

**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: 001-38149

RBB BANCORP

(Exact name of registrant as specified in its charter)

California

(State or other jurisdiction of
Incorporation or organization)

1055 Wilshire Blvd., Suite 1200,

Los Angeles, California

(Address of principal executive offices)

27-2776416

(I.R.S. Employer
Identification No.)

90017

(Zip Code)

(213) 627-9888

(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of exchange on which registered
Common Stock, No Par Value	RBB	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 every Interactive Data File required to be submitted 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 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 emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input checked="" type="checkbox"/>		

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

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

Number of shares of common stock of the registrant: 20,030,867 outstanding as of November 8, 2019.

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PART I - FINANCIAL INFORMATION (UNAUDITED)

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

RBB BANCORP AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
 SEPTEMBER 30, 2019 (UNAUDITED) AND DECEMBER 31, 2018 (AUDITED)
 (In thousands, except share amounts)

	September 30, 2019	December 31, 2018
Assets		
Cash and due from banks	\$ 136,076	\$ 147,685
Federal funds sold and other cash equivalents	47,000	—
Cash and cash equivalents	183,076	147,685
Interest-earning deposits in other financial institutions	949	600
Securities:		
Available for sale	72,923	73,762
Held to maturity (fair value of \$9,053 and \$9,940 at September 30, 2019 and December 31, 2018, respectively)	8,724	9,961
Mortgage loans held for sale	259,339	434,522
Loans held for investment:		
Real estate	1,785,295	1,762,864
Commercial and other	346,892	387,474
Total loans	2,132,187	2,150,338
Unaccreted discount on acquired loans	(6,005)	(9,229)
Deferred loan costs (fees), net	(37)	906
Total loans, net of deferred loan fees	2,126,145	2,142,015
Allowance for loan losses	(19,386)	(17,577)
Net loans	2,106,759	2,124,438
Premises and equipment	16,871	17,307
Federal Home Loan Bank (FHLB) stock	15,000	9,707
Net deferred tax assets	4,378	4,642
Income tax receivable	898	656
Other real estate owned (OREO)	1,267	1,101
Cash surrender value of life insurance (BOLI)	34,158	33,578
Goodwill	58,383	58,383
Servicing assets	17,180	17,370
Core deposit intangibles	6,444	7,601
Accrued interest and other assets	33,953	32,689
Total assets	<u>\$ 2,820,302</u>	<u>\$ 2,974,002</u>

The accompanying notes are an integral part of these unaudited consolidated financial statements.

RBB BANCORP AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
 SEPTEMBER 30, 2019 (UNAUDITED) AND DECEMBER 31, 2018 (AUDITED) (CONTINUED)
 (In thousands, except share amounts)

	September 30, 2019	December 31, 2018
Liabilities and Shareholders' Equity		
Deposits:		
Noninterest-bearing demand	\$ 446,141	\$ 438,764
Savings, NOW and money market accounts	493,965	579,247
Time deposits under \$250,000	701,021	532,395
Time deposits \$250,000 and over	610,796	593,635
Total deposits	2,251,923	2,144,041
Reserve for unfunded commitments	618	688
Income tax payable	—	—
FHLB advances	35,000	319,500
Long-term debt, net of debt issuance costs	103,964	103,708
Subordinated debentures	9,632	9,506
Accrued interest and other liabilities	20,324	21,938
Total liabilities	2,421,461	2,599,381
Commitments and contingencies - Note 13	—	—
Shareholders' equity:		
Preferred Stock - 100,000,000 shares authorized, no par value; none outstanding	—	—
Common Stock - 100,000,000 shares authorized, no par value; 20,030,866 shares issued and outstanding at September 30, 2019 and 20,000,022 shares at December 31, 2018	288,862	288,610
Additional paid-in capital	6,202	5,659
Retained earnings	103,374	81,618
Non-controlling interest	72	72
Accumulated other comprehensive income (loss), net	331	(1,338)
Total shareholders' equity	398,841	374,621
Total liabilities and shareholders' equity	\$ 2,820,302	\$ 2,974,002

The accompanying notes are an integral part of these unaudited consolidated financial statements.

RBB BANCORP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME – (UNAUDITED)
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018
(In thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Interest and dividend income:				
Interest and fees on loans	\$ 32,902	\$ 23,445	\$ 102,981	\$ 63,651
Interest on interest-earning deposits	429	250	1,412	645
Interest on investment securities	703	560	1,976	1,722
Dividend income on FHLB stock	238	132	815	385
Interest on federal funds sold and other	397	86	634	530
Total interest income	34,669	24,473	107,818	66,933
Interest expense:				
Interest on savings deposits, now and money market accounts	1,117	1,145	3,649	2,845
Interest on time deposits	8,038	2,994	21,788	7,450
Interest on subordinated debentures and long-term debt	1,921	925	5,783	2,758
Interest on other borrowed funds	81	793	2,857	992
Total interest expense	11,157	5,857	34,077	14,045
Net interest income	23,512	18,616	73,741	52,888
Provision for credit losses	824	1,695	1,731	2,579
Net interest income after provision for credit losses	22,688	16,921	72,010	50,309
Noninterest income:				
Service charges, fees and other	934	640	2,976	1,551
Gain on sale of loans	813	1,125	6,131	5,025
Loan servicing fees, net of amortization	827	137	2,566	164
Recoveries on loans acquired in business combinations	12	3	73	14
Unrealized gain on equity investments	—	—	147	—
Increase in cash surrender value of life insurance	195	200	580	598
Gain on sale of securities	7	—	7	—
Gain on sale of OREO	11	—	11	—
Gain on Sale of fixed assets	—	—	6	—
	2,799	2,105	12,497	7,352
Noninterest expense:				
Salaries and employee benefits	7,801	4,916	25,088	14,576
Occupancy and equipment expenses	2,434	1,014	7,360	2,640
Data processing	974	511	3,202	1,471
Legal and professional	435	378	1,516	1,058
Office expenses	335	198	965	561
Marketing and business promotion	248	320	926	785
Insurance and regulatory assessments	172	223	754	645
Core deposit premium	384	76	1,157	235
OREO expenses/ (income)	(1)	5	161	12
Merger expenses	154	348	240	571
Other expenses	850	665	2,641	2,580
	13,786	8,654	44,010	25,134
Income before income taxes	11,701	10,372	40,497	32,527
Income tax expense	3,689	2,041	11,963	5,913
Net income	\$ 8,012	\$ 8,331	\$ 28,534	\$ 26,614
Net income per share				
Basic	\$ 0.40	\$ 0.50	\$ 1.42	\$ 1.62
Diluted	0.39	0.48	1.40	1.54
Cash dividends declared per common share	0.10	0.09	0.30	0.26

The accompanying notes are an integral part of these unaudited consolidated financial statements.

RBB BANCORP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME – (UNAUDITED)
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018
(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income	\$ 8,012	\$ 8,331	\$ 28,534	\$ 26,614
Other comprehensive income (loss):				
Unrealized gains (losses) on securities available for sale:				
Change in unrealized gains (losses)	494	(297)	2,380	(1,523)
Reclassification of gains recognized in net income	(7)	—	(7)	—
	487	(297)	2,373	(1,523)
Related income tax effect:				
Change in unrealized gains (losses)	(148)	88	(706)	450
Reclassification of gains recognized in net income	2	—	2	—
	(146)	88	(704)	450
Total other comprehensive income (loss)	341	(209)	1,669	(1,073)
Total comprehensive income	\$ 8,353	\$ 8,122	\$ 30,203	\$ 25,541

The accompanying notes are an integral part of these unaudited consolidated financial statements.

RBB BANCORP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY – (UNAUDITED)
FOR THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018
(In thousands, except share amounts)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Non- Controlling Interest	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount					
Balance at July 1, 2019	20,077,524	\$ 289,577	\$ 6,055	\$ 98,126	\$ 72	\$ (10)	\$ 393,820
Net income	—	—	—	8,012	—	—	8,012
Stock-based compensation	—	—	147	—	—	—	147
Cash dividend	—	—	—	(2,016)	—	—	(2,016)
Stock options exercised, net of expense recognized	123,127	1,727	—	—	—	—	1,727
Repurchase of common stock	(169,785)	(2,442)	—	(748)	—	—	(3,190)
Other comprehensive income, net of taxes	—	—	—	—	—	341	341
Balance at September 30, 2019	<u>20,030,866</u>	<u>\$ 288,862</u>	<u>\$ 6,202</u>	<u>\$ 103,374</u>	<u>\$ 72</u>	<u>\$ 331</u>	<u>\$ 398,841</u>
Balance at July 1, 2018	16,544,627	\$ 214,025	\$ 6,680	\$ 66,804	\$ —	\$ (1,307)	\$ 286,202
Net income	—	—	—	8,331	—	—	8,331
Stock-based compensation	—	—	184	—	—	—	184
Restricted stock awarded	43,425	—	—	—	—	—	—
Cash dividend	—	—	—	(1,489)	—	—	(1,489)
Stock options exercised	207,851	2,650	(671)	—	—	—	1,979
Other comprehensive income, net of taxes	—	—	—	—	—	(209)	(209)
Balance at September 30, 2018	<u>16,795,903</u>	<u>\$ 216,675</u>	<u>\$ 6,193</u>	<u>\$ 73,646</u>	<u>\$ —</u>	<u>\$ (1,516)</u>	<u>\$ 294,998</u>
	Common Stock		Additional Paid-in Capital	Retained Earnings	Non- Controlling Interest	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount					
Balance at January 1, 2019	20,000,022	\$ 288,610	\$ 5,659	\$ 81,618	\$ 72	\$ (1,338)	\$ 374,621
Net income	—	—	—	28,534	—	—	28,534
Stock-based compensation	—	—	543	—	—	—	543
Cash dividend	—	—	—	(6,030)	—	—	(6,030)
Stock options exercised, net of expense recognized	200,629	2,694	—	—	—	—	2,694
Repurchase of common stock	(169,785)	(2,442)	—	(748)	—	—	(3,190)
Other comprehensive income, net of taxes	—	—	—	—	—	1,669	1,669
Balance at September 30, 2019	<u>20,030,866</u>	<u>\$ 288,862</u>	<u>\$ 6,202</u>	<u>\$ 103,374</u>	<u>\$ 72</u>	<u>\$ 331</u>	<u>\$ 398,841</u>
Balance at January 1, 2018	15,908,893	\$ 205,927	\$ 8,426	\$ 51,266	\$ —	\$ (443)	\$ 265,176
Net income	—	—	—	26,614	—	—	26,614
Stock-based compensation	—	—	446	—	—	—	446
Restricted stock awarded	43,425	—	—	—	—	—	—
Cash dividend	—	—	—	(4,234)	—	—	(4,234)
Stock options exercised	843,585	10,748	(2,679)	—	—	—	8,069
Other comprehensive income, net of taxes	—	—	—	—	—	(1,073)	(1,073)
Balance at September 30, 2018	<u>16,795,903</u>	<u>\$ 216,675</u>	<u>\$ 6,193</u>	<u>\$ 73,646</u>	<u>\$ —</u>	<u>\$ (1,516)</u>	<u>\$ 294,998</u>

The accompanying notes are an integral part of these unaudited consolidated financial statements.

RBB BANCORP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS – (UNAUDITED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018
(In thousands)

	Nine Months Ended September 30,	
	2019	2018
Operating activities		
Net income	\$ 28,534	\$ 26,614
Adjustments to reconcile net income to net cash from Operating activities:		
Depreciation and amortization of premises, and equipment	1,451	922
Net accretion of securities, loans, deposits, and other	(2,537)	(670)
Unrealized (gain) on equity securities	(147)	—
Amortization of investment in affordable housing tax credits	675	483
Amortization of intangible assets	3,637	2,404
Provision for loan losses	1,731	2,579
Stock-based compensation	544	446
Deferred tax benefit	(438)	(1,573)
Gain on sale of securities	(7)	—
Gain on sale of loans	(6,131)	(5,025)
Gain on sale of OREO	(11)	—
Gain on sale of fixed assets	(6)	—
Increase in cash surrender value of life insurance	(580)	(598)
Loans originated and purchased for sale	(102,887)	(338,129)
Proceeds from loans sold	347,623	170,179
Other items	(4,470)	(1,597)
Net cash provided by (used in) operating activities	266,981	(143,965)
Investing activities		
Increase in interest-earning deposits	(349)	—
Securities available for sale:		
Purchases	(112,656)	(59,288)
Maturities, prepayments and calls	109,977	35,541
Sales	6,136	—
Securities held to maturity:		
Maturities, prepayments and calls	1,205	—
Redemption of Federal Home Loan Bank stock	1,751	—
Purchase of Federal Home Loan Bank stock and other equity securities, net	(8,641)	(8,008)
Purchase of investment in qualified affordable housing projects	—	(4,500)
Net increase in loans	(45,735)	(212,688)
Proceeds from sales of OREO	819	—
Proceeds from sale of fixed assets	17	—
Purchases of premises and equipment	(954)	(2,105)
Net cash used in investing activities	(48,430)	(251,048)
Financing activities		
Net (decrease) increase in demand deposits and savings accounts	(77,905)	52,658
Net increase in time deposits	185,771	175,025
Net (decrease) increase in FHLB advances	(284,500)	185,000
Cash dividends paid	(6,030)	(4,234)
Common stock repurchased, net of repurchased costs	(3,190)	—
Exercise of stock options	2,694	8,069
Net cash (used in) provided by financing activities	(183,160)	416,518
Net increase (decrease) in cash and cash equivalents	35,391	21,505
Cash and cash equivalents at beginning of period	147,685	150,048
Cash and cash equivalents at end of period	\$ 183,076	\$ 171,553
Supplemental disclosure of cash flow information		
Cash paid during the period:		
Interest paid	\$ 24,600	\$ 2,778
Taxes paid	13,010	7,785
Non-cash investing and financing activities:		
Transfer from loans to other real estate owned	974	—
Transfer of loans to held for sale	63,422	138,045
Net change in unrealized holding (loss) gain on securities available for sale	1,669	(1,073)

The accompanying notes are an integral part of these unaudited consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (UNAUDITED)

NOTE 1 - BUSINESS DESCRIPTION

RBB Bancorp (“RBB”) is a financial holding company registered under the Bank Holding Company Act of 1956, as amended. RBB Bancorp’s principal business is to serve as the holding company for its wholly-owned banking subsidiaries, Royal Business Bank (“Bank”) and RBB Asset Management Company (“RAM”), collectively referred to herein as “the Company”. RAM was formed to hold and manage problem assets acquired in business combinations.

At September 30, 2019, the Company had total consolidated assets of \$2.8 billion, gross consolidated loans (held for investment and held for sale) of \$2.4 billion, total consolidated deposits of \$2.3 billion and total consolidated stockholders' equity of \$398.8 million. RBB’s common stock trades on the Nasdaq Global Select Market under the symbol “RBB”.

The Bank provides business banking services to the Chinese-American communities in Los Angeles County, Orange County, Ventura County and in Las Vegas and the New York City metropolitan area, including remote deposit, E-banking, mobile banking, commercial and investor real estate loans, business loans and lines of credit, Small Business Administration (“SBA”) 7A and 504 loans, mortgage loans, trade finance and a full range of depository accounts.

The Company operates full-service banking offices in Arcadia, Cerritos, Diamond Bar, Irvine, Los Angeles, Monterey Park, Oxnard, Rowland Heights, San Gabriel, Silver Lake, Torrance, West Los Angeles, and Westlake Village, California; Las Vegas, Nevada; and Manhattan, Brooklyn, Flushing, and Elmhurst, New York. The Company’s primary source of revenue is providing loans to customers, who are predominantly small and middle-market businesses and individuals.

The Company generates its revenue primarily from interest received on loans and leases and, to a lesser extent, from interest received on investment securities. The Company also derives income from noninterest sources, such as fees received in connection with various lending and deposit services, residential mortgage loan originations, loan servicing, gain on sales of loans and wealth management services. The Company’s principal expenses include interest expense on deposits and subordinated debentures, and operating expenses, such as salaries and employee benefits, occupancy and equipment, data processing, and income tax expense.

The Company has completed five acquisitions from July 8, 2011 through October 15, 2018, including the acquisition of First American International Corp. (“FAIC”) and its wholly-owned subsidiary, First American International Bank (“FAIB”), which closed on October 15, 2018. FAIB operated three branches in Queens, two in Manhattan, and two in Brooklyn, New York with an operating center and loan production offices in Brooklyn and an administrative center in Manhattan. As part of the FAIC acquisition, the Company acquired FAIB Capital Corp. (“FAICC”) that was formed on January 29, 2014. FAICC is a real estate investment trust subsidiary of the Bank. See Note 3 – Acquisition, for more information about the FAIC acquisition transactions. All of the Company’s acquisitions have been accounted for using the acquisition method of accounting and, accordingly, the operating results of the acquired entities have been included in the consolidated financial statements from their respective acquisition dates.

On September 5, 2019 the Company entered in an agreement to acquire PGB Holdings Inc. and its wholly-owned subsidiary, Pacific Global Bank (“PGB”), for \$32.5 million in cash. As of September 30, 2019, PGB had approximately \$224.5 million in assets and three branches in Chicago, Illinois.

NOTE 2 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIESBasis of Presentation

The accompanying unaudited consolidated financial statements and notes thereto of the Company have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (“SEC”) for Form 10-Q and conform to practices within the banking industry and include all of the information and disclosures required by accounting principles generally accepted in the United States of America (“GAAP”) for interim financial reporting. The accompanying unaudited consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments), which are necessary for a fair presentation of financial results for the interim periods presented. The results of operations for the nine months ended September 30, 2019 are not necessarily indicative of the results for the full year. These interim unaudited financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto as of and for the year ended December 31, 2018, included in our Annual Report filed on Form 10-K for the fiscal year ended December 31, 2018 (our “2018 Annual Report”).

Use of Estimates in the Preparation of Financial Statements

The preparation of 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Summary of Significant Accounting Policies

The accompanying unaudited consolidated financial statements were compiled in accordance with the accounting policies set forth in Note 2 – Basis of Presentation and Summary of Significant Policies in our Consolidated Financial Statements as of and for the year ended December 31, 2018, included in our 2018 Annual Report. The accompanying consolidated unaudited financial statements reflect all adjustments consisting of normal recurring adjustments that, in the opinion of management, are necessary to reflect a fair statement of our consolidated financial condition, results of operations, and cash flows. The results of operations for acquired companies are included from the dates of acquisition. Operating results for the nine months ended September 30, 2019 are not necessarily indicative of the results that may be expected for the year ended December 31, 2019. The Financial Accounting Standards Board ("FASB") issues Accounting Standards Updates ("ASU" or "Update") and Accounting Standards Codifications ("ASC"), which are the primary source of GAAP.

Recent Accounting Pronouncements

When RBB conducted its IPO in 2017, we qualified as an emerging growth company ("EGC"). We will remain an EGC until the earliest of (i) the end of the fiscal year during which we have total annual gross revenues of \$1.0 billion or more, (ii) the end of the fiscal year following the fifth anniversary of the completion of our IPO, (iii) the date on which we have, during the previous three-year period, issued more than \$1.0 billion in non-convertible debt and (iv) the date on which we are deemed to be a "large accelerated filer" under the Securities Exchange Act of 1934, as amended. We anticipate no longer qualifying as an EGC on January 1, 2023. EGCs are entitled to reduced regulatory and reporting requirements under the Securities Act and the Exchange Act.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This Update requires an entity to recognize revenue as performance obligations are met, in order to reflect the transfer of promised goods or services to customers in an amount that reflects the consideration the entity is entitled to receive for those goods or services. The following steps are applied in the updated guidance: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when, or as, the entity satisfies a performance obligation. These amendments are effective for public business entities for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Our revenue is primarily comprised of net interest income on financial assets and financial liabilities, which is explicitly excluded from the scope of ASU 2014-09, and non-interest income. Accordingly, the majority of the Company's revenues will not be affected. In addition, the standard does not materially impact the timing or measurement of the Company's revenue recognition as it is consistent with the Company's existing accounting for contracts within the scope of the standard. As an EGC, the Company adopted ASU 2014-09 as of January 1, 2019, utilizing the modified prospective approach. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements, as substantially all of the Company's revenues are excluded from the scope of the new standard. Since there was no net income impact upon adoption of this ASU, a cumulative effect adjustment to opening retained earnings was not deemed necessary. See Note 20 (Revenue from Contracts with Customers) for more information.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10)*. Changes made to the current measurement model primarily affect the accounting for equity securities and readily determinable fair values, where changes in fair value will impact earnings instead of other comprehensive income. The accounting for other financial instruments, such as loans, investments in debt securities, and financial liabilities is largely unchanged. Investments in Federal Home Loan Bank ("FHLB") and Federal Reserve Bank ("FRB") stock issued to member financial institutions are not subject to this guidance. Instead, FHLB and FRB stock would continue to be accounted for at cost less impairment under ASC 942-325-35-3. The ASU's impairment guidance on equity investments for which fair value is not readily determinable also does not apply to FHLB or FRB stock. This Update also changes the presentation and disclosure requirements for financial instruments including a requirement that public business entities use exit price when measuring the fair value of financial instruments measured at amortized cost for disclosure purposes. This Update is generally effective for public business entities in fiscal years beginning after December 15, 2017, including interim periods within those fiscal years and one year later for nonpublic business entities. The Company adopted this ASU as of January 1, 2018 and it did not have a material impact on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, including subsequent amending ASUs. The most significant change for lessees is the requirement under the new guidance to recognize right-of-use assets and lease liabilities for all leases not considered short-term leases, which is generally defined as a lease term of less than 12 months. This change will result in lessees recognizing right-of-use assets and lease liabilities for most leases currently accounted for as operating leases under current lease accounting guidance. On July 17, 2019, the FASB proposed a one-year deferral of the amendments in this Update to be effective for interim periods beginning after December 15, 2021 and annual periods beginning after December 15, 2020, for an EGC. The Company has several lease agreements which are currently considered operating leases and are therefore not included on the Company's Consolidated Balance Sheets. Under the new guidance the Company expects that some of the lease agreements will be recognized on the Consolidated Balance Sheets as a right-of-use asset with a corresponding lease liability. Based upon a preliminary evaluation as of September 30, 2019, the Company expects that the ASU will have an impact on the Company's Consolidated Balance Sheets. As of this Quarterly Report and the Company's current leases, we estimate the right-of-use asset and lease liability will be in the range of \$25-30 million as of the expected January 1, 2022 adoption date. The Company will continue to evaluate how extensive the impact will be under the ASU on the Company's consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Measurement of Credit Losses on Financial Instrument (Topic 326)*, including subsequent amending ASUs. This ASU significantly changes how entities will measure credit losses for most financial assets and certain other instruments that aren't measured at fair value through net income. The standard will replace today's "incurred loss" approach with an "expected loss" model. The new model, referred to as the current expected credit loss ("CECL") model, will apply to: (1) financial assets subject to credit losses and measured at amortized cost, and (2) certain off-balance sheet credit exposures. This includes, but is not limited to, loans, leases, held to maturity securities, loan commitments, and financial guarantees. For available for sale ("AFS") debt securities with unrealized losses, entities will measure credit losses in a manner similar to what they do today, except that the losses will be recognized as allowances rather than reductions in the amortized cost of the securities. ASU 2016-13 also expands the disclosure requirements regarding an entity's assumptions, models, and methods for estimating the allowance for loan and lease losses. In addition, public business entities will need to disclose the amortized cost balance for each class of financial asset by credit quality indicator, disaggregated by the year of origination. ASU 2016-13 was originally proposed to be effective for interim and annual reporting periods for an emerging growth company beginning after December 15, 2020 (however, see below). Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (i.e., modified retrospective approach). The Company has begun its evaluation of the impact of the implementation of ASU 2016-13. The implementation of the provisions of ASU 2016-13 will most likely impact the Company's consolidated financial statements as to the level of reserves that will be required for credit losses. The Company will continue to assess the potential impact that this Update will have on the Company's consolidated financial statements. In October 2019, the FASB announced the delay in the effective date to January 1, 2023 for an EGC. The Company anticipates adopting this ASU 2016-13 on that date.

In January 2017, the FASB issued ASU 2017-04, *Intangibles—Goodwill and Other (Topic 350)*. This Update simplifies how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. The amendments in this Update are required for public business entities and other entities that have goodwill reported in their financial statements and have not elected the private company alternative for the subsequent measurement of goodwill. As a result, under this Update, "an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit." ASU 2017-14 is effective for annual and any interim impairment tests performed in periods beginning after December 15, 2021 for an EGC. Adoption of ASU 2017-04 is not expected to have a significant impact on the Company's consolidated financial statements.

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*, which is intended to enhance "the accounting for the amortization of premiums for purchased callable debt securities." This Update shortens the amortization period for certain callable debt securities purchased at a premium by requiring that the premium be amortized to the earliest call date. Under current GAAP, entities generally amortize the premium as an adjustment of yield over the contractual life of the instrument. The amendments in this Update affects all entities that hold investments in callable debt securities that have an amortized cost basis in excess of the amount that is repayable by the issuer at the earliest call date (that is, at a premium). The amendment does not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The ASU's amendments are effective for EGC's for interim and annual periods beginning after December 15, 2019. An entity should apply the amendments in this Update on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. Additionally, in the period of adoption, an entity should provide disclosures about a change in accounting principle. The implementation of the provisions of ASU 2017-08 will most likely not have a material impact the Company's consolidated financial statements. During 2019 through September 30, 2019, the Company has not purchased or held any callable debt securities. The Company will continue to assess the potential impact that this ASU will have on the Company's consolidated financial statements.

In June 2018, the FASB issued ASU 2018-07, *Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting*. The amendments in this Update expand the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. An entity should apply the requirements of Topic 718 to nonemployee awards except for specific guidance on inputs to an option pricing model and the attribution of cost (that is, the period of time over which share-based payment awards vest and the pattern of cost recognition over that period). The amendments specify that Topic 718 applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in a grantor's own operations by issuing share-based payment awards. The amendments also clarify that Topic 718 does not apply to share-based payments used to effectively provide (1) financing to the issuer or (2) awards granted in conjunction with selling goods or services to customers as part of a contract accounted for under Topic 606, Revenue from Contracts with Customers. For EGCs, the amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. This Update has the potential to only impact share-based payments to members of the Company's non-employees. The Company will assess the potential impact that this ASU will have on the Company's consolidated financial statements. This ASU will not have a material impact on the Company's consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for fair Value Measurement*. The amendments in this Update modify the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement, based on the concepts in the Concepts Statement, including the consideration of costs and benefits. These disclosure requirements were removed from the topic: (1) The amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, (2) the policy for timing of transfers between levels, and (3) the valuation processes for Level 3 fair value measurements. These disclosure requirements were modified: (1) For investments in certain entities that calculate net asset value, an entity is required to disclose the timing of liquidation of an investee's assets and the date when restrictions from redemption might lapse only if the investee has communicated the timing to the entity or announced the timing publicly, and (2) the amendments clarify that the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date. The following disclosure requirements were added: (1) The changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period, (2) the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. For certain unobservable inputs, an entity may disclose other quantitative information (such as the median or arithmetic average) in lieu of the weighted average if the entity determines that other quantitative information would be a more reasonable and rational method to reflect the distribution of unobservable inputs used to develop Level 3 fair value measurements. In addition, the amendments eliminate "at a minimum" from the phrase "an entity shall disclose at a minimum to promote the appropriate exercise of discretion by entities when considering fair value measurement disclosures and to clarify that materiality is an appropriate consideration of entities and their auditors when evaluating disclosure requirements". The amendments in this Update are effective for emerging growth companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted upon issuance of this Update. An entity is permitted to early adopt any removed or modified disclosures upon issuance of this Update and delay adoption of the additional disclosures until their effective date. As an EGC, RBB will adopt this Update on January 1, 2020.

