Section 1: 10-Q (10-Q)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended September 30, 2019

or

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

For the transition period from ________ to ________

Commission file number 001-38621

PCB Bancorp

(Exact name of registrant as specified in its charter)

California **(State or other jurisdiction of incorporation or organization)**	**20-8856755** **(IRS Employer Identification No.)**
3701 Wilshire Boulevard, Suite 900 **Los Angeles, California** **(Address of principal executive offices)**	**90010** **(Zip Code)**

(213) 210-2000

(Registrant's telephone number, including area code)

Pacific City Financial Corporation

(Former Name, Former Address and Former Fiscal Year, If Changed Since Last Report)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, no par value	PCB	Nasdaq Global Select Market

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

Large accelerated filer	☐		Accelerated filer	☒
Non-accelerated filer	☐	(Do not check if a smaller reporting company)	Smaller reporting company	☒
			Emerging growth company	☒

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

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

As of October 31, 2019, the registrant had outstanding 15,690,836 shares of common stock.

PCB Bancorp and Subsidiary

Quarterly Report on Form 10-Q

September 30, 2019

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Forward-looking Statements

This Quarterly Report on Form 10-Q 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," "aim," "would," and "annualized" and "outlook," 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, but are not limited to, the following:

- business and economic conditions, particularly those affecting the financial services industry and our primary market areas;
- 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;
- governmental monetary and fiscal policies, and changes in market interest rates;
- compliance with governmental and regulatory requirements, including the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), the Economic Growth, Regulatory Relief and Consumer Protection Act and others relating to banking, consumer protection, securities and tax matters;
- compliance with the regulatory consent order related to Bank Secrecy Act and Anti-Money Laundering ("BSA/AML") matters to which Pacific City Bank, our wholly owned subsidiary, is subject;
- 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, breaches, 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;
- 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 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 and the risks described under "Part I. Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2018 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 - Financial Information
Item 1 - Consolidated Financial Statements

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

	(Unaudited) September 30, 2019	December 31, 2018
Assets		
Cash and due from banks	$ 22,546	$ 24,121
Interest-bearing deposits in other financial institutions	99,366	138,152
Total cash and cash equivalents	121,912	162,273
Securities available-for-sale, at fair value	134,602	146,991
Securities held-to-maturity, at amortized cost (fair value of $21,872 at September 30, 2019 and $21,152 at December 31, 2018)	21,601	21,760
Total investment securities	156,203	168,751
Loans held-for-sale	1,583	5,781
Loans held-for-investment, net of deferred loan costs (fees)	1,389,830	1,338,682
Allowance for loan losses	(13,094)	(13,167)
Net loans held-for-investment	1,376,736	1,325,515
Premises and equipment, net	4,008	4,588
Federal Home Loan Bank and other restricted stock, at cost	8,345	7,433
Deferred tax assets, net	3,389	3,377
Servicing assets	6,899	7,666
Operating lease assets	9,561	—
Accrued interest receivable and other assets	10,810	11,644
Total assets	**$ 1,699,446**	**$ 1,697,028**
Liabilities and Shareholders' Equity		
Deposits:		
Noninterest-bearing demand	$ 353,448	$ 329,270
Savings, NOW and money market accounts	341,980	313,610
Time deposits of $250,000 or less	440,049	519,634
Time deposits of more than $250,000	296,785	281,239
Total deposits	1,432,262	1,443,753
Federal Home Loan Bank advances	20,000	30,000
Operating lease liabilities	10,574	—
Accrued interest payable and other liabilities	11,967	12,979
Total liabilities	1,474,803	1,486,732
Commitments and contingent liabilities		
Preferred stock, 10,000,000 shares authorized, no par value, 0 issued and outstanding shares	—	—
Common stock, 60,000,000 shares authorized, no par value; 15,710,287 and 15,977,754 shares issued and outstanding, respectively, and included 37,400 and 0 shares of unvested restricted stock, respectively, at September 30, 2019 and December 31, 2018	169,224	174,366
Retained earnings	54,768	37,577
Accumulated other comprehensive income (loss), net	651	(1,647)
Total shareholders' equity	224,643	210,296
Total liabilities and shareholders' equity	**$ 1,699,446**	**$ 1,697,028**

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	**2018**	**2019**	**2018**
Interest income:				
Interest and fees on loans	$ 21,876	$ 19,699	$ 64,779	$ 55,749
Interest on tax-exempt investment securities	38	39	115	120
Interest on investment securities	940	892	3,018	2,528
Interest and dividends on other interest-earning assets	833	866	2,757	2,071
Total interest income	23,687	21,496	70,669	60,468
Interest expense:				
Interest on deposits	6,060	4,643	17,925	12,101
Interest on borrowings	98	137	370	475
Total interest expense	6,158	4,780	18,295	12,576
Net interest income	17,529	16,716	52,374	47,892
Provision (reversal) for loan losses	(102)	417	207	937
Net interest income after provision for loan losses	17,631	16,299	52,167	46,955
Noninterest income:				
Service charges and fees on deposits	405	377	1,137	1,102
Loan servicing income	534	578	1,657	1,789
Gain on sale of loans	1,540	1,328	4,551	4,477
Other income	323	297	920	847
Total noninterest income	2,802	2,580	8,265	8,215
Noninterest expense:				
Salaries and employee benefits	6,901	5,840	20,123	18,239
Occupancy and equipment	1,408	1,244	4,128	3,634
Professional fees	664	213	2,108	1,724
Marketing and business promotion	292	555	1,049	1,484
Data processing	348	314	1,004	911
Director fees and expenses	188	220	562	661
Regulatory assessments	—	192	425	469
Other expenses	976	942	2,651	2,969
Total noninterest expense	10,777	9,520	32,050	30,091
Income before income taxes	9,656	9,359	28,382	25,079
Income tax expense	2,871	2,816	8,432	7,510
Net income	**$ 6,785**	**$ 6,543**	**$ 19,950**	**$ 17,569**
Earnings per common share, basic	$ 0.43	$ 0.44	$ 1.25	$ 1.27
Earnings per common share, diluted	$ 0.42	$ 0.44	$ 1.23	$ 1.25
Weighted-average common shares outstanding, basic	15,816,269	14,730,120	15,943,603	13,865,190
Weighted-average common shares outstanding, diluted	16,099,598	14,924,546	16,231,848	14,051,561

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income	$ 6,785	$ 6,543	$ 19,950	$ 17,569
Other comprehensive income (loss):				
Unrealized gain (loss) on securities available-for-sale arising during the period	443	(604)	3,253	(2,564)
Income tax benefit (expense) related to items of other comprehensive income	(130)	176	(955)	747
Total other comprehensive income (loss), net of tax	313	(428)	2,298	(1,817)
Total comprehensive income	**$ 7,098**	**$ 6,115**	**$ 22,248**	**$ 15,752**

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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

	Three Months Ended				
		Shareholders’ Equity			
	Common Stock Outstanding Shares	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at July 1, 2018	**13,435,214**	**$ 128,785**	**$ 25,258**	**$ (2,612)**	**$ 151,431**
Comprehensive income (loss)					
Net income	—	—	6,543	—	6,543
Other comprehensive loss, net of tax	—	—	—	(428)	(428)
Stock issued under stock offering, net of expenses	2,508,234	45,537	—	—	45,537
Share-based compensation expense	—	147	—	—	147
Stock options exercised	29,466	184	—	—	184
Cash dividends declared on common stock ($0.03 per share)	—	—	(476)	—	(476)
Balance at September 30, 2018	**15,972,914**	**$ 174,653**	**$ 31,325**	**$ (3,040)**	**$ 202,938**
Balance at July 1, 2019	**15,980,655**	**$ 174,135**	**$ 48,927**	**$ 338**	**$ 223,400**
Comprehensive income					
Net income	—	—	6,785	—	6,785
Other comprehensive income, net of tax	—	—	—	313	313
Issuance of restricted stock	37,700	—	—	—	—
Repurchase of common stock	(316,518)	(5,130)	—	—	(5,130)
Share-based compensation expense	—	180	—	—	180
Stock options exercised	8,450	39	—	—	39
Cash dividends declared on common stock ($0.06 per share)	—	—	(944)	—	(944)
Balance at September 30, 2019	**15,710,287**	**$ 169,224**	**$ 54,768**	**$ 651**	**$ 224,643**

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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

	Nine Months Ended								
		Shareholders' Equity							
	Common Stock Outstanding Shares		Common Stock		Retained Earnings		Accumulated Other Comprehensive Income (Loss)		Total
Balance at January 1, 2018	**13,417,899**	**$**	**128,371**	**$**	**15,036**	**$**	**(1,223)**	**$**	**142,184**
Comprehensive income (loss)									
Net income	—		—		17,569		—		17,569
Other comprehensive loss, net of tax	—		—		—		(1,817)		(1,817)
Stock issued under stock offering, net of expenses	2,508,234		45,537		—		—		45,537
Share-based compensation expense	—		486		—		—		486
Stock options exercised	46,781		259		—		—		259
Cash dividends declared on common stock ($0.09 per share)	—		—		(1,280)		—		(1,280)
Balance at September 30, 2018	**15,972,914**	**$**	**174,653**	**$**	**31,325**	**$**	**(3,040)**	**$**	**202,938**
Balance at January 1, 2019	**15,977,754**	**$**	**174,366**	**$**	**37,577**	**$**	**(1,647)**	**$**	**210,296**
Comprehensive income									
Net income	—		—		19,950		—		19,950
Other comprehensive income, net of tax	—		—		—		2,298		2,298
Issuance of restricted stock	37,700		—		—		—		—
Repurchase of common stock	(374,069)		(6,104)		—		—		(6,104)
Share-based compensation expense	—		503		—		—		503
Stock options exercised	68,902		459		—		—		459
Cash dividends declared on common stock ($0.17 per share)	—		—		(2,706)		—		(2,706)
Cumulative effect adjustment upon adoption of new lease accounting standard	—		—		(53)		—		(53)
Balance at September 30, 2019	**15,710,287**	**$**	**169,224**	**$**	**54,768**	**$**	**651**	**$**	**224,643**

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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

	Nine Months Ended September 30,	
	2019	**2018**
Cash flows from operating activities		
Net income	$ 19,950	$ 17,569
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of premises and equipment	1,152	926
Net amortization of premiums on securities	641	577
Net accretion of discounts on loans	(3,083)	(3,057)
Net accretion of deferred loan costs (fees)	(327)	(371)
Amortization of servicing assets	1,875	1,931
Provision for loan losses	207	937
Deferred tax expense (benefit)	(967)	386
Stock-based compensation	503	486
Gain on sale of loans	(4,551)	(4,477)
Originations of loans held-for-sale	(75,023)	(78,478)
Proceeds from sales of and principal collected on loans held-for-sale	84,943	76,310
Change in accrued interest receivable and other assets	840	989
Change in accrued interest payable and other liabilities	(326)	2,798
Net cash provided by operating activities	25,834	16,526
Cash flows from investing activities		
Purchase of securities available-for-sale	(6,247)	(26,073)
Proceeds from maturities, calls, and paydowns of securities available-for-sale	21,365	17,543
Purchase of securities held-to-maturity	(2,150)	(2,011)
Proceeds from maturities and paydowns of securities held-to-maturity	2,192	1,078
Proceeds from sale of loans held-for-sale previously classified as held-for-investment	826	7,208
Net change in loans held-for-investment	(50,280)	(125,059)
Purchase of loans held-for-investment	(893)	—
Purchase of Federal Home Loan Bank stock	(912)	(844)
Proceeds from sale of other real estate owned	321	102
Purchases of premises and equipment	(575)	(824)
Net cash used in investing activities	(36,353)	(128,880)
Cash flows from financing activities		
Net increase (decrease) in deposits	(11,491)	168,236
Repayment of long-term Federal Home Loan Bank advances	(10,000)	(10,000)
Stock options exercised	459	259
Stock issued under stock offering, net of expenses	—	45,537
Repurchase of common stock	(6,104)	—
Cash dividends paid on common stock	(2,706)	(1,280)
Net cash provided by (used in) financing activities	(29,842)	202,752
Net increase (decrease) in cash and cash equivalents	(40,361)	90,398
Cash and cash equivalents at beginning of year	162,273	73,658
Cash and cash equivalents at end of year	**$ 121,912**	**$ 164,056**

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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

	Nine Months Ended September 30,	
	2019	**2018**
Supplemental disclosures of cash flow information:		
Interest paid	$ 19,018	$ 9,863
Income taxes paid	9,410	5,359
Supplemental disclosures of non-cash investment activities:		
Loans transferred to loans held-for-sale	$ 824	$ 7,034
Loans transferred to other real estate owned	50	—
Right of use assets obtained in exchange for lease obligations	1,616	—

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

Note 1 - Basis of Presentation and Significant Accounting Policies

Nature of Operations

PCB Bancorp (collectively, with its consolidated subsidiary, the “Company,” “we,” “us” or “our”) is a bank holding company whose subsidiary is Pacific City Bank (the “Bank”). The Company changed its corporate name from “Pacific City Financial Corporation” to “PCB Bancorp” in July 2019. 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 Fort Lee, New Jersey and Bayside, New York, and 10 loan production offices (“LPOs”) in Irvine, Artesia and Los Angeles, California; Annandale, Virginia; Chicago, Illinois; Atlanta, Georgia; 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 accompanying unaudited interim consolidated financial statements have been prepared pursuant to Article 10 of SEC Regulation S-X and other SEC rules and regulations for reporting on the Quarterly Report on Form 10-Q. Accordingly, certain disclosures required by U.S. generally accepted accounting principles (“GAAP”) are not included herein. These interim statements should be read in conjunction with the audited consolidated financial statements and notes included in the Annual Report on Form 10-K for the year ended December 31, 2018 filed by the Company with the SEC. The December 31, 2018 balance sheet presented herein has been derived from the audited financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2018 filed with the SEC, but does not include all of the disclosures required by GAAP for complete financial statements.

In the opinion of management of the Company, the accompanying unaudited interim consolidated financial statements reflect all of the adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the consolidated financial condition and consolidated results of operations as of the dates and for the periods presented. Certain reclassifications have been made in the prior period financial statements to conform to the current period presentation. The results of operations for the nine months ended September 30, 2019 are not necessarily indicative of the results that may be expected for the year ending December 31, 2019.

Principles of Consolidation

The consolidated financial statements include the accounts of PCB Bancorp and its wholly owned subsidiary as of September 30, 2019 and December 31, 2018 and for the three and nine months ended September 30, 2019 and 2018. 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 subsidiary.

Significant Accounting Policies

The accounting and reporting policies of the Company are based upon GAAP and conform to predominant practices within the banking industry. The Company has not made any significant changes in its critical accounting policies from those disclosed in its Annual Report on Form 10-K for the year ended December 31, 2018 filed with the SEC. Refer to Adopted Accounting Pronouncements below for discussion of accounting pronouncements adopted during the nine months ended September 30, 2019.

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.

