December 31, 2021 and 2020.

The determination of the allowance for loan losses related to TDRs depends on the collectability of principal and interest, according to the modified repayment terms. Loans that were modified as TDRs were individually evaluated for impairment and the Company allocated \$0 and \$0 of allowance for loan losses as of December 31, 2021 and 2020, respectively.

There were no new TDRs for the year ended December 31, 2021. The following table presents new loans that were modified as TDRs by portfolio segment for the periods indicated:

(\$ in thousands)	Year Ended December 31,					
	2020			2019		
	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
Real estate loans:						
Commercial property	—	\$ —	\$ —	1	\$ 341	\$ 341
SBA property	—	—	—	2	254	254
Commercial and industrial loans:						
SBA commercial term	2	37	37	2	15	15
Total	2	\$ 37	\$ 37	5	\$ 610	\$ 610

The following table summarized the TDRs by modification type for the periods indicated:

(\$ in thousands)	Principal ⁽¹⁾		Principal and Interest ⁽²⁾		Total	
	Number of Loans	Pre-Modification Recorded Investment	Number of Loans	Pre-Modification Recorded Investment	Number of Loans	Pre-Modification Recorded Investment
	Year ended December 31, 2020:					
Commercial and industrial loans:						
SBA commercial term	2	\$ 37	—	\$ —	2	\$ 37
Total	2	\$ 37	—	\$ —	2	\$ 37
Year ended December 31, 2019:						
Real estate loans:						
Commercial property	—	\$ —	1	\$ 341	1	\$ 341
SBA property	2	254	—	—	2	254
Commercial and industrial loans:						
SBA commercial term	2	15	—	—	2	15
Total	4	\$ 269	1	\$ 341	5	\$ 610

(1) Includes forbearance payments, term extensions and principal deferments that modify the terms of the loan from principal and interest payment to interest only payment.

(2) Includes principal and interest deferments or reductions.

There were no loans that were modified as TDRs for which there was a payment default within twelve months following the modification for the years ended December 31, 2021 and 2019. There was one SBA commercial term loan of \$26 thousand that was modified as a TDR for which there was a payment default within twelve months following the modification for the year ended December 31, 2020.

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,		
	2021	2020	2019
Real estate loans:			
Commercial property	\$ 8,563	\$ —	\$ —
Residential property	189	1,125	824
Commercial and industrial loans:			
SBA commercial term	—	230	—
Total	\$ 8,752	\$ 1,355	\$ 824

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

(\$ in thousands)	Year Ended December 31,		
	2021	2020	2019
Real estate loans:			
Residential property	\$ —	\$ 697	\$ —
Total	\$ —	\$ 697	\$ —

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

(\$ in thousands)	Year Ended December 31,		
	2021	2020	2019
Real estate loans:			
Residential property	\$ 2,139	\$ —	\$ 1,539
Total	\$ 2,139	\$ —	\$ 1,539

The Company had no sales of loans held-for-investment during the years ended December 31, 2021, 2020 and 2019. 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,	
	2021	2020
Real estate loans:		
Residential property	\$ —	\$ 300
SBA property	33,603	1,411
Commercial and industrial loans:		
SBA commercial term	3,423	268
Total	\$ 37,026	\$ 1,979

Note 5. Premises and Equipment

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

(\$ in thousands)	December 31,	
	2021	2020
Leasehold improvements	\$ 7,552	\$ 7,848
Furniture, fixtures and equipment	3,770	3,772
Computer equipment	2,466	2,288
Computer software	1,484	1,385
Total premises and equipment	15,272	15,293
Less: accumulated depreciation	(12,174)	(11,245)
Premises and equipment, net	\$ 3,098	\$ 4,048

The Company recognized depreciation expense of \$1.4 million, \$1.5 million and \$1.5 million for the years ended December 31, 2021, 2020 and 2019, 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,		
	2021	2020	2019
Operating lease cost ⁽¹⁾	\$ 2,580	\$ 2,617	\$ 2,632
Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash flows from operating leases	2,760	2,776	2,705
Right-of-use assets obtained in exchange for lease obligations	1,459	950	1,616

(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 December 31, 2021:

(\$ in thousands)	December 31,	
	2021	2020
Operating leases:		
Operating lease assets	\$ 6,786	\$ 7,616
Operating lease liabilities	7,444	8,455
Weighted-average remaining lease term	4.0 years	4.3 years
Weighted-average discount rate	2.36 %	2.60 %

The following table presents maturities of operating lease liabilities as of December 31, 2021:

(\$ in thousands)	December 31, 2021	
Maturities:		
2022	\$	2,706
2023		2,230
2024		793
2025		753
2026		482
After 2026		710
Total lease payment		7,674
Imputed interest		(230)
Present value of operating lease liabilities	\$	7,444

Note 7. Servicing Assets

At December 31, 2021 and 2020, total servicing assets were \$7.3 million and \$6.4 million, respectively. The Company sells SBA loans and certain residential property loans with servicing retained. The Company sold loans of \$126.8 million, \$89.5 million and \$99.6 million, respectively, with the servicing rights retained and recognized a net gain on sale of \$12.8 million, \$6.0 million and \$5.9 million, respectively, during the years ended December 31, 2021, 2020 and 2019. Loan servicing income was \$2.8 million, \$2.7 million and \$2.3 million for the years ended December 31, 2021, 2020 and 2019, respectively.