In August 2018, the FASB issued ASU 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. This Update provides additional guidance to ASU 2015-05, "Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement" (CCA), on the accounting for implementation, setup, and other upfront costs (collectively referred to as implementation costs) apply to entities that are a customer in a hosting arrangement. This Update applies to entities that are a customer in a hosting arrangement that is a service contract. Costs for implementation activities in the application development stage are capitalized depending on the nature of the costs, while costs incurred during the preliminary project and post-implementation stages are expensed as the activities are performed. This Update also requires the customer to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. This Update is effective for an EGC for annual reporting periods beginning after December 15, 2020, and interim periods within annual periods beginning after December 15, 2021. Early adoption of the amendments in this Update is permitted, including adoption in any interim period, for all entities. The amendments in this Update should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. This Update will most likely not have a material impact unless RBB incurs implementation costs for a CCA that is a service contract.

In September 2019, the FASB issued a proposed ASU, "Facilitation of the Effects of Reference Rate Reform on Financial Reporting." The proposed ASU would provide temporary, optional expedients and exceptions related to applying U.S. GAAP to contract modifications, hedging relationships, fair value hedges, and other transactions affected by reference rate reform. The purpose of the proposal is to "ease the potential burden in accounting for, or recognizing the effects of, reference rate reform on financial reporting." However, the proposed amendments would "apply only to contracts or hedging relationships that reference LIBOR or another reference rate expected to be discontinued due to reference rate reform." In July 2017, British banking regulators announced plans to eliminate the LIBOR rate by the end of 2021.

NOTE 3 – ACQUISITION

First American International Corp. Acquisition:

On October 15, 2018, the Company acquired all the assets and assumed all the liabilities of First American International Corp. in exchange for cash of \$34.8 million and 3,011,762 shares of RBB common stock, which as valued at \$69.6 million in the aggregate on the date of acquisition. FAIC operated eight branches in the New York City metropolitan area. The Company acquired FAIC to strategically establish a presence in the New York area. Goodwill in the amount of \$28.4 million was recognized in this acquisition. Goodwill represents the future economic benefits arising from net assets acquired that are not individually identified and separately recognized and is attributable to synergies expected to be derived from the combination of the two entities. Goodwill is not deductible for income tax purposes.

The following table represents the assets acquired and liabilities assumed of FAIC as of October 15, 2018 and the fair value adjustments and amounts recorded by the Company in 2018 under the acquisition method of accounting:

<i>(dollars in thousands)</i>	<u>FAIC Book Value</u>	<u>Fair Value Adjustments</u>	<u>Fair Value</u>
Assets acquired			
Cash and cash equivalents	\$ 55,891	\$ —	\$ 55,891
Fed funds sold	218	—	218
Interest-bearing deposits in other financial Institutions	3,801	—	3,801
Investments - held to maturity	30,814	(611)	30,203
Investments - available for sale	14,388	—	14,388
Mortgage loans held for sale	1,915	—	1,915
Loans, gross	721,732	(6,161)	715,571
Allowance for loan losses	(9,583)	9,583	—
Bank premises and equipment	5,785	3,439	9,224
Mortgage servicing rights	11,274	(660)	10,614
Core deposit premium	—	6,738	6,738
Other assets	3,518	(2,119)	1,399
Total assets acquired	<u>\$ 839,753</u>	<u>\$ 10,209</u>	<u>\$ 849,962</u>
Liabilities assumed			
Deposits	\$ 629,609	\$ 94	\$ 629,703
FHLB advances	124,500	—	124,500
Subordinated debentures	7,217	(1,241)	5,976
Other liabilities	14,940	(1,153)	13,787
Total liabilities assumed	<u>776,266</u>	<u>(2,300)</u>	<u>773,966</u>
Excess of assets acquired over liabilities assumed	<u>63,487</u>	<u>12,509</u>	<u>75,996</u>
	<u>\$ 839,753</u>	<u>\$ 10,209</u>	
Stock consideration			69,602
Cash paid			34,837
Goodwill recognized			<u>\$ 28,443</u>

NOTE 4 - INVESTMENT SECURITIES

The following table summarizes the amortized cost and fair value of available for sale (“AFS”) securities and held to maturity (“HTM”) securities at September 30, 2019 and December 31, 2018, and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income:

<i>(dollars in thousands)</i> September 30, 2019	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale				
Government agency securities	\$ 1,593	\$ —	\$ (8)	\$ 1,585
SBA agency securities	4,868	90	(4)	4,954
Mortgage-backed securities- Government sponsored agencies	20,050	128	(42)	20,136
Collateralized mortgage obligations	12,124	135	(14)	12,245
Corporate debt securities	33,816	189	(2)	34,003
Total	<u>\$ 72,451</u>	<u>\$ 542</u>	<u>\$ (70)</u>	<u>\$ 72,923</u>
Held to maturity				
Municipal taxable securities	\$ 3,581	\$ 171	\$ —	\$ 3,752
Municipal securities	5,143	158	—	5,301
Total	<u>\$ 8,724</u>	<u>\$ 329</u>	<u>\$ —</u>	<u>\$ 9,053</u>
December 31, 2018				
Available for sale				
Government agency securities	\$ 1,873	\$ —	\$ (58)	\$ 1,815
SBA agency securities	5,354	—	(185)	5,169
Mortgage-backed securities- Government sponsored agencies	23,125	—	(584)	22,541
Collateralized mortgage obligations	12,696	1	(631)	12,066
Corporate debt securities	32,615	105	(549)	32,171
Total	<u>\$ 75,663</u>	<u>\$ 106</u>	<u>\$ (2,007)</u>	<u>\$ 73,762</u>
Held to maturity				
Municipal taxable securities	\$ 4,290	\$ 142	\$ —	\$ 4,432
Municipal securities	5,671	1	(164)	5,508
Total	<u>\$ 9,961</u>	<u>\$ 143</u>	<u>\$ (164)</u>	<u>\$ 9,940</u>

One security with a fair value of \$665,000 and \$697,000 at September 30, 2019 and December 31, 2018, respectively, was pledged to secure a local agency deposit.

The amortized cost and fair value of the investment securities portfolio at September 30, 2019 are shown by expected maturity below. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

<i>(dollars in thousands)</i> September 30, 2019	Less than One Year		More than One Year to Five Years		More than Five Years to Ten Years		More than Ten Years		Total	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Government agency securities	\$ —	\$ —	\$ 1,593	\$ 1,585	\$ —	\$ —	\$ —	\$ —	\$ 1,593	\$ 1,585
SBA securities	—	—	716	733	4,152	4,221	—	—	4,868	4,954
Mortgage-backed securities-										
Government sponsored agencies	497	497	13,250	13,323	6,303	6,316	—	—	20,050	20,136
Collateralized mortgage obligations	—	—	9,764	9,808	2,360	2,437	—	—	12,124	12,245
Corporate debt securities	16,016	16,020	2,003	2,003	11,781	11,965	4,016	4,015	33,816	34,003
Total available for sale	<u>\$ 16,513</u>	<u>\$ 16,517</u>	<u>\$ 27,326</u>	<u>\$ 27,452</u>	<u>\$ 24,596</u>	<u>\$ 24,939</u>	<u>\$ 4,016</u>	<u>\$ 4,015</u>	<u>\$ 72,451</u>	<u>\$ 72,923</u>
Municipal taxable securities	\$ 125	\$ 128	\$ 2,951	\$ 3,038	\$ 505	\$ 586	\$ —	\$ —	\$ 3,581	\$ 3,752
Municipal securities	—	—	—	—	351	351	4,792	4,950	5,143	5,301
Total held to maturity	<u>\$ 125</u>	<u>\$ 128</u>	<u>\$ 2,951</u>	<u>\$ 3,038</u>	<u>\$ 856</u>	<u>\$ 937</u>	<u>\$ 4,792</u>	<u>\$ 4,950</u>	<u>\$ 8,724</u>	<u>\$ 9,053</u>

The following table summarizes investment securities with unrealized losses at September 30, 2019 and December 31, 2018, aggregated by major security type and length of time in a continuous unrealized loss position:

<i>(dollars in thousands)</i>	Less than Twelve Months			Twelve Months or More			Total		
	Unrealized Losses	Estimated Fair Value	No. of Issuances	Unrealized Losses	Estimated Fair Value	No. of Issuances	Unrealized Losses	Estimated Fair Value	No. of Issuances
September 30, 2019									
Government agency securities	\$ (8)	\$ 1,585	2	\$ —	\$ —	—	\$ (8)	\$ 1,585	2
SBA securities	(4)	1,529	2	—	—	—	(4)	1,529	2
Mortgage-backed securities- Government sponsored agencies	(1)	914	3	(41)	5,871	8	(42)	6,785	11
Collateralized mortgage obligations	—	—	—	(14)	1,018	2	(14)	1,018	2
Corporate debt securities	(1)	999	1	(1)	4,015	1	(2)	5,014	2
Total available for sale	\$ (14)	\$ 5,027	8	\$ (56)	\$ 10,904	11	\$ (70)	\$ 15,931	19
Municipal securities	\$ —	\$ —	—	\$ —	\$ —	—	\$ —	\$ —	—
Total held to maturity	\$ —	\$ —	—	\$ —	\$ —	—	\$ —	\$ —	—
December 31, 2018									
Government agency securities	\$ —	\$ —	—	\$ (58)	\$ 1,815	2	\$ (58)	\$ 1,815	2
SBA securities	—	—	—	(185)	5,169	4	(185)	5,169	4
Mortgage-backed securities- Government sponsored agencies	(11)	3,484	2	(573)	23,928	25	(584)	27,412	27
Collateralized mortgage obligations	—	—	—	(631)	12,065	8	(631)	12,065	8
Corporate debt securities	(61)	4,600	4	(488)	6,548	4	(549)	11,148	8
Total available for sale	\$ (72)	\$ 8,084	6	\$ (1,935)	\$ 49,525	43	\$ (2,007)	\$ 57,609	49
Municipal securities	\$ (104)	\$ 2,468	6	\$ (60)	\$ 2,174	4	\$ (164)	\$ 4,642	10
Total held to maturity	\$ (104)	\$ 2,468	6	\$ (60)	\$ 2,174	4	\$ (164)	\$ 4,642	10

Unrealized losses have not been recognized into income because the issuer bonds are of high credit quality, management does not intend to sell, it is not more likely than not that management would be required to sell the securities prior to their anticipated recovery and the decline in fair value is largely due to changes in interest rates. The fair value is expected to recover as the bonds approach maturity.

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

NOTE 5 - LOANS AND ALLOWANCE FOR LOAN LOSSES

The Company's loan portfolio consists primarily of loans to borrowers within the Los Angeles, California metropolitan area, the New York City metropolitan area, and Las Vegas, Nevada. Although the Company seeks to avoid concentrations of loans to a single industry or based upon a single class of collateral, real estate and real estate associated businesses are among the principal industries in the Company's market area and, as a result, the Company's loan and collateral portfolios are, to some degree, concentrated in those industries.

The following tables present the balance and activity related to the allowance for loan losses for held for investment loans by type for the periods presented.

<i>(dollars in thousands)</i>	Three Months Ended September 30,									
	2019					2018				
	Real Estate	Commercial	Other	Unallocated	Total	Real Estate	Commercial	Unallocated	Total	
Allowance for loan losses:										
Beginning balance	\$ 14,582	\$ 3,976	\$ 3	\$ —	\$ 18,561	\$ 10,492	\$ 4,100	\$ 65	\$ 14,657	
Additions (reductions) to the allowance charged to expense	558	25	3	238	824	1,633	127	(65)	1,695	
Recoveries/(charge-offs) on loans	—	1	—	—	1	—	(174)	—	(174)	
Ending balance	<u>\$ 15,140</u>	<u>\$ 4,002</u>	<u>\$ 6</u>	<u>\$ 238</u>	<u>\$ 19,386</u>	<u>\$ 12,125</u>	<u>\$ 4,053</u>	<u>\$ —</u>	<u>\$ 16,178</u>	

<i>(dollars in thousands)</i>	Nine Months Ended September 30,									
	2019					2018				
	Real Estate	Commercial	Other	Unallocated	Total	Real Estate	Commercial	Unallocated	Total	
Allowance for loan losses:										
Beginning of year	\$ 13,437	\$ 4,140	\$ —	\$ —	\$ 17,577	\$ 9,309	\$ 4,044	\$ 420	\$ 13,773	
Additions (reductions) to the allowance charged to expense	1,703	(216)	6	238	1,731	2,816	183	(420)	2,579	
Recoveries on loans charged-off	—	110	—	—	110	—	—	—	—	
Less loans charged-off	—	(32)	—	—	(32)	—	(174)	—	(174)	
Ending balance	<u>\$ 15,140</u>	<u>\$ 4,002</u>	<u>\$ 6</u>	<u>\$ 238</u>	<u>\$ 19,386</u>	<u>\$ 12,125</u>	<u>\$ 4,053</u>	<u>\$ —</u>	<u>\$ 16,178</u>	

The following table presents the recorded investment in loans and impairment method as of September 30, 2019 and September 30, 2018, and the activity in the allowance for loan losses for the year ended December 31, 2018, by portfolio segment:

<i>(dollars in thousands)</i>	September 30, 2019					September 30, 2018				
	Real Estate	Commercial	Other	Unallocated	Total	Real Estate	Commercial	Other	Unallocated	Total
Reserves:										
Specific	\$ 127	\$ 303	\$ —	\$ —	\$ 430	\$ 43	\$ —	\$ —	\$ —	\$ 43
General	15,013	3,699	6	238	18,956	12,082	4,053	—	—	16,135
Total allowance for loan losses	<u>\$ 15,140</u>	<u>\$ 4,002</u>	<u>\$ 6</u>	<u>\$ 238</u>	<u>\$ 19,386</u>	<u>\$ 12,125</u>	<u>\$ 4,053</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 16,178</u>
Loans evaluated for impairment:										
Individually	4,537	5,091	—	—	9,628	4,080	2,506	—	—	6,586
Collectively	1,773,616	342,365	536	—	2,116,517	989,915	384,717	—	—	1,374,632
Total loans, net of deferred loan fees and unaccreted discount on acquired loans	<u>\$ 1,778,153</u>	<u>\$ 347,456</u>	<u>\$ 536</u>	<u>\$ —</u>	<u>\$ 2,126,145</u>	<u>\$ 993,995</u>	<u>\$ 387,223</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,381,218</u>

December 31, 2018	Real Estate	Commercial	Unallocated	Total
Allowance for loan losses:				
Beginning of year	\$ 9,309	\$ 4,044	\$ 420	\$ 13,773
Provisions	4,128	761	(420)	4,469
Charge-offs	—	(701)	—	(701)
Recoveries	—	36	—	36
	<u>\$ 13,437</u>	<u>\$ 4,140</u>	<u>\$ —</u>	<u>\$ 17,577</u>
Reserves:				
Specific	\$ —	\$ 44	\$ —	\$ 44
General	13,393	4,140	—	17,533
Loans acquired with deteriorated credit quality	—	—	—	—
Total allowance for loan losses	<u>\$ 13,393</u>	<u>\$ 4,184</u>	<u>\$ —</u>	<u>\$ 17,577</u>
Loans evaluated for impairment:				
Individually	\$ 2,309	\$ 972	\$ —	\$ 3,281
Collectively	1,750,896	387,838	—	2,138,734
Total loans, net of deferred loan fees and unaccrued discount on acquired loans	<u>\$ 1,753,205</u>	<u>\$ 388,810</u>	<u>\$ —</u>	<u>\$ 2,142,015</u>

The Company categorizes 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 as to credit risk. This analysis typically includes larger, non-homogeneous loans such as commercial real estate and commercial and industrial loans. This analysis 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 loans not meeting the risk ratings defined below.

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 deterioration of the 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 so classified 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.

Impaired - A loan is considered impaired, when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Additionally, all loans classified as troubled debt restructurings are considered impaired.

The risk category of loans by class of loans was as follows at September 30, 2019 and December 31, 2018:

<i>(dollars in thousands)</i>						
September 30, 2019	Pass	Special Mention	Substandard	Impaired (1)	Total	
Real estate:						
Construction and land development	\$ 101,382	\$ —	\$ —	\$ 267	\$ 101,649	
Commercial real estate	760,323	5,371	18,858	3,375	787,927	
Single-family residential mortgages	886,682	—	1,000	895	888,577	
Commercial:						
Other	267,068	4,076	5,334	—	276,478	
SBA	61,079	206	4,602	5,091	70,978	
Other:	536	—	—	—	536	
Total loans	<u>\$ 2,077,070</u>	<u>\$ 9,653</u>	<u>\$ 29,794</u>	<u>\$ 9,628</u>	<u>\$ 2,126,145</u>	

(dollars in thousands)

December 31, 2018

	Pass	Special Mention	Substandard	Impaired (1)	Total
Real estate:					
Construction and land development	\$ 112,959	\$ —	\$ —	\$ 276	\$ 113,235
Commercial real estate	743,123	7,069	6,496	2,033	758,721
Single-family residential mortgages	880,860	—	389	—	881,249
Commercial:					
Other	295,226	6,286	2,798	—	304,310
SBA	79,057	—	4,471	972	84,500
Total loans	<u>\$ 2,111,225</u>	<u>\$ 13,355</u>	<u>\$ 14,154</u>	<u>\$ 3,281</u>	<u>\$ 2,142,015</u>

(1) Loans, net of deferred fees

The following table presents the aging of the recorded investment in past-due loans at September 30, 2019 and December 31, 2018 by class of loans:

(dollars in thousands)	30-59 Days	60-89 Days	90 Days Or More	Total Past Due	Loans Not Past Due	Total Loans	Non- Accrual Loans (1)
September 30, 2019							
Real estate:							
Construction and land development	\$ —	\$ —	\$ —	\$ —	\$ 101,649	\$ 101,649	\$ —
Commercial real estate	—	—	891	891	787,036	787,927	891
Single-family residential mortgages	793	893	446	2,132	886,445	888,577	895
Commercial:							
Other	1,070	—	—	1,070	275,408	276,478	—
SBA	1,023	1,246	5,043	7,312	63,666	70,978	5,043
Other:	—	—	—	—	536	536	—
	<u>\$ 2,886</u>	<u>\$ 2,139</u>	<u>\$ 6,380</u>	<u>\$ 11,405</u>	<u>\$ 2,114,740</u>	<u>\$ 2,126,145</u>	<u>\$ 6,829</u>
Real estate:							
Single-family residential mortgages held for sale	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 259,339</u>	<u>\$ 259,339</u>	<u>\$ —</u>
December 31, 2018							
Real estate:							
Construction and land development	\$ —	\$ —	\$ —	\$ —	\$ 113,235	\$ 113,235	\$ —
Commercial real estate	—	678	—	678	758,043	758,721	—
Single-family residential mortgages	1,548	950	—	2,498	878,751	881,249	—
Commercial:							
Other	—	—	—	—	304,310	304,310	—
SBA	957	—	914	1,871	82,629	84,500	914
	<u>\$ 2,505</u>	<u>\$ 1,628</u>	<u>\$ 914</u>	<u>\$ 5,047</u>	<u>\$ 2,136,968</u>	<u>\$ 2,142,015</u>	<u>\$ 914</u>
Real estate:							
Single-family residential mortgages held for sale	<u>\$ —</u>	<u>\$ 458</u>	<u>\$ —</u>	<u>\$ 458</u>	<u>\$ 434,064</u>	<u>\$ 434,522</u>	<u>\$ —</u>

(1) Included in total loans.

Information relating to individually impaired loans presented by class of loans was as follows at September 30, 2019 and December 31, 2018:

<i>(dollars in thousands)</i> September 30, 2019	Principal Balance	Recorded Investment	Average Balance	Interest Income	Related Allowance
With no related allowance recorded					
Construction and land development	\$ 267	\$ 267	\$ 269	\$ 18	\$ —
Commercial real estate	2,484	2,484	2,552	152	—
Residential mortgage loans	904	895	906	3	—
Commercial – SBA	2,977	2,977	3,005	3	—
With related allowance recorded					
Commercial real estate	891	891	894	—	127
Commercial – SBA	2,114	2,114	2,128	—	303
Total	\$ 9,637	\$ 9,628	\$ 9,754	\$ 176	\$ 430

<i>(dollars in thousands)</i> December 31, 2018	Principal Balance	Recorded Investment	Average Balance	Interest Income	Related Allowance
With no related allowance recorded					
Construction and land development	\$ 276	\$ 276	\$ 283	\$ 17	\$ —
Commercial real estate	2,033	2,033	2,126	189	—
Residential mortgage loans	—	—	—	—	—
Commercial – SBA	807	797	1,377	64	—
With related allowance recorded					
Commercial – SBA	175	175	193	—	44
Total	\$ 3,291	\$ 3,281	\$ 3,979	\$ 270	\$ 44

No interest income was recognized on a cash basis for the nine months ended September 30, 2019 and 2018 and for the year ended December 31, 2018.

The Company had five and four loans identified as troubled debt restructurings (“TDRs”) at September 30, 2019 and December 31, 2018, respectively, with aggregate balances of \$2.8 million and \$2.4 million, respectively. There were no specific reserves on TDRs as of September 30, 2019 or December 31, 2018. There are no commitments to lend additional amounts at September 30, 2019 and December 31, 2018 to customers with outstanding loans that are classified as TDRs.

The following table presents loans by class modified as TDRs that occurred during the nine months ended September 30, 2019. There was one loan modified as a TDR during the nine months ended September 30, 2019. There were three new TDRs during the nine months ended September 30, 2018. The modification of the terms generally included loans where a moratorium on loan payments was granted. Such moratoriums ranged from six months to nine months on the loans restructured in 2019 and 2018.

<i>(dollars in thousands)</i> September 30, 2019	Number of Loans	Pre- Modification Recorded Investment	Post- Modification Recorded Investment
Commercial real estate	1	476	476
Total	1	\$ 476	\$ 476

NOTE 6 - LOAN SERVICING

Mortgage and SBA loans serviced for others are not reported as assets. The principal balances at September 30, 2019 and December 31, 2018 are as follows:

<i>(dollars in thousands)</i>	September 30, 2019	December 31, 2018
Loans serviced for others:		
Mortgage loans	\$ 1,686,787	\$ 1,586,499
SBA loans	\$ 182,310	\$ 184,664
Commercial real estate loans	\$ 4,234	\$ 2,838

The fair value of servicing assets for mortgage loans was \$15.1 million and \$15.3 million at September 30, 2019 and December 31, 2018, respectively. The fair value of servicing assets for SBA loans was \$6.0 million and \$6.1 million at September 30, 2019 and December 31, 2018, respectively. Estimates of the loan servicing asset fair value are derived through a discounted cash flow analysis. Portfolio characteristics include loan delinquency rates, age of loans, note rate and geography. The assumptions embedded in the valuation are obtained from a range of metrics utilized by active buyers in the market place. The analysis accounts for recent transactions, and supply and demand within the market.

Servicing fees net of servicing asset amortization totaled \$827,000 and \$137,000 for the three months ended September 30, 2019 and 2018, respectively and \$2.6 million and \$164,000 for the nine months ended September 30, 2019 and 2018, respectively.

When mortgage and SBA loans are sold with servicing retained, servicing rights are initially recorded at fair value with the income statement effect recorded in gains on sales of loans. Fair value is based on a valuation model that calculates the present value of estimated future net servicing income. All classes of servicing assets are subsequently measured using the amortization method which requires servicing rights to be amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans.

Servicing rights are evaluated for impairment based upon the fair value of the rights as compared to carrying amount. Impairment is recognized through a valuation allowance for an individual grouping, to the extent that fair value is less than the carrying amount. If the Company later determines that all or a portion of the impairment no longer exists for a particular grouping, a reduction of the allowance may be recorded as an increase to income.

Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal. The amortization of mortgage servicing rights is netted against loan servicing fee income.

<i>(dollars in thousands)</i>	Three Months Ended September 30, 2019		Nine Months Ended September 30, 2019	
	Mortgage Loans	SBA Loans	Mortgage Loans	SBA Loans
Servicing assets:				
Beginning of period	\$ 13,244	\$ 4,343	\$ 12,858	\$ 4,512
Additions	130	379	1,471	819
Disposals	(42)	(219)	(128)	(483)
Amortized to expense	(458)	(197)	(1,327)	(542)
End of period	<u>\$ 12,874</u>	<u>\$ 4,306</u>	<u>\$ 12,874</u>	<u>\$ 4,306</u>

<i>(dollars in thousands)</i>	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018	
	Mortgage Loans	SBA Loans	Mortgage Loans	SBA Loans
Servicing assets:				
Beginning of period	\$ 1,728	\$ 4,406	\$ 1,540	\$ 4,417
Additions	92	695	729	1,730
Disposals	(46)	(281)	(161)	(1,005)
Amortized to expense	(181)	(165)	(515)	(487)
End of period	<u>\$ 1,593</u>	<u>\$ 4,655</u>	<u>\$ 1,593</u>	<u>\$ 4,655</u>

NOTE 7 - GOODWILL AND INTANGIBLES

Goodwill is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill resulting from whole bank acquisitions is not amortized, but tested for impairment at least annually. The Company has selected December 31st as the date to perform the annual impairment test. Goodwill amounted to \$58.4 million at September 30, 2019 and \$58.4 million at December 31, 2018, and is the only intangible asset with an indefinite life on the balance sheet. There were no impairment losses recognized on goodwill during the nine months ended September 30, 2019 and 2018.

Other intangible assets consist of core deposit intangible ("CDI") assets arising from whole bank acquisitions. CDI assets are amortized on an accelerated method over their estimated useful life of 8 to 10 years. The unamortized balance at September 30, 2019 and December 31, 2018 was \$6.4 million and \$7.6 million, respectively. The CDI accumulated amortization balance was \$2.8 million as of September 30, 2019 and \$1.6 million as of December 31, 2018. CDI amortization expense was \$1.2 million and \$235,000 for the nine months ended September 30, 2019 and September 30, 2018, respectively.