Adopted Accounting Pronouncements

During the nine months ended September 30, 2019, the following accounting pronouncements applicable to the Company were adopted:

In February 2016, the FASB issued Accounting Standard Update ("ASU") 2016-02, *"Leases (Topic 842)."* In July 2018, the FASB issued ASU 2018-10, *"Codification Improvements to Topic 842, Leases,"* and ASU 2018-11, *"Leases Topic 842, Targeted Improvements,"* to provide additional clarification, implementation, and transition guidance on certain aspects of ASU 2016-02. The amendments in ASU 2016-02 require lessees to recognize lease assets and lease liabilities for both leases classified as operating leases and finance leases, except leases with a term of 12 months or less where lessees are permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. For leases with a term of greater than 12 months, lessees are required to recognize a liability to make lease payments and a right-of-use assets representing its right to use the underlying asset for the lease term measured at the present value of the lease payments. ASU 2016-02 and ASU 2018-10 are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years for a public business entity. Under ASU 2018-11, an additional transition option was provided that would allow entities to not apply the new guidance in the comparative periods they present in their financial statements in the year of adoption. Under this optional transition method, entities will be allowed to continue using and presenting leases under Accounting Standard Codification ("ASC") 840 for prior years comparative periods and then prospectively adopt ASC 842 on January 1, 2019, recognizing a cumulative-effect adjustment to the opening balance of retained earnings.

The Company adopted this guidance in the first quarter of 2019 using the optional transition method with a cumulative effect adjustment to retained earnings without restating prior period financial statements for comparable amounts. The Company elected the package of practical expedients permitted under the transition guidance within this ASU, which allowed the Company to carry forward the historical lease classification. The Company completed its review of its existing lease contracts and service contracts that may include embedded leases, and updated processes and internal controls for leasing activities. The Company recognized right-of-use lease assets and liabilities of $9.6 million and $10.6 million, respectively, with a cumulative effect adjustment of $53 thousand to retained earnings at the date of adoption. Adoption of this ASU did not have a material impact on the Company's consolidated financial statements other than the recognition of right-of-use lease assets and liabilities. See Note 6 for additional information.

In March 2017, the FASB issued ASU 2017-08, *"Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities."* The amendments in this ASU shorten the amortization period for certain callable debt securities acquired at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount, which continue to be amortized to maturity. Public business entities must prospectively apply the amendments in this ASU to annual periods beginning after December 15, 2018, including interim periods. Adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

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 July 2019, the FASB voted to tentatively delay the effective date of this ASU to 2023 for certain SEC filers that are Smaller Reporting Companies, which would apply to the Company. In October 2019, the FASB approved this proposed amendment. The Company plans to adopt this ASU at the delayed effective date of 2023.

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 other real estate owned ("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. Securities held-to-maturity are not measured at fair value on a recurring basis.

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 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: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
September 30, 2019				
Securities available-for-sale:				
U.S. government agency and U.S. government sponsored enterprise securities:				
Residential mortgage-backed securities	$ —	$ 64,484	$ —	$ 64,484
Residential collateralized mortgage obligations	—	49,192	—	49,192
SBA loan pool securities	—	20,138	—	20,138
Municipal bonds	—	788	—	788
Total securities available-for-sale	—	134,602	—	134,602
Total assets measured at fair value on a recurring basis	**$ —**	**$ 134,602**	**$ —**	**$ 134,602**
Total liabilities measured at fair value on a recurring basis	**$ —**	**$ —**	**$ —**	**$ —**
December 31, 2018				
Securities available-for-sale:				
U.S. government agency and U.S. government sponsored enterprise securities:				
Residential mortgage-backed securities	$ —	$ 67,921	$ —	$ 67,921
Residential collateralized mortgage obligations	—	55,649	—	55,649
SBA loan pool securities	—	22,632	—	22,632
Municipal bonds	—	789	—	789
Total securities available-for-sale	—	146,991	—	146,991
Total assets measured at fair value on a recurring basis	**$ —**	**$ 146,991**	**$ —**	**$ 146,991**
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 Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
September 30, 2019				
Impaired loans:				
SBA property	$ —	$ —	$ 654	$ 654
Total impaired loans	—	—	654	654
Total assets measured at fair value on a non-recurring basis	**$ —**	**$ —**	**$ 654**	**$ 654**
Total liabilities measured at fair value on a non-recurring basis	**$ —**	**$ —**	**$ —**	**$ —**
December 31, 2018				
Impaired loans:				
SBA property	$ —	$ —	$ 51	$ 51
Total impaired loans	—	—	51	51
Total assets measured at fair value on a non-recurring basis	**$ —**	**$ —**	**$ 51**	**$ 51**
Total liabilities measured at fair value on a non-recurring basis	**$ —**	**$ —**	**$ —**	**$ —**

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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
($ in thousands)	2019	2018	2019	2018
Collateral dependent impaired loans:				
Commercial property	$ —	$ —	$ —	$ (53)
SBA property	—	—	(20)	(151)
Servicing assets - residential property loans	—	(4)	—	(4)
Other real estate owned	(18)	—	(18)	3
Net losses recognized	**$ (18)**	**$ (4)**	**$ (38)**	**$ (205)**

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 Federal Home Loan Bank ("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:

			Fair Value Measurements		
($ in thousands)	**Carrying Value**	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
September 30, 2019					
Financial assets:					
Interest-bearing deposits in other financial institutions	$ 99,366	$ 99,366	$ 99,366	$ —	$ —
Securities available-for-sale	134,602	134,602	—	134,602	—
Securities held-to-maturity	21,601	21,872	—	21,872	—
Loans held-for-sale	1,583	1,711	—	1,711	—
Net loans held-for-investment	1,376,736	1,385,687	—	—	1,385,657
FHLB and other restricted stock	8,345	N/A	N/A	N/A	N/A
Accrued interest receivable	4,906	4,906	24	477	4,405
Financial liabilities:					
Deposits	$ 1,432,262	$ 1,444,344	$ —	$ —	$ 1,444,344
FHLB advances	20,000	20,129	—	20,129	—
Accrued interest payable	5,500	5,500	—	1	5,499
December 31, 2018					
Financial assets:					
Interest-bearing deposits in other financial institutions	$ 138,152	$ 138,152	$ 138,152	$ —	$ —
Securities available-for-sale	146,991	146,991	—	146,991	—
Securities held-to-maturity	21,760	21,152	—	21,152	—
Loans held-for-sale	5,781	6,175	—	6,175	—
Net loans held-for-investment	1,325,515	1,337,299	—	—	1,337,299
FHLB and other restricted stock	7,433	N/A	N/A	N/A	N/A
Accrued interest receivable	5,178	5,178	112	568	4,498
Financial liabilities:					
Deposits	$ 1,443,753	$ 1,425,023	$ —	$ —	$ 1,425,023
FHLB advances	30,000	29,641	—	29,641	—
Accrued interest payable	6,223	6,223	—	1	6,222

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. 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
September 30, 2019				
Securities available-for-sale:				
U.S. government agency and U.S. government sponsored enterprise securities:				
Residential mortgage-backed securities	$ 63,847	$ 862	$ (225)	$ 64,484
Residential collateralized mortgage obligations	49,335	159	(302)	49,192
SBA loan pool securities	19,935	232	(29)	20,138
Municipal bonds	769	19	—	788
Total securities available-for-sale	**$ 133,886**	**$ 1,272**	**$ (556)**	**$ 134,602**
Securities held-to-maturity:				
U.S. government agency and U.S. government sponsored enterprise residential mortgage-backed securities	$ 16,655	$ 47	$ (115)	$ 16,587
Municipal bonds	4,946	339	—	5,285
Total securities held-to-maturity	**$ 21,601**	**$ 386**	**$ (115)**	**$ 21,872**
December 31, 2018				
Securities available-for-sale:				
U.S. government agency and U.S. government sponsored enterprise securities:				
Residential mortgage-backed securities	$ 68,975	$ 177	$ (1,231)	$ 67,921
Residential collateralized mortgage obligations	56,625	55	(1,031)	55,649
SBA loan pool securities	23,144	—	(512)	22,632
Municipal bonds	784	5	—	789
Total securities available-for-sale	**$ 149,528**	**$ 237**	**$ (2,774)**	**$ 146,991**
Securities held-to-maturity:				
U.S. government agency and U.S. government sponsored enterprise residential mortgage-backed securities	$ 16,659	$ —	$ (602)	$ 16,057
Municipal bonds	5,101	37	(43)	5,095
Total securities held-to-maturity	**$ 21,760**	**$ 37**	**$ (645)**	**$ 21,152**

As of September 30, 2019 and December 31, 2018, pledged securities were $98.9 million and $112.2 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 September 30, 2019. Expected maturities may differ from contractual maturities, if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separately.

	Securities Available-For-Sale		Securities Held-To-Maturity	
($ in thousands)	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
Within one year	$ —	$ —	$ 103	$ 103
One to five years	—	—	2,234	2,302
Five to ten years	769	788	285	299
Greater than ten years	—	—	2,324	2,581
Residential mortgage-backed securities, residential collateralized mortgage obligations and SBA loan pool securities	133,117	133,814	16,655	16,587
Total	**$ 133,886**	**$ 134,602**	**$ 21,601**	**$ 21,872**

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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
($ in thousands)	**2019**	**2018**	**2019**	**2018**
Gross realized gains on sales and calls of securities available-for-sale	$ —	$ —	$ —	$ —
Gross realized losses on sales and calls of securities available-for-sale	—	—	—	—
Net realized gains (losses) on sales and calls of securities available-for-sale	**$ —**	**$ —**	**$ —**	**$ —**
Proceeds from sales and calls of securities available-for-sale	**$ —**	**$ —**	**$ —**	**$ 1,060**
Tax expense on sales and calls of securities available-for-sale	**$ —**	**$ —**	**$ —**	**$ —**

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

	Length of Time that Individual Securities Have Been In a Continuous Unrealized Loss Position								
	Less Than 12 Months			**12 Months or Longer**			**Total**		
($ in thousands)	**Fair Value**	**Gross Unrealized Losses**	**Number of Securities**	**Fair Value**	**Gross Unrealized Losses**	**Number of Securities**	**Fair Value**	**Gross Unrealized Losses**	**Number of Securities**
September 30, 2019									
Securities available-for-sale:									
U.S. government agency and U.S. government sponsored enterprise securities:									
Residential mortgage-backed securities	$ 2,914	$ (8)	5	$23,728	$ (217)	31	$ 26,642	$ (225)	36
Residential collateralized mortgage obligations	18,080	(59)	14	20,116	(243)	23	38,196	(302)	37
SBA loan pool securities	2,574	(11)	2	2,382	(18)	4	4,956	(29)	6
Total securities available-for-sale	**$ 23,568**	**$ (78)**	**21**	**$46,226**	**$ (478)**	**58**	**$ 69,794**	**$ (556)**	**79**
Securities held-to-maturity:									
U.S. government agency and U.S. government sponsored enterprise residential mortgage-backed securities	$ 1,984	$ (2)	2	$ 8,760	$ (113)	9	$ 10,744	$ (115)	11
Total securities held-to-maturity	**$ 1,984**	**$ (2)**	**2**	**$ 8,760**	**$ (113)**	**9**	**$ 10,744**	**$ (115)**	**11**
December 31, 2018									
Securities available-for-sale:									
U.S. government agency and U.S. government sponsored enterprise securities:									
Residential mortgage-backed securities	$ 1,868	$ (6)	2	$41,845	$ (1,225)	48	$ 43,713	$ (1,231)	50
Residential collateralized mortgage obligations	7,067	(29)	5	34,943	(1,002)	34	42,010	(1,031)	39
SBA loan pool securities	2,809	(7)	2	19,823	(505)	18	22,632	(512)	20
Total securities available-for-sale	**$ 11,744**	**$ (42)**	**9**	**$96,611**	**$ (2,732)**	**100**	**$108,355**	**$ (2,774)**	**109**
Securities held-to-maturity:									
U.S. government agency and U.S. government sponsored enterprise residential mortgage-backed securities	$ 2,022	$ (23)	1	$14,035	$ (579)	15	$ 16,057	$ (602)	16
Municipal bonds	2,600	(38)	8	497	(5)	3	3,097	(43)	11
Total securities held-to-maturity	**$ 4,622**	**$ (61)**	**9**	**$14,532**	**$ (584)**	**18**	**$ 19,154**	**$ (645)**	**27**

The Company performs an other-than-temporary impairment ("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 September 30, 2019 and December 31, 2018 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 September 30, 2019 and December 31, 2018. 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. In addition, the unrealized losses on municipal bonds are not considered other-than-temporary impaired, as the bonds are rated investment grade and there are no credit quality concerns with the issuers at December 31, 2018. All of municipal bonds were with unrealized gains at September 30, 2019. Interest payments have been made as scheduled, and management believes this will continue in the future until the bonds get paid in full. 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 nine months ended September 30, 2019 and 2018.

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)	**September 30, 2019**	**December 31, 2018**
Real estate loans:		
Commercial property	$ 759,881	$ 709,409
Residential property	236,382	233,816
SBA property	126,347	120,939
Construction	17,175	27,323
Total real estate loans	1,139,785	1,091,487
Commercial and industrial loans:		
Commercial term	105,433	102,133
Commercial lines of credit	95,997	91,994
SBA commercial term	25,326	27,147
Total commercial and industrial loans	226,756	221,274
Other consumer loans	23,289	25,921
Loans held-for-investment	**1,389,830**	**1,338,682**
Allowance for loan losses	(13,094)	(13,167)
Net loans held-for-investment	**$ 1,376,736**	**$ 1,325,515**

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 September 30, 2019 and December 31, 2018, the Company had $3.8 million and $2.4 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 three months ended September 30, 2019 and 2018:

	Three Months Ended			
($ in thousands)	Real Estate	Commercial and Industrial	Other Consumer	Total
Balance at July 1, 2019	$ 9,711	$ 3,426	$ 191	$ 13,328
Charge-offs	—	(179)	(47)	(226)
Recoveries on loans previously charged off	—	38	56	94
Provision (reversal) for loan losses	(33)	(6)	(63)	(102)
Balance at September 30, 2019	**$ 9,678**	**$ 3,279**	**$ 137**	**$ 13,094**
Balance at July 1, 2018	$ 9,323	$ 3,108	$ 190	$ 12,621
Charge-offs	—	(18)	(26)	(44)
Recoveries on loans previously charged off	16	46	41	103
Provision for loan losses	269	108	40	417
Balance at September 30, 2018	**$ 9,608**	**$ 3,244**	**$ 245**	**$ 13,097**

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 nine months ended September 30, 2019 and 2018:

	Nine Months Ended			
($ in thousands)	Real Estate	Commercial and Industrial	Other Consumer	Total
Balance at January 1, 2019	$ 9,104	$ 3,877	$ 186	$ 13,167
Charge-offs	(19)	(347)	(158)	(524)
Recoveries on loans previously charged off	4	112	128	244
Provision (reversal) for loan losses	589	(363)	(19)	207
Balance at September 30, 2019	**$ 9,678**	**$ 3,279**	**$ 137**	**$ 13,094**
Balance at January 1, 2018	$ 8,507	$ 3,548	$ 169	$ 12,224
Charge-offs	(204)	(108)	(167)	(479)
Recoveries on loans previously charged off	68	280	67	415
Provision (reversal) for loan losses	1,237	(476)	176	937
Balance at September 30, 2018	**$ 9,608**	**$ 3,244**	**$ 245**	**$ 13,097**

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	Other Consumer	Total
September 30, 2019				
Allowance for loan losses:				
Individually evaluated for impairment	$ 84	$ —	$ —	$ 84
Collectively evaluated for impairment	9,594	3,279	137	13,010
Total	**$ 9,678**	**$ 3,279**	**$ 137**	**$ 13,094**
Loans receivable:				
Individually evaluated for impairment	$ 2,082	$ 468	$ —	$ 2,550
Collectively evaluated for impairment	1,137,703	226,288	23,289	1,387,280
Total	**$ 1,139,785**	**$ 226,756**	**$ 23,289**	**$ 1,389,830**
December 31, 2018				
Allowance for loan losses:				
Individually evaluated for impairment	$ 1	$ 93	$ —	$ 94
Collectively evaluated for impairment	9,103	3,784	186	13,073
Total	**$ 9,104**	**$ 3,877**	**$ 186**	**$ 13,167**
Loans receivable:				
Individually evaluated for impairment	$ 1,156	$ 320	$ —	$ 1,476
Collectively evaluated for impairment	1,090,331	220,954	25,921	1,337,206
Total	**$ 1,091,487**	**$ 221,274**	**$ 25,921**	**$ 1,338,682**