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

(\$ in thousands)	December 31,					
	2021			2020		
	Residential Property	SBA Property	SBA Commercial Term	Residential Property	SBA Property	SBA Commercial Term
Carrying amount	\$ 86	\$ 6,701	\$ 482	\$ 109	\$ 5,642	\$ 649
Fair value	\$ 126	\$ 11,196	\$ 734	\$ 133	\$ 8,498	\$ 888
Discount rates	6.33 %	8.75 %	9.64 %	11.25 %	13.25 %	12.75 %
Prepayment speeds	24.40 %	9.80 %	12.77 %	27.20 %	9.99 %	11.01 %
Weighted average remaining life	21.9 years	21.4 years	6.2 years	23.1 years	21.1 years	6.6 years
Underlying loans being serviced	\$ 17,443	\$ 442,424	\$ 59,839	\$ 22,299	\$ 400,982	\$ 75,514

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

(\$ in thousands)	Residential Property	SBA Property	SBA Commercial Term	Total
Balance at January 1, 2019	\$ 244	\$ 6,349	\$ 1,073	\$ 7,666
Additions	—	1,329	185	1,514
Amortization	(73)	(1,873)	(436)	(2,382)
Balance at December 31, 2019	171	5,805	822	6,798
Additions	—	1,408	142	1,550
Amortization	(62)	(1,571)	(315)	(1,948)
Balance at December 31, 2020	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

Note 8. Other Real Estate Owned

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

(\$ in thousands)	Year Ended December 31,		
	2021	2020	2019
Balance at beginning of year	\$ 1,401	\$ —	\$ —
Additions	1,960	5,316	395
Sales	(3,361)	(3,915)	(329)
Net change in valuation allowance	—	—	(66)
Balance at end of year	\$ —	\$ 1,401	\$ —

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

(\$ in thousands)	Year Ended December 31,		
	2021	2020	2019
Balance at beginning of year	\$ —	\$ —	\$ —
Additions	—	—	66
Net direct write-downs and removal from sale	—	—	(66)
Balance at end of year	\$ —	\$ —	\$ —

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

(\$ in thousands)	Year Ended December 31,		
	2021	2020	2019
Net (gain) loss on sales	\$ (73)	\$ (9)	\$ 1
Operating expenses, net of rental income	81	60	—
Total	\$ 8	\$ 51	\$ 1

The Company provided a loan of \$250 thousand and \$1.5 million to finance the sale of its OREO property during the year ended December 31, 2021 and 2020, respectively. The Company did not provide loans to finance the sale of its OREO properties during the year ended December 31, 2019.

Note 9. Deposits

At December 31, 2021 and 2020, total deposits were \$1.87 billion and \$1.59 billion, respectively, and total interest-bearing deposits were \$1.04 billion and \$1.06 billion, respectively. The aggregate amount of deposits reclassified as loans, such as overdrafts, was \$39 thousand and \$98 thousand at December 31, 2021 and 2020, respectively.

Total deposits not covered by deposit insurance were \$919.6 million and \$737.2 million, respectively, and total time deposits not covered by deposit insurance were \$216.3 million and \$224.7 million, respectively, at December 31, 2021 and 2020.

The Company had California State Treasurer's deposits of \$100.0 million and \$100.0 million in time deposits of more than \$250,000 at December 31, 2021 and 2020, respectively. The California State Treasurer's deposits are subject to withdrawal based on the State's periodic evaluations. At December 31, 2021 and 2020, the Company pledged securities with amortized cost of \$110.9 million and \$117.8 million, respectively, for the California State Treasurer's deposits. At December 31, 2021 and 2020, the Company had brokered deposits of \$85.0 million and \$80.0 million, respectively.

Deposits from certain officers, directors and their related interests with which they are associated held by the Company were \$3.9 million and \$2.7 million at December 31, 2021 and 2020, respectively.