Estimated CDI amortization expense for future years is as follows:

<i>(dollars in thousands)</i>	
As of September 30:	
Remainder of 2019	\$ 343
2020	1,285
2021	1,056
2022	879
2023	749
Thereafter	2,132
Total	<u>\$ 6,444</u>

NOTE 8 - DEPOSITS

At September 30, 2019, the scheduled maturities of time deposits are as follows:

<i>(dollars in thousands)</i>		September 30, 2019
One year		\$ 1,249,837
Two to three years		60,108
Over three years		1,872
Total		<u>\$ 1,311,817</u>

NOTE 9 - LONG-TERM DEBT

In March 2016, the Company issued \$50 million of 6.5% fixed to floating rate subordinated debentures, due March 31, 2026. The interest rate is fixed through March 31, 2021 and floats at the 3 month London Interbank Offered Rate ("LIBOR") plus 516 basis points thereafter. The Company can redeem these subordinated debentures beginning March 31, 2021. The subordinated debentures are considered Tier 2 capital at the Company. The Company allocated \$35 million to the Bank as Tier 1 capital.

In November 2018, the Company issued \$55 million of 6.18% fixed to floating rate subordinated debentures, due December 1, 2028. The interest rate is fixed through December 1, 2023 and floats at 3 month LIBOR plus 315 basis points thereafter. The Company can redeem these subordinated debentures beginning December 1, 2023. The subordinated debentures are considered Tier 2 capital at the Company. The Company allocated \$25 million to the Bank as Tier 1 capital.

At September 30, 2019 and December 31, 2018, long-term debt was as follows:

<i>(dollars in thousands)</i>		September 30, 2019	December 31, 2018
Principal		\$ 105,000	\$ 105,000
Unamortized debt issuance costs		<u>\$ 1,036</u>	<u>\$ 1,292</u>

The following table presents interest and amortization expense the Company incurred for the three and nine months ended September 30, 2019 and 2018:

<i>(dollars in thousands)</i>	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
Interest Expense:				
Interest	\$ 1,663	\$ 812	\$ 4,987	\$ 2,437
Amortization	85	36	256	109

In July 2017, British banking regulators announced plans to eliminate the LIBOR rate by the end of 2021, before this long-term debt and subordinated debentures mature. For these subordinated debentures, there are provisions for amendments to establish a new interest rate benchmark

NOTE 10 - SUBORDINATED DEBENTURES

The Company, through the acquisition of TFC Bancorp in 2016, acquired TFC Statutory Trust (the "Trust"). The Trust contained a pooled private offering of 5,000 trust preferred securities with a liquidation amount of \$1,000 per security. TFC Bancorp issued \$5 million of subordinated debentures to the Trust in exchange for ownership of all of the common security of the Trust and the proceeds of the preferred securities sold by the Trust. The Company is not considered the primary beneficiary of this Trust (variable interest entity), therefore the Trust is not consolidated in the Company's financial statements, but rather the subordinated debentures are shown as a liability at market value as of the close of the acquisition, which was \$3.3 million. There was a \$1.9 million valuation reserve recorded to arrive at market value, which is treated as a yield adjustment and is amortized over the life of the security. The Company also purchased an investment in the common stock of the Trust for \$155,000, which is included in other assets. The Company may redeem the subordinated debentures, subject to prior approval by the Board of Governors of the Federal Reserve System on or after March 15, 2012, at 100% of the principal amount, plus accrued and unpaid interest. The subordinated debentures mature on March 15, 2037. The Company has the option to defer interest payments on the subordinated debentures from time to time for a period not to exceed five consecutive years. The Company has been paying interest on a quarterly basis. The subordinated debentures may be included in Tier I capital (with certain limitations applicable) under current regulatory guidelines and interpretations. The subordinated debentures have a variable rate of interest equal to the three month LIBOR plus 1.65%, which was 3.77% as of September 30, 2019 and 4.66% at December 31, 2018.

In October 2018, the Company, through the acquisition of First American International Corp., acquired First American International Statutory Trust I ("FAIC Trust"), a Delaware statutory trust formed in December 2004. The Trust issued 7,000 units of thirty-year fixed to floating rate capital securities with an aggregate liquidation amount of \$7,000,000 to an independent investor, and FAIC issued \$7 million of subordinated debentures to the FAIC Trust and all of its common securities, amounting to \$217,000, which is included in other assets. There was a \$1.2 million valuation reserve recorded to arrive at market value which is treated as a yield adjustment and is amortized over the life of the security. The Company has the option to defer interest payments on the subordinated debentures from time to time for a period not to exceed five consecutive years. The subordinated debentures have a variable rate of interest equal to the three-month LIBOR plus 2.25% through final maturity on December 15, 2034. The rate at September 30, 2019 was 4.37% and 5.04% at December 31, 2018.

The Company paid interest expenses of \$131,000 and \$53,000 for the three months ended September 30, 2019 and 2018, respectively, and \$415,000 and \$144,000, respectively, for the nine months ended September 30, 2019 and 2018. The amount of aggregate amortization expense recognized for the three months ended September 30, 2019 and 2018 was \$42,000 and \$23,000, respectively, and \$125,000 and \$68,000 for the nine months ended September 30, 2019 and 2018, respectively.

For regulatory reporting purposes, the Federal Reserve Board has indicated that the capital securities qualify as Tier I capital of the Company subject to previously specified limitations, until further notice. If regulators make a determination that the capital securities can no longer be considered in regulatory capital, the securities become callable and the Company may redeem them.

In July 2017, British banking regulators announced plans to eliminate the LIBOR rate by the end of 2021, before these subordinated notes and debentures mature. For these subordinated debentures, there are provisions for amendments to establish a new interest rate benchmark.

NOTE 11 - BORROWING ARRANGEMENTS

The Company has established secured and unsecured lines of credit. The Company may borrow funds from time to time on a term or overnight basis from the Federal Home Loan Bank of San Francisco ("FHLB"), the Federal Reserve Bank of San Francisco ("FRB") and other financial institutions as indicated below.

Federal Funds Arrangements with Commercial Banks. At September 30, 2019, the Company may borrow on an unsecured basis, up to \$20.0 million, \$10.0 million, \$12.0 million and \$5.0 million overnight from Zions Bank, Wells Fargo Bank, First Tennessee National Bank, and Pacific Coast Bankers' Bank, respectively.

Letter of Credit Arrangements. At September 30, 2019, the Company had an unsecured commercial letter of credit line with Wells Fargo Bank for \$2.0 million.

FRB Secured Line of Credit. The secured borrowing capacity with the FRB of \$15.3 million at September 30, 2019 is collateralized by loans pledged with a carrying value of \$28.6 million.

FHLB Secured Line of Credit. The secured borrowing capacity with the FHLB of \$675.9 million at September 30, 2019 is collateralized by loans pledged with a carrying value of \$765.3 million.

At September 30, 2019, the Company had \$35.0 million at 2.08% in overnight advances with the FHLB and \$319.5 million at 2.56% at December 31, 2018. There were no amounts outstanding under any of the other borrowing arrangements above as of September 30, 2019 and at December 31, 2018 except FHLB advances.

NOTE 12 - INCOME TAXES

The asset and liability method is used in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

During the three months ended September 30, 2019 and 2018, the Company recorded an income tax provision of \$3.7 million and \$2.0 million, respectively, reflecting an effective tax rate of 31.5% and 19.7% for the three months ended September 30, 2019 and 2018, respectively. During the nine months ended September 30, 2019 and 2018, the Company recorded an income tax provision of \$12.0 million and \$5.9 million, respectively, reflecting an effective tax rate of 29.5% and 18.2% for the nine months ended September 30, 2019 and 2018, respectively. The Company recognized of tax benefit from stock option exercises of \$78,000 and \$3.5 million for the nine months ended September 30, 2019 and 2018, respectively.

NOTE 13 - COMMITMENTS

The Company leases several of its operating facilities under various noncancellable operating leases expiring at various dates through 2028. The Company is also responsible for common area maintenance, taxes and insurance at the various branch locations.

Future minimum rent payments on the Company's leases were as follows at September 30, 2019:

<i>(dollars in thousands)</i>	
Year ending December 31:	
2019 remaining	\$ 1,462
2020	5,433
2021	4,360
2022	4,106
2023	3,164
Thereafter	10,604
Total	<u>\$ 29,129</u>

The minimum rent payments shown above are given for the existing lease obligation and are not a forecast of future rental expense. Total rental expense, recognized on a straight-line basis, was \$1.6 million and \$591,000 for the three months ended September 30, 2019 and 2018, respectively and \$4.6 million and \$1.5 for the nine months ended September 30, 2019 and 2018, respectively. The Company received rental income of \$49,000 in the third quarter of 2019 and \$148,000 in the first nine months of 2019.

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

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

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

<i>(dollars in thousands)</i>	September 30,	December 31,
	2019	2018
Commitments to extend credit	\$ 242,583	\$ 267,920
Commercial and similar letters of credit	418	1,042
Standby letters of credit	4,284	3,374
Total	<u>\$ 247,285</u>	<u>\$ 272,336</u>

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.

The Company is involved in various matters of litigation which have arisen in the ordinary course of business and accruals for estimates of potential losses have been provided when necessary and appropriate under generally accepted accounting principles. In the opinion of management, the disposition of such pending litigation will not have a material effect on the Company's financial statements.

NOTE 14 - RELATED PARTY TRANSACTIONS

Loans to principal officers, directors, and their affiliates were as follows:

<i>(dollars in thousands)</i>	September 30,	December 31,
	2019	2018
Beginning balance	\$ 3,600	\$ 2,300
New loans and advances	12,180	7,400
Repayments	(11,780)	\$ (6,100)
Ending balance	<u>\$ 4,000</u>	<u>\$ 3,600</u>

There were no unfunded loan commitments outstanding to executive officers, directors and their related interests with whom they are associated at September 30, 2019 and such unfunded loan commitments totaled \$800,000 at December 31, 2018.

Deposits from principal officers, directors, and their affiliates at September 30, 2019 and December 31, 2018 were \$20.2 million and \$52.1 million, respectively.

NOTE 15 - STOCK-BASED COMPENSATION

RBB Bancorp 2010 Stock Option Plan

Under the RBB Bancorp 2010 Stock Option Plan (the "2010 Plan"), the Company was permitted to grant awards to eligible persons in the form of qualified and non-qualified stock options. The Company reserved up to 30% of the issued and outstanding shares of common stock as of the date the Company adopted the 2010 Plan or 3,494,478 shares, for issuance under the 2010 Plan. After approval of the 2017 Omnibus Stock Incentive Plan (the "OSIP") at the Company's annual meeting on May 23, 2017, no additional grants will be made under the 2010 Plan. The 2010 Plan has been terminated and options that were granted under that Plan have become subject to the OSIP. Awards that were granted under the 2010 Plan will remain exercisable pursuant to the terms and conditions set forth in individual award agreements, but such awards will be assumed and administered under the OSIP. The 2010 Plan award agreements allow for acceleration of exercise privileges of grants upon occurrence of a change in control of the Company. If a participant's job is terminated for cause, then all unvested awards expire at the date of termination.

RBB Bancorp 2017 Omnibus Stock Incentive Plan

The OSIP was adopted by the Company's board of directors on January 18, 2017 and approved by the Company's shareholders at the Company's annual meeting on May 23, 2017. The OSIP was designed to ensure continued availability of equity awards that will assist the Company in attracting and retaining competent managerial personnel and rewarding key employees, directors and other service providers for high levels of performance. Pursuant to the OSIP, the Company's board of directors are allowed to grant awards to eligible persons in the form of qualified and non-qualified stock options, restricted stock, restricted stock units, stock appreciation rights and other incentive awards. The Company has reserved up to 30% of issued and outstanding shares of common stock as of the date the Company adopted the OSIP, or 3,848,341 shares. As of September 30, 2019, there were 1,254,045 shares of common stock available for issuance under the OSIP. This represents 6.26% of the issued and outstanding shares of the Company's common stock as of September 30, 2019. Awards vest, become exercisable and contain such other terms and conditions as determined by the board of directors and set forth in individual agreements with the employees receiving the awards. The OSIP enables the board of directors to set specific performance criteria that must be met before an award vests. The OSIP allows for acceleration of vesting and exercise privileges of grants if a participant's termination of employment is due to a change in control, death or total disability. If a participant's job is terminated for cause, then all awards expire at the date of termination.

The Company recognized stock-based compensation expense of \$543,000 and \$446,000 and recognized income tax benefits on that expense of \$38,000 and \$88,000 for the nine months ended September 30, 2019 and 2018, respectively.

NOTE 16 - REGULATORY MATTERS

Holding companies (with assets over \$1 billion at the beginning of the year) and banks are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements.

In July 2013, the federal bank regulatory agencies approved the final rules implementing the Basel Committee on Banking Supervision's capital guidelines for U.S. banks. The new rules became effective on January 1, 2015, with certain of the requirements phased-in over a multi-year schedule. Under the rules, minimum requirements increased for both the quantity and quality of capital held by the Bank. The rules include a new common equity Tier 1 ("CET1") capital to risk-weighted assets ratio with minimums for capital adequacy and prompt corrective action purposes of 4.5% and 6.5%, respectively. The minimum Tier 1 capital to risk-weighted assets ratio was raised from 4.0% to 6.0% under the capital adequacy framework and from 6.0% to 8.0% to be well-capitalized under the prompt corrective action framework. In addition, the rules introduced the concept of a "conservation buffer" of 2.5% applicable to the three capital adequacy risk-weighted asset ratios (CET1, Tier 1, and Total). The implementation of the capital conservation buffer began on January 1, 2016 at 0.625% and will be phased in over a four-year period (increasing by that amount on each subsequent January 1, until it reaches 2.5% on January 1, 2019). If the capital adequacy minimum ratios plus the phased-in conservation buffer amount exceed actual risk-weighted capital ratios, then dividends, share buybacks, and discretionary bonuses to executives could be limited in amount.

Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. Capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total, Tier 1 and CET1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). As permitted by the regulators for financial institutions that are not deemed to be "advanced approaches" institutions, the Company has elected to opt out of the Basel III requirement to include accumulated other comprehensive income in risk-based capital. Management believes, at September 30, 2019 and December 31, 2018, that the Bank satisfied all capital adequacy requirements to which it is subject.

As defined in applicable regulations and set forth in the tables below, RBB and the Bank continue to exceed the regulatory capital minimum requirements and the Bank continues to exceed the "well capitalized" standards at the dates indicated:

	Actual		Amount of Capital Required			
			Minimum Required for Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<i>(dollars in thousands)</i>						
As of September 30, 2019:						
<i>Tier 1 Leverage Ratio</i>						
Consolidated	\$ 344,745	12.74%	NA	NA	NA	NA
Bank	404,795	14.98%	\$ 108,150	4.0%	\$ 135,187	5.0%
<i>Common Equity Tier 1 Risk-Based Capital Ratio</i>						
Consolidated	335,113	16.95%	NA	NA	NA	NA
Bank	404,795	20.53%	89,127	4.5%	128,739	6.5%
<i>Tier 1 Risk-Based Capital Ratio</i>						
Consolidated	344,745	17.44%	NA	NA	NA	NA
Bank	404,795	20.53%	118,836	6.0%	158,448	8.0%
<i>Total Risk-Based Capital Ratio</i>						
Consolidated	468,714	23.71%	NA	NA	NA	NA
Bank	424,800	21.54%	158,448	8.0%	198,061	10.0%

	Amount of Capital Required					
	Actual		Minimum Required for Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<i>(dollars in thousands)</i>						
As of December 31, 2018:						
<i>Tier 1 Leverage Ratio</i>						
Consolidated	\$ 321,407	11.80%	NA	NA	NA	NA
Bank	370,304	13.66%	\$ 108,445	4.0%	\$ 135,556	5.0%
<i>Common Equity Tier 1 Risk-Based Capital Ratio</i>						
Consolidated	311,901	15.28%	NA	NA	NA	NA
Bank	370,304	18.17%	91,722	4.5%	132,487	6.5%
<i>Tier 1 Risk-Based Capital Ratio</i>						
Consolidated	321,407	15.74%	NA	NA	NA	NA
Bank	370,304	18.17%	122,296	6.0%	163,061	8.0%
<i>Total Risk-Based Capital Ratio</i>						
Consolidated	443,379	21.71%	NA	NA	NA	NA
Bank	388,569	19.07%	163,061	8.0%	203,826	10.0%

The California Financial Code generally acts to prohibit banks from making 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 by the bank's shareholders during the same period.

The California General Corporation Law generally acts to prohibit companies from paying dividends on common stock unless its retained earnings, immediately prior to the dividend payment, equals or exceeds the amount of the dividend. If a company fails this test, then it may still pay dividends if after giving effect to the dividend the company's assets are at least 125% of its liabilities.

Additionally, the FRB has issued guidance which requires that they be consulted before payment of a dividend if a financial holding company does not have earnings over the prior four quarters of at least equal to the dividend to be paid, plus other holding company obligations.

NOTE 17 - FAIR VALUE MEASUREMENTS

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

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).

Other Real Estate Owned: Nonrecurring adjustments to certain commercial and residential real estate properties classified as other real estate owned are measured at the lower of carrying amount or fair value, less costs to sell. In cases where the carrying amount exceeds the fair value, less costs to sell, an impairment loss is recognized. Fair values are generally based on third party appraisals of the property which are commonly adjusted by management to reflect an expectation of the amount to be ultimately collected and selling costs (Level 3).

Appraisals for other real estate owned are performed by state licensed appraisers (for commercial properties) or state certified appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Company. When a Notice of Default is recorded, an appraisal report is ordered. Once received, a member of the credit administration department reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparison to independent data sources such as recent market data or industry wide-statistics for residential appraisals. Commercial appraisals are sent to an independent third party to review. The Company also compares the actual selling price of collateral that has been sold to the most recent appraised value to determine what additional adjustments, if any, should be made to the appraisal values on any remaining other real estate owned to arrive at fair value. If the existing appraisal is older than twelve months a new appraisal report is ordered. No significant adjustments to appraised values have been made as a result of this comparison process as of September 30, 2019.

Collateral-dependent impaired loans: Collateral-dependent impaired loans are carried at fair value when it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the original loan agreement and the loan has been written down to the fair value of its underlying collateral, net of expected disposition costs where applicable.

The following table provides the hierarchy and fair value for each major category of assets and liabilities measured at fair value at September 30, 2019 and December 31, 2018:

<i>(dollars in thousands)</i>	<u>Fair Value Measurements Using:</u>			
<u>September 30, 2019</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets measured at fair value:				
On a recurring basis:				
Securities available for sale				
Government agency securities	\$ —	\$ 1,585	\$ —	\$ 1,585
SBA agency securities	—	4,954	—	4,954
Mortgage-backed securities	—	20,136	—	20,136
Collateralized mortgage obligations	—	12,245	—	12,245
Corporate debt securities	—	34,003	—	34,003
	<u>\$ —</u>	<u>\$ 72,923</u>	<u>\$ —</u>	<u>\$ 72,923</u>
On a non-recurring basis:				
Commercial real estate - collateral dependent impaired loans	\$ —	\$ —	\$ 2,528	\$ 2,528
Other real estate owned	—	—	1,267	1,267
	<u>—</u>	<u>—</u>	<u>1,267</u>	<u>1,267</u>
<u>December 31, 2018</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets measured at fair value:				
On a recurring basis:				
Securities available for sale				
Government agency securities	\$ —	\$ 1,815	\$ —	\$ 1,815
SBA agency securities	—	5,169	—	5,169
Mortgage-backed securities	—	22,541	—	22,541
Collateralized mortgage obligations	—	12,066	—	12,066
Corporate debt securities	—	32,171	—	32,171
	<u>\$ —</u>	<u>\$ 73,762</u>	<u>\$ —</u>	<u>\$ 73,762</u>
On a non-recurring basis:				
Other real estate owned	\$ —	\$ —	\$ 1,101	\$ 1,101

No write-downs to OREO were recorded for the nine months ended September 30, 2019 or for the year ended December 31, 2018.

Quantitative information about the Company's impaired loans and OREO non-recurring Level 3 fair value measurements at September 30, 2019 and December 31, 2018 is as follows:

<i>(dollars in thousands)</i>	Fair Value	Valuation	Unobservable	Adjustment	Weighted-
September 30, 2019	Amount	Technique	Input	Range	Average
					Adjustment
Collateral dependent impaired loans - commercial real estate	\$ 2,528	Third Party Appraisals	Management Adjustments to Reflect Current Conditions and Selling Costs	14%	14%
Other real estate owned	\$ 1,267	Third Party Appraisals	Management Adjustments to Reflect Current Conditions and Selling Costs	15%	15%
December 31, 2018					
Other real estate owned	\$ 1,101	Third Party Appraisals	Management Adjustments to Reflect Current Conditions and Selling Costs	16%	16%

OREO as of September 30, 2019 consists of 1 single-family residence with a fair value of \$293,000 and 1 non-farm, non-residential property with a fair value of \$974,000.

NOTE 18 - 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 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 not previously presented:

Cash and Cash Equivalents

The carrying amounts of cash and short-term instruments approximate fair values.

Time Deposits in Other Banks

Fair values for time deposits with other banks are estimated using discounted cash flow analyses, using interest rates currently being offered with similar terms.

Mortgage Loans Held for Sale

The Company records mortgage loans held for sale at fair value based on the net premium received on recent sales of mortgage loans for identical pools of loans.

Loans

For variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying amounts. The fair values for all other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers with similar credit quality. In accordance with the prospective adoption of ASU 2016-01, the fair value of loans as of September 30, 2019 was measured using an exit price notion. The fair value of loans as of December 31, 2018 was measured using an exit price notion.

Deposits

The fair values disclosed for demand deposits, including interest and non-interest demand accounts, savings, and certain types of money market accounts are, by definition based on carrying value. Fair value for fixed-rate certificates of deposit is estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregate expected monthly maturities on time deposits. Early withdrawal of fixed-rate certificates of deposit is not expected to be significant

Long-Term Debt

The fair values of the Company's long-term borrowings are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 2 classification.

Subordinated Debentures

The fair values of the Company's subordinated debentures are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 3 classification.

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.

The fair value hierarchy level and estimated fair value of significant financial instruments at September 30, 2019 and December 31, 2018 are summarized as follows:

(dollars in thousands)	Fair Value Hierarchy	September 30, 2019		December 31, 2018	
		Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets:					
Cash and due from banks	Level 1	\$ 136,076	\$ 136,076	\$ 147,685	\$ 147,685
Federal funds sold and other cash equivalents	Level 1	47,000	47,000	—	—
Interest-earning deposits in other financial institutions	Level 1	949	949	600	600
Investment securities - AFS	Level 2	72,923	72,923	73,762	73,762
Investment securities - HTM	Level 2	8,724	9,053	9,961	9,940
Mortgage loans held for sale	Level 1	259,339	261,554	434,522	438,948
Loans, net	Level 3	2,106,759	2,110,859	2,124,438	2,114,341
Equity Security	Level 3	11,783	11,783	10,039	10,039
Financial Liabilities:					
Deposits	Level 2	\$ 2,251,923	\$ 2,254,171	\$ 2,144,041	\$ 2,143,196
FHLB advances	Level 2	35,000	35,000	319,500	319,500
Long-term debt	Level 2	103,964	106,673	103,708	79,756
Subordinated debentures	Level 3	9,632	10,865	9,506	10,356

NOTE 19 - EARNINGS PER SHARE

The following is a reconciliation of net income and shares outstanding to the income and number of shares used to compute earnings per share ("EPS"):

	For the Three Months Ended September 30,			
	2019		2018	
	Income	Shares	Income	Shares
<i>(dollars in thousands except per share amounts)</i>				
Net income as reported	\$ 8,012		\$ 8,331	
Shares outstanding		20,030,866		16,795,903
Impact of weighting shares		36,981		(154,737)
Used in basic EPS	8,012	20,067,847	8,331	16,641,166
Dilutive effect of outstanding				
Stock options		358,119		784,134
Used in dilutive EPS	\$ 8,012	20,425,966	\$ 8,331	17,425,300
Basic earnings per common share	\$ 0.40		\$ 0.50	
Diluted earnings per common share	0.39		0.48	

	For the Nine Months Ended September 30,			
	2019		2018	
	Income	Shares	Income	Shares
<i>(dollars in thousands except per share amounts)</i>				
Net income as reported	\$ 28,534		\$ 26,614	
Shares outstanding		20,030,866		16,795,903
Impact of weighting shares		32,613		(416,692)
Used in basic EPS	28,534	20,063,479	26,614	16,379,211
Dilutive effect of outstanding				
Stock options		372,388		930,030
Used in dilutive EPS	\$ 28,534	20,435,867	\$ 26,614	17,309,241
Basic earnings per common share	\$ 1.42		\$ 1.62	
Diluted earnings per common share	1.40		1.54	

NOTE 20 – REVENUE FROM CONTRACTS WITH CUSTOMERS

On January 1, 2019, the Company adopted ASU 2014-09, *Revenue from Contracts with Customers - Topic 606* and all subsequent ASUs that modified ASC 606. The Company adopted ASC 606 using the modified retrospective method applied to those contracts that were not completed as of January 1, 2019. The new standard did not materially impact the timing or measurement of the Company's revenue recognition as it is consistent with the Company's existing accounting for contracts within the scope of the new standard. There was no cumulative effect adjustment to retained earnings as a result of adopting this new standard.

The following is a summary of revenue from contracts with customers that are in-scope and not in-scope under Topic 606:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019		2018	
	2019	2018	2019	2018
<i>(dollars in thousands)</i>				
Non-interest income, in scope (1)				
Fees and service charges on deposit accounts	\$ 340	\$ 236	\$ 953	\$ 783
Other fees (2)	168	241	791	258
Other income (3)	375	140	1,108	410
Gain on sale of fixed assets	11	—	17	—
Total in-scope non-interest income	894	617	2,869	1,451
Non-interest income, not in scope (4)	1,905	1,488	9,628	5,901
Total non-interest income	\$ 2,799	\$ 2,105	\$ 12,497	\$ 7,352

(1) There were no adjustments to the Company's financial statements recorded as a result of the adoption of ASC 606.

(2) Other fees consists of wealth management fees, miscellaneous loan fees and postage/courier fees.

- (3) Other income consists of safe deposit box rental income, wire transfer fees, security brokerage fees, annuity sales, insurance activity, and OREO income.
- (4) The amounts primarily represent revenue from contracts with customers that are out of scope of ASC606: Net loan servicing income, letter of credit commissions, import/export commissions, recoveries on purchased loans, BOLI income, and gains (losses) on sales of mortgage loans, loans and investment securities.