Credit Quality Indicators

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

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**
September 30, 2019					
Real estate loans:					
Commercial property	$ 759,232	$ —	$ 649	$ —	$ 759,881
Residential property	236,382	—	—	—	236,382
SBA property	119,748	73	6,526	—	126,347
Construction	15,485	1,690	—	—	17,175
Commercial and industrial loans:					
Commercial term	105,425	—	8	—	105,433
Commercial lines of credit	95,670	—	327	—	95,997
SBA commercial term	24,965	—	361	—	25,326
Other consumer loans	23,282	—	7	—	23,289
Total	**$ 1,380,189**	**$ 1,763**	**$ 7,878**	**$ —**	**$ 1,389,830**
December 31, 2018					
Real estate loans:					
Commercial property	$ 708,742	$ —	$ 667	$ —	$ 709,409
Residential property	233,514	—	302	—	233,816
SBA property	115,543	74	5,322	—	120,939
Construction	24,325	2,998	—	—	27,323
Commercial and industrial loans:					
Commercial term	102,106	—	27	—	102,133
Commercial lines of credit	91,395	599	—	—	91,994
SBA commercial term	26,616	—	531	—	27,147
Other consumer loans	25,905	—	16	—	25,921
Total	**$ 1,328,146**	**$ 3,671**	**$ 6,865**	**$ —**	**$ 1,338,682**

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: 30 to 59 Days Past Due	Still Accruing: 60 to 89 Days Past Due	Still Accruing: 90 or More Days Past Due	Nonaccrual	Total Past Due and Nonaccrual
September 30, 2019					
Real estate loans:					
SBA property	$ —	$ —	$ —	$ 1,441	$ 1,441
Commercial and industrial loans:					
Commercial term	110	—	—	—	110
Commercial lines of credit	—	—	—	327	327
SBA commercial term	472	—	—	68	540
Other consumer loans	82	59	—	7	148
Total	**$ 664**	**$ 59**	**$ —**	**$ 1,843**	**$ 2,566**
December 31, 2018					
Real estate loans:					
Residential property	$ 95	$ —	$ —	$ 302	$ 397
SBA property	183	—	—	540	723
Commercial and industrial loans:					
SBA commercial term	—	—	—	203	203
Other consumer loans	90	9	—	16	115
Total	**$ 368**	**$ 9**	**$ —**	**$ 1,061**	**$ 1,438**

There were no nonaccrual loans guaranteed by a U.S. government agency at September 30, 2019 and December 31, 2018.

Impaired Loans

Loans are considered impaired in the following cases: (i) the loan is on nonaccrual, (ii) when principal or interest payments on the loan have been contractually past due for 90 days or more, unless the loan is both well-collateralized and in the process of collection, (iii) the loan is classified as a troubled debt restructuring ("TDR") where terms not typically granted by the Company were offered to the borrower, (iv) when current information or events make it unlikely to collect the loan balance in full according to the contractual terms of the loan agreement, (v) there is a deterioration in the borrower's financial condition that raises uncertainty as to timely collection of either principal or interest, or (vi) full payment of both principal and interest of the loan according to the original contractual terms is in doubt.

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.

	With No Allowance Recorded		With an Allowance Recorded		
($ in thousands)	**Recorded Investment**	**Unpaid Principal Balance**	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**
September 30, 2019					
Real estate loans:					
Commercial property	$ 341	$ 340	$ —	$ —	$ —
SBA property	1,003	1,058	738	817	84
Commercial and industrial loans:					
Commercial term	40	40	—	—	—
Commercial lines of credit	327	327	—	—	—
SBA commercial term	101	116	—	—	—
Total	**$ 1,812**	**$ 1,881**	**$ 738**	**$ 817**	**$ 84**
December 31, 2018					
Real estate loans:					
Residential property	$ 302	$ 303	$ —	$ —	$ —
SBA property	802	854	52	50	1
Commercial and industrial loans:					
Commercial term	68	69	—	—	—
SBA commercial term	73	99	179	189	93
Total	**$ 1,245**	**$ 1,325**	**$ 231**	**$ 239**	**$ 94**

The following table presents information on the recorded investment in impaired loans by portfolio segment for the three months ended September 30, 2019 and 2018:

	Three Months Ended September 30,			
	2019		2018	
($ in thousands)	Average Recorded Investment	Interest Income	Average Recorded Investment	Interest Income
Real estate loans:				
Commercial property	$ 341	$ 6	$ 237	$ —
SBA property	1,896	5	1,297	5
Commercial and industrial loans:				
Commercial term	43	1	85	1
Commercial lines of credit	327	—	—	—
SBA commercial term	105	1	331	1
Total	**$ 2,712**	**$ 13**	**$ 1,950**	**$ 7**

The following table presents information on the recorded investment in impaired loans by portfolio segment for the nine months ended September 30, 2019 and 2018:

	Nine Months Ended September 30,			
	2019		2018	
($ in thousands)	Average Recorded Investment	Interest Income	Average Recorded Investment	Interest Income
Real estate loans:				
Commercial property	$ 114	$ 6	$ 266	$ —
Residential property	50	—	274	—
SBA property	1,637	17	1,329	16
Commercial and industrial loans:				
Commercial term	52	3	124	6
Commercial lines of credit	109	—	7	—
SBA commercial term	135	3	420	7
Total	**$ 2,097**	**$ 29**	**$ 2,420**	**$ 29**

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
($ in thousands)	2019	2018	2019	2018
Interest income that would have been recognized had impaired loans performed in accordance with their original terms	$ 49	$ 34	$ 113	$ 163
Less: interest income recognized on impaired loans on a cash basis	(13)	(8)	(29)	(63)
Interest income foregone on impaired loans	**$ 36**	**$ 26**	**$ 84**	**$ 100**

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:

	September 30, 2019			December 31, 2018		
($ in thousands)	**Accruing**	**Nonaccrual**	**Total**	**Accruing**	**Nonaccrual**	**Total**
Real estate loans:						
Commercial property	$ 341	$ —	$ 341	$ —	$ —	$ —
SBA property	300	249	549	315	—	315
Commercial and industrial loans:						
Commercial term	40	—	40	68	—	68
SBA commercial term	32	—	32	49	131	180
Total	**$ 713**	**$ 249**	**$ 962**	**$ 432**	**$ 131**	**$ 563**

The following table presents information on new loans that were modified as TDRs for the three months ended September 30, 2019 and 2018:

	Three Months Ended September 30,					
	2019			2018		
($ in thousands)	**Number of Loans**	**Pre-Modification Outstanding Recorded Investment**	**Post-Modification Outstanding Recorded Investment**	**Number of Loans**	**Pre-Modification Outstanding Recorded Investment**	**Post-Modification Outstanding Recorded Investment**
Real estate loans:						
Commercial property (1)	1	$ 341	$ 341	—	$ —	$ —
SBA property (2)	1	123	123	—	—	—
Total	**2**	**$ 464**	**$ 464**	**—**	**$ —**	**$ —**

(1) Modified by extension of maturity and interest rate adjustment.

(2) Modified by deferral of principal payment.

The following table presents information on new loans that were modified as TDRs for the nine months ended September 30, 2019 and 2018:

	Nine Months Ended September 30,					
	2019			2018		
($ in thousands)	**Number of Loans**	**Pre-Modification Outstanding Recorded Investment**	**Post-Modification Outstanding Recorded Investment**	**Number of Loans**	**Pre-Modification Outstanding Recorded Investment**	**Post-Modification Outstanding Recorded Investment**
Real estate loans:						
Commercial property (1)	1	$ 341	$ 341	—	$ —	$ —
SBA property (2)	2	254	254	—	$ —	$ —
Total	**3**	**$ 595**	**$ 595**	**—**	**$ —**	**$ —**

(1) Modified by extension of maturity and interest rate adjustment.

(2) Modified by deferral of principal payment.

The Company had no commitments to lend to customers with outstanding loans that were classified as TDRs as of September 30, 2019 and December 31, 2018.

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 $81 thousand and $86 thousand of allowance for loan losses as of September 30, 2019 and December 31, 2018, respectively.

There were no loans that were modified as TDRs for which there was a payment default within twelve months following the modification for the three months ended September 30, 2019 and 2018. The following table presents information on loans that were modified as TDRs for which there was a payment default within twelve months following the modification for the nine months ended September 30, 2019 and 2018:

	Nine Months Ended September 30,			
	2019		2018	
($ in thousands)	Number of Loans	Recorded Investment at Date of Default	Number of Loans	Recorded Investment at Date of Default
Commercial and industrial loans:				
SBA commercial term	—	$ —	2	$ 233
Total	**—**	**$ —**	**2**	**$ 233**

Purchases, Sales, and Transfers

The Company transferred residential property loans of $522 thousand to loans held-for-sale during the three months ended September 30, 2019. During the nine months ended September 30, 2019, the Company transferred residential property loans of $824 thousand to loans held-for-sale.

The Company did not transfer any loans held-for-investment to loans held-for-sale during the three months ended September 30, 2018. During the nine months ended September 30, 2018, the Company transferred a commercial property loan of $1.1 million and residential property loans of $6.0 million to loans held-for-sale.

The Company purchased residential property loans of $893 thousand during the three and nine months ended September 30, 2019. The Company had no purchases of loans held-for-investment during the three and nine months ended September 30, 2018.

The Company had no sales of loans held-for-investment during the three and nine months ended September 30, 2019 and 2018.

Loans Held-For-Sale

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

($ in thousands)	September 30, 2019	December 31, 2018
Real estate loans:		
Residential property	$ 334	$ —
SBA property	1,249	5,481
Commercial and industrial loans:		
SBA commercial term	—	300
Total	**$ 1,583**	**$ 5,781**

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.

Note 5 - Servicing Assets

At September 30, 2019 and December 31, 2018, total servicing assets were $6.9 million and $7.7 million, respectively. The Company sold loans of $22.2 million and $23.1 million, respectively, with the servicing rights retained and recognized a net gain on sale of $1.5 million and $1.3 million, respectively, during the three months ended September 30, 2019 and 2018. During the nine months ended September 30, 2019 and 2018, the Company sold loans of $72.5 million and $71.5 million, respectively, with the servicing rights retained and recognized a net gain on sale of $4.5 million and $4.4 million, respectively. Loan servicing income was $534 thousand and $578 thousand, respectively, for the three months ended September 30, 2019 and 2018, and $1.7 million and $1.8 million, respectively, for the nine months ended September 30, 2019 and 2018.

All classes of servicing assets are measured using the amortization method and evaluated for impairment quarterly by comparing the fair value of the servicing right to the carrying amount. Fair value is estimated by stratifying the loans sold between mortgage and non-mortgage loans and discounting estimated future cash flows from the servicing assets using discount rates that approximate current market rates over the expected lives of the loans being serviced. For the purposes of measuring impairment, the Company has identified each servicing asset with the underlying loan being serviced, and a valuation allowance is recorded when the fair value is below the carrying amount.

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

	September 30, 2019			December 31, 2018		
($ in thousands)	Residential Property	SBA Property	SBA Commercial Term	Residential Property	SBA Property	SBA Commercial Term
Carrying amount	$ 189	$ 5,848	$ 862	$ 244	$ 6,349	$ 1,073
Fair value	$ 217	$ 6,645	$ 1,000	$ 298	$ 6,937	$ 1,206
Discount rate	11.25%	13.25%	12.75%	11.25%	13.25%	12.75%
Prepayment speed	27.20%	15.98%	16.27%	25.00%	14.12%	13.55%
Weighted average remaining life	24.4 years	21.2 years	7.1 years	25.2 years	21.1 years	7.4 years
Underlying loans being serviced	$ 35,805	$ 375,242	$ 82,876	$ 45,728	$ 367,856	$ 93,073

The following table presents activity in servicing assets for the three months ended September 30, 2019 and 2018:

	Three Months Ended September 30,					
	2019			2018		
($ in thousands)	Residential Property	SBA Property	SBA Commercial Term	Residential Property	SBA Property	SBA Commercial Term
Balance at beginning of period	$ 204	$ 6,094	$ 932	$ 285	$ 6,940	$ 1,165
Additions	—	292	39	—	297	55
Amortization	(15)	(538)	(109)	(21)	(559)	(107)
Impairment	—	—	—	(4)	63	—
Balance at end of period	**$ 189**	**$ 5,848**	**$ 862**	**$ 260**	**$ 6,741**	**$ 1,113**

The following table presents activity in servicing assets for the nine months ended September 30, 2019 and 2018:

	Nine Months Ended September 30,					
	2019			2018		
($ in thousands)	Residential Property	SBA Property	SBA Commercial Term	Residential Property	SBA Property	SBA Commercial Term
Balance at beginning of period	$ 244	$ 6,349	$ 1,073	$ 308	$ 7,369	$ 1,296
Additions	—	962	146	22	865	189
Amortization	(55)	(1,463)	(357)	(66)	(1,493)	(372)
Impairment	—	—	—	(4)	—	—
Balance at end of period	**$ 189**	**$ 5,848**	**$ 862**	**$ 260**	**$ 6,741**	**$ 1,113**

Note 6 - Operating Leases

On January 1, 2019, the Company adopted ASU 2016-02, *"Leases (Topic 842),"* and all subsequent ASUs that are related to Topic 842. As discussed in Note 1, the Company adopted this ASU using the optional transition method with a cumulative effect adjustment to retained earnings without restating prior financial statements for comparable amounts. As a result, the Company recognized right-of-use assets and liabilities of $9.6 million and $10.6 million, respectively, with a cumulative effect adjustment of $53 thousand to retained earnings at the date of adoption. The Company made an election to include both the lease and non-lease components as a single component and account for it as a lease.

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 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.

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

($ in thousands)	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
Operating lease cost [1]	$ 680	$ 1,953
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	—	—
Right of use assets obtained in exchange for lease obligations	28	1,616

(1) Included in Occupancy and Equipment on the Consolidated Statements of Income. Operating lease cost for the three and nine months ended September 30, 2018 was under Topic 840.

The Company used the incremental borrowing rate based on the information available at the date of adoption in determining the present value of lease payment. The following table presents supplemental balance sheet information related to leases as of September 30, 2019:

($ in thousands)	September 30, 2019
Operating leases:	
Operating lease assets	$ 9,561
Operating lease liabilities	10,574
Weighted-average remaining lease term	5.2 years
Weighted-average discount rate	2.81%

The following table presets maturities of operating lease liabilities as of September 30, 2019:

($ in thousands)	September 30, 2019
Maturities:	
2019	$ 676
2020	2,686
2021	2,283
2022	2,171
2023	1,828
After 2023	1,899
Total lease payment	11,543
Imputed Interest	(969)
Present value of operating lease liabilities	$ 10,574

Note 7 - Federal Home Loan Bank Advances and Other Borrowings

FHLB Advances

The Company had outstanding FHLB advances of $20.0 million and $30.0 million at September 30, 2019 and December 31, 2018, respectively. FHLB advances consisted of fixed interest rates term borrowings of $20.0 million with original maturity terms ranging from 3 to 5 years and weighted-average interest rate of 1.92% at September 30, 2019. At December 31, 2018, FHLB advances consisted of fixed interest rates term borrowings with original maturity terms ranging from 2 to 5 years and weighted-average interest rate of 1.81%. Each borrowing is payable at its maturity date. Borrowings paid early are subject to a prepayment penalty.