The following table presents scheduled maturities of time deposits as of December 31, 2021:

(\$ in thousands)	2022	2023	2024	2025	2026	Thereafter	Total
Time deposits of \$250,000 or less	\$ 333,907	\$ 5,484	\$ 2,204	\$ 326	\$ 35	\$ —	\$ 341,956
Time deposits of more than \$250,000	269,107	3,162	—	—	—	—	272,269
Total time deposits	\$ 603,014	\$ 8,646	\$ 2,204	\$ 326	\$ 35	\$ —	\$ 614,225

Note 10. Federal Home Loan Bank Advances and Other Borrowings

FHLB Advances

The Company had \$10.0 million and \$80.0 million in FHLB advances at December 31, 2021 and 2020, respectively. FHLB advances consisted of a fixed rate term borrowing with a maturity date of June 29, 2022 (original maturity term of five years) at December 31, 2021.

The following table presents scheduled maturities of FHLB advances as of December 31, 2021:

(\$ in thousands)	2022	2023	2024	2025	Thereafter	Total
Fixed Rate	\$ 10,000	\$ —	\$ —	\$ —	\$ —	\$ 10,000
Variable Rate	—	—	—	—	—	—
Total	\$ 10,000	\$ —	\$ —	\$ —	\$ —	\$ 10,000

The following table presents financial data of FHLB advances as of the dates or for the periods indicated:

(\$ in thousands)	As of or For the Year Ended December 31,		
	2021	2020	2019
Weighted-average interest rate at end of year	2.07 %	0.67 %	1.92 %
Average interest rate during the year	0.97 %	0.65 %	1.86 %
Average balance	\$ 30,096	\$ 94,303	\$ 25,370
Maximum amount outstanding at any month-end	\$ 80,000	\$ 170,000	\$ 35,000
Balance at end of year	\$ 10,000	\$ 80,000	\$ 20,000

Advances paid early are subject to a prepayment penalty. At December 31, 2021 and 2020, loans pledged to secure from FHLB advances were \$982.7 million and \$834.4 million, respectively. The Company's investment in capital stock of the FHLB of San Francisco totaled \$8.4 million and \$8.3 million, respectively, at December 31, 2021 and 2020. The Company had additional borrowing capacity of \$516.2 million and \$425.3 million, respectively, from the FHLB as of December 31, 2021 and 2020.

Other Borrowing Arrangements

At December 31, 2021, the Company had \$29.2 million of unused borrowing capacity from the Federal Reserve Discount Window, to which the Company pledged loans with a carrying value of \$36.6 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, 2021.

Note 11. Shareholders' Equity

Common Stock

Stock Repurchases

On March 28, 2019, the Company's Board of Directors approved the repurchase of up to \$6.5 million of the Company's common stock through March 27, 2020. During the year ended December 31, 2019, the Company completed the repurchase program, and repurchased and retired 396,715 shares of common stock at a weighted-average price of \$16.33 per share.

On January 23, 2020, the Company announced that on November 22, 2019, its Board of Directors approved a \$6.5 million stock repurchase program to commence upon the opening of the Company's trading window for the first quarter of 2020 and continue through November 20, 2021. The Company completed the repurchase program in March 2020. The Company repurchased and retired 428,474 shares of common stock at a weighted-average price of \$15.14 per share.

On April 8, 2021, the Company's Board of Directors approved a repurchase program authorizing the repurchase of up to 5% of the Company's outstanding common stock as of the date of the board meeting, which represented 775,000 shares, through September 7, 2021. The Company repurchased and retired 680,269 shares of common stock at a weighted-average price of \$15.99 per share, totaling \$10.9 million under this repurchase program.

Note 12. Share-Based Compensation

On July 25, 2013, the Company adopted the Equity Based Stock Compensation Plan (“2013 EBSC Plan”) approved by its shareholders to replace the 2003 Stock Option Plan. The 2013 EBSC Plan provided for options to purchase 1,114,446 shares of common stock for equity-based compensation awards including incentive and non-qualified stock options and restricted stock awards. As of December 31, 2021, there were 468,170 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:

(\$ in thousands)	Year Ended December 31,		
	2021	2020	2019
Share-based compensation expense related to:			
Stock options	\$ 187	\$ 562	\$ 650
Restricted stock awards	266	153	59
Total share-based compensation expense	\$ 453	\$ 715	\$ 709
Related tax benefits	\$ 84	\$ 76	\$ 44

The following table presents unrecognized share-based compensation expense as of December 31, 2021:

(\$ in thousands)	Unrecognized Expense	Weighted-Average Remaining Expected Recognition Period
Unrecognized share-based compensation expense related to:		
Stock options	\$ 341	2.4 years
Restricted stock awards	537	2.1 years
Total unrecognized share-based compensation expense	\$ 878	2.2 years

Stock Options

The Company has issued stock options to certain employees, officers and directors. Stock options are issued at 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,		
	2021	2020	2019
Risk-free interest rate	1.13 %	— %	2.06 %
Expected term	6.71 years	N/A	5.00 years
Expected stock price volatility	27.54 %	— %	36.10 %
Dividend yield	2.64 %	— %	1.33 %

The following table presents information related to the stock option plan for the periods indicated:

(\$ in thousands, except per share data)	Year Ended December 31,		
	2021	2020	2019
Intrinsic value of options exercised	\$ 794	\$ 789	\$ 851
Cash received from options exercised	\$ 1,279	\$ 693	\$ 627
Tax benefit from options exercised	\$ 60	\$ 70	\$ 31
Weighted-average estimated fair value per share of options granted	\$ 3.76	\$ —	\$ 5.76

The following table represents stock option activity as of and for the year ended December 31, 2021:

(\$ in thousands except per share data)	Year Ended December 31, 2021			
	Number of Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Contractual Term	Aggregated Intrinsic Value
Outstanding at beginning of year	718,935	\$ 10.87	5.07 years	\$ —
Granted	50,000	\$ 17.94	10.00 years	
Exercised	(126,163)	\$ 10.14	4.22 years	
Forfeited	(10,000)	\$ 17.47	8.00 years	
Balance at end of year	632,772	\$ 11.47	4.54 years	\$ 6,641
Exercisable at end of year	525,673	\$ 10.40	3.85 years	\$ 6,078

The following table represents information regarding unvested stock options for the year ended December 31, 2021:

	Year Ended December 31, 2021	
	Number of Shares	Weighted-Average Exercise Price Per Share
Outstanding at beginning of year	121,199	\$ 15.68
Granted	50,000	\$ 17.94
Vested	(54,100)	\$ 15.41
Forfeited	(10,000)	\$ 17.47
Balance at end of year	107,099	\$ 16.70

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, 2021:

	Year Ended December 31, 2021	
	Number of Shares	Weighted-Average Grant Date Fair Value Per Share
Outstanding at beginning of period	30,300	\$ 16.27
Granted	35,584	\$ 10.80
Vested	(9,300)	\$ 16.46
Forfeited	(1,300)	\$ 13.23
Outstanding at end of period	55,284	\$ 12.79

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 \$901 thousand, \$807 thousand and \$831 thousand for the years ended December 31, 2021, 2020 and 2019, respectively.

Note 14. Income Taxes

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

(\$ in thousands)	Year Ended December 31,		
	2021	2020	2019
Current:			
Federal	\$ 12,117	\$ 6,596	\$ 8,317
State	6,692	3,910	4,499
Total current income tax expense	18,809	10,506	12,816
Deferred:			
Federal	(1,428)	(2,223)	(1,747)
State	(525)	(1,447)	(826)
Total deferred income tax benefit	(1,953)	(3,670)	(2,573)
Total	\$ 16,856	\$ 6,836	\$ 10,243

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,		
	2021	2020	2019
Statutory federal tax rate	21.00 %	21.00 %	21.00 %
State and local income taxes, net of federal tax benefit	8.55 %	8.45 %	8.45 %
Share-based compensation	0.05 %	0.39 %	0.10 %
Other items, net	(0.01) %	(0.13) %	0.27 %
Effective income tax rate	29.59 %	29.71 %	29.82 %

The following table presents the components of the net deferred tax assets recognized in the accompanying consolidated balance sheets as of the dates indicated:

(\$ in thousands)	December 31,	
	2021	2020
Deferred tax assets:		
Allowance for loan losses	\$ 6,609	\$ 7,790
Share-based compensation	303	335
Loans held-for-sale market adjustment	2,445	419
Operating lease liabilities	2,198	2,485
State tax benefit	1,365	822
Other	360	447
Total deferred tax assets	13,280	12,298
Deferred tax liabilities:		
Depreciation on premises and equipment	208	394
Unrealized gain on investment securities	4	754
Deferred loan origination costs	177	732
Operating lease assets	2,004	2,238
Other	63	60
Total deferred tax liabilities	2,456	4,178
Deferred tax assets, net	\$ 10,824	\$ 8,120

The Company had no valuation allowance for deferred tax assets as of December 31, 2021 and 2020. 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, 2021 and 2020.

At December 31, 2021 and 2020, 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, 2021, the Company is no longer subject to examination by taxing authorities for tax years before 2018 for federal taxes and before 2017 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 share used to compute earnings per share for the periods indicated:

(\$ in thousands, except per share)	Year Ended December 31,		
	2021	2020	2019
Basic earnings per share:			
Net income	\$ 40,103	\$ 16,175	\$ 24,108
Less: income allocated to unvested restricted stock	(156)	(37)	(22)
Net income allocated to common stock	\$ 39,947	\$ 16,138	\$ 24,086
Weighted-average total common shares outstanding	15,076,183	15,419,455	15,887,566
Less: weighted-average unvested restricted stock	(58,546)	(35,224)	(14,183)
Weighted-average common shares outstanding, basic	15,017,637	15,384,231	15,873,383
Basic earnings per share	\$ 2.66	\$ 1.05	\$ 1.52
Diluted earnings per share:			
Net income allocated to common stock	\$ 39,947	\$ 16,138	\$ 24,086
Weighted-average commons shares outstanding	15,017,637	15,384,231	15,873,383
Diluted effect of stock options	236,183	64,661	298,899
Diluted weighted-average common shares outstanding	15,253,820	15,448,892	16,172,282
Diluted earnings per share	\$ 2.62	\$ 1.04	\$ 1.49