The major revenue streams by fee type that are within the scope of ASC 606 presented in the above tables are described in additional detail below:

Fees and Services Charges on Deposit Accounts

Fees and service charges on deposit accounts include charges for analysis, overdraft, cash checking, ATM, and safe deposit activities executed by our deposit clients, as well as interchange income earned through card payment networks for the acceptance of card based transactions. Fees earned from our deposit clients are governed by contracts that provide for overall custody and access to deposited funds and other related services, and can be terminated at will by either party; this includes fees from money service businesses (MSBs). Fees received from deposit clients for the various deposit activities are recognized as revenue once the performance obligations are met. The adoption of ASU 2014-09 had no impact to the recognition of fees and service charges on deposit accounts.

Wealth Management Fees

The Company employs financial consultants to provide investment planning services for customers including wealth management services, asset allocation strategies, portfolio analysis and monitoring, investment strategies, and risk management strategies. The fees the Company earns are variable and are generally received monthly. The Company recognizes revenue for the services performed at quarter-end based on actual transaction details received from the broker dealer the Company engages.

In the Company's wealth management division, revenue is primarily generated from (1) securities brokerage accounts, (2) investment advisor accounts, (3) full service brokerage implementation fees, and (4) life insurance and annuity products.

Gain on Sales of Other Real Estate Owned and Fixed Assets

The Company records a gain or loss from the sale of OREO and fixed assets, when control of the property or asset transfers to the buyer, which generally occurs at the time of an executed deed or sales agreement. When the Company finances the sale of OREO to a buyer, the Company assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the OREO asset is derecognized and the gain or loss on sale is recorded upon transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Company adjusts the transaction price and related gain or loss on sale if a significant financing component is present.

NOTE 21 - QUALIFIED AFFORDABLE HOUSING PROJECT INVESTMENTS

The Company began investing in qualified housing projects in 2016. At September 30, 2019 and December 31, 2018, the balance of the investment for qualified affordable housing projects was \$8.9 million and \$9.5 million, respectively. This balance is reflected in the accrued interest and other assets line on the consolidated balance sheets. Total unfunded commitments related to the investments in qualified housing projects totaled \$5.0 million and \$6.8 million at September 30, 2019 and December 31, 2018, respectively. The Company expects to fulfill these commitments between 2020 and 2029.

For the nine months ended September 30, 2019 and 2018, the Company recognized amortization expense of \$675,000 and \$483,000, respectively, which was included within income tax expense on the consolidated statements of income.

NOTE 22 - RECENT DEVELOPMENTS

On October 17, 2019, RBB Bancorp announced a cash dividend of \$0.10 per share for the third quarter of 2019. The dividend is payable on November 15, 2019 to common shareholders of record as of October 31, 2019.

On September 5, 2019, the Company entered in an agreement to purchase PGB Holdings Inc. and its wholly-owned subsidiary, Pacific Global Bank ("PGB"), for \$32.5 million in cash. As of September 30, 2019, PGB had approximately \$224.5 million in assets and three branches in Chicago, Illinois.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Report on Form 10-Q contains forward-looking statements. These forward-looking statements reflect our current views with respect to, among other things, future events and our results of operations, financial condition and financial performance. These statements are often, but not always, made through the use of words or phrases such as "may," "should," "could," "predict," "potential," "believe," "will likely result," "expect," "continue," "will," "anticipate," "seek," "estimate," "intend," "plan," "projection," "would" and "outlook," or the negative version of those words or other comparable words 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 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.

There are or will be important factors that could cause our actual results to differ materially from those indicated in these forward-looking statements, including, but not limited to, the following:

- business and economic conditions generally and in the financial services industry, nationally and within our current and future geographic market areas;
- economic, market, operational, liquidity, credit and interest rate risks associated with our business;
- lack of seasoning in our loan portfolio;
- deteriorating asset quality and higher loan charge-offs;
- the laws and regulations applicable to our business;
- our ability to achieve organic loan and deposit growth and the composition of such growth;
- increased competition in the financial services industry, nationally, regionally or locally;
- our ability to maintain our historical earnings trends;
- our ability to raise additional capital to implement our business plan;
- material weaknesses in our internal control over financial reporting;
- systems failures or interruptions involving our information technology and telecommunications systems or third-party servicers;
- the composition of our management team and our ability to attract and retain key personnel;
- the fiscal position of the U.S. federal government and the soundness of other financial institutions;
- our ability to monitor our lending relationships;
- the composition of our loan portfolio, and the concentration of loans in mortgage-related industries;
- the portion of our loan portfolio that is comprised of participations and shared national credits;
- the amount of nonperforming and classified assets we hold;
- time and effort necessary to resolve nonperforming assets;
- the effect of acquisitions we may make, such as our recent acquisition of FAIC and our pending acquisition of PGB, including, without limitation, the failure to achieve the expected revenue growth and/or expense savings from such acquisitions, and/or the failure to effectively integrate an acquisition target into our operations;
- our limited operating history as an integrated company and our recent acquisitions;
- environmental liability associated with our lending activities;
- the geographic concentration of our markets in California, Nevada, the New York City metropolitan area and the southwest United States;
- the commencement and outcome of litigation and other legal proceedings against us or to which we may become subject;

- the impact of recent and future legislative and regulatory changes, including changes in banking, securities and tax laws and regulations and their application by our regulators;
- the effect of changes in accounting policies and practices as may be adopted from time to time by our regulatory agencies, as well as by the Public Company Accounting Oversight Board, the Financial Accounting Standards Board and other accounting standards setters, including ASU 2016-13 (Topic 326), “Measurement of Credit Losses on Financial Instruments,” commonly referenced as the Current Expected Credit Loss (“CECL”) model, which will change how we estimate credit losses and may increase the required level of our allowance for credit losses after adoption;
- requirements to remediate adverse examination findings;
- changes in the scope and cost of FDIC deposit insurance premiums;
- implementation of regulatory initiatives regarding bank capital requirements that may require heightened capital;
- the obligations associated with being a public company;
- our success at managing the risks involved in the foregoing items;
- our modeling estimates related to an increased interest rate environment;
- our ability to achieve the cost savings and efficiencies in connection with branch closures; and
- our estimates as to our expected operational leverage and the expected additional loan capacity of our relationship managers.

The foregoing factors should not be construed as exhaustive and should be read together with the other cautionary statements included in this Report. If one or more events related to these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may differ materially from what we anticipate. Accordingly, you should not place undue reliance on any such forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made, and we do not undertake any obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise. New factors emerge from time to time, and it is not possible for us to predict which will arise. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

CRITICAL ACCOUNTING POLICIES

The discussion and analysis of the Company's unaudited consolidated financial statements are based upon its unaudited consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these unaudited consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities at the date of our financial statements. Actual results may differ from these estimates under different assumptions or conditions.

The following is a summary of the more judgmental and complex accounting estimates and principles. In each area, we have identified the variables we believe are most important in our estimation process. We utilize information available to us to make the necessary estimates to value the related assets and liabilities. Actual performance that differs from our estimates and future changes in the key variables and information could change future valuations and impact the results of operations.

- Loans held for investment
- Loans available for sale
- Securities
- Allowance for loan losses (ALLL)
- Goodwill and other intangible assets
- Deferred income taxes
- Servicing rights
- Income Taxes
- Stock-Based Compensation

Our significant accounting policies are described in greater detail in our 2018 audited financial statements included in our 2018 Annual Report, which are essential to understanding Management's Discussion and Analysis of Financial Condition and Results of Operations.

GENERAL

RBB is a financial holding company registered under the Bank Holding Company Act of 1956, as amended. Our principal business is to serve as the holding company for the Bank and RAM. At September 30, 2019, RBB had total consolidated assets of \$2.8 billion, gross consolidated loans of \$2.4 billion (held for investment ("HFI") and held for sale ("HFS")), total consolidated deposits of \$2.3 billion and total consolidated stockholders' equity of \$398.9 million. RBB's common stock trades on the Nasdaq Global Select Market under the symbol "RBB".

The Bank provides business banking services to the Chinese-American communities in Los Angeles County, Orange County, Ventura County (California), Brooklyn, Queens and Manhattan (New York City), and in Las Vegas (Clark County, Nevada), including remote deposit, E-banking, mobile banking, commercial and investor real estate loans, business loans and lines of credit, SBA 7A and 504 loans, mortgage loans, trade finance and a full range of depository accounts. RAM was formed to hold and manage problem assets acquired in business combinations.

RBB operates full-service banking offices in Arcadia, Cerritos, Diamond Bar, Irvine, Los Angeles, Monterey Park, Oxnard, Rowland Heights, San Gabriel, Silver Lake, Torrance, West Los Angeles, and Westlake Village (California), Brooklyn, Queens and Manhattan (New York City) and Las Vegas (Nevada). The Bank opened a new banking office in Flushing (Queens, New York) in February 2019 and closed one banking office in Manhattan in April 2019. The Bank is a Community Development Financial Institution and as such is able to receive grants from the United States Treasury Department. Any grants we receive will be used to invest in low-to-moderate income areas in the communities we serve.

RBB has completed five acquisitions since 2011, including the merger with FAIC which was completed on October 15, 2018. The Company acquired First Asian Bank and Ventura County Business Bank in 2011, Los Angeles National Bank in 2014 and TomatoBank in 2016. On September 5, 2019, RBB entered into a definitive merger agreement to purchase PGB Holdings Inc. and its wholly-owned bank subsidiary, Pacific Global Bank. Pacific Global Bank has three branches and is located in Chicago, Illinois. It is anticipated that this acquisition will close in the first quarter of 2020.

OVERVIEW

The following discussion provides information about the results of operations, financial condition, liquidity and capital resources of RBB and its wholly owned subsidiaries. This information is intended to facilitate the understanding and assessment of significant changes and trends related to our financial condition and the results of our operations. This discussion and analysis should be read in conjunction with our audited financial statements included in our 2018 Annual Report, and the unaudited consolidated financial statements and accompanying notes presented elsewhere in this Report.

For the third quarter of 2019, we reported net earnings of \$8.0 million, compared with \$8.3 million for the third quarter of 2018. This represented a decrease of \$319,000 from the third quarter of 2018. Diluted earnings per share were \$0.39 per share for the third quarter of 2019, compared to \$0.48 for the same period last year.

At September 30, 2019, total assets were \$2.8 billion, a decrease of \$153.7 million, or 5.17%, from total assets of \$3.0 billion at December 31, 2018. Interest-earning assets were \$2.7 billion as of September 30, 2019, a decrease of \$157.4 million, or 5.60%, when compared with \$2.8 billion at December 31, 2018. The decrease in interest-earning assets was primarily due to a \$175.2 million decrease in mortgage loans held for sale, a \$2.1 million decrease in investment securities, and a \$17.7 million decrease in net loans held for investment, partially offset by a \$35.4 million increase in cash and cash equivalents.

At September 30, 2019, AFS investment securities totaled \$72.9 million inclusive of a pre-tax net unrealized gain of \$472,000, compared to \$73.8 million, inclusive of a pre-tax unrealized loss of \$1.9 million, at December 31, 2018. HTM investment securities totaled \$8.7 million at September 30, 2019 and \$10.0 million at December 31, 2018.

Total HFI loans and leases, net of deferred fees and discounts, were \$2.1 billion at September 30, 2019, compared to \$2.1 billion at December 31, 2018. HFI loans and leases, net of deferred fees and discounts, decreased \$15.9 million, or 0.74%, from December 31, 2018. The decrease was principally due to decreases of \$27.6 million in commercial and industrial (“C&I”) loans, \$13.5 million SBA loans, and \$11.6 million in construction and land development (“C&D”) loans, which were partially offset by increases of \$29.2 million in commercial real estate (“CRE”) loans, and \$7.3 million in single-family residential (“SFR”) mortgage loans.

HFS loans were \$259.3 million at September 30, 2019, compared to \$434.5 million at December 31, 2018.

Noninterest-bearing deposits were \$446.1 million at September 30, 2019, an increase of \$7.4 million, or 1.68%, compared to \$438.8 million at December 31, 2018. The increase was driven by normal business growth. At September 30, 2019, noninterest-bearing deposits were 19.8% of total deposits, compared to 20.5% at December 31, 2018.

Our average cost of total deposits was 1.63% for the quarter ended September 30, 2019, compared to 1.17% for the same period last year. The increase is primarily due to higher rate time deposits. Borrowings, consisting of long-term and subordinated debt, remained nearly constant at \$113.6 million as of September 30, 2019 compared to \$113.2 million as of December 31, 2018 and increased by \$60.5 million from September 30, 2018. As of September 30, 2019 we had \$35.0 million in short-term advances from the FHLB as compared to \$319.5 million as of December 31, 2018. As mortgage loans held for sale were sold, the FHLB advances that were utilized as the applicable funding source were repaid.

The allowance for loan losses was \$19.4 million at September 30, 2019, compared to \$17.6 million at December 31, 2018. The allowance for loan losses increased by \$1.8 million during the nine-month period ending September 30, 2019. The increase was due to a \$1.7 million credit loss provision, attributable to a \$430,000 reserve for two non-accrual loans and normal loan growth, and \$78,000 in net charge-offs during the nine-month period ending September 30, 2019. The allowance for loan losses to total loans and leases outstanding was 0.91% and 0.82% as of September 30, 2019 and December 31, 2018, respectively.

Shareholders’ equity increased \$24.2 million, or 6.47%, to \$398.8 million during the nine-month period ending September 30, 2019 due to \$28.5 million of net income, \$2.7 million from the exercise of stock options, \$543,000 from stock-based compensation, and a \$1.7 million increase in net accumulated other comprehensive income, which was partially offset by \$6.0 million of common dividends declared and by a \$3.2 million common stock buyback. The increase in accumulated other comprehensive income primarily resulted from increases in unrealized gains on AFS securities.

Our capital ratios under the revised capital framework referred to as Basel III remain well-above regulatory standards. As of September 30, 2019, the Company’s Tier 1 leverage capital ratio was 12.74%, our common equity Tier 1 ratio was 16.95%, our Tier 1 risk-based capital ratio was 17.44%, and our total risk-based capital ratio was 23.71%. See “*Regulatory Capital Requirements*” herein for a further discussion of our regulatory capital requirements.

ANALYSIS OF RESULTS OF OPERATIONS

Financial Performance

	For the Three Months Ended September 30,		Variance		For the Nine Months Ended September 30,		Variance	
	2019	2018	\$	%	2019	2018	\$	%
<i>(dollars in thousands except per share amounts)</i>								
Interest income	\$ 34,669	\$ 24,473	\$ 10,196	41.7 %	\$ 107,818	\$ 66,933	\$ 40,885	61.1 %
Interest expense	11,157	5,857	(5,300)	(90.5)	34,077	14,045	(20,032)	(142.6)
Net interest income	23,512	18,616	4,896	26.3	73,741	52,888	20,853	39.4
Provision for credit losses	824	1,695	871	51.4	1,731	2,579	848	32.9
Net interest income after provision for credit losses	22,688	16,921	5,767	34.1	72,010	50,309	21,701	43.1
Noninterest income	2,799	2,105	694	33.0	12,497	7,352	5,145	70.0
Noninterest expense	(13,786)	(8,654)	5,132	(59.3)	(44,010)	(25,134)	18,876	(75.1)
Income before income taxes	11,701	10,372	1,329	12.8	40,497	32,527	7,970	24.5
Income tax expense	3,689	2,041	(1,648)	(80.7)	11,963	5,913	(6,050)	(102.3)
Net income	\$ 8,012	\$ 8,331	\$ (319)	(3.8)	\$ 28,534	\$ 26,614	\$ 1,920	7.2
Earnings per common share (1):								
Basic	\$ 0.40	\$ 0.51	\$ (0.11)		\$ 1.42	\$ 1.62	\$ (0.20)	
Diluted	0.39	0.48	(0.09)		1.40	1.54	(0.14)	
Weighted average shares outstanding (1):								
Basic	20,067,847	16,641,166	3,426,681	20.6	20,063,479	16,379,211	3,684,268	22.5
Diluted	20,425,966	17,425,300	3,000,666	17.2	20,435,867	17,309,241	3,126,626	18.1
Return on average assets	1.15 %	1.73 %		(0.58)	1.34 %	2.01 %		(0.7)
Return on average shareholders' equity	7.99	11.34	(3.35)		9.77	12.65	(2.88)	
Efficiency ratio (2)	52.40	41.76	10.64		51.03	41.76	9.27	
Dividend payout ratio	19.61	18.00	1.61		14.29	16.00	-1.71	
Average equity to assets ratio	14.36	15.24	(0.88)		13.73	15.92	(2.19)	
Tangible book value per share (3)	\$ 16.67	\$ 15.71	\$ 0.96		\$ 16.67	\$ 15.71	\$ 0.96	
Return on average tangible common equity (3)	9.56 %	12.70 %	-3.14 %		11.73 %	14.23 %	-2.50 %	

- (1) Basic earnings per share are calculated by dividing earnings to common shareholders by the weighted average number of common shares outstanding. Diluted earnings per share are calculated by dividing earnings by the weighted average number of shares adjusted for the dilutive effect of outstanding stock options using the treasury stock method.
- (2) Efficiency ratio represents noninterest expenses divided by the sum of fully taxable equivalent net interest income plus noninterest income.
- (3) Tangible book value per share, and return on average tangible common equity are non-GAAP financial measures. See "Non-GAAP Financial Measures" for a reconciliation of these measures to their most comparable GAAP measures.

Net Interest Income

The principal component of our earnings is net interest income, which is the difference between the interest and fees earned on loans and investments (interest-earning assets) and the interest paid on deposits and borrowed funds (interest-bearing liabilities). Net interest margin is net interest income as a percentage of average interest-earning assets for the period. The level of interest rates and the volume and mix of interest-earning assets and interest-bearing liabilities impact net interest income and net interest margin. The net interest spread is the yield on average interest earning assets minus the cost of average interest-bearing liabilities. Net interest margin and net interest spread are included on a tax equivalent (TE) basis by adjusting interest income utilizing the federal statutory tax rate of 21% for 2018 and 2019. Our net interest income, interest spread, and net interest margin are sensitive to general business and economic conditions. These conditions include short-term and long-term interest rates, inflation, monetary supply, and the strength of the international, national and state economies, in general, and more specifically, the local economies in which we conduct business. Our ability to manage net interest income during changing interest rate environments will have a significant impact on our overall performance. We manage net interest income through affecting changes in the mix of interest-earning assets as well as the mix of interest-bearing liabilities, changes in the level of interest-bearing liabilities in proportion to interest-earning assets, and in the growth and maturity of earning assets. For additional information see the sections on "Capital Resources and Liquidity Management" and "Quantitative and Qualitative Disclosures about Market Risk" included in this quarterly report.

The following tables present average balance sheet information, interest income, interest expense and the corresponding average yields earned and rates paid for the three and nine months ended September 30, 2019 and 2018. The average balances are principally daily averages and, for loans, include both performing and nonperforming balances. Interest income on loans includes the effects of discount accretion and net deferred loan origination costs accounted for as yield adjustments.

Interest-Earning Assets and Interest-Bearing Liabilities

(tax-equivalent basis, dollars in thousands)	For the Three Months Ended September 30,					
	2019			2018		
	Average Balance	Interest & Fees	Yield / Rate	Average Balance	Interest & Fees	Yield / Rate
Earning assets:						
Federal funds sold, cash equivalents and other (1)	\$ 144,131	\$ 1,064	2.93 %	\$ 59,666	\$ 468	3.11 %
Securities						
Available for sale	92,292	631	2.71	67,254	478	2.82
Held to maturity (2)	8,730	81	3.68	9,982	92	3.67
Mortgage loans held for sale	253,492	3,050	4.77	335,226	3,941	4.66
Loans held for investment: (3)						
Real estate	1,749,371	23,963	5.43	942,826	13,125	5.52
Commercial	352,795	5,889	6.62	384,693	6,379	6.58
Total loans	2,102,166	29,852	5.63	1,327,519	19,504	5.83
Total earning assets	2,600,811	\$ 34,678	5.29	1,799,647	\$ 24,483	5.40
Noninterest-earning assets	169,691			112,359		
Total assets	\$ 2,770,502			\$ 1,912,006		
Interest-bearing liabilities						
NOW and money market deposits	\$ 364,127	\$ 1,070	1.17 %	\$ 390,899	\$ 1,115	1.13 %
Savings deposits	95,725	47	0.19	29,713	30	0.40
Time deposits	1,340,751	8,038	2.38	700,326	2,994	1.70
Total interest-bearing deposits	1,800,603	9,155	2.02	1,120,938	4,139	1.46
FHLB short-term advances	13,261	81	2.42	156,739	793	2.01
Long-term debt	103,912	1,748	6.67	49,615	849	6.79
Subordinated debentures	9,606	173	7.15	3,479	76	8.67
Total interest-bearing liabilities	1,927,382	\$ 11,157	2.30	1,330,771	\$ 5,857	1.75
Noninterest-bearing liabilities						
Noninterest-bearing deposits	424,908			276,795		
Other noninterest-bearing liabilities	20,490			13,048		
Total noninterest-bearing liabilities	445,398			289,843		
Shareholders' equity	397,722			291,392		
Total liabilities and shareholders' equity	\$ 2,770,502			\$ 1,912,006		
Net interest income / interest rate spreads		\$ 23,521	2.99 %		\$ 18,626	3.65 %
Net interest margin			3.59 %			4.11 %

- (1) Includes income and average balances for FHLB stock, term federal funds, interest-bearing time deposits and other miscellaneous interest-bearing assets.
- (2) Interest income and average rates for tax-exempt securities are presented on a tax-equivalent basis.
- (3) Average loan balances include nonaccrual loans. Interest income on loans includes amortization of deferred loan fees, net of deferred loan costs.

(tax-equivalent basis, dollars in thousands)	For the Nine Months Ended September 30,					
	2019			2018		
	Average Balance	Interest & Fees	Yield / Rate	Average Balance	Interest & Fees	Yield / Rate
Earning assets:						
Federal funds sold, cash equivalents and other (1)	\$ 122,563	\$ 2,861	3.12 %	\$ 76,800	\$ 1,560	2.72 %
Securities						
Available for sale	82,868	1,749	2.82	70,701	1,474	2.79
Held to maturity (2)	9,159	255	3.72	9,992	276	3.70
Mortgage loans held for sale	352,110	12,785	4.85	233,856	8,207	4.69
Loans held for investment: (3)						
Real estate	1,759,253	72,842	5.54	892,933	36,858	5.52
Commercial	350,822	17,354	6.61	382,072	18,587	6.50
Total loans	2,110,076	90,196	5.72	1,275,005	55,445	5.81
Total earning assets	2,676,776	\$ 107,846	5.39	1,666,354	\$ 66,962	5.37
Noninterest-earning assets	167,887			101,349		
Total assets	\$ 2,844,663			\$ 1,767,703		
Interest-bearing liabilities						
NOW and money market deposits	\$ 388,298	\$ 3,500	1.21 %	\$ 374,331	\$ 2,750	0.98 %
Savings deposits	97,959	149	0.20	30,373	95	0.42
Time deposits	1,273,604	21,788	2.29	669,503	7,450	1.49
Total interest-bearing deposits	1,759,861	25,437	1.93	1,074,207	10,295	1.28
FHLB short-term advances	148,101	2,857	2.58	74,412	992	1.78
Long-term debt	103,827	5,243	6.75	49,583	2,547	6.87
Subordinated debentures	9,565	540	7.55	3,459	211	8.17
Total interest-bearing liabilities	2,021,354	\$ 34,077	2.25	1,201,661	\$ 14,045	1.56
Noninterest-bearing liabilities						
Noninterest-bearing deposits	412,845			272,261		
Other noninterest-bearing liabilities	19,888			12,428		
Total noninterest-bearing liabilities	432,733			284,689		
Shareholders' equity	390,576			281,353		
Total liabilities and shareholders equity	\$ 2,844,663			\$ 1,767,703		
Net interest income / interest rate spreads		\$ 73,769	3.13 %		\$ 52,917	3.81 %
Net interest margin			3.68 %			4.25 %

- (1) Includes income and average balances for FHLB stock, term federal funds, interest-bearing time deposits and other miscellaneous interest-bearing assets.
- (2) Interest income and average rates for tax-exempt securities are presented on a tax-equivalent basis.
- (3) Average loan balances include nonaccrual loans. Interest income on loans includes amortization of deferred loan fees, net of deferred loan costs.

Interest Rates and Operating Interest Differential

Increases and decreases in interest income and interest expense result from changes in average balances (volume) of interest-earning assets and interest-bearing liabilities, as well as changes in average interest rates. The following table shows the effect that these factors had on the interest earned on our interest-earning assets and the interest incurred on our interest-bearing liabilities. The effect of changes in volume is determined by multiplying the change in volume by the previous period's average rate. Similarly, the effect of rate changes is calculated by multiplying the change in average rate by the previous period's volume. Changes which are not due solely to volume or rate have been allocated to these categories based on the respective percent changes in average volume and average rate as they compare to each other.

(tax-equivalent basis, dollars in thousands)	Comparison of Three Months Ended September 30, 2019 and September 30, 2018			Comparison of Nine Months Ended September 30, 2019 and September 30, 2018		
	Change due to:			Change due to:		
	Volume	Rate	Interest Variance	Volume	Rate	Interest Variance
Earning assets:						
Federal funds sold, cash equivalents & other (1)	\$ 657	\$ (61)	\$ 596	\$ 622	\$ 679	\$ 1,301
Securities (2)						
Available for sale	177	(24)	153	170	105	275
Held to maturity	(12)	1	(11)	(15)	(6)	(21)
Mortgage loans held for sale	(952)	61	(891)	2,773	1,805	4,578
Loans held for investment: (3)						
Real estate	11,130	(292)	10,838	23,910	12,074	35,984
Commercial	(525)	35	(490)	(1,016)	(217)	(1,233)
Total loans	10,605	(257)	10,348	22,894	11,857	34,751
Total earning assets	<u>\$ 10,475</u>	<u>\$ (280)</u>	<u>\$ 10,195</u>	<u>\$ 26,444</u>	<u>\$ 14,440</u>	<u>\$ 40,884</u>
Interest-bearing liabilities						
NOW and money market deposits	\$ (76)	\$ 31	\$ (45)	\$ 68	\$ 682	\$ 750
Savings deposits	66	(49)	17	142	(88)	54
Time deposits	2,722	2,322	5,044	4,501	9,837	14,338
Total interest-bearing deposits	2,712	2,304	5,016	4,711	10,431	15,142
FHLB short-term advances	(721)	9	(712)	656	1,209	1,865
Long-term debt	922	(23)	899	1,863	833	2,696
Subordinated debentures	133	(36)	97	249	80	329
Total interest-bearing liabilities	<u>3,046</u>	<u>2,254</u>	<u>5,300</u>	<u>7,479</u>	<u>12,553</u>	<u>20,032</u>
Net interest	<u>\$ 7,429</u>	<u>\$ (2,534)</u>	<u>\$ 4,895</u>	<u>\$ 18,965</u>	<u>\$ 1,887</u>	<u>\$ 20,852</u>

- (1) Includes income and average balances for FHLB stock, term federal funds, interest-bearing time deposits and other miscellaneous interest-bearing assets.
- (2) Interest income and average rates for tax-exempt securities are presented on a tax-equivalent basis.
- (3) Average loan balances include nonaccrual loans. Interest income on loans includes amortization of deferred loan fees, net of deferred loan costs.