At September 30, 2019 and December 31, 2018, loans pledged to secure borrowings from the FHLB were $613.7 million and $523.4 million, respectively. The Company's investment in capital stock of the FHLB of San Francisco totaled $8.2 million and $7.3 million, respectively, at September 30, 2019 and December 31, 2018. The Company had additional borrowing capacity of $411.6 million and $386.0 million, respectively, from the FHLB as of September 30, 2019 and December 31, 2018.

Other Borrowing Arrangements

At September 30, 2019, the Company had $43.1 million of unused borrowing capacity from the Federal Reserve Discount Window, to which the Company pledged loans with a carrying value of $51.4 million with no outstanding borrowings. In addition, the Company may borrow up to approximately $35.0 million overnight federal funds lines with correspondent financial institutions at September 30, 2019. In May 2019, a line of credit of $25.0 million with an unaffiliated financial institution was terminated. The Company had no outstanding borrowings under the line at the time of termination.

Note 8 - Shareholders' Equity

Common Stock

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 public offering, for gross proceeds of approximately $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 initial public offering price less the underwriting discount. Concurrently with the initial public offering, 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 approximately $2.5 million. Aggregate net proceeds from the offering were $45.0 million after deducting underwriting discounts and commissions and estimated offering expenses.

Stock Repurchase

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 three and nine months ended September 30, 2019, the Company repurchased and retired 316,518 and 374,069 shares, respectively, of common stock totaling $5.1 million and $6.1 million, respectively, as part of the repurchase program.

Cash Dividends

The Company declared quarterly cash dividends on its common stock of $0.06 and $0.03 per share, respectively, for the three months ended September 30, 2019 and 2018, and $0.17 and $0.09, respectively, for the nine months ended September 30, 2019 and 2018.

Change in Accumulated Other Comprehensive Income (Loss)

Components of accumulated other comprehensive income (loss) consisted solely of the change in unrealized gains or losses on securities available-for-sale, net of taxes. Reclassifications from accumulated other comprehensive income (loss) are recorded in the Consolidated Statements of Income either as a gain or loss. The following table presents changes to accumulated other comprehensive income (loss) for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
($ in thousands)	**2019**	**2018**	**2019**	**2018**
Unrealized gain (loss) on securities available-for-sale:				
Beginning balance	$ 338	$ (2,612)	$ (1,647)	$ (1,223)
Other comprehensive income (loss)				
Unrealized gain (loss) arising during the period	443	(604)	3,253	(2,564)
Tax effect of current period changes	(130)	176	(955)	747
Total other comprehensive income (loss)	313	(428)	2,298	(1,817)
Balance at end of period	**$ 651**	**$ (3,040)**	**$ 651**	**$ (3,040)**

Note 9 - Share-Based Compensation

On July 25, 2013, the Company adopted 2013 Equity Based Stock Compensation Plan (“2013 EBSC Plan”) approved by its shareholders to replace the 2003 Stock Option Plan. The 2013 EBSC Plan provides 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 September 30, 2019, there were 539,514 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)	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Share-based compensation expense related to:				
Stock options	$ 158	$ 147	$ 481	$ 486
Restricted stock awards	22	—	22	—
Total share-based compensation expense	**$ 180**	**$ 147**	**$ 503**	**$ 486**
Related tax benefits	**$ 11**	**$ 13**	**$ 33**	**$ 38**

The following table presents unrecognized share-based compensation expense as of September 30, 2019:

($ in thousands)	Unrecognized Expense	Weighted-Average Remaining Expected Recognition Period
Unrecognized share-based compensation expense related to:		
Stock options	$ 1,149	2.3 years
Restricted stock awards	605	4.2 years
Total unrecognized share-based compensation expense	**$ 1,754**	**3.0 years**

Stock Options

The Company has issued stock options to certain employees, officers and directors. Stock options are issued with exercise prices of the closing market price of the Company's stock on the grant date, and generally have a three-to five-year vesting period with contractual terms of ten years.

The following table represents stock option activity for the three months ended September 30, 2019:

($ in thousands except per share data)	Three Months Ended September 30, 2019			
	Number of Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Contractual Term	Aggregated Intrinsic Value
Outstanding at beginning of period	847,839	$ 10.11	6.2 years	$ 5,877
Granted	15,000	$ 16.58	10.0 years	
Exercised	(8,450)	$ 4.51	3.5 years	
Forfeited	(5,638)	$ 10.33	6.1 years	
Outstanding at end of period	**848,751**	**$ 10.75**	6.4 years	**$ 5,302**
Exercisable at end of period	**498,616**	**$ 8.77**	5.3 years	**$ 4,105**

The following table represents stock option activity for the nine months ended September 30, 2019:

($ in thousands except per share data)	Nine Months Ended September 30, 2019					
	Number of Shares		Weighted-Average Exercise Price Per Share	Weighted-Average Contractual Term		Aggregated Intrinsic Value
Outstanding at beginning of period	898,291	$	9.81	6.5 years	$	5,243
Granted	25,000	$	16.94	10.0 years		
Exercised	(68,902)	$	6.65	4.3 years		
Forfeited	(5,638)	$	10.33	6.1 years		
Outstanding at end of period	**848,751**	**$**	**10.75**	6.4 years	**$**	**5,302**
Exercisable at end of period	**498,616**	**$**	**8.77**	5.3 years	**$**	**4,105**

The following table represents information regarding unvested stock options for the three and nine months ended September 30, 2019:

	Three Months Ended September 30, 2019			Nine Months Ended September 30, 2019		
	Number of Shares		Weighted-Average Exercise Price Per Share	Number of Shares		Weighted-Average Exercise Price Per Share
Outstanding at beginning of period	344,773	$	12.23	347,274	$	12.17
Granted	15,000	$	16.58	25,000	$	16.94
Vested	(4,000)	$	14.00	(16,501)	$	14.57
Forfeited	(5,638)	$	10.33	(5,638)	$	10.33
Outstanding at end of period	**350,135**	**$**	**12.43**	**350,135**	**$**	**12.43**

Restricted Stock Awards

The Company also has granted restricted stock awards (“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 following table represents RSAs activity for the three and nine months ended September 30, 2019:

	Three Months Ended September 30, 2019			Nine Months Ended September 30, 2019		
	Number of Shares		Weighted-Average Grant Date Fair Value Per Share	Number of Shares		Weighted-Average Grant Date Fair Value Per Share
Outstanding at beginning of period	—	$	—	—	$	—
Granted	37,700	$	16.61	37,700	$	16.61
Vested	(300)	$	17.09	(300)	$	17.09
Outstanding at end of period	**37,400**	**$**	**16.60**	**37,400**	**$**	**16.60**

Note 10 - Income Taxes

Income tax expense was $2.9 million and $2.8 million, respectively, and the effective tax rate was 29.7% and 30.1%, respectively, for the three months ended September 30, 2019 and 2018. For the nine months ended September 30, 2019 and 2018, income tax expense was $8.4 million and $7.5 million, respectively, and the effective tax rate was 29.7% and 29.9%, respectively.

At September 30, 2019 and December 31, 2018, the Company had no unrecognized tax benefits, or accrued interest or penalties.

The Company and its subsidiaries are subject to U.S. federal income tax as well as income tax in multiple state jurisdictions. The Company is no longer subject to the assessment of U.S. federal income tax for years before 2016. The statute of limitations for the assessment of California Franchise taxes has expired for tax years before 2015 (other state income and franchise tax statutes of limitations vary by state).

Note 11 - 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. The following table presents the computations of basic and diluted EPS for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
($ in thousands, except per share)	**2019**	**2018**	**2019**	**2018**
Basic earnings per share:				
Net income	$ 6,785	$ 6,543	$ 19,950	$ 17,569
Less: income allocated to unvested restricted stock	(8)	—	(8)	—
Net income allocated to common stock	**$ 6,777**	**$ 6,543**	**$ 19,942**	**$ 17,569**
Weighted-average total common shares outstanding	15,835,139	14,730,120	15,949,962	13,865,190
Less: weighted-average unvested restricted stock	(18,870)	—	(6,359)	—
Weighted-average common shares outstanding, basic	**15,816,269**	**14,730,120**	**15,943,603**	**13,865,190**
Basic earnings per share	**$ 0.43**	**$ 0.44**	**$ 1.25**	**$ 1.27**
Diluted earnings per share:				
Net income allocated to common stock	**$ 6,777**	**$ 6,543**	**$ 19,942**	**$ 17,569**
Weighted-average common shares outstanding, basic	15,816,269	14,730,120	15,943,603	13,865,190
Diluted effect of stock options	283,329	194,426	288,245	186,371
Weighted-average common shares outstanding, diluted	**16,099,598**	**14,924,546**	**16,231,848**	**14,051,561**
Diluted earnings per share	**$ 0.42**	**$ 0.44**	**$ 1.23**	**$ 1.25**

Stock options of 155,000 and 163,000 shares, respectively, were excluded in computing diluted EPS because they were anti-dilutive for three and nine months ended September 30, 2019. For three and nine months ended September 30, 2018, there were no stock options excluded in computing diluted EPS because they were anti-dilutive.

Note 12 - 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.

As of September 30, 2019 and December 31, 2018, the Company had the following outstanding financial commitments whose contractual amount represents credit risk:

($ in thousands)	September 30, 2019	December 31, 2018
Commitments to extend credit	$ 170,950	$ 127,443
Standby letters of credit	3,548	2,998
Commercial letters of credit	300	477
Total	**$ 174,798**	**$ 130,918**

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 $146 thousand and $139 thousand, respectively, at September 30, 2019 and December 31, 2018, in Accrued Interest Payable and Other Liabilities in the Consolidated Balance Sheets.

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.

Note 13 - Regulatory Matters

Under the final rules implementing Basel Committee on Banking Supervision’s capital guidelines for U.S. banks (“Basel III rules”), the Bank must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer was phased in from 0.0% in 2015 to2.50% by January 1, 2019. Management believes as of September 30, 2019 and December 31, 2018, 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” that increased the threshold to $3 billion in assets in August 2018, 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 9.27% and 9.08%, respectively, as of September 30, 2019, and 9.31% and 9.21%, respectively, as of December 31, 2018. 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:

	Actual		Minimum Capital Requirement		To Be Well Capitalized Under Prompt Corrective Provisions	
($ in thousands)	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
September 30, 2019						
PCB Bancorp						
Common tier 1 capital (to risk-weighted assets)	$ 223,130	16.30%	$ 61,607	4.5%	N/A	N/A
Total capital (to risk-weighted assets)	236,370	17.27%	109,524	8.0%	N/A	N/A
Tier 1 capital (to risk-weighted assets)	223,130	16.30%	82,143	6.0%	N/A	N/A
Tier 1 capital (to average assets)	223,130	12.87%	69,345	4.0%	N/A	N/A
Pacific City Bank						
Common tier 1 capital (to risk-weighted assets)	$ 220,537	16.11%	$ 61,603	4.5%	$ 88,983	6.5%
Total capital (to risk-weighted assets)	233,777	17.08%	109,517	8.0%	136,896	10.0%
Tier 1 capital (to risk-weighted assets)	220,537	16.11%	82,138	6.0%	109,517	8.0%
Tier 1 capital (to average assets)	220,537	12.72%	69,343	4.0%	86,678	5.0%
December 31, 2018						
PCB Bancorp						
Common tier 1 capital (to risk-weighted assets)	$ 210,871	16.28%	$ 58,273	4.5%	N/A	N/A
Total capital (to risk-weighted assets)	224,178	17.31%	103,596	8.0%	N/A	N/A
Tier 1 capital (to risk-weighted assets)	210,871	16.28%	77,697	6.0%	N/A	N/A
Tier 1 capital (to average assets)	210,871	12.60%	66,930	4.0%	N/A	N/A
Pacific City Bank						
Common tier 1 capital (to risk-weighted assets)	$ 209,587	16.19%	$ 58,272	4.5%	$ 84,171	6.5%
Total capital (to risk-weighted assets)	222,894	17.21%	103,594	8.0%	129,493	10.0%
Tier 1 capital (to risk-weighted assets)	209,587	16.19%	77,696	6.0%	103,594	8.0%
Tier 1 capital (to average assets)	209,587	12.53%	66,929	4.0%	83,661	5.0%

The California Financial Code provides that a bank may not make a cash distribution to its shareholders in excess of the lesser of the bank's undivided profits or the bank's net income for its last three fiscal years less the amount of any distribution made to the bank's shareholder during the same period. As a California corporation, the Company is subject to the limitations of California law, which allows a corporation to distribute cash or property to shareholders, including a dividend or repurchase or redemption of shares, if the corporation meets either a retained earnings test or a "balance sheet" test. Under the retained earnings test, the Company may make a distribution from retained earnings to the extent that its retained earnings exceed the sum of (a) the amount of the distribution plus (b) the amount, if any, of dividends in arrears on shares with preferential dividend rights. The Company may also make a distribution if, immediately after the distribution, the value of its assets equals or exceeds the sum of (a) its total liabilities plus (b) the liquidation preference of any shares which have a preference upon dissolution over the rights of shareholders receiving the distribution. Indebtedness is not considered a liability if the terms of such indebtedness provide that payment of principal and interest thereon are to be made only if, and to the extent that, a distribution to shareholders could be made under the balance sheet test.

The Federal Reserve, the Federal Deposit Insurance Corporation (the "FDIC") and the California Department of Business Oversight (the "CDBO") 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 CDBO and the Bank entered into a stipulation consenting to the issuance of a consent order (the "Order") relating to the Bank's BSA/AML. While the Bank attempted to address the concerns raised by the FDIC and CDBO in an informal Agreement dated January 8, 2018, these agencies determined in a subsequent examination of the Bank that it had not satisfactorily addressed these concerns particularly relating to failing to maintain a qualified individual to serve as the BSA compliance officer and ensure that adequate resources are provided to administer an effective BSA/AML compliance program.

The Order requires, among other things, that the Bank correct all violations found in the prior examination and to improve its process to better identify and monitor accounts and transactions that pose a greater than normal risk for compliance with BSA/AML. The Order also requires the Board of Directors of the Bank to increase its oversight of the Bank's compliance with BSA/AML rules and regulations. In addition, the Bank is to ensure that the BSA/AML compliance program is managed by a qualified officer with sufficient experience and resources necessary to administer an effective BSA/AML compliance program, and to seek prior FDIC and CDBO non-objection to a change in such officer or the officer in charge of Office of Foreign Assets Control compliance matters, or material changes to their responsibilities. Further, the Order requires that the Bank develop and maintain an effective BSA/AML compliance program, monitoring mechanisms, validation of risk rating and suspicious activity monitoring, and training programs for staff. Further, the Bank must review and enhance its BSA/AML risk assessment and customer due diligence, complete a BSA/AML staffing assessment and conduct a "look back" to more highly scrutinize certain transactions that occurred during a six month period in 2018 to determine if any suspicious activity requiring reporting went undetected. Finally, the Bank must provide periodic reports of progress to the FDIC and CDBO and provide for independent testing of the overall compliance program to ensure continued compliance, and seek prior FDIC and CDBO non-objection to the establishment of any new branches or other offices, or introduction of new delivery channels, products, services, or lines of business.