There were 65,000, 601,019, and 155,000 stock options excluded in computing diluted earnings per share because they were anti-dilutive for years ended December 31, 2021, 2020, and 2019, 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:

(\$ in thousands)	December 31,			
	2021		2020	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Unused lines of credit	\$ 8,261	\$ 160,739	\$ 6,623	\$ 150,247
Unfunded loan commitments	595	29,688	1,752	34,874
Standby letters of credit	3,078	1,431	2,971	1,814
Commercial letters of credit	91	524	—	—
Total	\$ 12,025	\$ 192,382	\$ 11,346	\$ 186,935

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's exposure to loan loss in the event of nonperformance on commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments as it does for the loans reflected in the consolidated financial statements. The Company maintained reserve for off-balance sheet items of \$214 thousand and \$238 thousand, respectively, at December 31, 2021 and 2020.

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.

COVID-19 Pandemic

The ongoing COVID-19 pandemic, and governmental and societal responses thereto, have had a severe impact on global economic and market conditions. The U.S. government has enacted a number of monetary and fiscal policies to provide fiscal stimulus and relief in order to mitigate the impact of the COVID-19 pandemic. However, the COVID-19 pandemic continues to be a challenge to public health, including the emergence of new variants, and impact global economic and market conditions, including global supply chain disruptions and high inflation.

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 has been working 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. The Bank expresses no opinion on the merits of the Matter and intends to answer, respond, and/or otherwise vigorously defend itself from the claims and causes of action asserted in the complaint to the fullest extent permitted by applicable law. Those defenses will be based in part on the fact that the Bank has implemented security procedures, practices, and a robust information security program pursuant to guidance from financial regulators.

The Company continues to monitor and evaluate the data incident for its magnitude and concomitant financial, legal or reputational consequences. During the year ended December 31, 2021, expenses associated with the data incident, all of which are included in Other Expense in Consolidated Statements of Income, totaled \$100 thousand, which represents the retention amount on its insurance claims. The Company anticipates additional expenses will be incurred in future periods; however, the Company does have a cyber-liability insurance policy that should provide insurance coverage for this incident. To date, no litigation has resulted from the data incident.

Note 17. Regulatory Matters

Under the Basel III rules, the Bank must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer was fully phased in from 0.0% in 2015 to 2.50% by 2019. Management believes as of December 31, 2021 and 2020, the Bank met all capital adequacy requirements to which they are subject to. Based on changes to the Federal Reserve's definition of a "Small Bank Holding Company" in 2018, which increased the threshold to \$3 billion in assets, the Company is not currently subject to separate minimum capital measurements. At such time as the Company reaches the \$3 billion asset level, it will again be subject to capital measurements independent of the Bank. For comparison purposes, the Company's ratios are included in 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 8.04% and 7.73%, respectively, as of December 31, 2021, and 9.22% and 8.95%, respectively, as of December 31, 2020. 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 dates indicated:

(\$ in thousands)	Actual		Minimum Capital Requirement		To Be Well Capitalized Under Prompt Corrective Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2021						
PCB Bancorp						
Common tier 1 capital (to risk-weighted assets)	\$ 255,650	14.79 %	\$ 77,762	4.5 %	N/A	N/A
Total capital (to risk-weighted assets)	277,263	16.04 %	138,244	8.0 %	N/A	N/A
Tier 1 capital (to risk-weighted assets)	255,650	14.79 %	103,683	6.0 %	N/A	N/A
Tier 1 capital (to average assets)	255,650	12.11 %	84,445	4.0 %	N/A	N/A
Pacific City Bank						
Common tier 1 capital (to risk-weighted assets)	\$ 250,145	14.48 %	\$ 77,761	4.5 %	\$ 112,321	6.5 %
Total capital (to risk-weighted assets)	271,757	15.73 %	138,241	8.0 %	172,801	10.0 %
Tier 1 capital (to risk-weighted assets)	250,145	14.48 %	103,681	6.0 %	138,241	8.0 %
Tier 1 capital (to average assets)	250,145	11.85 %	84,443	4.0 %	105,554	5.0 %
December 31, 2020						
PCB Bancorp						
Common tier 1 capital (to risk-weighted assets)	\$ 231,183	15.97 %	\$ 65,162	4.5 %	N/A	N/A
Total capital (to risk-weighted assets)	249,391	17.22 %	115,843	8.0 %	N/A	N/A
Tier 1 capital (to risk-weighted assets)	231,183	15.97 %	86,882	6.0 %	N/A	N/A
Tier 1 capital (to average assets)	231,183	11.94 %	77,452	4.0 %	N/A	N/A
Pacific City Bank						
Common tier 1 capital (to risk-weighted assets)	\$ 227,268	15.70 %	\$ 65,160	4.5 %	\$ 94,120	6.5 %
Total capital (to risk-weighted assets)	245,474	16.95 %	115,840	8.0 %	144,800	10.0 %
Tier 1 capital (to risk-weighted assets)	227,268	15.70 %	86,880	6.0 %	115,840	8.0 %
Tier 1 capital (to average assets)	227,268	11.74 %	77,450	4.0 %	96,813	5.0 %