Results of Operations—Comparison of Results of Operations for the Three Months Ended September 30, 2019 and 2018

The following discussion of our results of operations compares the three months ended September 30, 2019 and the three months ended September 30, 2018. The results of operations for the three months ended September 30, 2019 are not necessarily indicative of the results of operations that may be expected for the year ending December 31, 2019.

Net Interest Income/Average Balance Sheet. In the third quarter of 2019, we generated \$23.5 million of net interest income, which was an increase of \$4.9 million, or 26.3%, from the \$18.6 million of net interest income we produced in the third quarter of 2018. The increase in net interest income was primarily due to an \$801.2 million or 44.5% increase in the average balance of interest-earning assets, partially offset by an 11 basis point decrease in the average yield on interest-earning assets, and a 56 basis point increase in the average rate paid on interest-bearing deposits reflecting an increase in deposit rates. The increase in the average balance of interest-earning assets reflected increases in total loan (increases in HFI loans, partially offset by a decrease in HFS loans) average balances, plus increases in average cash equivalents and average investment securities, resulting from the FAIC acquisition.

Our average deposit balances increased by \$827.8 million, primarily as a result of the FAIC acquisition in October 2018 and an increase of \$119.3 million in average brokered certificates of deposit in the third quarter of 2019 from the third quarter of 2018. The increase in interest expense was primarily due to a \$596.6 million increase in average interest-bearing liabilities and a 55 basis point increase in the average rate paid on interest-bearing liabilities. For the three months ended September 30, 2019 and 2018, our net interest margin was 3.59% and 4.11%, respectively. Our net interest margin benefits from discount accretion on our purchased loan portfolios. Our net interest margin for the three months ended September 30, 2019 and 2018, excluding accretion income, would have been 3.49% and 3.90%, respectively.

Total interest income was \$34.7 million for the third quarter of 2019 compared to \$23.4 million for the third quarter of 2018. The \$10.2 million, or 41.7%, increase in total interest income was primarily due to increases in average earning assets of approximately \$801.2 million due to approximately \$743.6 million from the FAIC acquisition and organic growth, partially offset by a 52 basis point decrease in the net interest margin.

Interest and fees on HFI and HFS loans for the third quarter of 2019 was \$32.9 million compared to \$23.4 million for the third quarter of 2018. The \$9.5 million, or 40.3%, increase was primarily due to a \$692.9 million, or 41.7% increase in the average balance of total loans outstanding partially offset by a 5 basis point decrease in the average yield on loans. The increase in the average loan balance was primarily due to loan growth in C&D, SFR mortgages, and CRE loans resulting from the FAIC acquisition. Accretion income totaled \$749,000 in the third quarter of 2019 compared to \$208,000 in the third quarter of 2018. The average yield on loans benefits from discount accretion on our purchased loan portfolio. For the three months ended September 30, 2019 and 2018, the yield on total loans was 5.54% and 5.59%, respectively, while the yield on total loans excluding accretion income would have been 5.44% and 5.37%, respectively. Due to payoffs of acquired loans, we expect accretion income to decline through the remainder of 2019.

(dollars in thousands)	As of and for the Three Months Ended September 30,		As of and for the Nine Months Ended September 30,	
	2019	2018	2019	2018
Beginning balance of discount on purchased loans	\$ 6,754	\$ 1,488	\$ 9,228	\$ 2,763
Accretion:				
Commercial and industrial	(1)	28	17	102
SBA	5	6	12	45
Commercial real estate	657	172	2,226	1,328
Single-family residential mortgages	88	2	968	8
Total accretion	749	208	3,223	1,483
Ending balance of discount on purchased loans	\$ 6,005	\$ 1,280	\$ 6,005	\$ 1,280

Interest income on our securities portfolio increased \$143,000, or 25.4%, to \$703,000 in the third quarter of 2019 compared to \$560,000 in the third quarter of 2018. This increase is primarily attributable to \$23.8 million, or 30.8%, increase in the average balance, partially offset by an 11 basis point decrease in the yield on average securities from the third quarter of 2018 as compared to the third quarter of 2019. Securities income reported in the average balance sheet has been adjusted to a tax-equivalent basis; interest income reported in the Company's consolidated statements of income has not been grossed-up.

Interest income on interest earning deposits, dividend income on FHLB stock, federal funds sold, cash equivalents and other investments increased to \$1.1 million for the three months ended September 30, 2019 compared to \$468,000 for the three months ended September 30, 2018. This increase was primarily due to an \$84.5 million increase in the average balance of short-term cash investments, partially offset by an 18 basis point decrease in the average yield between the two periods.

Interest expense on interest-bearing liabilities increased \$5.3 million, or 90.5%, to \$11.2 million for the third quarter of 2019 as compared to \$5.9 million in the third quarter of 2018 due to increases in interest expense on both deposits and borrowings primarily from increased interest-bearing balances.

Interest expense on deposits increased to \$9.2 million for the third quarter of 2019 as compared to \$4.1 million for the third quarter of 2018. The \$5.0 million, or 121.1%, increase in interest expense on deposits was primarily due to a 56 basis point increase in the average rate paid on interest-bearing deposits as well as a \$679.7 million, or 60.6%, increase in the average balance of interest-bearing deposits. The increase in the average balance of interest-bearing deposits primarily resulted from the FAIC acquisition. Average brokered certificates of deposit were \$134.3 million in the third quarter of 2019 and \$15.0 million in the third quarter of 2018. Brokered certificates of deposit were acquired in 2018 to fund the growth in AFS SFR mortgage loans and will likely remain on the balance sheet for the near future. Average non-interest bearing deposits increased to \$424.9 million, or 53.5% from \$276.8 million in the third quarter of 2018.

Interest expense on long-term debt increased \$996,000 to \$1.9 million in the third quarter of 2019 as compared to \$925,000 in the third quarter of 2018. This increase was due to a \$54.3 million increase in the average balance from the issuance of \$55.0 million in subordinated notes in December 2018, partially offset by a 12 basis point decrease in the average rate paid. Interest expense on FHLB short-term advances was \$81,000 in the third quarter of 2019, as compared to \$793,000 in the third quarter of 2018. This decrease was primarily due to the \$143.5 million decrease in the average balance of FHLB advances for the third quarter of 2019 compared to the third quarter of 2018 partially offset by a 41 basis point increase in the average rate paid. The Company had \$35.0 million in FHLB advances as of September 30, 2019 compared to \$210.0 million as of September 30, 2018. FHLB short-term advances had been used for general liquidity and to fund HFS loans, with the advances being paid off as HFS loans were sold.

Provision for Credit Losses. The \$871,000 decrease in the provision for credit losses is due primarily due fewer loans migrating from “Pass” credits to criticized or classified credits, and due to \$174,000 in loan charge-offs in the third quarter of 2018. There was a \$1,000 recovery and no loan charge-offs in the third quarter of 2019.

Noninterest Income. Noninterest income increased \$694,000, or 33.0%, to \$2.8 million for the third quarter of 2019, compared to \$2.1 million in the same quarter in the prior year. The following table sets forth the major components of our noninterest income for the three months and nine months ended September 30, 2019 and 2018:

(dollars in thousands)	For the Three Months Ended September 30,		Increase (Decrease)		For the Nine Months Ended September 30,		Increase (Decrease)		
	2019	2018	\$	%	2019	2018	\$	%	
Noninterest income:									
Service charges, fees and other	\$ 934	\$ 640	\$ 294	45.9 %	\$ 2,976	\$ 1,551	\$ 1,425	91.9 %	
Gain on sale of loans	813	1,125	(312)	(27.7)	6,131	5,025	1,106	22.0	
Loan servicing fee, net of amortization	827	137	690	503.6	2,566	164	2,402	1464.6	
Recoveries on loans acquired in business combinations	12	3	9	300.0	73	14	59	421.4	
Unrealized gain on equity securities	—	—	—	—	147	—	147	100.0	
Increase (decrease) in cash surrender of life insurance	195	200	(5)	(2.5)	580	598	(18)	(3.0)	
Gain on sale of OREO	11	—	11	100.0	11	—	11	100.0	
Gain on sale of AFS securities	7	—	7	100.0	7	—	7	100.0	
Gain on sale of fixed assets	—	—	—	—	6	—	6	100.0	
Total noninterest income	\$ 2,799	\$ 2,105	\$ 694	33.0	\$ 12,497	\$ 7,352	\$ 5,145	70.0	

Service charges, fees and other income. Service charges, fees and other income totaled \$934,000 in the third quarter of 2019 compared to \$640,000 in the third quarter of 2018. The increase was due to an additional \$103,000 in fees on deposit accounts, \$186,000 in safe deposit box income, \$76,000 in wealth management commissions (all primarily generated from the acquisition of FAIC), and \$59,000 in loan payoff fees (a loan servicing fee for loans being assigned to another bank), partially offset by a \$233,000 CDFI award (which was received in the third quarter of 2018).

Gain on sale of loans. Gains on sale of loans is comprised of gains on sale of SFR mortgage loans and SBA loans. Gains on sale of loans totaled \$813,000 in the third quarter of 2019 compared to \$1.1 million in the third quarter of 2018. Mortgage loan sales were essentially curtailed in the third quarter of 2019 as the loan pipeline was being replenished. The Company originated \$46.1 million of SFR mortgage and SBA loans in the Los Angeles region and \$45.9 million of SFR mortgage and SBA loans in the New York region for the third quarter of 2019.

The following table presents information on loans sold and gains earned for the three and nine months ended September 30, 2019 and 2018.

(dollars in thousands)	For the Three Months Ended September 30,		Increase (Decrease)		For the Nine Months Ended September 30,		Increase (Decrease)	
	2019	2018	\$	%	2019	2018	\$	%
Loans sold:								
SBA	\$ 11,287	\$ 23,804	\$ (12,517)	-52.6%	\$ 25,052	\$ 59,363	\$ (34,311)	-57.8%
SFR mortgages	5,820	15,085	(9,265)	-61.4%	310,626	106,842	203,784	190.7%
CRE	—	—	—	—	10,422	—	10,422	100.0%
	<u>\$ 17,107</u>	<u>\$ 38,889</u>	<u>\$ (21,782)</u>	<u>-56.0%</u>	<u>\$ 346,100</u>	<u>\$ 166,205</u>	<u>\$ 179,895</u>	<u>108.2%</u>
Gain on loans sold:								
SBA	\$ 631	\$ 817	\$ (186)	-22.8%	\$ 1,371	\$ 2,534	\$ (1,163)	-45.9%
SFR mortgages	182	308	(126)	-40.9%	4,608	2,491	2,117	85.0%
CRE	—	—	—	—	152	—	152	100.0%
	<u>\$ 813</u>	<u>\$ 1,125</u>	<u>\$ (312)</u>	<u>-27.7%</u>	<u>\$ 6,131</u>	<u>\$ 5,025</u>	<u>\$ 1,106</u>	<u>22.0%</u>

Loan servicing income, net of amortization. Loan servicing income, net of amortization increased due to the increase in the volume of loans we are servicing. The increase in the respective servicing portfolios reflects the growth in sales of SFR mortgage and SBA loans for the three months ended September 30, 2019 and to the increase in serviced loans acquired in the FAIC merger.

The following table presents information on loans servicing income for the three months and nine months ended September 30, 2019 and 2018.

(dollars in thousands)	For the Three Months Ended September 30,		Increase		For the Nine Months Ended September 30,		Increase	
	2019	2018	\$	%	2019	2018	\$	%
For the period								
Loan servicing income, net of amortization								
SFR mortgage loans	\$ 795	\$ 145	\$ 650	448.3%	\$ 2,227	\$ 389	\$ 1,838	472.5%
SBA loans	32	(8)	40	-500.0%	339	(225)	564	250.7%
Total	<u>\$ 827</u>	<u>\$ 137</u>	<u>\$ 690</u>	<u>503.6%</u>	<u>\$ 2,566</u>	<u>\$ 164</u>	<u>\$ 2,402</u>	<u>1464.6%</u>

Our loan servicing income, net of amortization, increased by \$690,000 to \$827,000 for the three months ended September 30, 2019 compared to net servicing income of \$137,000 for the three months ended September 30, 2018.

The following table shows loans serviced for others as of September 30, 2019 and 2018:

(dollars in thousands)	September 30,		Increase (Decrease)	
	2019	2018	\$	%
As of period-end				
SFR loans serviced	\$ 1,686,787	\$ 432,387	\$ 1,254,400	290.1%
SBA loans serviced	182,310	186,077	(3,767)	-2.0%
CRE loans serviced	4,234	—	4,234	0.0%

We were servicing \$1.7 billion of SFR mortgage loans for other financial institutions and FNMA as of September 30, 2019 compared to \$433.0 million as of September 30, 2018. We were also servicing \$182.3 million of SBA loans as of September 30, 2019 compared to \$177.3 million as of September 30, 2018. The change in the respective servicing portfolios reflects the growth in our originations and sales of loans in 2019.

Recoveries on loans acquired in business combinations. Recoveries on loans acquired in business combinations was \$12,000 in the quarter ended September 30, 2019 compared to \$3,000 in the comparable quarter of 2018.

Cash surrender value of life insurance. The income from the cash surrender value of life insurance decreased \$5,000 to \$195,000 in the quarter ended September 30, 2019 compared to \$200,000 in the third quarter in 2018.

Gain on sale of OREO, and AFS securities. One OREO property value of \$808,000 was sold in the third quarter of 2019, for a gain of \$11,000. AFS securities were sold during the third quarter of 2019 for a gain of \$7,000.

Noninterest expense. Noninterest expense increased \$5.1 million, or 59.3%, to \$13.8 million in the third quarter of 2019 compared to \$8.7 million in the third quarter of 2018. The following table sets forth major components of our noninterest expense for the three and nine months ended September 30, 2019 and 2018:

(dollars in thousands)	For the Three Months Ended September 30,		Increase (Decrease)		For the Nine Months Ended September 30,		Increase (Decrease)	
	2019	2018	\$	%	2019	2018	\$	%
<i>Noninterest expense:</i>								
Salaries and employee benefits	\$ 7,801	\$ 4,916	\$ 2,885	58.7 %	\$ 25,088	\$ 14,576	\$ 10,512	72.1 %
Occupancy and equipment expenses	2,434	1,014	1,420	140.0	7,360	2,640	4,720	178.8
Data processing	974	511	463	90.6	3,202	1,471	1,731	117.7
Legal and professional	435	378	57	15.1	1,516	1,058	458	43.3
Office expenses	335	198	137	69.2	965	561	404	72.0
Marketing and business promotion	248	320	(72)	(22.5)	926	785	141	18.0
Insurance and regulatory assessments	172	223	(51)	(22.9)	754	645	109	16.9
Core deposit premium	384	76	308	405.3	1,157	235	922	392.3
OREO expenses (income)	(1)	5	(6)	(120.0)	161	12	149	1,241.7
Merger expenses	154	348	(194)	(55.7)	240	571	(331)	(58.0)
Other expenses	850	665	185	27.8	2,641	2,580	61	2.4
Total noninterest expense	<u>\$ 13,786</u>	<u>\$ 8,654</u>	<u>\$ 5,132</u>	59.3	<u>\$ 44,010</u>	<u>\$ 25,134</u>	<u>\$ 18,876</u>	75.1

Salaries and employee benefits expense. Salaries and employee benefits expense increased \$2.9 million, or 58.7%, to \$7.8 million for the third quarter of 2019 compared to \$4.9 million for the third quarter of 2018. The increase in salaries and employee benefits is attributable to additional staff from the FAIC acquisition, as well as normal salary increases. The number of full-time equivalent employees was 360 at September 30, 2019, 365 at December 31, 2018 and 245 at September 30, 2018.

Occupancy and equipment expenses. Occupancy and equipment expense increased \$1.4 million, or 140.0%, to \$2.4 million for the third quarter of 2019 compared to \$1.0 million for the third quarter of 2018. This increase was due to the FAIC acquisition, plus the new Irvine, California and Flushing, New York locations.

Data processing expenses. Data processing expense increased \$463,000, or 90.6%, to \$974 million for the third quarter of 2019, compared to \$511,000 for the third quarter of 2018. These increases resulted primarily from increased processing volumes.

Legal and professional expenses. Legal and professional expense increased \$57,000 to \$435,000 in the three months ended September 30, 2019 compared to \$378,000 for the three months ended September 30, 2018. This increase was primarily due to normal business growth following additional legal, external audit and SOX audit fees earlier in 2019 for being a public company, and additional expenses following the FAIC acquisition.

Office expenses. Office expenses are comprised of communications, postage, armored car, and office supplies and were \$335,000 for the three months ended September 30, 2019 compared to \$198,000 for the three months ended September 30, 2018. This increase primarily resulted from the FAIC acquisition and normal business growth.

Marketing and business promotion expenses. Marketing and business promotion expense decreased \$72,000, or 22.5%, to \$248,000 in the third quarter of 2019, compared to \$320,000 for the third quarter of 2018. The decrease was primarily due to a reduction in discretionary CRA donations.

Insurance and regulatory expenses. Insurance and regulatory assessments decreased \$51,000, or 22.9%, to \$172,000. The decrease was primarily due to a Small Bank Assessment Credit from the FDIC in the amount of \$597,618, which was received in September 2019. Of this amount, \$184,408 was applied to the second quarter of 2019 and the remainder to be applied to future quarterly assessments.

Amortization expenses. Amortization of the core deposit intangible was \$384,000 in the third quarter of 2019, compared to \$76,000 in the same period of 2018. This increase was due to the FAIC acquisition. The \$308,000 increase, or 405.3%, was due to the amortization of the additional core deposit intangible resulting from the FAIC acquisition.

Merger expenses. Merger expense was \$154,000 in the third quarter of 2019 compared to \$348,000 in the same period of 2018, following the completion of the FAIC acquisition in the last quarter of 2018.

Other Expenses. Other expenses increased \$185,000, or 27.8%, to \$850,000 for the third quarter of 2019, compared to \$665,000 in the third quarter of 2018. The provision for unfunded commitments was a credit of \$3,000 in the third quarter of 2019 compared to a charge of \$66,000 in the third quarter of 2019.

Income Tax Expense. Income tax expense was \$3.7 million in the third quarter of 2019 compared to \$2.0 million in the third quarter of 2018. Effective tax rates were 31.53% and 19.68% in the third quarter of 2019 and 2018, respectively. The increase in the effective tax rate was primarily due to the \$953,000 reduction in the tax benefit from the exercise of stock options in 2018.

Net Income. Net income amounted to \$8.0 million for the third quarter 2019, a \$319,000 or 3.8% decrease from the third quarter of 2018. For the third quarter of 2018 as compared to the third quarter of 2019, net interest income after the provision for credit losses increased by \$5.8 million, and non-interest income increased by \$694,000, which were offset by a \$5.1 million increase in non-interest expense and a \$1.6 million increase in income tax expense.

Results of Operations — Comparison of Results of Operations for the Nine Months Ended September 30, 2019 and September 30, 2018

The following discussion of our results of operations compares the nine months ended September 30, 2019 and September 30, 2018, respectively. The results of operations for the nine months ended September 30, 2019 are not necessarily indicative of the results of operations that may be expected for the year ending December 31, 2019.

Net Interest Income/Average Balance Sheet. In the nine months of 2019, we generated net interest income of \$73.7 million, an increase of \$20.9 million, or 39.4%, from the \$52.9 million in net interest income of the nine months of 2018. This increase was largely due to a \$1.0 billion, or 60.6% increase in the average balance of interest-earning assets, as well as a 2 basis point increase in the average yield on interest-earning assets. The increase in the average balance of interest-earning assets was primarily due to \$743.6 million increase in loans from the FAIC acquisition. As discussed below, average total deposits increased \$826.2 million with a 54 basis point increase in this cost of funds, in the nine months of 2019 compared to 2018. Average total borrowings (FHLB advances, long-term debt and subordinated debentures) increased \$134.0 million with a 48 basis point increase in this cost of funds. For the nine-months ended September 30, 2019 and 2018, our net interest margin was 3.68% and 4.25%, respectively. Our net interest margin benefits from discount accretion on our purchased loan portfolios. The net interest margin for the nine-months ended September 30, 2019 and 2018, excluding accretion income, would have been 3.44% and 4.01%, respectively.

Total interest income was \$107.8 million for the nine months ended September 30, 2019 compared to \$67.0 million for the same period of 2018. The \$40.9 million, or 61.1%, increase in total interest income was due to increases in interest earned on our loan portfolio, securities portfolio, federal funds sold, interest-earning deposits and other interest income as a result of higher balances due to the FAIC acquisition and organic growth as well as an increase in yield.

Interest and fees on loans was \$103.0 million for the nine months of 2019 compared to \$63.7 million for the same period of 2018. The \$39.3 million, or 61.8%, increase in interest income on loans was primarily due to a \$953.3 million, or a 63.2% increase in the average balance of total loans outstanding primarily due to the FAIC acquisition and organic loan growth, partially offset by a 5 basis point decrease in the average yield on total loans. The average yield on loans benefits from discount accretion on our acquired loan portfolios. For the nine months ended September 30, 2019 and 2018, the yield on total loans was 5.59% and 5.64%, respectively, while the yield on total loans excluding accretion income would have been 5.56% and 5.62%, respectively.

Interest income from the securities portfolio increased \$254,000, or 14.5%, to \$2.0 million in the nine months of 2019 compared to \$1.7 million in the nine months of 2018. The increase in interest income on securities was primarily due to an increase in the average balance of the portfolio of \$11.3 million, or 14.0%, and a 1 basis point increase in the average yield on securities. Securities income reported in the average balance sheet has been adjusted to a tax-equivalent basis; interest income reported in the income statement has not been grossed-up.

Interest income on our federal funds sold, cash equivalents and other investments increased \$1.3 million, or 83.4%, to \$2.9 million in the nine months of 2019 compared to \$1.6 million in the same period of 2018. The increase in interest income on cash equivalents was due to a 40 basis point increase in the average yield plus an increase in the average balance of \$45.8 million. The reasons for the increased yield were the increase in the federal funds rate over the period plus a \$106,000 increase in the FHLB dividend.

Interest expense on interest-bearing liabilities increased \$20.0 million, or 142.6%, to \$34.1 million in the nine months ended September 30, 2019 compared to \$14.0 million in the same period of 2018 due to increases in average balances of \$819.7 million or 68.2% and in rates of 69 basis points on interest bearing liabilities.

Interest expense on total deposits increased to \$25.4 million in the nine months of 2019 compared to \$10.3 million in the same period of 2018. The \$15.1 million, or 147.1%, increase in interest expense on total deposits was primarily due to a 65 basis point increase in rates combined with an \$826.2 million, or 61.4% increase in the average balance of total deposits. Average non-interest bearing demand deposits increased by \$140.6 million, or 51.6%, between the periods. The increase in the average balance of deposits resulted primarily from the FAIC acquisition and normal growth of deposit accounts.

Interest expense on borrowings (short-term FHLB advances, long-term debt and subordinated debentures) increased to \$8.6 million in the nine months of 2019 compared to \$3.7 million in the same period of 2018. The \$73.7 million increase in average balance of FHLB advances was used to primarily fund AFS loans and a \$54.2 million increase in average balance of long-term debt was primarily used to support our acquisition strategy. In October 2018, RBB issued \$55.0 million in long-term (subordinated) debt.

Provision for Credit Losses. Provision for credit loss expense in the nine months of 2019 was \$1.7 million due to normal loan growth, compared to a \$2.6 million provision in the same period of 2018.

Noninterest Income. Noninterest income increased \$5.1 million, or 70.0%, to \$12.5 million in the nine months of 2019. The table on page 10 sets forth major components of our noninterest income for the respective periods.

Service charges, fees and other income. Service charges, fees and other income increased to \$3.0 million for the nine months ended September 30, 2019 compared to \$1.6 million in the same period of 2018. The increase primarily resulted from \$543,000 increase in safe deposit box rental income (primarily due to the FAIC acquisition), a \$355,000 increase in wealth management commissions, and \$145,000 in miscellaneous loan fee income, all of which resulted from the FAIC acquisition.

Gain on sale of loans. Gains on sale of loans increased to \$6.1 million in the nine months of 2019 compared to \$5.0 million in the same period of 2018. Gains on sales of mortgage loans increased by \$2.1 million, while the gains on sales of SBA loans decreased by \$1.2 million. The decrease in gain on sale of SBA loans is due to lower volume. As noted in the table on page 11, we sold \$387.7 million in SFR mortgage, SBA and CRE loans in the nine months ended September 30, 2019 compared to \$166.2 million in the same period of 2018.

Loan servicing income, net of amortization. Our loan servicing income, net of amortization increased by \$2.4 million to \$2.6 million for the nine months ended September 30, 2019 compared to \$164,000 for the same period in 2018. The increase is due to the serviced loans acquired in the FAIC acquisition and increases in our loans sold with servicing retained. We were servicing \$1.9 billion in SFR mortgage, SBA and CRE loans as of September 30, 2019 compared to \$610.3 million as of September 30, 2018. Additional details are in the table on page 11.

Recoveries on loans acquired in business combinations. Recoveries on loans acquired in business combinations increased \$59,000 to \$73,000 for the nine months ended September 30, 2019 compared to \$14,000 in the same period of 2018. This increase resulted from greater recoveries on loans acquired from the FAIC and other bank acquisitions.

Unrealized gain on equity investments. The unrealized gain on equity investments was \$147,000 for the nine months ended September 30, 2019 and zero for same period of 2018. A \$147,000 unrealized gain on equity investments without a readily determinable fair value, in accordance with ASU 2016-001, was recorded in the first quarter of 2019.

Increase in cash surrender of life insurance. Cash surrender of life insurance value decreased by \$18,000 to \$580,000 for the nine months ended September 30, 2019 compared to \$598,000 for the nine months ended September 30, 2018.

Gain on sale of OREO, AFS securities and fixed assets. One OREO property value of \$808,000 was sold during the nine months ended September 30, 2019, for a gain of \$11,000. AFS securities were sold during the nine months ended September 30, 2019 for a gain of \$7,000. In the second quarter of 2019, the Company sold fixed assets for a \$6,000 gain.