Subsequent to the Order, the Bank has completed the BSA/AML staffing assessment and the "look back" review to transactions that occurred during a six month period in 2018. In addition, the Bank has reviewed and enhanced BSA/AML risk assessments, as well as customer due diligence, and submitted all required reports to the FDIC and CDBO. Even though the Company believes that the Bank has addressed many of items under the Order, since many of the management and BSA staffing hires have recently assumed their roles at the Bank and are taking steps to improve processes and procedures, it may take some time to address, to the satisfaction of the regulators, the specific issues unique to the Bank's operation and it is still uncertain whether acceptable progress towards compliance with the Order, as determined in the sole discretion of the FDIC and CDBO, will ultimately be achieved in the future.

Note 14 - 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.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
($ in thousands)	**2019**	**2018**	**2019**	**2018**
Noninterest income in-scope of Topic 606				
Service charges and fees on deposits:				
Monthly service fees	$ 27	$ 28	$ 84	$ 80
Account analysis fees	252	243	721	719
Non-sufficient funds charges	102	82	261	235
Other deposit related fees	24	24	71	68
Total service charges and fees on deposits	405	377	1,137	1,102
Debit card fees	70	62	203	157
Gain (loss) on sale of other real estate owned	(1)	—	(1)	3
Wire transfer fees	135	122	370	348
Other service charges	58	52	166	165
Total noninterest income in-scope of Topic 606	**$ 667**	**$ 613**	**$ 1,875**	**$ 1,775**

Note 15 - Subsequent Events

Completion of Previously Announced Stock Repurchase Program. On October 24, 2019, the Company completed its publicly announced $6.5 million stock repurchase program, which the Company's Board of Directors (the "Board") approved on March 31, 2019. The Company purchased 396,715 shares under this program.

Dividend Declared on Common Stock. On October 31, 2019, the Company's Board of Directors declared a quarterly cash dividend of $0.08 per common share. The dividend will be paid on or about December 13, 2019, to shareholders of record as of the close of business on November 29, 2019.

The Company has evaluated the effects of events that have occurred subsequent to September 30, 2019 through the issuance date of these consolidated financial statements (unaudited). Other than the events 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 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations

The following is management's discussion and analysis of the major factors that influenced the Company's results of operations and financial condition as of and for the three and nine months ended September 30, 2019. This analysis should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2018 and with the unaudited consolidated financial statements and notes (unaudited) thereto set forth in this Quarterly Report on Form 10-Q.

Critical Accounting Policies

The Company's consolidated financial statements are prepared in accordance with GAAP and general practices within the banking industry. Within these financial statements, certain financial information contains approximate measurements of financial effects of transactions and impacts at the consolidated statements of financial condition dates and the Company's results of operations for the reporting periods. As certain accounting policies require significant estimates and assumptions that have a material impact on the carrying value of assets and liabilities, the Company has established critical accounting policies to facilitate making the judgment necessary to prepare financial statements. The Company's critical accounting policies are described in Note 1 to Consolidated Financial Statements and in the "Critical Accounting Policies" section of Management's Discussion and Analysis of Financial Condition and Results of Operations in its Annual Report on Form 10-K for the year ended December 31, 2018 and in Note 1 to Consolidated Financial Statements (unaudited) included in Part I of this Quarterly Report on Form 10-Q.

Selected Financial Data

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

	As of or For the Three Months Ended September 30,		As of or For the Nine Months Ended September 30,	
($ in thousands, except per share data)	**2019**	**2018**	**2019**	**2018**
Selected balance sheet data:				
Cash and cash equivalents	$ 121,912	$ 164,056	$ 121,912	$ 164,056
Securities available-for-sale	134,602	135,089	134,602	135,089
Securities held-to-maturity	21,601	21,991	21,601	21,991
Loans held-for-sale	1,583	12,957	1,583	12,957
Loans held-for-investment, net of deferred loan costs (fees)	1,389,830	1,309,124	1,389,830	1,309,124
Allowance for loan losses	(13,094)	(13,097)	(13,094)	(13,097)
Total assets	1,699,446	1,663,787	1,699,446	1,663,787
Total deposits	1,432,262	1,419,526	1,432,262	1,419,526
Shareholders' equity	224,643	202,938	224,643	202,938
Selected income statement data:				
Interest income	$ 23,687	$ 21,496	$ 70,669	$ 60,468
Interest expense	6,158	4,780	18,295	12,576
Net interest income	17,529	16,716	52,374	47,892
Provision (reversal) for loan losses	(102)	417	207	937
Noninterest income	2,802	2,580	8,265	8,215
Noninterest expense	10,777	9,520	32,050	30,091
Income before income taxes	9,656	9,359	28,382	25,079
Income tax expense	2,871	2,816	8,432	7,510
Net income	6,785	6,543	19,950	17,569
Per share data:				
Earnings per common share, basic	$ 0.43	$ 0.44	$ 1.25	$ 1.27
Earnings per common share, diluted	0.42	0.44	1.23	1.25
Book value per common share (1)	14.30	12.71	14.30	12.71
Cash dividends declared per common share	0.06	0.03	0.17	0.09

($ in thousands, except per share data)	As of or For the Three Months Ended September 30, 2019	As of or For the Three Months Ended September 30, 2018	As of or For the Nine Months Ended September 30, 2019	As of or For the Nine Months Ended September 30, 2018
Outstanding share data:				
Number of common shares outstanding	15,710,287	15,972,914	15,710,287	15,972,914
Weighted-average common shares outstanding, basic	15,816,269	14,730,120	15,943,603	13,865,190
Weighted-average common shares outstanding, diluted	16,099,598	14,924,546	16,231,848	14,051,561
Selected performance ratios:				
Return on average assets (2)	1.55%	1.60 %	1.55%	1.50%
Return on average shareholders' equity (2)	12.02%	14.50 %	12.15%	14.85%
Dividend payout ratio (3)	13.95%	6.82 %	13.60%	7.09%
Efficiency ratio (4)	53.01%	49.34 %	52.85%	53.63%
Yield on average interest-earning assets (2)	5.55%	5.36 %	5.62%	5.29%
Cost of average interest-bearing liabilities (2)	2.13%	1.72 %	2.12%	1.56%
Net interest spread (2)	3.42%	3.64 %	3.50%	3.73%
Net interest margin (2), (5)	4.11%	4.17 %	4.16%	4.19%
Total loans to total deposits ratio (6)	97.15%	93.14 %	97.15%	93.14%
Asset quality:				
Loans 30 to 89 days past due and still accruing	$ 723	$ 763	$ 723	$ 763
Nonperforming loans (7)	1,843	1,572	1,843	1,572
Nonperforming assets (8)	1,843	1,572	1,843	1,572
Net charge-offs	132	(59)	280	64
Loans 30 to 89 days past due and still accruing to loans held-for-investment	0.05%	0.06 %	0.05%	0.06%
Nonperforming loans to loans held-for-investment	0.13%	0.12 %	0.13%	0.12%
Nonperforming loans to allowance for loan losses	14.08%	12.00 %	14.08%	12.00%
Nonperforming assets to total assets	0.11%	0.09 %	0.11%	0.09%
Allowance for loan losses to loans held-for-investment	0.94%	1.00 %	0.94%	1.00%
Allowance for loan losses to nonperforming loans	710.47%	833.14 %	710.47%	833.14%
Net charge-offs to average loans held-for-investment (2)	0.04%	(0.02)%	0.03%	0.01%
Capital ratios:				
Shareholders’ equity to total assets	13.22%	12.20 %	13.22%	12.20%
Average equity to average assets	12.91%	11.03 %	12.75%	10.13%
PCB Bancorp				
Common tier 1 capital (to risk-weighted assets)	16.30%	16.08 %	16.30%	16.08%
Total capital (to risk-weighted assets)	17.27%	17.12 %	17.27%	17.12%
Tier 1 capital (to risk-weighted assets)	16.30%	16.08 %	16.30%	16.08%
Tier 1 capital (to average assets)	12.87%	12.59 %	12.87%	12.59%
Pacific City Bank				
Common tier 1 capital (to risk-weighted assets)	16.11%	15.89 %	16.11%	15.89%
Total capital (to risk-weighted assets)	17.08%	16.93 %	17.08%	16.93%
Tier 1 capital (to risk-weighted assets)	16.11%	15.89 %	16.11%	15.89%
Tier 1 capital (to average assets)	12.72%	12.45 %	12.72%	12.45%

(1) Shareholders’ equity divided by common shares outstanding.

(2) Annualized.

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

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

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

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

(7) Nonperforming loans include nonaccrual loans and loans past due 90 days or more and still accruing.

(8) Nonperforming assets include nonperforming loans and other real estate owned.

Executive Summary

Net income was $6.8 million for the three months ended September 30, 2019, an increase of $242 thousand, or 3.7%, from $6.5 million for the three months ended September 30, 2018. The increase was primarily due to increases in net interest income and noninterest income and a decrease in provision (reversal) for loan losses, partially offset by an increase in noninterest expense. For the nine months ended September 30, 2019, net income was $20.0 million, an increase of $2.4 million, or 13.6%, from $17.6 million for the nine months ended September 30, 2018. The increase was primarily due to increases in net interest income and noninterest income and a decrease in provision for loan losses, partially offset by an increase in noninterest expense. Diluted earnings per common share was $0.42 and $0.44, respectively, for the three months ended September 30, 2019 and 2018, and $1.23 and $1.25, respectively, for the nine months ended September 30, 2019 and 2018.

Total assets were $1.70 billion at September 30, 2019, an increase of $2.4 million, or 0.1%, from $1.70 billion at December 31, 2018. The increase was primarily due to an increase in loans held-for-investment and a recognition of operating lease assets, partially offset by decreases in cash and cash equivalents, loans held-for-sale and investment securities.

Total deposits were $1.43 billion at September 30, 2019, a decrease of $11.5 million, or 0.8%, from $1.44 billion at December 31, 2018. The decrease was primarily due to a decrease in time deposits, partially offset by increases in noninterest-bearing demand accounts, and savings, NOW and money market accounts. The decrease in time deposits was primarily due to decreases in state and brokered time deposits and retail time deposits of $250,000 or less, partially offset by an increase in retail time deposits of more than $250,000.

On January 1, 2019, the Company adopted new accounting guidance on leases (Topic 842) using the optional transition method. As a result, the Company recognized operating lease assets and liabilities of $9.6 million and $10.6 million, respectively, with a cumulative effect adjustment of $53 thousand to retained earnings at the date of adoption.

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

Financial Highlights

- Net income totaled $6.8 million or $0.42 per diluted common share for the three months ended September 30, 2019;
- Total assets were $1.70 billion at September 30, 2019, an increase of $2.4 million, or 0.1%, from $1.70 billion at December 31, 2018;
- Loans held-for-investment, net of deferred costs (fees), were $1.39 billion at September 30, 2019, an increase of $51.1 million, or 3.8%, from $1.34 billion at December 31, 2018;
- Total deposits were $1.43 billion at September 30, 2019, a decrease of $11.5 million, or 0.8%, from $1.44 billion at December 31, 2018;
- The Company repurchased 374,069 shares of its common stock totaling $6.1 million through September 30, 2019 under the publicly announced $6.5 million share repurchase program; and
- The Company declared cash dividends of $0.06 and $0.17 per common share for the three and nine months ended September 30, 2019.

Results 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, on a consolidated operations basis, for the three months ended September 30, 2019 and 2018:

	Three Months Ended September 30,					
	2019			2018		
($ in thousands)	**Average Balance**	**Interest**	**Yield/ Cost (6)**	**Average Balance**	**Interest**	**Yield/ Cost (6)**
Interest-earning assets:						
Total loans (1)	$ 1,396,437	$ 21,876	6.22%	$ 1,280,352	$ 19,699	6.10%
Mortgage backed securities	84,052	521	2.46%	69,592	414	2.36%
Collateralized mortgage obligation	50,891	286	2.23%	54,094	324	2.38%
SBA loan pool securities	20,751	133	2.54%	24,102	154	2.53%
Municipal securities - tax exempt (2)	5,834	38	2.58%	6,232	39	2.48%
Interest-bearing deposits in other financial institutions	127,429	694	2.16%	149,398	742	1.97%
FHLB and other bank stock	8,345	139	6.61%	7,433	124	6.62%
Total interest-earning assets	1,693,739	23,687	5.55%	1,591,203	21,496	5.36%
Noninterest-earning assets:						
Cash and cash equivalents	$ 18,927			$ 18,596		
Allowances for loan losses	(13,273)			(12,774)		
Other assets	35,564			26,828		
Total noninterest earning assets	41,218			32,650		
Total assets	**$ 1,734,957**			**$ 1,623,853**		
Interest-bearing liabilities:						
Deposits:						
NOW and money market accounts	$ 351,581	1,432	1.62%	$ 269,514	834	1.23%
Savings	7,043	6	0.34%	8,717	6	0.27%
Time deposits	767,752	4,622	2.39%	795,202	3,803	1.90%
Borrowings	20,326	98	1.91%	30,000	137	1.81%
Total interest-bearing liabilities	1,146,702	6,158	2.13%	1,103,433	4,780	1.72%
Noninterest-bearing liabilities:						
Demand deposits	341,858			330,021		
Other liabilities	22,465			11,325		
Total noninterest-bearing liabilities	364,323			341,346		
Total liabilities	1,511,025			1,444,779		
Shareholders’ equity	223,932			179,074		
Total liabilities and shareholders’ equity	**$ 1,734,957**			**$ 1,623,853**		
Net interest income		**$ 17,529**			**$ 16,716**	
Net interest spread (3)			**3.42%**			**3.64%**
Net interest margin (4)			**4.11%**			**4.17%**
Cost of funds (5)			**1.64%**			**1.32%**

(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 $118 thousand and $109 thousand, respectively, and net accretion of discount on loans of $1.0 million and $1.1 million, respectively, are included in the interest income for the three months ended September 30, 2019 and 2018.*

(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 annualized interest expense on total interest-bearing liabilities by the sum of average total interest-bearing liabilities and noninterest-bearing demand deposits.*

(6) *Annualized.*

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, on a consolidated operations basis, for the nine months ended September 30, 2019 and 2018:

	Nine Months Ended September 30,					
	2019			2018		
($ in thousands)	**Average Balance**	**Interest**	**Yield/ Cost** [6]	**Average Balance**	**Interest**	**Yield/ Cost** [6]
Interest-earning assets:						
Total loans [1]	$ 1,372,704	$ 64,779	6.31%	$ 1,245,551	$ 55,749	5.98%
Mortgage backed securities	85,452	1,629	2.55%	67,602	1,183	2.34%
Collateralized mortgage obligation	52,927	969	2.45%	52,519	913	2.32%
SBA loan pool securities	21,392	420	2.62%	23,887	432	2.42%
Municipal securities - tax exempt [2]	5,867	115	2.62%	6,454	120	2.49%
Interest-bearing deposits in other financial institutions	135,642	2,360	2.33%	125,396	1,718	1.83%
FHLB and other bank stock	7,974	397	6.66%	7,087	353	6.66%
Total interest-earning assets	1,681,958	70,669	5.62%	1,528,496	60,468	5.29%
Noninterest-earning assets:						
Cash and cash equivalents	$ 18,650			$ 19,145		
Allowances for loan losses	(13,185)			(12,530)		
Other assets	35,370			27,115		
Total noninterest earning assets	40,835			33,730		
Total assets	**$ 1,722,793**			**$ 1,562,226**		
Interest-bearing liabilities:						
Deposits:						
NOW and money market accounts	$ 322,917	3,903	1.62%	$ 282,221	2,367	1.12%
Savings	8,214	28	0.46%	8,696	18	0.28%
Time deposits	797,475	13,994	2.35%	747,102	9,716	1.74%
Borrowings	26,820	370	1.84%	36,557	475	1.74%
Total interest-bearing liabilities	1,155,426	18,295	2.12%	1,074,576	12,576	1.56%
Noninterest-bearing liabilities:						
Demand deposits	325,704			319,697		
Other liabilities	22,077			9,759		
Total noninterest-bearing liabilities	347,781			329,456		
Total liabilities	1,503,207			1,404,032		
Shareholders’ equity	219,586			158,194		
Total liabilities and shareholders’ equity	**$ 1,722,793**			**$ 1,562,226**		
Net interest income		**$ 52,374**			**$ 47,892**	
Net interest spread [3]			**3.50%**			**3.73%**
Net interest margin [4]			**4.16%**			**4.19%**
Cost of funds [5]			**1.65%**			**1.21%**

(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 $327 thousand and $371 thousand, respectively, and net accretion of discount on loans of $3.1 million and $3.1 million, respectively, are included in the interest income for the nine months ended September 30, 2019 and 2018.*

(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 annualized interest expense on total interest-bearing liabilities by the sum of average total interest-bearing liabilities and noninterest-bearing demand deposits.*

(6) *Annualized.*

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.