On December 16, 2021, the Treasury informed the Company, that the Treasury has reviewed the Company's application to receive a capital investment from the Treasury under the ECIP, and that the Company would be eligible to receive an ECIP investment in an amount up to approximately \$69.1 million in the form of non-dilutive Tier 1 senior perpetual preferred capital. The Company determined to accept the offer to receive the ECIP investment for the full amount and it expects to close in the second quarter of 2022, both of which are subject to final determination by the U.S. Treasury.

Established by the Consolidated Appropriations Act, 2021, the ECIP was created to encourage low- and moderate-income community financial institutions and minority depository institutions such as the Bank to augment their efforts to support small businesses and consumers in their communities.

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 Company'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 Company's deposit insurance and place the Company into receivership or conservatorship.

On April 30, 2019, the FDIC, the CDFPI and the Bank entered into a stipulation consenting to the issuance of a consent order (the "Order") relating to the Bank's BSA/AML. Subsequent to the Order, the Bank implemented many actions to respond to the requirements of the Order and submitted all required reports to the FDIC and CDFPI. On September 30, 2020, the FDIC and CDFPI terminated the Order upon the Bank's satisfaction of the terms and requirements of the Order to their satisfaction.

Note 18. Revenue Recognition

The following table presents revenue from contracts with customers within the scope of ASC 606 for the periods indicated:

(\$ in thousands)	Year Ended December 31,		
	2021	2020	2019
Noninterest income in-scope of Topic 606			
Service charges and fees on deposits:			
Monthly service fees	\$ 81	\$ 91	\$ 113
Account analysis fees	885	860	972
Non-sufficient funds charges	165	228	364
Other deposit related fees	64	77	95
Total service charges and fees on deposits	1,195	1,256	1,544
Debit card fees	306	252	272
Gain (loss) on sale of other real estate owned	74	9	(1)
Wire transfer fees	596	530	515
Other service charges	198	184	221
Total	\$ 2,369	\$ 2,231	\$ 2,551

Note 19. Condensed Financial Statements for Parent Company

The parent company's condensed statements of financial condition as of December 31, 2021 and 2020, and the related condensed statements of income and comprehensive income, and condensed statements of cash flows for the years ended December 31, 2021, 2020, and 2019 are presented below:

Condensed Balance Sheets

(\$ in thousands)	December 31,	
	2021	2020
Assets		
Cash	\$ 5,451	\$ 3,873
Investment in Pacific City Bank	250,780	229,871
Other assets	55	44
Total assets	\$ 256,286	\$ 233,788
Liabilities and Shareholders' Equity		
Total liabilities	—	—
Total shareholders' equity	256,286	233,788
Total liabilities and shareholders' equity	\$ 256,286	\$ 233,788

Condensed Statements of Income and Comprehensive Income

(\$ in thousands)	Year Ended December 31,		
	2021	2020	2019
Income:			
Dividends from subsidiary	\$ 18,375	\$ 13,600	\$ 11,950
Other income	—	—	—
Total income	18,375	13,600	11,950
Expense:			
Other expense	753	798	835
Total expense	753	798	835
Income before taxes and equity in undistributed subsidiary income	17,622	12,802	11,115
Income tax benefit	(223)	(234)	(245)
Income before equity in undistributed subsidiary income	17,845	13,036	11,360
Equity in undistributed subsidiary income	22,258	3,139	12,748
Net income	40,103	16,175	24,108
Other comprehensive income (loss), net of tax	(1,802)	2,013	1,590
Comprehensive income	\$ 38,301	\$ 18,188	\$ 25,698