Noninterest expense. Noninterest expense increased \$18.9 million, or 75.1%, to \$44.0 million for the nine months ended September 30, 2019 compared to \$25.1 million in the same period of 2018. The table on page 12 sets forth major components of our noninterest expense for the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018. The primary reason for the increase was the FAIC acquisition plus normal business growth.

Salaries and employee benefits expense. Salaries and employee benefits expense increased \$10.5 million, or 72.1%, to \$25.1 million for the nine months ended September 30, 2019 compared to \$14.6 million in the same period of 2018. This increase was primarily attributable to additional staff from the FAIC acquisition. The number of full-time equivalent employees was 360 at September 30, 2019, 365 at December 31, 2018 and 245 at September 30, 2018.

Occupancy and equipment expenses. Occupancy and equipment expense increased \$4.7 million, or 178.8%, to \$7.4 million in the nine months ended September 30, 2019 compared to \$2.6 million in the same period of 2018. The increase in occupancy expense is mainly due to the FAIC acquisition and rent at our new Roosevelt, NY and Irvine, CA locations. On September 30, 2019, the Company had 22 branch and office locations, compared to 23 at December 31, 2018 and 14 at September 30, 2018. In November 2018, our headquarters office moved to a new location in downtown Los Angeles and we stopped paying double rent on December 31, 2018.

Data processing expense. Data processing expense increased \$1.7 million, or 117.7%, to \$3.2 million in the first nine months of 2019 compared to \$1.5 million for the same period of 2018. This increase resulted primarily from the increased processing volumes prior to renegotiating our contracts with our core system provider.

Legal and professional expenses. Legal and professional expense increased \$458,000, or 43.3%, from \$1.1 million in the first nine months of 2018 compared to \$1.5 million for the first nine months of 2019. This increase was primarily due to additional legal and professional fees for normal business growth.

Office expenses. Office expenses are comprised of communications, postage, armored car, and office supplies and totaled \$965,000 in the first nine months of 2019 compared to \$561,000 for the same period of 2018. The 72.0% increase primarily resulted from the FAIC acquisition and normal business growth.

Marketing and business promotion expenses. Marketing and business promotion expense increased \$141,000, or 18.0%, to \$926,000 for the first nine months of 2019 compared to \$785,000 for the same period of 2018. This increase was primarily due to the FAIC acquisition, normal business growth, business development, CRA and other donations.

Insurance and regulatory expenses. Insurance and regulatory assessments increased \$109,000, or 16.9% to \$754,000 for the nine months ended September 30, 2019 compared to \$645,000 in the nine months ended September 30, 2018. This was due to the FAIC acquisition.

Amortization expenses. Amortization of the core deposit intangible was \$1.2 million in the first nine months of 2019, compared to \$235,000 in the same period of 2018. This increase was due to the FAIC acquisition.

Merger expenses. Merger expense was \$240,000 in the first nine months of 2019 compared to \$571,000 in the same period of 2018, following the completion of the FAIC acquisition in the last quarter of 2018.

Other Noninterest expense. Other noninterest expense totaled \$2.6 million in the first nine months of 2019 compared to \$2.6 million for the same period of 2018, for a net increase of \$61,000.

Income Tax Expense. Income tax expense was \$11.9 million in the first nine months of 2019 compared to \$5.9 million in the same period of 2018. Effective tax rates were 29.5% and 18.2% in the nine months ended September 30, 2019 and 2018, respectively. The increase in 2019 was primarily due to the change in tax deductions for stock option exercises. The increase in the effective tax rate was primarily due to the \$3.5 million reduction in the tax benefit from the exercise of stock options.

Net Income. Net income increased \$1.9 million to \$28.5 million in the nine months of 2019, compared to \$26.6 million in the same period of 2018. The increase is primarily due to the growth in earning assets, net interest income, and non-interest income, partially offset by increases in non-interest expense and income tax expense.

ANALYSIS OF FINANCIAL CONDITION

Assets

Total assets were \$2.8 billion as of September 30, 2019 and \$3.0 billion as of December 31, 2018. The total gross loan portfolio decreased by \$191.1 million, primarily in C&I, SBA, and C&D loans, with increases in CRE loans and SFR mortgage loans. SFR mortgage loans held for sale decreased by \$175.2 million in the nine months ended September 30, 2019.

Investment Securities

Our 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 our current and projected liquidity and interest rate sensitivity positions.

The following table sets forth the book value and percentage of each category of securities at September 30, 2019 and December 31, 2018. The book value for securities classified as available for sale is reflected at fair market value and the book value for securities classified as held to maturity is reflected at amortized cost.

(dollars in thousands)	September 30, 2019		December 31, 2018	
	Fair Value	% of Total	Fair Value	% of Total
<i>Securities, available for sale, at fair value</i>				
U.S. government agency securities	\$ 1,585	1.9	\$ 1,815	2.2
SBA agency securities	4,954	6.1	5,169	6.2
Mortgage-backed securities, government sponsored agencies	20,136	24.7	22,541	26.9
Collateralized mortgage obligations	12,245	15.0	12,066	14.4
Corporate debt securities (1)	34,003	41.6	32,171	38.4
Total securities, available for sale, at fair value	\$ 72,923	89.3	\$ 73,762	88.1
<i>Securities, held to maturity, at amortized cost</i>				
Taxable municipal securities	\$ 3,581	4.4	\$ 4,290	5.1
Tax-exempt municipal securities	5,143	6.3	5,671	6.8
Total securities, held to maturity, at amortized cost	8,724	10.7	9,961	11.9
Total securities	\$ 81,647	100.0	\$ 83,723	100.0

(1) Comprised of corporate note securities, commercial paper and financial institution subordinated debentures.

The tables below set forth investment securities AFS and HTM for the periods presented.

(dollars in thousands)
September 30, 2019

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<i>Available for sale</i>				
U.S government agency securities	\$ 1,593		\$ (8)	\$ 1,585
SBA securities	4,868	90	(4)	4,954
Mortgage-backed securities - Government sponsored agencies	20,050	128	(42)	20,136
Collateralized mortgage obligations	12,124	135	(14)	12,245
Corporate debt securities	33,816	189	(2)	34,003
	<u>\$ 72,451</u>	<u>\$ 542</u>	<u>\$ (70)</u>	<u>\$ 72,923</u>
<i>Held to maturity</i>				
Municipal taxable securities	\$ 3,581	\$ 171	\$ —	\$ 3,752
Municipal securities	5,143	158	—	5,301
	<u>\$ 8,724</u>	<u>\$ 329</u>	<u>\$ —</u>	<u>\$ 9,053</u>

December 31, 2018

<i>Available for sale</i>				
U.S government agency securities	\$ 1,873	\$ —	\$ (58)	\$ 1,815
SBA securities	5,354	—	(185)	5,169
Mortgage-backed securities- Government sponsored agencies	23,125	—	(584)	22,541
Collateralized mortgage obligations	12,696	1	(631)	12,066
Corporate debt securities	32,615	105	(549)	32,171
	<u>\$ 75,663</u>	<u>\$ 106</u>	<u>\$ (2,007)</u>	<u>\$ 73,762</u>
<i>Held to maturity</i>				
Municipal taxable securities	\$ 4,290	\$ 142	\$ —	\$ 4,432
Municipal securities	5,671	1	(164)	5,508
	<u>\$ 9,961</u>	<u>\$ 143</u>	<u>\$ (164)</u>	<u>\$ 9,940</u>

The weighted-average taxable equivalent book yield on the total investment portfolio at September 30, 2019 was 2.96% with a weighted-average life of 5.5 years. This compares to a weighted-average yield of 2.84% with a weighted-average life of 5.2 years at December 31, 2018. The weighted average life is the average number of years that each dollar of unpaid principal due remains outstanding. Average life is computed as the weighted-average time to the receipt of all future cash flows, using as the weights the dollar amounts of the principal pay-downs.

The table below shows the Company's investment securities' gross unrealized losses and estimated fair value by investment category and length of time that individual securities have been in a continuous unrealized loss position, at September 30, 2019 and December 31, 2018. The unrealized losses on these securities were primarily attributed to changes in interest rates. The issuers of these securities have not, to our knowledge, evidenced any cause for default on these securities. These securities have fluctuated in value since their purchase dates as market rates have fluctuated. However, we have the ability and the intention to hold these securities until their fair values recover to cost or maturity. As such, management does not deem these securities to be other-than-temporarily-impaired. A summary of our analysis of these securities and the unrealized losses is described more fully in Note 4 — *Investment Securities* in the Notes to the 2018 consolidated financial statements included in our 2018 Annual Report. Economic trends may adversely affect the value of the portfolio of investment securities that we hold.

(dollars in thousands)	Less than Twelve Months			Twelve Months or More			Total		
	Unrealized Losses	Estimated Fair Value	No. of Issuances	Unrealized Losses	Estimated Fair Value	No. of Issuances	Unrealized Losses	Estimated Fair Value	No. of Issuances
September 30, 2019									
Government agency securities	\$ (8)	\$ 1,585	2	\$ —	\$ —	—	\$ (8)	\$ 1,585	2
SBA securities	(4)	1,529	2	—	—	—	(4)	1,529	2
Mortgage-backed securities-									
Government sponsored agencies	(1)	914	3	(41)	5,871	8	(42)	6,786	11
Collateralized mortgage obligations	—	—	—	(14)	1,018	2	(14)	1,018	2
Corporate debt securities	(1)	999	1	(1)	4,015	1	(2)	5,014	2
Total available for sale	<u>\$ (14)</u>	<u>\$ 5,027</u>	<u>8</u>	<u>\$ (56)</u>	<u>\$ 10,904</u>	<u>11</u>	<u>\$ (70)</u>	<u>\$ 15,931</u>	<u>19</u>
Municipal securities	\$ —	\$ —	—	\$ —	\$ —	—	\$ —	\$ —	—
Total held to maturity	<u>\$ —</u>	<u>\$ —</u>	<u>—</u>	<u>\$ —</u>	<u>\$ —</u>	<u>—</u>	<u>\$ —</u>	<u>\$ —</u>	<u>—</u>
December 31, 2018									
Government agency securities	\$ —	\$ —	—	\$ (58)	\$ 1,815	2	\$ (58)	\$ 1,815	2
SBA securities	—	—	—	(185)	5,169	4	(185)	5,169	4
Mortgage-backed securities-									
Government sponsored agencies	(11)	3,484	2	(573)	23,928	25	(584)	27,412	27
Collateralized mortgage obligations	—	—	—	(631)	12,065	8	(631)	12,065	8
Corporate debt securities	(61)	4,600	4	(488)	6,548	4	(549)	11,148	8
Total available for sale	<u>\$ (72)</u>	<u>\$ 8,084</u>	<u>6</u>	<u>\$ (1,935)</u>	<u>\$ 49,525</u>	<u>43</u>	<u>\$ (2,007)</u>	<u>\$ 57,609</u>	<u>49</u>
Municipal securities	\$ (104)	\$ 2,468	6	\$ (60)	\$ 2,174	4	\$ (164)	\$ 4,642	10
Total held to maturity	<u>\$ (104)</u>	<u>\$ 2,468</u>	<u>6</u>	<u>\$ (60)</u>	<u>\$ 2,174</u>	<u>4</u>	<u>\$ (164)</u>	<u>\$ 4,642</u>	<u>10</u>

The Company did not record any charges for other-than-temporary impairment losses for the nine months ended September 30, 2019 and 2018.

Loans

At September 30, 2019, total loans held for investment, net of allowance for loan losses, totaled \$2.1 billion. The following table presents the balance and associated percentage of each major category in our loan portfolio at September 30, 2019 and December 31, 2018:

(dollars in thousands)	As of September 30, 2019		As of December 31, 2018	
	Amount	%	Amount	%
Loans: (1)				
Commercial and industrial	\$ 276,478	13.0	\$ 304,084	14.2
SBA	70,978	3.3	84,500	3.9
Construction and land development	101,649	4.8	113,235	5.3
Commercial real estate (2)	787,927	37.1	758,721	35.4
Single-family residential mortgages	888,577	41.8	881,249	41.2
Other loans	536	0.0	226	0.0
Total loans	<u>\$ 2,126,145</u>	<u>100.0</u>	<u>\$ 2,142,015</u>	<u>100.0</u>
Allowance for loan losses	<u>(19,386)</u>		<u>(17,577)</u>	
Total loans, net	<u>\$ 2,106,759</u>		<u>\$ 2,124,438</u>	

(1) Net of discounts and deferred fees and costs.

(2) Includes non-farm & non-residential real estate loans, multifamily residential and single-family residential loans for a business purpose.

Total loans (HFI and HFS) decreased \$191.1 million, or 7.4%, to \$2.4 billion at September 30, 2019 compared to December 31, 2018. The total loan portfolio decreased primarily in mortgage loans HFS, C&I, SBA, and C&D loans, with an increase in CRE and SFR mortgage loans. HFI loans decreased \$15.9 million, or 0.7%, to \$2.1 billion at September 30, 2019 compared to December 31, 2018.

Commercial and industrial loans. We provide a mix of variable and fixed rate commercial and industrial loans. The loans are typically made to small- and medium-sized manufacturing, wholesale, retail and service businesses for working capital needs, business expansions and for international trade financing. Commercial and industrial loans include lines of credit with a maturity of one year or less, commercial and industrial term loans with maturities of five years or less, shared national credits with maturities of five years or less, mortgage warehouse lines with a maturity of one year or less, bank subordinated debentures with a maturity of 10 years, purchased receivables with a maturity of two months or less and international trade discounts with a maturity of three months or less. Substantially all of our commercial and industrial loans are collateralized by business assets or by real estate.

Commercial and industrial loans decreased \$27.6 million, or 9.1%, to \$276.5 million as of September 30, 2019 compared to \$304.1 million at December 31, 2018. This decrease resulted primarily from a decrease in shared national credits and commercial lines of credit.

Commercial real estate loans. Commercial real estate loans include owner-occupied and non-occupied commercial real estate, multi-family residential and SFR mortgage loans originated for a business purpose. The interest rate for the majority of these loans are prime-based and have a maturity of five years or less except for the SFR mortgage loans originated for a business purpose which may have a maturity of one year. Our policy maximum loan-to-value (LTV) ratio is 75% for commercial real estate loans. The total commercial real estate portfolio increased \$29.2 million, or 3.8%, to \$787.9 million at September 30, 2019, compared to \$758.7 million at December 31, 2018. The multi-family residential loan portfolio was \$225.1 million as of September 30, 2019 and \$215.1 million as of December 31, 2018. The SFR mortgage loan portfolio originated for a business purpose totaled \$19.6 million as of September 30, 2019 and \$35.7 million as of December 31, 2018.

Construction and land development loans. Construction and land development loans decreased \$11.6 million or 10.2%, to \$101.6 million at September 30, 2019 as compared to \$113.2 million at December 31, 2018, as originations exceeded loan repayments. The following table shows the categories of our construction and land development portfolio as of September 30, 2019 and December 31, 2018:

(dollars in thousands)	As of September 30, 2019		As of December 31, 2018	
	Amount	%	Amount	%
Residential construction	\$ 64,308	63.2	\$ 73,152	64.6
Commercial construction	32,296	31.8	34,209	30.2
Land development	5,045	5.0	5,874	5.2
Total construction and land development loans	<u>\$ 101,649</u>	100.0	<u>\$ 113,235</u>	100.0

Small Business Administration guaranteed loans. We are designated a Preferred Lender under the SBA Preferred Lender Program. We offer mostly SBA 7(a) variable-rate loans. We generally sell the 75% guaranteed portion of the SBA loans that we originate. Our SBA loans are typically made to small-sized manufacturing, wholesale, retail, hotel/motel and service businesses for working capital needs or business expansions. SBA loans can have any maturity up to 25 years. Typically, non-real estate secured loans mature in less than 10 years. Collateral may also include inventory, accounts receivable and equipment, and includes personal guarantees. Our unguaranteed SBA loans collateralized by real estate are monitored by collateral type and are included in our CRE Concentration Guidance.

SBA loans decreased \$13.5 million, or 16.0%, to \$71.0 million at September 30, 2019 compared to \$84.5 million at December 31, 2018. This decrease was primarily due to loan sales of \$25.1 million and loan pay-offs, offset by \$15.5 million in originations in the nine months ended September 30, 2019.

SFR Loans. We originate mainly non-qualified, alternative documentation SFR mortgage loans through correspondent relationships or through our branch network or retail channel to accommodate the needs of the Asian-American market. As of September 30, 2019, we had \$888.6 million of SFR real estate loans, representing 41.8% of our total loan portfolio, excluding available for sale SFR loans. We had two non-performing single-family residential real estate loans amounting to \$895,000 as of September 30, 2019.

We originate these non-qualified SFR mortgage loans both to sell and hold for investment. The loans held for investment are generally originated through our retail branch network to our customers, many of whom establish a deposit relationship with us. During the third quarter of 2019, we originated \$92.0 million of such loans through our retail channel. We sell many of these non-qualified SFR mortgage loans to other Asian-American banks, FNMA and other investors.

As of September 30, 2019, the weighted average loan-to-value of the portfolio was 55.10%, the weighted average FICO score was 756 and the average duration of the portfolio was 4.5 years. We also offer qualified SFR mortgage loans as a correspondent to a national financial institution.

SFR mortgage real estate loans (which include \$7.3 million of home equity loans) increased \$7.3 million, or 0.8%, to \$888.6 million as of September 30, 2019 as compared to \$881.2 million as of December 31, 2018. In addition, loans held for sale decreased \$175.2 million or 40.3% to \$259.3 million as of September 30, 2019 compared to \$434.5 million December 31, 2018. The decrease in loans held for sale is primarily due a planned decrease in production and an increase in selling SFR mortgage loans in the third quarter of 2019.

Loan Quality

We use what we believe is a comprehensive methodology to monitor credit quality and prudently manage credit concentration within our loan portfolio. Our underwriting policies and practices govern the risk profile and credit and geographic concentration for our loan portfolio. We also have what we believe to be a comprehensive methodology to monitor these credit quality standards, including a risk classification system that identifies potential problem loans based on risk characteristics by loan type as well as the early identification of deterioration at the individual loan level. In addition to our allowance for loan losses, our purchase discounts on acquired loans provide additional protections against credit losses.

Discounts on Purchased Loans. In connection with our acquisitions, we hire a third-party to determine the fair value of loans acquired. In many instances, fair values were determined by estimating the cash flows expected to result from those loans and discounting them at appropriate market rates. The excess of expected cash flows above the fair value of the majority of loans will be accreted to interest income over the remaining lives of the loans in accordance with FASB ASC 310-20 Receivables—Nonrefundable Fees and Other Costs.

One of the loans we acquired after 2018 had evidence of deterioration of credit quality since origination, for which it was probable at acquisition, that the Company would be unable to collect all contractually required payments receivable. Loans acquired that had evidence of deterioration of credit quality since origination are referred to as PCI (purchase credit impaired) loans.

From prior acquisitions including FAIC, we acquired one PCI loan with \$167,000 contractual amount due and a fair value of \$97,000. At September 30, 2019, the outstanding balance and carrying amount net of deferred fees of the PCI loan was \$162,000.

Analysis of the Allowance for Credit Losses. The following table allocates the allowance for credit losses, or the allowance, by category:

(dollars in thousands)	As of September 30, 2019		As of December 31, 2018	
	Amount	% (1)	Amount	% (1)
Loans:				
Commercial and industrial	\$ 2,802	1.01	\$ 3,112	1.02
SBA	1,200	1.69	1,027	1.22
Construction and land development	1,342	1.32	1,500	1.32
Commercial real estate (2)	7,739	0.98	6,449	0.85
Single-family residential mortgages	6,059	0.68	5,489	0.62
Other	6	1.12	—	0.00
Unallocated	238	0.00	—	0.00
Allowance for credit losses	<u>\$ 19,386</u>	0.91	<u>\$ 17,577</u>	0.82

(1) Represents the percentage of the allowance to total loans in the respective category.

(2) Includes non-farm and non-residential real estate loans, multi-family residential and single-family residential loans originated for a business purpose.

The allowance and the balance of accretable credit discounts represent our estimate of probable and reasonably estimable credit losses inherent in loans held for investment as of the respective balance sheet date. The accretable credit discount was \$5.9 million at September 30, 2019.

Allowance for credit losses. Our 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 commercial and industrial, SBA, commercial real estate, construction and land development and SFR mortgage loans held for investment, a specific allowance may be assigned to individual loans based on an impairment analysis. Loans are considered impaired when it is probable that we 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.

Credit-discount on loans purchased through bank acquisitions. Purchased loans are recorded at market value in two categories, credit discount, and liquidity discount and premiums. The remaining credit discount at the end of a period is compared to the analysis for loan losses for each acquisition. If the credit discount is greater than the expected loss no additional provision is needed. The following table shows our credit discounts by loan portfolio for purchased loans only as of September 30, 2019 and December 31, 2018. We have recorded additional reserves of \$1.2 million due to the credit discounts on acquired loans being less than the analysis for loan losses on those acquisitions as of September 30, 2019.

(dollars in thousands)	As of September 30, 2019	As of December 31, 2018
Commercial and industrial	\$ 40	\$ 105
SBA	45	50
Construction and land development	—	—
Commercial real estate	1,964	3,369
Single-family residential mortgages	3,818	4,536
Total credit discount on purchased loans	\$ 5,867	\$ 8,060
Total remaining balance of purchased loans through acquisition	\$ 616,988	\$ 758,853
Credit-discount to remaining balance of purchased loans	0.95%	1.06%

Individual loans considered to be uncollectible are charged off against the allowance. 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. Net charge-offs (recoveries) to average loans were de minimus for the three and nine months ended September 30, 2019 and 2018, respectively.

The allowance for credit losses was \$19.4 million at September 30, 2019 compared to \$17.6 million at December 31, 2018. The \$1.8 million increase was due to a \$1.7 million loan loss provision based on two new non-accrual loans and normal loan growth, and a \$1,000 net loan recovery.

We analyze the loan portfolio, including delinquencies, concentrations, and risk characteristics, at least quarterly in order to assess the overall level of the allowance and nonaccretable discounts. We also rely 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 credit losses, we consider three principal elements: (i) valuation allowances based upon probable losses identified during the review of impaired commercial and industrial, commercial real estate, construction and land development loans, (ii) allocations, by loan classes, on loan portfolios based on historical loan loss experience and qualitative factors and (iii) review of the credit discounts in relationship to the valuation allowance calculated for purchased loans. Provisions for credit losses are charged to operations to record changes to the total allowance to a level deemed appropriate by us.

The following table provides an analysis of the allowance for credit losses, provision for credit losses and net charge-offs for the three months ended September 30, 2019 and 2018:

(dollars in thousands)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
Balance, beginning of period	\$ 18,561	\$ 14,657	\$ 17,577	\$ 13,773
Charge-offs:				
Commercial and industrial	—	—	32	—
SBA	—	174	—	174
Total charge-offs	—	174	32	174
Recoveries:				
SBA	1	—	110	—
Total recoveries	1	—	110	—
Net charge-offs (recoveries)	(1)	174	(78)	174
Provision for credit losses	824	1,695	1,731	2,579
Balance, end of period	\$ 19,386	\$ 16,178	\$ 19,386	\$ 16,178
Total loans at end of period (1) (2)	\$ 2,126,145	\$ 1,381,218	\$ 2,126,145	\$ 1,381,218
Average loans (2)	\$ 2,102,166	\$ 1,327,519	\$ 2,110,076	\$ 1,275,005
Net charge-offs (recoveries) annualized, to average loans	0.00%	0.05%	0.00%	0.02%
Allowance for credit losses to total loans	0.91%	1.17%	0.91%	1.17%
Credit-discount on loans purchased through acquisition	\$ 750	\$ 887	\$ 2,712	\$ 717

(1) Total loans are net of discounts and deferred fees and cost.

(2) Excludes loans held for sale.

Problem Loans. Loans are considered delinquent when principal or interest payments are past due 30 days or more; delinquent loans may remain on accrual status between 30 days and 89 days past due. Loans on which the accrual of interest has been discontinued are designated as nonaccrual loans. Typically, the accrual of interest on loans is discontinued when principal or interest payments are past due 90 days or when, in the opinion of management, there is a reasonable doubt as to collectability in the normal course of business. When loans are placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income. Income on nonaccrual loans is subsequently recognized only to the extent that cash is received and the loan's principal balance is deemed collectible. Loans are restored to accrual status when loans become well-secured and management believes full collectability of principal and interest is probable.

A loan is considered impaired when it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans include loans on nonaccrual status and performing restructured loans. Income from loans on nonaccrual status is recognized to the extent cash is received and when the loan's principal balance is deemed collectible. Depending on a particular loan's circumstances, we measure impairment of a loan based upon either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the fair value of the collateral less estimated costs to sell if the loan is collateral dependent. A loan is considered collateral dependent when repayment of the loan is based solely on the liquidation of the collateral. Fair value, where possible, is determined by independent appraisals, typically on an annual basis. Between appraisal periods, the fair value may be adjusted based on specific events, such as if deterioration of quality of the collateral comes to our attention as part of our problem loan monitoring process, or if discussions with the borrower lead us to believe the last appraised value no longer reflects the actual market for the collateral. The impairment amount on a collateral-dependent loan is charged-off to the allowance if deemed not collectible and the impairment amount on a loan that is not collateral-dependent is set up as a specific reserve.

In cases where a borrower experiences financial difficulties and we make certain concessionary modifications to contractual terms, the loan is classified as a troubled debt restructuring ("TDR"). These concessions may include a reduction of the interest rate, principal or accrued interest, extension of the maturity date or other actions intended to minimize potential losses. Loans restructured at a rate equal to or greater than that of a new loan with comparable risk at the time the loan is modified may be excluded from restructured loan disclosures in years subsequent to the restructuring if the loans are in compliance with their modified terms. A restructured loan is considered impaired despite its accrual status and a specific reserve is calculated based on the present value of expected cash flows discounted at the loan's effective interest rate or the fair value of the collateral less estimated costs to sell if the loan is collateral dependent.

Real estate we acquire as a result of foreclosure or by deed-in-lieu of foreclosure is classified as OREO until sold, and is carried at estimated fair value less estimated costs to sell.

The following table sets forth the allocation of our nonperforming assets among our different asset categories as of the dates indicated. Nonperforming loans include nonaccrual loans, loans past due 90 days or more and still accruing interest (of which there were none during the periods presented), and loans modified under troubled debt restructurings. Nonperforming loans exclude PCI loans. The balances of nonperforming loans reflect the net investment in these assets.