	Three Months Ended September 30, 2019 vs. 2018			Nine Months Ended September 30, 2019 vs. 2018		
	Increase (Decrease) Due to		Net Increase	Increase (Decrease) Due to		Net Increase
($ in thousands)	Volume	Rate	(Decrease)	Volume	Rate	(Decrease)
Interest earned on:						
Total loans	$ 1,786	$ 391	$ 2,177	$ 5,691	$ 3,339	$ 9,030
Investment securities	45	2	47	267	218	485
Other interest-earning assets	(116)	83	(33)	174	512	686
Total interest income	1,715	476	2,191	6,132	4,069	10,201
Interest incurred on:						
Savings, NOW, and money market deposits	243	355	598	330	1,216	1,546
Time deposits	(131)	950	819	655	3,623	4,278
Borrowings	(44)	5	(39)	(127)	22	(105)
Total interest expense	68	1,310	1,378	858	4,861	5,719
Change in net interest income	**$ 1,647**	**$ (834)**	**$ 813**	**$ 5,274**	**$ (792)**	**$ 4,482**

Three Months Ended September 30, 2019 Compared to Three Months Ended September 30, 2018

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

	Three Months Ended September 30,			
($ in thousands)	2019	2018	Amount Change	Percentage Change
Interest income:				
Interest and fees on loans	$ 21,876	$ 19,699	$ 2,177	11.1 %
Interest on tax-exempt investment securities	38	39	(1)	(2.6)%
Interest on investment securities	940	892	48	5.4 %
Interest and dividend on other interest-earning assets	833	866	(33)	(3.8)%
Total interest income	23,687	21,496	2,191	10.2 %
Interest expense:				
Interest on deposits	6,060	4,643	1,417	30.5 %
Interest on borrowings	98	137	(39)	(28.5)%
Total interest expense	6,158	4,780	1,378	28.8 %
Net interest income	**$ 17,529**	**$ 16,716**	**$ 813**	**4.9 %**

Net interest income increased primarily due to a 6.4% increase in average balance of interest-earning assets and a 19 basis point increase in average yield on interest-earning assets, partially offset by a 3.9% increase in average balance of interest-bearing liabilities and a 41 basis point increase in average cost on interest-bearing liabilities. The increase in average balances of interest-earning assets and interest-bearing liabilities were primarily due to growth in the loan and investment security portfolios, supported by deposit growth and the initial public offering ("IPO") completed in August 2018. The increases in average yield on interest-earning assets and average cost of interest-bearing liabilities were primarily due to the rising interest rate environment in 2018 and higher market rates in 2019.

Interest and fees on loans increased primarily due to a 9.1% increase in average balance and a 12 basis point increase in average yield. The increase in average balance was primarily due to organic loan growth and the increase in average yield was primarily due to the rising interest rate environment in 2018 and higher market rates in 2019.

Interest on investment securities increased primarily due to a 4.9% increase in average balance. The Company purchased $2.2 million of securities held-to-maturity and $22.2 million of securities available-for-sale since September 30, 2018. For the three months ended September 30, 2019 and 2018, yield on total investment securities was 2.40% and 2.40%, respectively.

Interest income on other interest-earning assets increased primarily due to a 24 basis point increase in average yield, partially offset by a 13.4% decrease in average balance. The increase in average yield was primarily due to an increase in the federal funds rate in 2018. The decrease in average balance was primarily due to placing less balances into the interest-bearing account at the Federal Reserve Bank to support loan growth. For the three months ended September 30, 2019 and 2018, yield on total other interest-earning assets was 2.43% and 2.19%, respectively.

Interest expense on deposits increased primarily due to a 4.9% increase in average balance of interest-bearing deposits and a 41 basis point increase in average cost. The increase in average cost was primarily due to the impact of higher market rates on deposits and competition in the Company's deposit target markets. For the three months ended September 30, 2019 and 2018, average cost on total interest-bearing deposits was 2.13% and 1.72%, respectively.

Interest expense on borrowings decreased primarily due to lower utilization of FHLB advances as the Bank maintained a sufficient level of on-balance sheet liquidity.

Nine Months Ended September 30, 2019 Compared to Nine Months Ended September 30, 2018

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

	Nine Months Ended September 30,			
($ in thousands)	**2019**	**2018**	**Amount Change**	**Percentage Change**
Interest income:				
Interest and fees on loans	$ 64,779	$ 55,749	$ 9,030	16.2 %
Interest on tax-exempt investment securities	115	120	(5)	(4.2)%
Interest on investment securities	3,018	2,528	490	19.4 %
Interest and dividend on other interest-earning assets	2,757	2,071	686	33.1 %
Total interest income	70,669	60,468	10,201	16.9 %
Interest expense:				
Interest on deposits	17,925	12,101	5,824	48.1 %
Interest on borrowings	370	475	(105)	(22.1)%
Total interest expense	18,295	12,576	5,719	45.5 %
Net interest income	**$ 52,374**	**$ 47,892**	**$ 4,482**	**9.4 %**

Net interest income increased primarily due to a 10.0% increase in average balance of interest-earning assets and a 33 basis point increase in average yield on interest-earning assets, partially offset by a 7.5% increase in average balance of interest-bearing liabilities and a 56 basis point increase in average cost on interest-bearing liabilities. The increase in average balances of interest-earning assets and interest-bearing liabilities were primarily due to growth in the loan and investment security portfolios, as well as other interest-earning assets, supported by deposit growth and the IPO completed in August 2018. The increases in average yield on interest-earning assets and average cost of interest-bearing liabilities were primarily due to the rising interest rate environment in 2018 and higher market rates in 2019.

Interest and fees on loans increased primarily due to a 10.2% increase in average balance and a 33 basis point increase in average yield. The increase in average balance was primarily due to organic loan growth and the increase in average yield was primarily due to the rising interest rate environment in 2018 and higher market rates in 2019.

Interest on investment securities increased primarily due to a 10.1% increase in average balance and an 18 basis point increase in average yield. The Company purchased $2.2 million of securities held-to-maturity and $22.2 million of securities available-for-sale since September 30, 2018. For the nine months ended September 30, 2019 and 2018, yield on total investment securities was 2.53% and 2.35%, respectively.

Interest income on other interest-earning assets increased primarily due to an 8.4% increase in average balance and a 48 basis point increase in average yield. The increase in average balance was primarily due to placing higher balances into the interest-bearing account at the Federal Reserve Bank. The increase in average yield was primarily due to an increase in the federal funds rate in 2018 and higher market rates in 2019. For the nine months ended September 30, 2019 and 2018, yield on total other interest-earning assets was 2.57% and 2.09%, respectively.

Interest expense on deposits increased primarily due to an 8.7% increase in average balance of interest-bearing deposits and a 56 basis point increase in average cost. The increase in average cost was primarily due to the impact of higher market rates on deposits and competition in the Company's deposit target markets. For the nine months ended September 30, 2019 and 2018, average cost on total interest-bearing deposits was 2.12% and 1.56%, respectively.

Interest expense on borrowings decreased primarily due to lower utilization of FHLB advances as the Bank maintained a sufficient level of on-balance sheet liquidity.

Provision (Reversal) for Loan Losses

Provision (reversal) for loan losses was $(102) thousand and $207 thousand, respectively, for the three and nine months ended September 30, 2019 compared with $417 thousand and $937 thousand, respectively, for the three and nine months ended September 30, 2018. The reversal for the three months ended September 30, 2019 was primarily due to a decrease in loans held-for-investment from June 30, 2019 as well as a decrease in historical loss rates and changes in qualitative adjustment factors. The decrease for the nine months ended September 30, 2019 compared with the nine months ended September 30, 2018 was primarily due to a decrease in historical loss rates and changes in qualitative adjustment factors during the nine months ended September 30, 2019, partially offset by an increase in loans held-for-investment.

See further discussion in "Allowance for Loan Losses."

Noninterest Income

Three Months Ended September 30, 2019 Compared to Three Months Ended September 30, 2018

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

($ in thousands)	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Amount Change	Percentage Change
Service charges and fees on deposits	$ 405	$ 377	$ 28	7.4 %
Loan servicing income	534	578	(44)	(7.6)%
Gain on sale of loans	1,540	1,328	212	16.0 %
Other income	323	297	26	8.8 %
Total noninterest income	**$ 2,802**	**$ 2,580**	**$ 222**	**8.6 %**

Service charges and fees increased primarily due to an increase in NSF charges.

Loan servicing income decreased primarily due to a lower balance of underlying loans being serviced. Underlying loans being serviced at September 30, 2019 and 2018 totaled $493.9 million and $534.0 million, respectively.

Gain on sale of loans increased primarily due to an increase in premiums on SBA loans from the conditions in the secondary market, partially offset by a decrease in sales volume. The Company sold SBA loans of $22.2 million with a gain of $1.5 million and residential property loans of $4.7 million with a gain of $42 thousand during the three months ended September 30, 2019. During the three months ended September 30, 2018, the Company sold SBA loans of $23.1 million with a gain of $1.3 million and residential property loans of $2.2 million with a gain of $22 thousand.

Other income includes wire transfer fees of $135 thousand and $122 thousand, respectively, and debit card interchange fees of $70 thousand and $62 thousand, respectively, for the three months ended September 30, 2019 and 2018.

Nine Months Ended September 30, 2019 Compared to Nine Months Ended September 30, 2018

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

($ in thousands)	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018	Amount Change	Percentage Change
Service charges and fees on deposits	$ 1,137	$ 1,102	$ 35	3.2 %
Loan servicing income	1,657	1,789	(132)	(7.4)%
Gain on sale of loans	4,551	4,477	74	1.7 %
Other income	920	847	73	8.6 %
Total noninterest income	**$ 8,265**	**$ 8,215**	**$ 50**	**0.6 %**

Service charges and fees increased primarily due to increases in the balance of transactional based deposit accounts and NSF charges.

Loan servicing income decreased primarily due to a lower balance of underlying loans being serviced. Underlying loans being serviced at September 30, 2019 and 2018 totaled $493.9 million and $534.0 million, respectively.

Gain on sale of loans increased primarily due to an increase in sales volume of SBA loans. The Company sold SBA loans of $72.5 million with a gain of $4.5 million and residential property loans of $7.4 million with a gain of $64 thousand during the nine months ended September 30, 2019. During the nine months ended September 30, 2018, the Company sold SBA loans of $65.5 million with a gain of $4.2 million, residential property loans of $10.9 million with a gain of $213 thousand and a commercial property loan of $1.1 million with a gain of $45 thousand.

Other income includes wire transfer fees of $370 thousand and $348 thousand, respectively, and debit card interchange fees of $203 thousand and $157 thousand, respectively, for the nine months ended September 30, 2019 and 2018.

Noninterest Expense

Three Months Ended September 30, 2019 Compared to Three Months Ended September 30, 2018

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

	Three Months Ended September 30,			
($ in thousands)	**2019**	**2018**	**Amount Change**	**Percentage Change**
Salaries and employee benefits	$ 6,901	$ 5,840	$ 1,061	18.2 %
Occupancy and equipment	1,408	1,244	164	13.2 %
Professional fees	664	213	451	211.7 %
Marketing and business promotion	292	555	(263)	(47.4)%
Data processing	348	314	34	10.8 %
Director fees and expenses	188	220	(32)	(14.5)%
Regulatory assessments	—	192	(192)	(100.0)%
Other expenses	976	942	34	3.6 %
Total noninterest expense	**$ 10,777**	**$ 9,520**	**$ 1,257**	**13.2 %**

Salaries and employee benefits increased primarily due to the hiring of new experienced employees with higher salaries in order to support the expansion of the Company's infrastructure for being a public company and to enhance the controls and processes on BSA/AML compliance. The number of full-time equivalent employees was 249 at September 30, 2019 compared to 246 at September 30, 2018.

Occupancy and equipment expense increased primarily due to an establishment of new loan production office in Artesia, California in December 2018 and an increase in equipment maintenance expense.

Professional fees increased primarily due to increases in audit and other professional fees for being a public company and expenses related to BSA/AML enhancements, and a true-up of expense that were directly related to the IPO during the three months ended September 30, 2018.

Marketing and business promotion expense decreased primarily due to a decrease in advertising activities.

Data processing expense increased primarily due to the increased processing costs for a greater number of accounts and transactions.

Director fees and expenses decreased primarily due to a fewer number of directors for the three months ended September 30, 2019.

Regulatory assessment expense decreased primarily due to a small bank assessment credit from the FDIC during the three months ended September 30, 2019, partially offset by an increase in assessment rate from the recent consent order relating to the Bank’s compliance with BSA/AML. The Company would have recognized regulatory assessments expense of $228 thousand without the small bank assessment credit for the three months ended September 30, 2019. Regulatory assessments expense for the next quarter is also expected to be reduced by approximately $116 thousand, which is the remaining portion of small bank assessment credit that exceeded the current quarter expense.

Other expense increased primarily due to a growth in operations. Other expenses primarily included $449 thousand and $467 thousand in office expense, and $143 thousand and $139 thousand in armed guard expense for the three months ended September 30, 2019 and 2018, respectively.

Nine Months Ended September 30, 2019 Compared to Nine Months Ended September 30, 2018

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

	Nine Months Ended September 30,			
($ in thousands)	**2019**	**2018**	**Amount Change**	**Percentage Change**
Salaries and employee benefits	$ 20,123	$ 18,239	$ 1,884	10.3 %
Occupancy and equipment	4,128	3,634	494	13.6 %
Professional fees	2,108	1,724	384	22.3 %
Marketing and business promotion	1,049	1,484	(435)	(29.3)%
Data processing	1,004	911	93	10.2 %
Director fees and expenses	562	661	(99)	(15.0)%
Regulatory assessments	425	469	(44)	(9.4)%
Other expenses	2,651	2,969	(318)	(10.7)%
Total noninterest expense	**$ 32,050**	**$ 30,091**	**$ 1,959**	**6.5 %**

Salaries and employee benefits increased primarily due to the hiring of new experienced employees with higher salaries in order to support the expansion of the Company's infrastructure for being a public company and to enhance the controls and processes on BSA/AML compliance. The number of full-time equivalent employees was 249 at September 30, 2019 compared to 246 at September 30, 2018.

Occupancy and equipment expense increased primarily due to an establishment of new loan production office in Artesia, California in December 2018 and an increase in equipment maintenance expense.

Professional fees increased primarily due to increases in audit and other professional fees for being a public company and expenses related to BSA/AML enhancements, and a true-up of expense that were directly related to the IPO during the nine months ended September 30, 2018.