Condensed Statements of Cash Flows

(\$ in thousands)	Year Ended December 31,		
	2021	2020	2019
Cash flows from operating activities			
Net income	\$ 40,103	\$ 16,175	\$ 24,108
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed subsidiary income	(22,258)	(3,139)	(12,748)
Change in other assets	(11)	47	(40)
Change in other liabilities	—	—	(19)
Net cash provided by operating activities	17,834	13,083	11,301
Cash flows from investing activities:			
Capital contribution to subsidiary	—	—	—
Net cash used in investing activities	—	—	—
Cash flows from financing activities:			
Restricted stock surrendered due to employee tax liability	(4)	(2)	—
Repurchase of common stock	(10,876)	(6,487)	(6,480)
Stock options exercised	1,279	693	626
Cash dividends paid on common stock	(6,655)	(6,153)	(3,962)
Net cash used in financing activities	(16,256)	(11,949)	(9,816)
Net increase in cash and cash equivalents	1,578	1,134	1,485
Cash and cash equivalents at beginning of year	3,873	2,739	1,254
Cash and cash equivalents at end of year	\$ 5,451	\$ 3,873	\$ 2,739

Note 20. Subsequent Events

Dividend Declared on Common Stock. On January 27, 2022, the Company's Board of Directors declared a quarterly cash dividend of \$0.15 per common share for the first quarter of 2022. The dividend was paid on February 18, 2022, to shareholders of record as of the close of business on February 11, 2022.

The Company has evaluated the effects of events that have occurred subsequent to December 31, 2021 through the issuance date of these consolidated financial statements. Other than the event described above, there have been no material events that would require disclosure in the consolidated financial statements or in the notes to the consolidated financial statements.

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, 2021, 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 2021 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, 2021. 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, 2021, the Company maintained effective internal control over financial reporting.

Attestation Report of the Company's Independent Registered Public Accounting Firm

As an Emerging Growth Company and Smaller Reporting Company, the Company is not required to provide an attestation report on its internal control over financial reporting by its independent registered public accounting firm.

Changes in Internal Control over Financial Reporting

There has been no change in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) during its fourth fiscal quarter of 2021, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

None.

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 2022 Annual Meeting of Shareholders (the "2022 Proxy Statement"), which will be filed with the SEC not later than April 30, 2022.

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.paccitybank.com, by clicking "About," then "Investor Relations," then "Corporate Governance" and then "Governance Documents."

During the year ended December 31, 2021, 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 2022 Proxy Statement which will be filed with the SEC not later than April 30, 2022.

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 2022 Proxy Statement which will be filed with the SEC not later than April 30, 2022.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item is incorporated by reference from the Company's 2022 Proxy Statement which will be filed with the SEC not later than April 30, 2022.

Item 14. Principal Accounting Fees and Services

The information required by this Item is incorporated by reference from the Company's 2022 Proxy Statement which will be filed with the SEC not later than April 30, 2022.

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	8-K	001-38621	3.2	July 2, 2019
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-K	001-38621	4.2	March 9, 2020
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*				
10.2	2013 Equity Based Compensation Plan, as amended	S-1	333-226208	10.2	July 17, 2018
10.3	Form of Stock Option Award Agreement under 2013 Equity Based Compensation Plan	S-1	333-226208	10.3	July 17, 2018
10.4	Form of Restricted Stock Award Agreement under 2013 Equity Based Compensation Plan	S-1	333-226208	10.4	July 17, 2018
10.5	2003 Pacific City Bank Stock Option Plan, as amended	S-1	333-226208	10.5	July 17, 2018
10.6	Form of Stock Option Award Agreement under the 2003 Pacific City Bank Stock Option Plan	S-1	333-226208	10.6	July 17, 2018
21.1	Subsidiaries of the Registrant*				
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**				
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 4, 2022

/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.

	<u>Signature/Name</u>	<u>Title</u>	<u>Date</u>
By:	<u>/s/ Henry Kim</u> Henry Kim	Director, President and Chief Executive Officer (Principal Executive Officer)	March 4, 2022
By:	<u>/s/ Timothy Chang</u> Timothy Chang	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 4, 2022
By:	<u>/s/ Sang Young Lee</u> Sang Young Lee	Chairman of the Board of Directors	March 4, 2022
By:	<u>/s/ Kijun Ahn</u> Kijun Ahn	Director	March 4, 2022
By:	<u>/s/ Daniel Cho</u> Daniel Cho	Director	March 4, 2022
By:	<u>/s/ Haeyoung Cho</u> Haeyoung Cho	Director	March 4, 2022
By:	<u>/s/ Janice Chung</u> Janice Chung	Director	March 4, 2022
By:	<u>/s/ Sarah Jun</u> Sarah Jun	Director	March 4, 2022
By:	<u>/s/ Hong Kyun "Daniel" Park</u> Hong Kyun "Daniel" Park	Director	March 4, 2022
By:	<u>/s/ Don Rhee</u> Don Rhee	Director	March 4, 2022

**SECOND AMENDMENT TO
EMPLOYMENT AGREEMENT**

THIS SECOND AMENDMENT TO EMPLOYMENT AGREEMENT (the “Second Amendment”) is entered into as of December 28, 2021, by and between Pacific City Bank (“Bank”), PCB Bancorp (formerly known as Pacific City Financial Corporation), a California corporation and registered bank holding company (“Company”) and Henry Kim (“Executive”).