(dollars in thousands)	As of September 30, 2019	As of December 31, 2018
Troubled debt restructured loans:		
SBA	\$ 48	\$ 58
Construction and land development	267	276
Commercial real estate	2,484	2,033
Total troubled debt restructured loans	<u>2,799</u>	<u>2,367</u>
Non-accrual loans:		
SBA	5,043	914
Commercial real estate	891	—
Single-family residential mortgages	895	—
Total non-accrual loans	<u>6,829</u>	<u>914</u>
Total non-performing loans	9,628	3,281
Other real estate owned	1,267	1,101
Nonperforming assets	<u>\$ 10,895</u>	<u>\$ 4,382</u>
Nonperforming loans to total loans (excluding HFS loans)	0.45%	0.15%
Nonperforming assets to total assets	0.39%	0.15%

The \$6.3 million increase in nonperforming loans at September 30, 2019 was primarily due to the addition of two SFR mortgage loan for \$895,000, one CRE loan for \$891,000 and one SBA loan for \$5.1 million.

Our 30-89 day delinquent loans increased to \$4.6 million as of September 30, 2019 from \$4.2 million as of December 31, 2018.

We did not recognize any interest income on nonaccrual loans during the periods ended September 30, 2019 and December 31, 2018 while the loans were in nonaccrual status. We recognized interest income on loans modified under troubled debt restructurings of \$176,000 and \$270,000 during the nine months ended September 30, 2019 and September 30, 2018, respectively.

We utilize an asset risk classification system in compliance with guidelines established by the FDIC as part of our efforts to improve asset quality. In connection with examinations of insured institutions, examiners have the authority to identify problem assets and, if appropriate, classify them. There are three classifications for problem assets: “substandard,” “doubtful,” and “loss.” Substandard assets have one or more defined weaknesses and are characterized by the distinct possibility that the insured institution will sustain some loss if the deficiencies are not corrected. Doubtful assets have the weaknesses of substandard assets with the additional characteristic that the weaknesses make collection or liquidation in full questionable and there is a high probability of loss based on currently existing facts, conditions and values. An asset classified as loss is not considered collectable and is of such little value that continuance as an asset is not warranted.

We use a risk grading system to categorize and determine the credit risk of our loans. Potential problem loans include loans with a risk grade of 6, which are “special mention,” loans with a risk grade of 7, which are “substandard” loans that are generally not considered to be impaired and loans with a risk grade of 8, which are “doubtful” loans generally considered to be impaired. These loans generally require more frequent loan officer contact and receipt of financial data to closely monitor borrower performance. Potential problem loans are managed and monitored regularly through a number of processes, procedures and committees, including oversight by a loan administration committee comprised of executive officers and other members of the Bank’s senior management.

Cash and Cash Equivalents. Cash and cash equivalents increased \$35.4 million, or 24.0%, to \$183.1 million as of September 30, 2019 as compared to \$147.7 million at December 31, 2018. This increase was primarily due to \$47.0 million from term Fed Funds investments and keeping additional liquidity.

Goodwill and Other Intangible Assets. Goodwill was \$58.4 million at both September 30, 2019 and December 31, 2018. Goodwill represents the excess of the consideration paid over the fair value of the net assets acquired. Other intangible assets, which consist of core deposit intangibles, were \$6.4 million and \$7.6 million at September 30, 2019 and December 31, 2018, respectively. These assets are amortized primarily on an accelerated basis over their estimated useful lives, generally over a period of eight to ten years.

Liabilities. Total liabilities decreased \$177.9 million to \$2.4 billion at September 30, 2019 from \$2.6 billion at December 31, 2018, primarily due to a \$284.5 million decrease in FHLB advances, partially offset by \$107.9 million in deposit growth.

Deposits. As a Chinese-American business bank that focuses on successful businesses and their owners, many of our depositors choose to leave large deposits with us. The Bank measures core deposits by reviewing all relationships over \$250,000 on a quarterly basis. We track all deposit relationships over \$250,000 on a quarterly basis and consider a relationship to be core if there are any three or more of the following: (i) relationships with us (as a director or shareholder); (ii) deposits within our market area; (iii) additional non-deposit services with us; (iv) electronic banking services with us; (v) active demand deposit account with us; (vi) deposits at market interest rates; and (vii) longevity of the relationship with us. We consider all deposit relationships under \$250,000 as a core relationship except for time deposits originated through an internet service. This differs from the traditional definition of core deposits which is demand and savings deposits plus time deposits less than \$250,000. As many of our customers have more than \$250,000 on deposit with us, we believe that using this method reflects a more accurate assessment of our deposit base. As of September 30, 2019, the Bank considers \$1.9 billion or 84.5% of our deposits as core relationships.

As of September 30, 2019, our top ten deposit relationships totaled \$330.3 million, of which two are related to directors and shareholders of the Company for a total of \$80.1 million or 24.2% of our top ten deposit relationships. As of September 30, 2019, our directors and shareholders with deposits over \$250,000 totaled \$124.6 million or 8.4% of all relationships over \$250,000.

The following table summarizes our average deposit balances and weighted average rates for the three months ended September 30, 2019 and year ended December 31, 2018:

(dollars in thousands)	For the Three Months Ended September 30, 2019		For the Year Ended December 31, 2018	
	Average Balance	Weighted Average Rate (%)	Average Balance	Weighted Average Rate (%)
Noninterest-bearing demand	\$ 424,908	0.00	\$ 310,282	0.00
Interest-bearing:				
NOW	24,500	0.28	24,591	0.32
Savings	95,725	0.19	46,260	0.38
Money market	339,627	1.17	376,479	1.10
Time, less than \$250,000	737,304	2.33	369,416	1.59
Time, \$250,000 and over	603,447	2.44	400,046	1.67
Total interest-bearing	1,800,603	2.02	1,216,792	1.39
Total deposits	\$ 2,225,511	1.63	\$ 1,527,074	1.11

The following table sets forth the maturity of time deposits of \$250,000 or more and wholesale deposits as of September 30, 2019:

(dollars in thousands)	Three Months	Three to Six Months	Six to 12 Months	After 12 Months	Total
Time deposits, \$250,000 and over	\$ 120,151	\$ 139,730	\$ 343,204	\$ 13,962	\$ 617,047
Wholesale deposits (1)	2,719	4,595	6,040	4,241	17,595
Time, brokered	65,416	4,000	30,741	2,400	102,557
Total	\$ 188,286	\$ 148,325	\$ 379,985	\$ 20,603	\$ 737,199

(1) Wholesale deposits are defined as time deposits originated through via internet rate line and/or through other deposit originators.

We acquire wholesale time deposits from the internet and outside deposits originators as needed to supplement liquidity. These time deposits are primarily under \$250,000 and we do not consider them core deposits. The total amount of such deposits as of September 30, 2019 was \$17.6 million and \$132.2 million as of December 31, 2018. The Bank had \$102.6 million in brokered deposits at September 30, 2019 and \$113.8 million as of December 31, 2018. The brokered deposits were acquired to support our HFS SFR mortgage loans.

Total deposits increased \$107.9 million to \$2.3 billion at September 30, 2019 as compared to \$2.1 billion at December 31, 2018. As of September 30, 2019, total deposits were comprised of 19.8% noninterest-bearing demand accounts, 21.9% of interest-bearing non-maturity accounts and 58.3% of time deposits.

Short-Term Borrowings. In addition to deposits, we use short-term borrowings, such as federal funds purchased and FHLB advances, as a source of funds to meet the daily liquidity needs of our customers and fund growth in earning assets. We had \$35.0 million and \$319.5 million in FHLB advances at September 30, 2019 and December 31, 2018, respectively. The decrease in these advances reflected the decrease in loans held for sale. The following table sets forth information on our short-term FHLB advances during the periods presented:

(dollars in thousands)	As of and for the Three Months Ended September 30,		As of and for the Nine Months Ended September 30,	
	2019	2018	2019	2018
Outstanding at period-end	\$ 35,000	\$ 210,000	\$ 35,000	\$ 210,000
Average amount outstanding	13,261	156,739	148,101	74,412
Maximum amount outstanding at any month-end	35,000	210,000	364,500	210,000
Weighted average interest rate:				
During period	2.42%	2.01%	2.58%	1.78%
End of period	2.08%	2.33%	2.08%	2.33%

Long-term Debt. Long-term debt consists of fixed-to-floating rate subordinated notes. In March 2016, the Company issued \$50.0 million, 6.5% fixed-to-floating rate subordinated notes due March 31, 2026. The purpose of the subordinated note issuance was to raise capital for the Company. The subordinated notes bear interest at the initial rate of 6.5% per annum from March 31, 2016 until April 1, 2021, payable on September 30 and December 30 of each year. Thereafter, the Company will pay interest on the principal amount of these notes at a variable rate equal to three month LIBOR plus 516 basis points each March 31, June 30, September 30 and December 31.

In November 2018, the Company issued \$55.0 million, 6.18% fixed-to-floating rate subordinated notes due December 1, 2028. The Company used the net proceeds from the offering for general corporate purposes, including providing capital to the Bank and maintaining adequate liquidity at the Company. The subordinated notes bear interest at the initial rate of 6.18% per annum from December 1, 2018 until but excluding December 1, 2023, payable on June 1 and December 1 of each year. Thereafter, the Company will pay interest on the principal amount of this note at a variable rate equal to three month LIBOR plus 315 basis points each March 1, June 1, September 1 and December 1.

Subordinated Debentures. Subordinated debentures consist of subordinated notes. As of September 30, 2019 and December 31, 2018, the amount outstanding was \$9.6 million and \$9.5 million, respectively. Under the terms of our subordinated notes and the related subordinated notes purchase agreements, we are not permitted to declare or pay any dividends on our capital stock if an event of default occurs under the terms of the long term debt. These subordinated notes consist of the following:

The Company holds TFC Statutory Trust I, which has an outstanding balance of \$5.2 million (\$5.0 million in capital securities and \$155,000 in common securities). These trust preferred securities were originally from TFC Holding Company, which was acquired by the Company in February 2016. The Company determined the fair value as of the valuation date of the TFC Statutory Trust I issuance was \$3.3 million, indicating a discount of \$1.9 million. The debentures bear interest equal to three month LIBOR plus 1.65%, payable each March 15, June 15, September 15 and December 15. The maturity date is March 15, 2037.

The Company holds First American International Statutory Trust I, which has an outstanding balance of \$7.2 million (\$7.0 million in capital securities and \$217,000 in common securities). These trust preferred securities was originally from FAIC in October 2018. The Company determined the fair value as of the valuation date of the First American International Statutory Trust I issuance was \$6.0 million, with a discount of \$1.2 million. The debentures bear interest equal to three month LIBOR plus 2.25%, payable each March 15, June 15, September 15 and December 15. The maturity is December 15, 2034.

In July 2017, British banking regulators announced plans to eliminate the LIBOR rate by the end of 2021, before these subordinated notes and debentures mature. For these subordinated debentures, there are provisions for amendments to establish a new interest rate benchmark.

Capital Resources and Liquidity Management

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

Shareholders' equity increased \$24.2 million, or 6.47%, to \$398.8 million during the nine-month period ending September 30, 2019 due to \$28.5 million of net income, \$2.7 million from the exercise of stock options, \$543,000 from stock-based compensation, and a \$1.7 million increase in net accumulated other comprehensive income, which was partially offset by \$6.0 million of common dividends declared and by a \$3.2 million common stock buyback. The increase in accumulated other comprehensive income primarily resulted from increases in unrealized gains on AFS securities.

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

Our 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 banks, federal funds sold, available for sale securities, term federal funds, purchased receivables and maturing or prepaying balances in our securities and loan portfolios. Liquid liabilities 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, the issuance of additional collateralized borrowings such as FHLB advances, the issuance of debt securities, additional borrowings through the Federal Reserve's discount window and the issuance of preferred or common securities. Our 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 our loan and investment portfolios, debt financing and increases in customer deposits. For additional information regarding our operating, investing and financing cash flows, see the consolidated statements of cash flows provided in our consolidated financial statements.

Integral to our liquidity management is the administration of short-term borrowings. To the extent we are unable to obtain sufficient liquidity through core deposits, we seek to meet our liquidity needs through wholesale funding or other borrowings on either a short- or long-term basis.

As of September 30, 2019 and December 31, 2018, we had \$47.0 million and \$47.0 million of unsecured federal funds lines, respectively, with no amounts advanced against the lines as of such dates. In addition, lines of credit from the Federal Reserve Discount Window were \$15.3 million at September 30, 2019 and \$14.0 million at December 31, 2018, respectively. Federal Reserve Discount Window lines were collateralized by a pool of CRE loans totaling \$28.6 million and \$25.8 million as of September 30, 2019 and December 31, 2018, respectively. We did not have any borrowings outstanding with the Federal Reserve at September 30, 2019 and December 31, 2018, and our borrowing capacity is limited only by eligible collateral.

At September 30, 2019, we had \$35.0 million in FHLB advances outstanding, and \$319.5 million at December 31, 2018. Based on the values of loans pledged as collateral, we had \$640.9 million and \$119.9 million of additional borrowing capacity with the FHLB as of September 30, 2019 and December 31, 2018, respectively. We also maintain relationships in the capital markets with brokers and dealers to issue certificates of deposit.

RBB is a corporation separate and apart from the Bank and, therefore, must provide for its own liquidity. RBB's main source of funding is dividends declared and paid to RBB by the Bank and RAM. There are statutory, regulatory and debt covenant limitations that affect the ability of the Bank to pay dividends to RBB. Management believes that these limitations will not impact our ability to meet the Company's ongoing short-term cash obligations.

Regulatory Capital Requirements

We are subject to various regulatory capital requirements administered by the federal and state banking regulators. 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 our financial statements. Under capital adequacy guidelines and the regulatory framework for "prompt corrective action" (described below), we must meet specific capital guidelines that involve quantitative measures of our assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting policies.

In the wake of the global financial crisis of 2008-2009, 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 Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act and 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, which generally became applicable to RBB and the Bank on January 1, 2015, impose meaningfully more stringent regulatory capital requirements than those applicable to RBB and the Bank prior to that date. In addition, the Basel III regulations implemented 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.

The table below summarizes the minimum capital requirements applicable to us and the Bank pursuant to Basel III regulations as of the dates reflected and assuming the capital conservation buffer has been fully-phased in. 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 table below also summarizes the capital requirements applicable to us and the Bank in order to be considered “well-capitalized” from a regulatory perspective, as well as our and the Bank’s capital ratios as of September 30, 2019 and December 31, 2018. We and 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:

	Ratio at September 30, 2019	Ratio at December 31, 2018	Regulatory Capital Ratio Requirements	Regulatory Capital Ratio Requirements, including fully phased-in Capital Conservation Buffer	Minimum Requirement for "Well Capitalized" Depository Institution
<i>Tier 1 Leverage Ratio</i>					
Consolidated	12.74%	11.80%	N/A	N/A	N/A
Bank	14.98%	13.66%	4.00%	4.00%	5.00%
<i>Common Equity Tier 1 Risk-Based Capital Ratio</i>					
Consolidated	16.95%	15.28%	N/A	N/A	N/A
Bank	20.53%	18.17%	4.50%	7.00%	6.50%
<i>Tier 1 Risk-Based Capital Ratio</i>					
Consolidated	17.44%	15.74%	N/A	N/A	N/A
Bank	20.53%	18.17%	6.00%	8.50%	8.00%
<i>Total Risk-Based Capital Ratio</i>					
Consolidated	23.71%	21.71%	N/A	N/A	N/A
Bank	21.54%	19.07%	8.00%	10.50%	10.00%

The Basel III regulations also revised 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 were 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.

Contractual Obligations

The following table contains supplemental information regarding our total contractual obligations at September 30, 2019:

(dollars in thousands)	Payments Due				
	Within One Year	One to Three Years	Three to Five Years	After Five Years	Total
Deposits without a stated maturity	\$ 940,106	\$ —	\$ —	\$ —	\$ 940,106
Time deposits	1,249,837	60,108	1,872	—	1,311,817
FHLB advances and other borrowings	35,000	—	—	—	35,000
Long-term debt	—	—	—	103,964	103,964
Subordinated debentures	—	—	—	9,632	9,632
Leases	5,630	8,760	5,776	8,963	29,129
Total contractual obligations	\$ 2,230,573	\$ 68,868	\$ 7,648.00	\$ 122,559	\$ 2,429,648

Off-Balance Sheet Arrangements

We have limited off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our financial condition, revenues, expenses, 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 its 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 by the Company is based on management's credit evaluation of the customer.

Non-GAAP Financial Measures

Some of the financial measures included herein are not measures of financial performance recognized by GAAP. These non-GAAP financial measures include "tangible common equity to tangible assets," "tangible book value per share," "return on average tangible common equity," "adjusted earnings," "adjusted diluted earnings per share," "adjusted return on average assets," and "adjusted return on average tangible common equity." Our management uses these non-GAAP financial measures in its analysis of our performance.

Tangible Common Equity to Tangible Assets Ratio and Tangible Book Value Per Share. The tangible common equity to tangible assets ratio and tangible book value per share are non-GAAP measures generally used by financial analysts and investment bankers to evaluate capital adequacy. We calculate: (i) tangible common equity as total shareholders' equity less goodwill and other intangible assets (excluding mortgage servicing rights); (ii) tangible assets as total assets less goodwill and other intangible assets; and (iii) tangible book value per share as tangible common equity divided by shares of common stock outstanding.

Our management, banking regulators, many financial analysts and other investors use these measures in conjunction with more traditional bank capital ratios to compare the capital adequacy of banking organizations with significant amounts of goodwill or other intangible assets, which typically stem from the use of the purchase accounting method of accounting for mergers and acquisitions. Tangible common equity, tangible assets, tangible book value per share and related measures should not be considered in isolation or as a substitute for total shareholders' equity, total assets, book value per share or any other measure calculated in accordance with GAAP. Moreover, the manner in which we calculate tangible common equity, tangible assets, tangible book value per share and any other related measures may differ from that of other companies reporting measures with similar names. The following table reconciles shareholders' equity (on a GAAP basis) to tangible common equity and total assets (on a GAAP basis) to tangible assets, and calculates our tangible book value per share:

(dollars in thousands)	September 30, 2019	December 31, 2018
<i>Tangible common equity:</i>		
Total shareholders' equity	\$ 398,841	\$ 374,621
Adjustments		
Goodwill	(58,383)	(58,383)
Core deposit intangible	(6,444)	(7,601)
Tangible common equity	<u>\$ 334,014</u>	<u>\$ 308,637</u>
<i>Tangible assets:</i>		
Total assets-GAAP	\$ 2,820,302	\$ 2,974,002
Adjustments		
Goodwill	(58,383)	(58,383)
Core deposit intangible	(6,444)	(7,601)
Tangible assets:	<u>\$ 2,755,475</u>	<u>\$ 2,908,018</u>
Common shares outstanding	20,030,866	20,000,022
Tangible common equity to tangible assets ratio	12.12%	10.61%
Tangible book value per share	\$ 16.67	\$ 15.43

Return on Average Tangible Common Equity. Management measures return on average tangible common equity (ROATCE) to assess the Company's capital strength and business performance. Tangible equity excludes goodwill and other intangible assets (excluding mortgage servicing rights), and is reviewed by banking and financial institution regulators when assessing a financial institution's capital adequacy. This non-GAAP financial measure should not be considered a substitute for operating results determined in accordance with GAAP and may not be comparable to other similarly titled measures used by other companies. The following table reconciles return on average tangible common equity to its most comparable GAAP measure:

(dollars in thousands)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income available to common shareholders	\$ 8,012	\$ 8,331	\$ 28,534	\$ 26,614
Average shareholder's equity	397,722	291,392	390,576	281,353
Adjustments:				
Goodwill	(58,383)	(29,940)	(58,383)	(29,940)
Core deposit intangible	(6,675)	(1,250)	(7,065)	(1,317)
Adjusted average tangible common equity	\$ 332,664	\$ 260,202	\$ 325,128	\$ 250,096
Return on average tangible common equity	9.56%	12.70%	11.73%	14.23%

Regulatory Reporting to Financial Statements

Core Deposits to Total Deposits Ratio. The Bank measures core deposits by reviewing all relationships over \$250,000 on a quarterly basis. After discussions with our regulators on the proper way to measure core deposits, we now track all deposit relationships over \$250,000 on a quarterly basis and consider a relationship to be core if there are any three or more of the following: (i) relationships with us (as a director or shareholder); (ii) deposits within our market area; (iii) additional non-deposit services with us; (iv) electronic banking services with us; (v) active demand deposit account with us; (vi) deposits at market interest rates; and (vii) longevity of the relationship with us. We consider all deposit relationships under \$250,000 as a core relationship except for time deposits originated through an internet service. This differs from the traditional definition of core deposits which is demand and savings deposits plus time deposits less than \$250,000. As many of our customers have more than \$250,000 on deposit with us, we believe that using this method reflects a more accurate assessment of our deposit base. The following table reconciles the adjusted core deposit to total deposits.

(dollars in thousands)	As of September 30, 2019	As of December 31, 2018
Adjusted core deposit to total deposit ratio:		
Core deposits (1)	\$ 1,641,127	\$ 1,670,572
Adjustments to core deposits		
CD > \$250,000 considered core deposits (2)	462,331	468,773
Less brokered deposits considered non-core	(102,557)	(113,832)
Less internet deposits < \$250,000 considered non-core (3)	(17,595)	(18,286)
Less other deposits not considered core (4)	(80,486)	(52,002)
Adjusted core deposits	1,902,820	1,955,225
Total deposits	\$ 2,251,923	\$ 2,144,041
Adjusted core deposits to total deposits ratio	84.50%	91.19%

- (1) Core deposits comprise all demand and savings deposits of any amount plus time deposits less than \$250,000.
- (2) Comprised of time deposits to core customers over \$250,000 as defined in the lead-in to the table above.
- (3) Comprised of internet and outside deposit originator time deposits less than \$250,000, which are not considered to be core deposits.
- (4) Comprised of demand and savings deposits in relationships over \$250,000, which are considered non-core deposits because they do not satisfy the definition of core deposits set forth in the lead-in to the table above.

Net Non-Core Funding Dependency Ratio. Management measures net non-core funding dependency ratio by using the data provided under “Core Deposits to Total Deposits Ratio” above to make adjustments to the traditional definition of net non-core funding dependency ratio. The traditional net non-core funding dependency ratio measures non-core funding sources less short-term assets divided by total earning assets. The ratio indicates the dependency of the Company on non-core funding. As of September 30, 2019, short-term borrowings consist of FHLB open advances that reprice daily without a fixed maturity date. The following table reconciles the adjusted net non-core dependency ratio.

(dollars in thousands)	As of September 30, 2019	As of December 31, 2018
Non-core deposits (1)	\$ 610,796	\$ 473,469
Adjustment to Non-core deposits:		
CD > \$250,000 considered core deposits (2)	(462,331)	(468,773)
Brokered deposits	102,557	113,832
Internet deposits considered non-core (3)	17,595	18,286
Other deposits not considered core (4)	80,486	52,002
Adjusted non-core deposits	349,103	188,816
Short term borrowings outstanding	35,000	319,500
Adjusted non-core liabilities (A)	384,103	508,316
Short term assets (5)	154,618	148,285
Adjustment to short term assets:		
Purchased receivables with maturities less than 90-days	—	—
Adjusted short term assets (B)	154,618	148,285
Net non-core funding (A-B)	\$ 229,485	\$ 360,031
Total earning assets	\$ 2,649,291	\$ 2,808,803
Adjusted net non-core funding dependency ratio	8.66%	12.82%

(1) Non-core deposits are time deposits greater than \$250,000.

(2) Time deposits to core customers over \$250,000.

(3) Internet and outside deposit originator time deposits less than \$250,000.

(4) Comprised of demand and savings deposits in relationships over \$250,000, which are considered non-core deposits because they do not satisfy the definition of core deposits set forth in the lead-in to the table above.

(5) Short term assets include cash equivalents and investment with maturities less than one year.

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. We incur market risk in the normal course of business through exposures to market interest rates, equity prices, and credit spreads. We have identified two primary sources of market risk: interest rate risk and price risk.

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).

Our asset liability committee, or ALCO, establishes broad policy limits with respect to interest rate risk. ALCO establishes specific operating guidelines within the parameters of the board of directors' policies. In general, we seek to minimize the impact of changing interest rates on net interest income and the economic values of assets and liabilities. Our ALCO meets monthly to monitor the level of interest rate risk sensitivity to ensure compliance with the board of directors' approved risk limits.

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 our interest-earning assets would reprice upward more quickly than rates paid on our interest-bearing liabilities, thus expanding our 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 our interest-bearing liabilities would reprice upward more quickly than rates earned on our interest-earning assets, thus compressing our net interest margin.

Interest rate risk measurement is calculated and reported to the board and 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.

We use two approaches to model interest rate risk: Net Interest Income at Risk, or NII at Risk, and Economic Value of Equity, or 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.

(dollars in thousands)	Net Interest Income Sensitivity Immediate Change in Rates			
	-200	-100	+100	+200
September 30, 2019				
Dollar change	\$ 7,419	\$ 5,091	\$ 5,397	\$ 11,033
Percent change	8.24%	5.66%	6.00%	12.26%
December 31, 2018:				
Dollar change	\$ 9,392	\$ 3,706	\$ 508	\$ 806
Percent change	9.56%	3.77%	0.52%	0.82%

We report NII at Risk to isolate the change in income related solely to interest earning assets and interest-bearing liabilities. The NII at Risk results included in the table above reflect the analysis used quarterly by management. It models gradual -200, -100, +100 and +200 basis point parallel shifts in market interest rates, implied by the forward yield curve over the next one-year period.

We are within board policy limits for the +/-100 and -200 basis point scenarios. The NII at Risk reported at September 30, 2019, projects that our earnings are expected to be materially sensitive to changes in interest rates over the next year. In recent periods, the amount of fixed rate assets increased resulting in a position shift from slightly asset sensitive to interest rate neutral.

(dollars in thousands)	Economic Value of Equity Sensitivity (Shock)			
	Immediate Change in Rates			
	-200	-100	+100	+200
September 30, 2019				
Dollar change	\$ (93,261)	\$ (60,977)	\$ (1,917)	\$ (4,893)
Percent change	-23.56%	-15.41%	-0.48%	-1.24%
December 31, 2018:				
Dollar change	\$ (117,375)	\$ (57,011)	\$ (1,852)	\$ (6,558)
Percent change	-28.33%	-13.76%	-0.45%	-1.58%

The EVE results included in the table above reflect the analysis used quarterly by management. It models immediate +/-100 and +/-200 basis point parallel shifts in market interest rates.

We are slightly over board policy limits for the -100 and -200 basis point scenarios. The EVE reported at September 30, 2019 projects that as interest rates increase immediately, the economic value of equity position will be expected to decrease slightly. When interest rates rise, fixed rate assets generally lose economic value; the longer the duration, the greater the value lost. The opposite is true when interest rates fall.

Price Risk represents the risk of loss arising from adverse movements in the prices of financial instruments that are carried at fair value and subject to fair value accounting. We have price risk from our available for sale SFR mortgage loans and our fixed-rate available for sale securities.