Marketing and business promotion expense decreased primarily due to a decrease in advertising activities.

Data processing expense increased primarily due to the increased processing costs for a greater number of accounts and transactions.

Director fees and expenses decreased primarily due to a fewer number of directors for the nine months ended September 30, 2019.

Regulatory assessment expense decreased primarily due to a small bank assessment credit from the FDIC during the nine months ended September 30, 2019, partially offset by an increase in assessment rate from the recent consent order relating to the Bank’s compliance with BSA/AML. The Company would have recognized regulatory assessments expense of $653 thousand without the small bank assessment credit for the nine months ended September 30, 2019. Regulatory assessments expense for the next quarter is also expected to be reduced by approximately $116 thousand, which is the remaining portion of small bank assessment credit that exceeded the current quarter expense.

Other expense decreased primarily due to a reimbursement paid to the SBA of $577 thousand during the nine months ended September 30, 2018, partially offset by a growth in operations. Other than the reimbursement paid to the SBA, other expenses primarily included $1.3 million and $1.2 million in office expense, and $412 thousand and $374 thousand in armed guard expense for the nine months ended September 30, 2019 and 2018, respectively.

Income Tax Expense

Income tax expense was $2.9 million and $2.8 million, respectively, and the effective tax rate was 29.7% and 30.1%, respectively, for the three months ended September 30, 2019 and 2018. For the nine months ended September 30, 2019 and 2018, income tax expense was $8.4 million and $7.5 million, respectively, and the effective tax rate was 29.7% and 29.9%, respectively.

Financial Condition

Investment Securities

The Company’s investment strategy aims to maximize earnings while maintaining liquidity in securities with minimal credit risk. The types and maturities of securities purchased are primarily based on current and projected liquidity and interest rate sensitivity positions. Investment securities are classified as held-to-maturity or available-for-sale in accordance with GAAP. Investment securities that the Company has the ability and the intent to hold to maturity are classified as held-to-maturity. All other securities are classified as available-for-sale. Investment securities classified as held-to-maturity are carried at amortized cost. Investment securities classified as available-for-sale are carried at their estimated fair values with the changes in fair values recorded in accumulated other comprehensive income, net of tax, as a component of shareholders’ equity.

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

	September 30, 2019			December 31, 2018		
($ in thousands)	**Amortized Cost**	**Fair Value**	**Unrealized Gain (Loss)**	**Amortized Cost**	**Fair Value**	**Unrealized Gain (Loss)**
Securities available-for-sale:						
U.S. government agency and U.S. government sponsored enterprise securities:						
Residential mortgage-backed securities	$ 63,847	$ 64,484	$ 637	$ 68,975	$ 67,921	$ (1,054)
Residential collateralized mortgage obligations	49,335	49,192	(143)	56,625	55,649	(976)
SBA loan pool securities	19,935	20,138	203	23,144	22,632	(512)
Municipal bonds	769	788	19	784	789	5
Total securities available-for-sale	**$ 133,886**	**$ 134,602**	**$ 716**	**$ 149,528**	**$ 146,991**	**$ (2,537)**
Securities held-to-maturity:						
U.S. government agency and U.S. government sponsored enterprise residential mortgage-backed securities	16,655	16,587	(68)	16,659	16,057	(602)
Municipal bonds	4,946	5,285	339	5,101	5,095	(6)
Total securities held-to-maturity	**$ 21,601**	**$ 21,872**	**$ 271**	**$ 21,760**	**$ 21,152**	**$ (608)**

Total investment securities were $156.2 million at September 30, 2019, a decrease of $12.5 million, or 7.4%, from $168.8 million at December 31, 2018. The decrease was primarily due to principal paydowns of $23.6 million and net premium amortization of $641 thousand, partially offset by purchases of $8.4 million and an increase in fair value of securities available-for-sale of $3.3 million.

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 September 30, 2019 and December 31, 2018 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 September 30, 2019 and December 31, 2018. 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. In addition, the unrealized losses on municipal bonds are not considered other-than-temporary impaired, as the bonds are rated investment grade and there are no credit quality concerns with the issuers at December 31, 2018. All of municipal bonds were with unrealized gains at September 30, 2019. Interest payments have been made as scheduled, and management believes this will continue in the future until the bonds get paid in full. 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 three and nine months ended September 30, 2019 and 2018.

The following table presents the contractual maturity schedule for securities, at amortized cost, and their weighted-average yields as of September 30, 2019:

	Within One Year		More than One Year through Five Years		More than Five Years through Ten Years		More than Ten Years		Total	
($ in thousands)	Amortized Cost	Weighted-Average Yield	Amortized Cost	Weighted-Average Yield	Amortized Cost	Weighted-Average Yield	Amortized Cost	Weighted-Average Yield	Amortized Cost	Weighted-Average Yield
Securities available-for-sale:										
U.S. government agency and U.S. government sponsored enterprise securities:										
Residential mortgage-backed securities	$ —	—%	$ 986	1.52%	$ 14,150	2.01%	$ 48,711	2.21%	$ 63,847	2.16%
Residential collateralized mortgage obligations	—	—%	—	—%	10,974	2.16%	38,361	2.20%	49,335	2.19%
SBA loan pool securities	—	—%	—	—%	3,747	2.75%	16,188	2.50%	19,935	2.55%
Municipal bonds	—	—%	—	—%	769	2.74%	—	—%	769	2.74%
Total securities available-for-sale	**$ —**	**—%**	**$ 986**	**1.52%**	**$ 29,640**	**2.18%**	**$ 103,260**	**2.25%**	**$ 133,886**	**2.23%**
Securities held-to-maturity:										
U.S. government agency and U.S. government sponsored enterprise residential mortgage-backed securities	$ —	—%	$ 907	1.82%	$ 1,222	1.82%	$ 14,526	2.35%	$ 16,655	2.28%
Municipal bonds	103	1.86%	2,234	2.74%	285	3.82%	2,324	4.87%	4,946	3.78%
Total securities held-to-maturity	**$ 103**	**1.86%**	**$ 3,141**	**2.47%**	**$ 1,507**	**2.19%**	**$ 16,850**	**2.70%**	**$ 21,601**	**2.63%**

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 a composition of loans held-for-sale as of the dates indicated:

($ in thousands)	September 30, 2019	December 31, 2018
Real estate loans:		
Residential property	$ 334	$ —
SBA property	1,249	5,481
Commercial and industrial loans:		
SBA commercial term	—	300
Total	**$ 1,583**	**$ 5,781**

Loans held-for-sale were $1.6 million at September 30, 2019, a decrease of $4.2 million, or 72.6%, from $5.8 million at December 31, 2018. The decrease was primarily due to sales of $80.0 million, partially offset by new funding of $75.0 million and a loan transferred from loans held-for-investment of $824 thousand.

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:

	September 30, 2019		December 31, 2018	
($ in thousands)	Amount	Percentage to Total	Amount	Percentage to Total
Real estate loans:				
Commercial property	$ 759,881	54.7%	$ 709,409	53.1%
Residential property	236,382	17.0%	233,816	17.5%
SBA property	126,347	9.1%	120,939	9.0%
Construction	17,175	1.2%	27,323	2.0%
Total real estate loans	1,139,785	82.0%	1,091,487	81.6%
Commercial and industrial loans:				
Commercial term	105,433	7.6%	102,133	7.6%
Commercial lines of credit	95,997	6.9%	91,994	6.9%
SBA commercial term	25,326	1.8%	27,147	2.0%
Total commercial and industrial loans	226,756	16.3%	221,274	16.5%
Consumer loans	23,289	1.7%	25,921	1.9%
Loans held-for-investment	**1,389,830**	**100.0%**	**1,338,682**	**100.0%**
Allowance for loan losses	(13,094)		(13,167)	
Net loans held-for-investment	**$ 1,376,736**		**$ 1,325,515**	

Loans held-for-investment, net of deferred loan costs (fees) were $1.39 billion at September 30, 2019, an increase of $51.1 million, or 3.8%, from $1.34 billion at December 31, 2018. The increase was primarily due to new funding of $252.9 million and advances of $80.5 million, partially offset by paydowns and payoffs of $280.8 million.

Allowance for loan losses

The Company's methodology for assessing the appropriateness of the allowance for loan losses includes a general allowance for performing loans, which are grouped based on similar characteristics, and a specific allowance for individual impaired loans or loans considered by management to be in a high-risk category. General allowances are established based on a number of factors, including historical loss rates, an assessment of portfolio trends and conditions, accrual status and economic conditions.

For any loan held for investment, a specific allowance may be assigned based on an impairment analysis. Loans are considered impaired when it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. The amount of impairment is based on an analysis of the most probable source of repayment, including the present value of the loan's expected future cash flows, the estimated market value or the fair value of the underlying collateral. Interest income on impaired loans is accrued as earned, unless the loan is placed on nonaccrual status.

Individual loans considered to be uncollectible are charged off against the allowance for loan losses. Factors used in determining the amount and timing of charge-offs on loans include consideration of the loan type, length of delinquency, sufficiency of collateral value, lien priority and the overall financial condition of the borrower. Collateral value is determined using updated appraisals and/or other market comparable information. Charge-offs are generally taken on loans once the impairment is determined to be other-than-temporary. Recoveries on loans previously charged off are added to the allowance for loan losses. Annualized net charge-offs (recoveries) to average loans held-for-investment were 0.04% and (0.02)%, respectively, for the three months ended September 30, 2019 and 2018, and 0.03% and 0.01%, respectively, for the nine months ended September 30, 2019 and 2018.

Allowance for loan losses totaled $13.1 million and $13.2 million, respectively, and represented 0.94% and 0.98%, respectively, to loans held-for-investment at September 30, 2019 and December 31, 2018. The decreases in allowance for loan losses to loans held-for-investment was primarily due to a decrease in historical loss rates and changes in qualitative adjustment factors during the nine months ended September 30, 2019.

The Company analyzes the loan portfolio, including delinquencies, concentrations, and risk characteristics, at least quarterly in order to assess the overall level of the allowance for loan losses. The Company also relies on internal and external loan review procedures to further assess individual loans and loan pools, and economic data for overall industry and geographic trends.

In determining the allowance and the related provision for loan losses, the Company considers three principal elements: (i) valuation allowances based upon probable incurred losses identified during the review of impaired commercial and industrial, commercial property and construction loans, (ii) allocations, by loan classes, on loan portfolios based on historical loan loss experience and (iii) qualitative factors. Provisions for loan losses are charged to operations to record changes to the allowance for loan losses to a level deemed appropriate.

The following table provides an analysis of the allowance for loan losses, provision for loan losses and net charge-offs as of the dates or for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
($ in thousands)	**2019**	**2018**	**2019**	**2018**
Allowance for loan losses:				
Balance at beginning of period	$ 13,328	$ 12,621	$ 13,167	$ 12,224
Charge-offs:				
Real estate	—	—	19	204
Commercial and industrial	179	18	347	108
Other consumer	47	26	158	167
Total charge-offs	226	44	524	479
Recoveries on loans previously charged off				
Real estate	—	16	4	68
Commercial and industrial	38	46	112	280
Other consumer	56	41	128	67
Total recoveries	94	103	244	415
Net charge-offs	132	(59)	280	64
Provision (reversal) for loan losses	(102)	417	207	937
Balance at end of period	13,094	13,097	13,094	13,097
Loans held-for-investment:				
Balance at end of period	$ 1,389,830	$ 1,309,124	$ 1,389,830	$ 1,309,124
Average balance	1,391,042	1,266,809	1,367,109	1,235,898
Ratios:				
Annualized net charge-offs to average loans held-for-investment	0.04%	(0.02)%	0.03%	0.01%
Allowance for loan losses to loans held-for-investment	0.94%	1.00 %	0.94%	1.00%

Nonperforming Loans and Nonperforming Assets

The following table presents a summary of total non-performing assets as of the dates indicated:

($ in thousands)	September 30, 2019	December 31, 2018	Amount Change	Percentage Change
Nonaccrual loans				
Real estate loans:				
Residential property	$ —	$ 302	$ (302)	(100.0)%
SBA property	1,441	540	901	166.9 %
Total real estate loans	1,441	842	599	71.1 %
Commercial and industrial loans:				
Commercial lines of credit	327	—	327	— %
SBA commercial term	68	203	(135)	(66.5)%
Total commercial and industrial loans	395	203	192	94.6 %
Other consumer loans	7	16	(9)	(56.3)%
Total nonaccrual loans	**1,843**	**1,061**	**782**	**73.7 %**
Loans past due 90 days or more still on accrual	—	—	—	— %
Total nonperforming loans	**1,843**	**1,061**	**782**	**73.7 %**
Other real estate owned	—	—	—	— %
Total nonperforming assets	**$ 1,843**	**$ 1,061**	**$ 782**	**73.7 %**
Nonperforming loans to loans held-for-investment	**0.13%**	**0.08%**		
Nonperforming assets to total assets	**0.11%**	**0.06%**		

The increase in total nonaccrual loans was primarily due to loans placed on nonaccrual status of $1.4 million, partially offset by paydowns and payoffs of $386 thousand and charge-offs of $247 thousand during the nine months ended September 30, 2019. 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 $29 thousand and $62 thousand, respectively, would have been recorded during the three and nine months ended September 30, 2019, had these loans been paid in accordance with their original terms throughout the periods indicated.

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:

	September 30, 2019			December 31, 2018		
($ in thousands)	Accruing	Nonaccrual	Total	Accruing	Nonaccrual	Total
Real estate loans:						
Commercial property	$ 341	$ —	$ 341	$ —	$ —	$ —
SBA property	300	249	549	315	—	315
Commercial and industrial loans:						
Commercial term	40	—	40	68	—	68
SBA commercial term	32	—	32	49	131	180
Total	**$ 713**	**$ 249**	**$ 962**	**$ 432**	**$ 131**	**$ 563**

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.

Total deposits were $1.43 billion at September 30, 2019, a decrease of $11.5 million, or 0.8%, from $1.44 billion at December 31, 2018. The decrease was primarily due to a decrease in time deposits of $64.0 million, partially offset by increases in savings, NOW and money market accounts of $28.4 million and noninterest-bearing demand accounts of $24.2 million.

The increase in noninterest-bearing demand accounts was primarily due to an increase in retail accounts.

The increase in savings, NOW and money market accounts was primarily due to a utilization of brokered money market accounts of $10.0 million and increases in retail savings and money market accounts of $26.9 million, partially offset by a decrease in NOW accounts of $8.6 million. During the three months ended September 30, 2019, the Company began utilizing brokered money market accounts to diversify its funding source and had a total outstanding balance of $10.0 million at September 30, 2019.

The decrease in time deposits was primarily due to decreases in brokered time deposits of $20.0 million, time deposits from California State Treasurer of $10.0 million, and retail time deposits of $34.0 million. Time deposits from California State Treasurer totaled $90.0 million and $100.0 million, respectively, and brokered deposits totaled $22.5 million and $42.5 million, respectively, at September 30, 2019 and December 31, 2018. The Company reduced time deposits during the three months ended September 30, 2019 for balance sheet and earnings management.

As of September 30, 2019 and December 31, 2018, total deposits were comprised of 24.7% and 22.8%, respectively, of noninterest-bearing demand accounts, 23.9% and 21.7%, respectively, of savings, NOW and money market accounts, and 51.4% and 55.5%, respectively, of time deposits.

As of September 30, 2019 and December 31, 2018, the Company's directors and shareholders with deposits over $250,000 totaled $2.9 million and $5.4 million, respectively, or 0.4% and 0.7%, respectively, of all of deposit relationships over $250,000.