WHEREAS, the Bank and Company entered into an Employment Agreement with Executive (the “Agreement”) dated January 1, 2018, as amended by the First Amendment to Employment Agreement dated August 26, 2021; and

WHEREAS, Executive, the Bank and Company have agreed to amend the Agreement to provide Executive certain changed compensation;

NOW, THEREFORE, for good and valuable consideration the receipt and sufficiency of which are hereby acknowledged, the Bank and Company and the Executive hereto agree as follows:

1. Section 6(a) of the Agreement is amended and restated in its entirety to read as follows:

The Bank shall pay to the Executive an annual base salary of Four Hundred Fifty Thousand Dollars (\$450,000) which shall be adjusted pursuant to the provisions of Subsection (b), below, after the first year of the Term hereof. Executive’s salary shall be payable at regular intervals in accordance with the Bank’s normal payroll practices now or hereafter in effect.

2. Section 6(i) is added to the Agreement as follows:

On January 1, 2022, Executive shall be granted 25,000 restricted stock awards with vesting to occur ratably over five years with the first 20% vesting on the first anniversary of the grant, etc., in accordance with and pursuant to the Company’s 2013 Equity Based Compensation Plan.

3. Section 8(d) of the Agreement is amended and restated in its entirety to read as follows:

Upon the occurrence of a Termination Without Cause, and subject to his execution of a release of claims in favor of the Bank, Company, and their affiliates and respective officers and directors in the form attached hereto as Exhibit 1 (the “Release”) and such Release becoming effective within thirty (30) days following the

Termination Date (such thirty-day period, the “Release Execution Period”), the Bank shall continue to provide Executive his base salary then in effect only, upon such terms and at such times as described herein, as follows:

- (i) If at least six (6) months are remaining in the Term, his salary shall continue for a period not to exceed one year; and
- (ii) If less than six (6) months are remaining in the Term, his salary shall continue for six (6) months.

4. All other terms and conditions of the Agreement to remain in full force and effect.

[This space intentionally blank.]

[Signature page to Second Amendment to Employment Agreement]

THE EXECUTIVE

/s/ Henry Kim

Henry Kim

PACIFIC CITY BANK

By: /s/ Sang Young Lee

Sang Young Lee
Chairman of the Board

PCB BANCORP

By: /s/ Sang Young Lee

Sang Young Lee
Chairman of the Board

SUBSIDIARIES OF THE REGISTRANT

PCB Bancorp, formerly known as Pacific City Financial Corporation, was incorporated in July 2007 as a California corporation. It is headquartered at 3701 Wilshire Boulevard, Suite 900, Los Angeles, California. There is one subsidiary of the Company:

Pacific City Bank is a California state chartered bank founded in 2003. Pacific City Bank is headquartered at 3701 Wilshire Boulevard, Suite 900, Los Angeles, California.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-227064 on Form S-8 of PCB Bancorp and Subsidiary of our report dated March 4, 2022 relating to the consolidated financial statements appearing in this Annual Report on Form 10-K.

/s/ Crowe LLP

Los Angeles, California
March 4, 2022

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Henry Kim, certify that:

1. I have reviewed this Annual Report on Form 10-K of PCB Bancorp;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statement made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this reports;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Report based on such evaluation; and
 - (d) disclosed in this Report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the Audit Committee of the Registrant's Board of Directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: March 4, 2022

/s/ Henry Kim

Henry Kim

President and Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Timothy Chang, certify that:

1. I have reviewed this Annual Report on Form 10-K of PCB Bancorp;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statement made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this reports;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Report based on such evaluation; and
 - (d) disclosed in this Report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the Audit Committee of the Registrant's Board of Directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: March 4, 2022

/s/ Timothy Chang

Timothy Chang
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

**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**

In connection with the periodic report of PCB Bancorp (the "Company") on Form 10-K for the period ended December 31, 2021, as filed with the Securities and Exchange Commission (the "Report"), I, Henry Kim, Chief Executive Officer of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that:

- (1) the Report fully complies with the requirements of section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

This Certification has not been, and shall not be deemed, "filed" with the Securities and Exchange Commission.

Date: March 4, 2022

/s/ Henry Kim

Henry Kim

President and Chief Executive Officer
(Principal Executive Officer)

**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**

In connection with the periodic report of PCB Bancorp (the “Company”) on Form 10-K for the period ended December 31, 2021, as filed with the Securities and Exchange Commission (the “Report”), I, Timothy Chang, Chief Financial Officer of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that:

- (1) the Report fully complies with the requirements of section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

This Certification has not been, and shall not be deemed, “filed” with the Securities and Exchange Commission.

Date: March 4, 2022

/s/ Timothy Chang

Timothy Chang
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)