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	Over Three Years	Total
September 30, 2019						
Time deposits less than $100,000	$ 35,787	$ 33,593	$ 55,280	$ 10,320	$ 1,788	$ 136,768
Time deposits of $100,000 through $250,000	56,701	114,234	126,492	5,854	—	303,281
Time deposits of more than $250,000	136,916	75,156	82,242	2,471	—	296,785
Total	**$ 229,404**	**$ 222,983**	**$ 264,014**	**$ 18,645**	**$ 1,788**	**$ 736,834**
December 31, 2018						
Time deposits less than $100,000	$ 38,772	$ 28,829	$ 74,628	$ 19,771	$ 2,289	$ 164,289
Time deposits of $100,000 through $250,000	131,190	45,398	157,047	21,710	—	355,345
Time deposits of more than $250,000	144,225	40,224	84,502	12,288	—	281,239
Total	**$ 314,187**	**$ 114,451**	**$ 316,177**	**$ 53,769**	**$ 2,289**	**$ 800,873**

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 $224.6 million at September 30, 2019, an increase of $14.3 million, or 6.8%, from $210.3 million at December 31, 2018. The increase was primarily due to net income of $20.0 million and a positive fair value change in securities available-for-sale of $2.3 million, partially offset by dividends declared on common stock of $2.7 million and repurchase of common stock of $6.1 million.

Regulatory Capital Requirements

The Bank is subject to various regulatory capital requirements administered by the federal and state banking regulators. 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 changes to the Federal Reserve's definition of a "Small Bank Holding Company" that increased the threshold to $3 billion in assets in August 2018, 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. Failure to meet regulatory capital requirements may result in certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action (described below), the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting policies.

In the wake of the global financial crisis of 2008 and 2009, the role of capital has become fundamentally more important, as banking regulators have concluded that the amount and quality of capital held by banking organizations was insufficient to absorb losses during periods of severely distressed economic conditions. The Dodd-Frank Act and new banking regulations promulgated by the U.S. federal banking regulators to implement Basel III have established strengthened capital standards for banks and bank holding companies and require more capital to be held in the form of common stock. These provisions impose meaningfully more stringent regulatory capital requirements. In addition, the Basel III regulations introduced a concept known as the "capital conservation buffer." In general, banks and bank holding companies are required to hold a buffer of common equity Tier 1 capital equal to 2.5% of risk-weighted assets over each minimum capital ratio to avoid being subject to limits on capital distributions (e.g., dividends, stock buybacks, etc.) and certain discretionary bonus payments to executive officers. For community banks, the capital conservation buffer requirement commenced on January 1, 2016, with a gradual phase-in. Full compliance with the capital conservation buffer was required by January 1, 2019. As of September 30, 2019, the Bank met the fully phased-in Basel III capital requirements.

The tables below summarizes the minimum capital requirements applicable to the Bank pursuant to Basel III regulations as of the dates indicated. The Company and the Bank's capital conservation buffer was 9.27% and 9.08%, respectively, as of September 30, 2019, and 9.31% and 9.21%, respectively, as of December 31, 2018. The minimum capital requirements are only regulatory minimums and banking regulators can impose higher requirements on individual institutions. For example, banks and bank holding companies experiencing internal growth or making acquisitions generally will be expected to maintain strong capital positions substantially above the minimum supervisory levels. Higher capital levels may also be required if warranted by the particular circumstances or risk profiles of individual banking organizations. The tables below also summarizes the capital requirements applicable to the Bank in order to be considered "well-capitalized" from a regulatory perspective, as well as the Bank's capital ratios as of September 30, 2019 and December 31, 2018. The Bank exceeded all regulatory capital requirements under Basel III and were considered to be "well-capitalized" as of the dates reflected in the table below. 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.

	PCB Bancorp	Pacific City Bank	Minimum Regulatory Requirements	Well Capitalized Requirements (Bank)
September 30, 2019				
Common tier 1 capital (to risk-weighted assets)	16.30%	16.11%	4.5%	6.5%
Total capital (to risk-weighted assets)	17.27%	17.08%	8.0%	10.0%
Tier 1 capital (to risk-weighted assets)	16.30%	16.11%	6.0%	8.0%
Tier 1 capital (to average assets)	12.87%	12.72%	4.0%	5.0%
December 31, 2018				
Common tier 1 capital (to risk-weighted assets)	16.28%	16.19%	4.5%	6.5%
Total capital (to risk-weighted assets)	17.31%	17.21%	8.0%	10.0%
Tier 1 capital (to risk-weighted assets)	16.28%	16.19%	6.0%	8.0%
Tier 1 capital (to average assets)	12.60%	12.53%	4.0%	5.0%

The Basel III regulations also revise the definition of capital and describe the capital components and eligibility criteria for common equity Tier 1 capital, additional Tier 1 capital and Tier 2 capital. The most significant changes to the capital criteria are that: (i) the prior concept of unrestricted Tier 1 capital and restricted Tier 1 capital has been replaced with additional Tier 1 capital and a regulatory capital ratio that is based on common equity Tier 1 capital; and (ii) trust preferred securities and cumulative perpetual preferred stock issued after May 19, 2010 no longer qualify as Tier 1 capital. This change is already effective due to the Dodd-Frank Act, although such instruments issued prior to May 19, 2010 continue to qualify as Tier 1 capital (assuming they qualified as such under the prior regulatory capital standards), subject to the 25% of Tier 1 capital limit.

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 cash flow and 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 $20.0 million and $30.0 million of outstanding FHLB advances at September 30, 2019 and December 31, 2018, respectively. Based on the values of loans pledged as collateral, the Company had $411.6 million and $386.0 million of additional borrowing capacity with FHLB as of September 30, 2019 and December 31, 2018, respectively. As of September 30, 2019 and December 31, 2018, the Company also had $35.0 million and $60.0 million, respectively, of available unused unsecured federal funds lines. In May 2019, a line of credit of $25.0 million with an unaffiliated financial institution was terminated. The Company had no outstanding borrowings under the line at the time of termination.

In addition, available unused secured borrowing capacity from Federal Reserve Discount Window at September 30, 2019 and December 31, 2018 was $43.1 million and $45.2 million, respectively. Federal Reserve Discount Window was collateralized by loans totaling $51.4 million and $50.8 million as of September 30, 2019 and December 31, 2018, 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 time deposits and money market accounts. As of September 30, 2019 and December 31, 2018, total cash and cash equivalents represented 7.2% and 9.6% of total assets, respectively.

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 Activities and Contractual 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 consolidated 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)	September 30, 2019	December 31, 2018
Commitments to extend credit	$ 170,950	$ 127,443
Standby letters of credit	3,548	2,998
Commercial letters of credit	300	477
Total	**$ 174,798**	**$ 130,918**

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
September 30, 2019					
Time deposits	$ 716,401	$ 18,645	$ 1,788	$ —	$ 736,834
FHLB advances	10,000	10,000	—	—	20,000
Operating leases	2,691	4,583	2,781	1,488	11,543
Total	**$ 729,092**	**$ 33,228**	**$ 4,569**	**$ 1,488**	**$ 768,377**
December 31, 2018					
Time deposits	$ 744,815	$ 53,769	$ 2,289	$ —	$ 800,873
FHLB advances	10,000	10,000	10,000	—	30,000
Operating leases	2,446	4,335	3,413	1,104	11,298
Total	**$ 757,261**	**$ 68,104**	**$ 15,702**	**$ 1,104**	**$ 842,171**

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 3 - 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 LIBOR (basis risk).

The Company's Board asset liability committee ("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 the senior management team and Chief Executive Officer, to proactively monitor investment activities.

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. In order to better-position balance sheet to match the current and potential future interest rate environment, the Company had increased the proportion of fixed rate loans throughout the current year.

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:

	September 30, 2019		December 31, 2018	
Simulated Rate Changes	**Net Interest Income Sensitivity**	**Economic Value of Equity Sensitivity**	**Net Interest Income Sensitivity**	**Economic Value of Equity Sensitivity**
+200	21.9 %	9.7 %	21.4 %	6.0 %
+100	11.3 %	5.8 %	11.0 %	3.7 %
-100	(12.7)%	(7.2)%	(13.7)%	(5.9)%
-200	(25.0)%	(10.2)%	(27.7)%	(13.8)%

Item 4 - Controls and Procedures

Evaluation of Disclosure Controls and Procedures

An evaluation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Act"), as of September 30, 2019 was carried out under the supervision and with the participation of the Company's Principal Executive Officer, Principal Financial Officer and other members of the Company's senior management. The Company's Principal Executive Officer and Principal Financial Officer concluded that, as of September 30, 2019, the Company's disclosure controls and procedures were effective in ensuring that the information required to be disclosed by the Company in the reports it files or submits under the Act is: (i) accumulated and communicated to the Company's management (including the Principal Executive Officer and Principal Financial Officer) to allow timely decisions regarding required disclosure; and (ii) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Act) that occurred during the three months ended September 30, 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II - Other Information

Item 1 - Legal Proceedings

In the normal course of business, the Company is involved in various legal claims. Management has reviewed all legal claims against the Company with counsel and have taken into consideration the views of such counsel as to the potential outcome of the claims in determining the accrued loss contingency. The Company had accrued loss contingencies of $9 thousand for certain legal claims at September 30, 2019. 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.

Item 1A - Risk Factors

Management is not aware of any material changes to the risk factors that appeared under “Part I, Item 1A. Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2018. In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the risk factors discussed in Part 1, Item 1A, of the Annual Report on Form 10-K for the year ended December 31, 2018, which could materially and adversely affect the Company’s business, financial condition, results of operations and stock price. The risks described in this Quarterly Report on Form 10-Q and in the Annual Report on Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not presently known to management or that management presently believes not to be material may also result in material and adverse effects on the Company’s business, financial condition, and results of operations.

Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds

There were no unregistered sales of equity securities during the three months ended September 30, 2019. The following table presents share repurchase activities during the three months ended September 30, 2019:

($ 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 July 1, 2019 to July 31, 2019	88,476	$ 16.87	88,476	$ 4,033
From August 1, 2019 to August 31, 2019	205,194	15.88	205,194	774
From September 1, 2019 to September 30, 2019	22,848	16.55	22,848	396
Total	**316,518**	**$ 16.21**	**316,518**	

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.

Item 3 - Defaults Upon Senior Securities

None.

Item 4 - Mine Safety Disclosures

Not applicable.

Item 5 - Other Information

As previously disclosed by 8-K filed on May 3, 2019, on April 30, 2019, the FDIC, the CDBO and the Bank entered into a stipulation consenting to the issuance of a consent order (the "Order") relating to the Bank's BSA/AML. While the Bank attempted to address the concerns raised by the FDIC and CDBO in an informal Agreement dated January 8, 2018, these agencies determined in a subsequent examination of the Bank that it had not satisfactorily addressed these concerns particularly relating to failing to maintain a qualified individual to serve as the BSA compliance officer and ensure that adequate resources are provided to administer an effective BSA/AML compliance program.

The Order requires, among other things, that the Bank correct all violations found in the prior examination and to improve its process to better identify and monitor accounts and transactions that pose a greater than normal risk for compliance with BSA/AML. The Order also requires the Board of Directors of the Bank to increase its oversight of the Bank's compliance with BSA/AML rules and regulations. In addition, the Bank is to ensure that the BSA/AML compliance program is managed by a qualified officer with sufficient experience and resources necessary to administer an effective BSA/AML compliance program, and to seek prior FDIC and CDBO non-objection to a change in such officer or the officer in charge of Office of Foreign Assets Control compliance matters, or material changes to their responsibilities. Further, the Order requires that the Bank develop and maintain an effective BSA/AML compliance program, monitoring mechanisms, validation of risk rating and suspicious activity monitoring, and training programs for staff. Further, the Bank must review and enhance its BSA/AML risk assessment and customer due diligence, complete a BSA/AML staffing assessment and conduct a "look back" to more highly scrutinize certain transactions that occurred during a six month period in 2018 to determine if any suspicious activity requiring reporting went undetected. Finally, the Bank must provide periodic reports of progress to the FDIC and CDBO and provide for independent testing of the overall compliance program to ensure continued compliance, and seek prior FDIC and CDBO non-objection to the establishment of any new branches or other offices, or introduction of new delivery channels, products, services, or lines of business.

The Order will remain in effect until terminated, modified or suspended by the FDIC and CDBO. The Bank's Management and Board of Directors have expressed their full intention and ability to comply with all parts of the Order. The Bank began taking corrective actions prior to entry of the Order after communicating with the regulators and expects that it will be able to undertake and implement all required actions within the time periods specified in the Order. Importantly, and prior to the entry of the Order, the Bank sought and received FDIC and CDBO non-objection to hiring a new BSA officer, Susan Wahba, CAMS, who began working for the Bank on March 19, 2019, and brings significant experience in BSA/AML compliance, including as a former bank examiner and BSA/AML trainer for the FDIC, and most recently as the Chief Risk Officer for another Los Angeles area bank. Compliance with the requirements of the Order will be determined by the regulators in subsequent examinations. Subsequent to the Order, the Bank has completed the BSA/AML staffing assessment and the "look back" review to transactions that occurred during a six month period in 2018. In addition, the Bank has reviewed and enhanced BSA/AML risk assessments, as well as customer due diligence, and submitted all required reports to the FDIC and CDBO. Even though the Company believes that the Bank has addressed many of items under the Order, since many of the management and BSA staffing hires have recently assumed their roles at the Bank and are taking steps to improve processes and procedures, it may take some time to address, to the satisfaction of the regulators, the specific issues unique to the Bank's operation and it is still uncertain whether acceptable progress towards compliance with the Order, as determined in the sole discretion of the FDIC and CDBO, will ultimately be achieved in the future.

The Bank will incur additional non-interest expenses associated with the implementation of the required corrective actions; however, both these expenses and the Order are not expected to have a material impact on the results of operations or financial position of the Bank or the Company.

Item 6 - 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
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
10.2	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
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

Signatures

Pursuant to the requirements 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:	November 6, 2019	/s/ Henry Kim
		Henry Kim
		President and Chief Executive Officer *(Principal Executive Officer)*
Date:	November 6, 2019	/s/ Timothy Chang
		Timothy Chang
		Executive Vice President and Chief Financial Officer *(Principal Financial and Accounting Officer)*

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Section 2: EX-31.1 (EXHIBIT 31.1)

Exhibit 31.1

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 periodic report on Form 10-Q 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: November 6, 2019

/s/ Henry Kim

Henry Kim

President and Chief Executive Officer
(Principal Executive Officer)

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Section 3: EX-31.2 (EXHIBIT 31.2)

Exhibit 31.2

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 periodic report on Form 10-Q 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:	November 6, 2019	/s/ Timothy Chang
		Timothy Chang
		Executive Vice President and Chief Financial Officer *(Principal Financial and Accounting Officer)*

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Section 4: EX-32.1 (EXHIBIT 32.1)

Exhibit 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

In connection with the periodic report of PCB Bancorp (the "Company") on Form 10-Q for the period ended September 30, 2019, 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:	November 6, 2019	/s/ Henry Kim
		Henry Kim
		President and Chief Executive Officer *(Principal Executive Officer)*

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Section 5: EX-32.2 (EXHIBIT 32.2)

Exhibit 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

In connection with the periodic report of PCB Bancorp (the "Company") on Form 10-Q for the period ended September 30, 2019, 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:	November 6, 2019	/s/ Timothy Chang
		Timothy Chang
		Executive Vice President and Chief Financial Officer *(Principal Financial and Accounting Officer)*

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