Basis Risk represents the risk of loss arising from asset and liability pricing movements not changing in the same direction. We have basis risk in our SFR mortgage loan portfolio and our securities portfolio.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures. The Company's management, including our President and Chief Executive Officer and our Chief Financial Officer, have evaluated the effectiveness of our "disclosure controls and procedures" (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of the end of the period covered by this report. Based on such evaluation, our President and Chief Executive Officer and our Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures were effective.

Changes in internal control over financial reporting. There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) during the fiscal quarter to which this report relates 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

There are no material pending legal proceedings, other than ordinary routine litigation incidental to our business. Management believes that none of the legal proceedings occurring in the ordinary course of business, individually or in the aggregate, will have a material adverse impact on the results of operations or financial condition of the Company.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors as previously disclosed in Item 1A to Part I of our consolidated audited financial statements included in our 2018 Annual Report in Form 10-K, as filed with the SEC on March, 27, 2019, which is supplemented by the additional risk factor below. The materiality of any risks and uncertainties identified in our Forward Looking Statements contained in this report or those that are presently unforeseen could result in significant adverse effects on our financial condition, results of operations and cash flows. See Part I, Item 2 for “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this Quarterly Report on Form 10-Q.

Increased regulatory oversight, uncertainty relating to the LIBOR calculation process and potential phasing out of LIBOR after 2021 may adversely affect the results of our operations.

On July 27, 2017, the United Kingdom’s Financial Conduct Authority, which regulates the London Interbank Offering Rate (“LIBOR”), announced that it intends to stop persuading or compelling banks to submit rates for the calculation of LIBOR after 2021. The announcement indicates that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. It is impossible to predict whether and to what extent banks will continue to provide LIBOR submissions to the administrator of LIBOR, whether LIBOR rates will cease to be published or supported before or after 2021 or whether any additional reforms to LIBOR may be enacted in the United Kingdom or elsewhere. Efforts in the United States to identify a set of alternative U.S. dollar reference interest rates include proposals by the Alternative Reference Rates Committee of the Federal Reserve Board and the Federal Reserve Bank of New York. Uncertainty as to the nature of alternative reference rates and as to potential changes in other reforms to LIBOR may adversely affect LIBOR rates and the value of LIBOR-based loans, and to a lesser extent securities in our portfolio, and may impact the availability and cost of hedging instruments and borrowings, including the rates we pay on our subordinated debentures and trust preferred securities. If LIBOR rates are no longer available, any successor or replacement interest rates may perform differently and we may incur significant costs to transition both our borrowing arrangements and the loan agreements with our customers from LIBOR, which may have an adverse effect on our results of operations. The impact of alternatives to LIBOR on the valuations, pricing and operation of our financial instruments is not yet known.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On June 24, 2019, the Board of Directors approved a stock repurchase program to buy back up to an aggregate of 1.0 million shares of our common stock. For the first nine months ended September 30, 2019, we have repurchased shares of common stock, as set forth in the table below.

Period	Issuer Purchases of Equity Securities		
	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plan
July 1, 2019 -- July 31, 2019	5,000	\$ 20.10	5,000
August 1, 2019 -- August 31, 2019	144,197	\$ 18.57	149,197
September 1, 2019 -- September 30, 2019	20,588	\$ 20.04	169,785
Total	169,785		

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

<u>Exhibit No</u>	<u>Description of Exhibits</u>
2.1	<u>Agreement and Plan of Merger By and Among RBB Bancorp, Royal Business Bank, PGH Holdings, Inc. and Pacific Global Bank, effective as of September 5, 2019</u>
3.1	<u>Articles of Incorporation of RBB Bancorp (1)</u>
3.2	<u>Bylaws of RBB Bancorp (2)</u>
3.3	<u>Amendment to Bylaws of RBB Bancorp (4)</u>
4.1	<u>Specimen Common Stock Certificate of RBB Bancorp (3)</u>
	<i>The other instruments defining the rights of holders of the long-term debt securities of the Company and its subsidiaries are omitted pursuant to section (b)(4)(iii)(A) of Item 601 of Regulation S-K. The Company hereby agrees to furnish copies of these instruments to the SEC upon request.</i>
31.1	<u>Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
31.2	<u>Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
32.1	<u>Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
32.2	<u>Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
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

- (1) Incorporated by reference from Exhibit 3.1 of the Registrant's Registration Statement in Form S-1 filed with the SEC on June 28, 2017.
- (2) Incorporated by reference from Exhibit 3.2 of the Registrant's Registration Statement in Form S-1 filed with the SEC on June 28, 2017.
- (3) Incorporated by reference from Exhibit 4.1 of the Registrant's Registration Statement in Form S-1 filed with the SEC on June 28, 2017.
- (4) Incorporated by reference from Exhibit 3.3 of the Registrant's Quarterly Report in Form 10-Q filed with the SEC on November 13, 2018.

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.

RBB BANCORP

(Registrant)

Date: November 12, 2019

/s/ David Morris

David Morris

Duly Authorized Officer, Executive Vice President and
Chief Financial Officer

EXECUTION VERSION

AGREEMENT AND PLAN OF MERGER

BY AND AMONG

RBB BANCORP,

ROYAL BUSINESS BANK,

PGB HOLDINGS, INC.

AND

PACIFIC GLOBAL BANK

Effective as of September 5, 2019

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AGREEMENT AND PLAN OF MERGER

THIS AGREEMENT AND PLAN OF MERGER (“Agreement”), effective as of September 5, 2019, by and among RBB Bancorp (“**RBB Bancorp**”), Royal Business Bank (“**RBB**”), PGB Holdings, Inc. (“**PGB**”), and Pacific Global Bank (“**Bank**”), is entered into with respect to the following:

RECITALS

A. **RBB Bancorp.** RBB Bancorp is a duly organized and existing California corporation and financial holding company for RBB, its wholly-owned Subsidiary, having its principal place of business in Los Angeles, California. In furtherance of this transaction, RBB Bancorp will cause a Subsidiary to be organized as a corporation under applicable California law.

B. **RBB.** RBB is a duly organized and existing California state-chartered commercial bank, having its principal place of business in Los Angeles, California, and whose deposit accounts are insured to the extent allowed by law by the Federal Deposit Insurance Corporation. RBB is a wholly-owned Subsidiary of RBB Bancorp.

C. **PGB.** PGB is a duly organized and existing Delaware corporation and bank holding company for the Bank, its wholly-owned Subsidiary, having its principal place of business in Chicago, Illinois.

D. **The Bank.** The Bank is a duly organized and existing Illinois state-chartered commercial bank, having its principal place of business in Chicago, Illinois, and whose deposit accounts are insured to the extent allowed by law by the Federal Deposit Insurance Corporation.

E. **BOARD DETERMINATIONS.** The respective Boards of Directors of RBB Bancorp, RBB, PGB and the Bank have determined that it is in the best interests of their respective companies and shareholders for: RBB Bancorp’s newly formed Subsidiary (“**Merger Sub**”) to merge with and into PGB (**the “PGB Merger”**), and all shareholders of PGB shall become entitled to the Merger Consideration; thereafter, PGB to merge with and into RBB Bancorp (**the “RBB Bancorp Merger”**); thereafter the Bank to merge with and into RBB (**the “RBB Merger”**); and other transactions contemplated by this Agreement; on the terms and subject to the conditions provided for in this Agreement and applicable law.

F. **PGB MERGER AGREEMENT.** Prior to consummation of the PGB Merger, PGB will, and RBB Bancorp will cause Merger Sub to, enter into a plan of merger, in a form to be mutually agreed upon by the parties (“**PGB Merger Agreement**”), providing for the PGB Merger, with PGB being the resulting corporation (the “**Resulting Corporation**”).

G. **RBB BANCORP MERGER AGREEMENT.** Prior to consummation of the RBB Bancorp Merger, PGB and RBB Bancorp will enter into a plan of merger, in a form to be mutually agreed upon by the parties (“**RBB Bancorp Merger Agreement**”), providing for the RBB Bancorp Merger, with RBB Bancorp being the surviving corporation (the “**Surviving Corporation**”).

H. **RBB MERGER.** Prior to the consummation of the RBB Merger, RBB and the Bank will enter into a plan of merger in a form to be mutually agreed upon by the parties ("**RBB Merger Agreement**"), providing for the RBB Merger, with RBB being the surviving bank.

I. **BOARD OF DIRECTOR ACTIONS.** The respective Boards of Directors of RBB Bancorp, RBB, PGB and the Bank have adopted by at least a majority vote resolutions approving and authorizing the PGB Merger, the RBB Bancorp Merger, the RBB Merger, this Agreement and the transactions contemplated herein.

J. **SHAREHOLDER AGREEMENT.** As a condition to, and simultaneously with the execution of this Agreement, the directors and executive officers of PGB and the Bank have executed and delivered to RBB a Shareholder Agreement in the form of Exhibit A hereto ("**Shareholder Agreement**").

K. **INTENTIONS OF THE PARTIES.** It is the intention of the parties to this Agreement that the business combination contemplated hereby be accounted for under the Internal Revenue Code of 1986, as amended ("**Code**") as a purchase of PGB shares for cash.

L. **NON-SOLICITATION AND CONFIDENTIALITY AGREEMENT.** A non-solicitation and confidentiality agreement, in the form attached hereto as Exhibit B ("**Non-Solicitation and Confidentiality Agreement**"), shall be executed by the Persons listed on Exhibit B-1 hereto.

M. **REQUIRED APPROVALS.** The PGB Merger, the RBB Bancorp Merger, and the RBB Merger require certain shareholder and regulatory approvals and may be effected only after the necessary approvals have been obtained.

N. **NO CONTROL OF PGB OR THE BANK.** Subject to any specific provisions of this Agreement, it is the intent of the parties that RBB Bancorp, Merger Sub, RBB, or any affiliate of RBB, by reason of this Agreement shall not (until consummation of the PGB Merger) control, and shall not be deemed to control PGB or the Bank or any of their subsidiaries, directly or indirectly, and shall not exercise or be deemed to exercise, directly or indirectly, a controlling influence over the management or policies of PGB or the Bank or any of their subsidiaries;

NOW, THEREFORE, in consideration of the premises and of the mutual covenants, representations, warranties and agreements contained herein the parties agree as follows:

ARTICLE 1

CERTAIN DEFINITIONS

SECTION 1.01. CERTAIN DEFINITIONS.

The following terms are used in this Agreement with the meanings set forth below:

"**Accounting Firm**" has the meaning set forth in Section 3.03(d).

"**Acquisition Proposal**" has the meaning set forth in Section 6.06.

“Affiliate” means, with respect to a Person, any Person that, directly or indirectly, controls, is controlled by or is under common control with such Person; for purposes of this definition, “control” (including, with correlative meanings, the terms “controlled by” or “under common control with”), as applied to any Person, means the possession, directly or indirectly, of (i) ownership, control or power to vote twenty-five percent (25%) or more of the outstanding shares of any class of voting securities of such Person, (ii) control, in any manner, over the election of a majority of the directors, trustees or general partners (or individuals exercising similar functions) of such Person or (iii) the power to exercise a controlling influence over the management or policies of such Person.

“Agreement” means this Agreement, as amended or modified from time to time in accordance with Section 9.02.

“Antitakeover Law” has the meaning set forth in Section 4.02(z).

“Appraisal Rights” means shares of PGB Common Stock held by a PGB stockholder with respect to which such shareholder in accordance with Section 262 of the DGCL perfects such shareholder’s right for an appraisal of the fair value of the shares due to the PGB Merger.

“Appraisal Rights Shares” shall have the meaning set forth in Section 3.01(c).

“Appraisal Rights Shareholder” means the holder of shares of PGB Common Stock who has Appraisal Rights.

“Bank” has the meaning set forth in the preamble to this Agreement.

“Bank-ALLL” has the meaning set forth in Section 5.03(v).

“Bank-ALLL Adjustment Amount” means the amount, if any, of any loan loss provisions necessary to increase the BANK-ALLL at the Calculation Date to an amount which is equal to the Minimum Bank-ALLL set forth in Section 6.24.

“Bank Articles” means the charter of the Bank.

“Bank Bylaws” means the Bylaws of Bank, as amended.

“Bank Common Stock” means the common stock, \$8.00 par value per share, of the Bank.

“Bank Loan Property” has the meaning set forth in Section 5.03(p).

“Bank-OREO” means any real property carried on the Bank’s books and records as “Other Real Estate Owned.”

“Bank Secrecy Act” means the Currency and Foreign Transaction Reporting Act (31 U.S.C. §5311 et seq.), as amended.

“Benefit Plans” has the meaning set forth in Section 5.03(n).

“Brokered Deposits” means any deposit as defined as a brokered deposit under Section 29 of the Federal Deposit Insurance Act as implemented by FDIC regulation Section 337.6. Brokered Deposits does not include internet deposits or deposits from deposit originators.

“Business Day” means Monday through Friday of each week, except a legal holiday recognized as such by the U.S. Government or any day on which banking institutions in the State of California are authorized or obligated to close.

“Calculation Date” means the last day of the month preceding the Effective Date, unless RBB and Bank mutually agree to another day.

“California Secretary” means the California Secretary of State.

“CFC” means the California Financial Code.

“CGCL” means the California General Corporation Law.

“Code” means the Internal Revenue Code of 1986, as amended.

“Commissioner” means the Commissioner of Business Oversight.

“Community Reinvestment Act” means the Community Reinvestment Act of 1977, as amended.

“Core Deposits” means the sum of demand deposits, NOW deposits, money market demand accounts and savings accounts at the Bank.

“Day” means Business Day unless otherwise indicated.

“DBO” means the California Department of Business Oversight.

“Delaware Secretary” means the Delaware Secretary of State.

“Deposit Insurance Fund” means the Deposit Insurance Fund maintained by the FDIC.

“Derivatives Contract” has the meaning set forth in Section 5.03(r).

“DFPR” means the Department of Financial and Professional Regulation of the State of Illinois.

“DGCL” means the Delaware General Corporation Law.

“Disclosure Schedules” has the meaning set forth in Section 5.01.

“Dissenters’ Set Aside” has the meaning set forth in Section 3.03(a).

“DOL” means the Department of Labor.

“Effective Date” has the meaning set forth in Section 2.02.

“Effective Time” has the meaning set forth in Section 2.02.

“Employment Agreements” has the meaning set forth in Section 6.10(d).

“Environmental Laws” has the meaning set forth in Section 5.03(p).

“Equal Credit Opportunity Act” means the Equal Credit Opportunity Act (15 U.S.C. §1691 et seq.), as amended and any regulations promulgated thereunder.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended and any regulations promulgated thereunder.

“ERISA Affiliate” has the meaning set forth in Section 5.03(n).

“Exchange Act” means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

“Exchange Agent” means Issuer Direct Corporation, RBB Bancorp’s transfer agent, or such other entity as the parties may agree upon.

“Exchange Fund” has the meaning set forth in Section 3.04(a).

“Fair Housing Act” means the Fair Housing Act (42 U.S.C. §3601, et seq.), as amended and any regulations promulgated thereunder.

“FDIC” means the Federal Deposit Insurance Corporation.

“FIS” means Fidelity Information Systems.

“Former PGB and Bank Employee(s)” has the meaning set forth in Section 6.10(b).

“FRB” means the Board of Governors of the Federal Reserve System.

“GAAP” means generally accepted accounting principles in the United States.

“Governmental Authority” means any court, administrative agency or commission or other federal, state or local governmental authority or instrumentality.

“Hazardous Substance” has the meaning set forth in Section 5.03(p).

“Home Mortgage Disclosure Act” means the Home Mortgage Disclosure Act (12 U.S.C. Section 2801 et seq.), as amended and any regulations promulgated thereunder.

“Immigration Laws” has the meaning set forth in Section 5.03(k).

“Illinois Secretary” means the Illinois Secretary of State. **“Insurance Policies”** has the meaning set forth in Section 5.03(u). **“IRS”** means the Internal Revenue Service.

“Knowledge” of a party shall mean: (a) with respect to a natural person, the actual knowledge of such person after his or her reasonable investigation into the subject matter at issue; (b) with respect to PGB or the Bank, the actual knowledge of Betty Chow or Sylvia Chung, after their reasonable investigation into the subject matter at issue; and (c) with respect to RBB Bancorp or RBB, the actual knowledge of Yee Phong (Alan) Thian, I-Ming Vincent Liu or David Morris, after their reasonable investigation into the subject matter at issue.

“Laws” means any and all statutes, laws, ordinances, rules, regulation, orders, permits, judgments, injunctions, decrees, case law and other rules of law enacted, promulgated or issued by any Governmental Authority.

“Lien” means any charge, mortgage, pledge, security interest, restriction, claim, lien or encumbrance.

“Material Adverse Effect” means, with respect to RBB Bancorp, RBB, PGB or the Bank, any effect that (i) is or with the passage of time will be material and adverse to the financial position, results of operations or business of RBB Bancorp, RBB, PGB or the Bank, as the case may be, (ii) would materially impair the ability of any of RBB Bancorp, RBB, PGB or the Bank to perform their obligations under this Agreement or otherwise materially threaten or materially impede the consummation of the PGB Merger and the other transactions contemplated by this Agreement; provided, however, that a Material Adverse Effect shall not be deemed to include the impact of (a) changes in banking and similar laws of general applicability or interpretations thereof by Governmental Authorities, (b) changes in GAAP or regulatory accounting requirements applicable to banks and their holding companies generally, (c) changes in general economic conditions affecting banks and their holding companies generally, except to the extent such changes disproportionately affect RBB Bancorp, RBB, PGB or the Bank; and (d) any modifications or changes to valuation policies and practices in connection with the PGB Merger or restructuring charges taken in connection with the PGB Merger, in each case in accordance with GAAP. **“Material Adverse Effect”** also means, with respect to PGB and the Bank only, (a) the net amount of loans on non-accrual status increases by more than \$1,000,000 from its level at June 30, 2019; (b) the net amount of loans past due 30-90 days increases by more than \$2,000,000, and the net amount of loans past due 90 days or more increases by more than \$1,000,000, from their respective levels at June 30, 2019; (c) the net amount of non-performing assets (which includes OREO and loans on non-accrual status) increases by more than \$1,000,000 from its level at June 30, 2019; (d) Core Deposits decrease by more than 10% from their aggregate level at June 30, 2019; (e) average daily Core Deposits for the 90 days preceding Closing shall have declined more than 10% from the 90 day average daily Core Deposits as of June 30, 2019; (f) any Brokered Deposits, internet deposits or deposits from loan originators, in each case with a maturity longer than one year, have been acquired or renewed as of and after the date of this Agreement, (g) any increase in borrowings from the FHLB or other financial institution or entity outside the ordinary course of business as measured from June 30, 2019; and (h) the Bank’s total gross loans have decreased by more than 10% since June 30, 2019.

“Merger Consideration” has the meaning set forth in Section 3.03(a).

“Merger Sub” shall have the meaning given such term in the Recitals.

“Minimum Bank-ALLL” has the meaning set forth in Section 7.03(e)

“**National Labor Relations Act**” means the National Labor Relations Act, as amended and any regulations promulgated thereunder.

“**New RBB Plan**” has the meaning set forth in Section 6.11(b).

“**NLRB**” has the meaning set forth in Section 5.03(k).

“**Non-Solicitation and Confidentiality Agreements**” has the meaning set forth in the recitals to this Agreement.

“**Operating Loss**” has the meaning set forth in Section 5.03(aa).

“**PGB Articles**” means the Certificate of Incorporation of PGB.

“**PGB**” has the meaning set forth in the preamble to this Agreement

“**PGB Bylaws**” means the Bylaws of PGB, as amended.

“**PGB and Bank Disclosure Schedule**” has the meaning set forth in Section 5.01.

“**PGB Closing Statement**” shall have the meaning set forth in Section 3.03(c).

“**PGB Common Stock**” means the common stock, no par value, of PGB.

“**PGB Merger**” has the meaning set forth in the Recitals to this Agreement.

“**PGB Merger Agreement**” has the meaning set forth in the Recitals to this Agreement.

“**PGB Minimum Capital**” means: (a) \$18.7 million; plus (b) the product of (i) the number of months between June 30, 2019, and the Effective Date, multiplied by (ii) \$100,000.

“**PGB Tangible Book Value**” means: (i) the stockholders’ equity of PGB as determined in accordance with GAAP, which shall reflect any additional increases to the Bank’s ALLL as required by PGB’s or the Bank’s CPAs or any loan review conducted on its loan portfolio by federal or state Governmental Authority, and also any Bank-ALLL Adjustment Amount; less (ii) the sum of goodwill and other intangible assets, and plus (iii) the total of all PGB Transaction Expenses that have been previously paid or accrued by PGB or the Bank.

“**PGB Transaction Expenses**” means the sum of: (i) actual termination costs and deconversion costs as estimated by FISERV, but not conversion costs, associated with the termination of the core processing contracts of FISERV, and any other vendor contract termination costs; (ii) any change in control and termination without cause payments; (iii) any retention bonuses such as the New RBB Plan in Section 6.11(b); (iv) any other severance or other similar payments, including those payments described in Section 6.10(d), other than change in control payments described in (ii) above; (v) directors’ and officers’ tail insurance premiums including those insurance premium payments provided in Section 6.09, and (vi) transaction costs and other expenses incurred or to be incurred in connection with the transaction contemplated by this Agreement, including but not limited to investment bankers’ fees and costs, success fees and costs, and legal and accounting expenses and costs.

“Pension Plan” has the meaning set forth in Section 5.03(n).

“Per Share Merger Consideration” has the meaning set forth in Section 3.03(a).

“Person” means any individual, bank, corporation, partnership, association, joint-stock company, business trust, limited liability company or unincorporated organization.

“Pre-Closing Adjustments” is defined in Section 6.17.

“Proxy Materials” means the proxy statement to be used in soliciting the approval of PGB’s stockholders at the Special Meeting.

“RBB” has the meaning set forth in the preamble to this Agreement.

“RBB Bancorp” has the meaning set forth in the preamble to this Agreement.

“RBB Bancorp Merger” has the meaning set forth in the recitals to this Agreement.

“RBB Bancorp Merger Agreement” has the meaning set forth in the recitals to this Agreement.

“RBB Bancorp Common Stock” means the common stock of RBB Bancorp.

“RBB Bancorp and RBB Disclosure Schedule” has the meaning set forth in Section 5.01.

“RBB Merger” has the meaning set forth in the recitals to this Agreement.

“RBB Merger Agreement” has the meaning set forth in the recitals to this Agreement.

“RBB Plan” has the meaning set forth in Section 6.10(c).

“Regulatory Filings” has the meanings set forth in Sections 5.03(h) and 5.04(h).

“Resulting Corporation” has the meaning set forth in the recitals to this Agreement.

“Rights” means, with respect to any Person, securities or obligations convertible into or exercisable or exchangeable for, or giving any Person any right to subscribe for or acquire, or any options, calls or commitments relating to, or any stock appreciation right or other instrument the value of which is determined in whole or in part by reference to the market price or value of, shares of capital stock of such Person.

“SEC” means the United States Securities and Exchange Commission.

“Shareholder Agreement” has the meaning set forth in the recitals to this Agreement.

“Special Meeting” means the special meeting of PGB stockholders to be held to approve the PGB Merger, the RBB Merger and this Agreement.

"Subsidiary" when used with respect to any party, means any corporation, partnership, limited liability company, bank or other organization, whether incorporated or unincorporated, which is consolidated with such party for financial reporting purposes.

"Superior Proposal" has the meaning set forth in Section 6.06.

"Surviving Bank" has the meaning set forth in Section 2.01(a).

"Surviving Corporation" has the meaning set forth in the recitals to this Agreement.

"Tax" and "Taxes" mean all federal, state, local or foreign taxes, charges, fees, levies or other assessments, however denominated, including, without limitation, all net income, gross income, gains, gross receipts, sales, use, ad valorem, capital, production, transfer, franchise, windfall profits, license, withholding, payroll, employment, excise, estimated, severance, stamp, occupation, property, environmental, unemployment or other taxes, custom duties, fees, assessments or charges of any kind whatsoever, imposed on the income, properties or operations of RBB Bancorp, RBB, PGB or the Bank, as applicable, by any taxing authority whether arising before, on or after the Effective Date, together with any interest, additions or penalties thereto and any interest in respect of such interest and penalties.

"Tax Returns" means any return, amended return or other report (including elections, declarations, disclosures, schedules, estimates and information returns) required to be filed on or before the Effective Date with respect to any Taxes of RBB Bancorp, RBB, PGB or the Bank, as applicable.

"Termination Date" has the meaning set forth in Section 8.01(d)

"Termination Fee" has the meaning set forth in Section 8.02(b).

"USA Patriot Act" means the USA PATRIOT Act (Pub. L. No. 107-56) and any regulations promulgated thereunder.

"WARN" has the meaning set forth in Section 5.03(k).

ARTICLE II

THE MERGERS

SECTION 2.01 THE MERGERS.

(a) Subject to receipt of all necessary regulatory and shareholder approvals, Merger Sub shall merge into PGB (the **"PGB Merger"**), and shareholders of PGB shall be entitled to receive the Merger Consideration, in accordance with Section 1100 et. seq. of the CGCL, and Section 252 of the DGCL at the Effective Time, with PGB as the Resulting Corporation. Following the PGB Merger and as soon as possible thereafter, subject to the terms and conditions of this Agreement, the Resulting Corporation and RBB Bancorp shall consummate the RBB Bancorp Merger pursuant to Section 1100 et. seq. of the CGCL and Section 252 of the DGCL with RBB Bancorp as the Surviving Corporation in accordance with the procedures specified in the CGCL and the DGCL. Following the RBB Bancorp Merger and as soon as possible thereafter, the Bank and RBB shall consummate the RBB Merger in accordance with the procedures specified in the CFC pursuant to CFC Section 4887 and the Illinois Banking Act ILCS 5/1 et. seq. RBB will be the surviving bank (the **"Surviving Bank"**), it shall continue to exist as a California state- chartered banking corporation with all its rights, privileges, immunities, powers and franchises continuing unaffected by the RBB Merger, and the separate corporate existence of the Bank shall cease.

(b) Filings. Subject to the satisfaction or waiver of the conditions set forth in Article VII, the PGB Merger shall become effective upon the Effective Time on the Effective Date as specified in the PGB Merger Agreement, and PGB shall be the Resulting Corporation, in accordance with Section 252 of the DGCL and Section 1100 et. seq. of the CGCL.

(c) Articles of Incorporation and Bylaws.

(i) The articles of incorporation and bylaws of the Resulting Corporation immediately after the PGB Merger shall be those of PGB as in effect immediately prior to the Effective Time.

(ii) The articles of incorporation and bylaws of RBB Bancorp immediately after RBB Bancorp Merger shall be those of RBB Bancorp as in effect immediately prior to the Effective Time. The articles of incorporation and bylaws of RBB immediately after the RBB Merger shall be those of RBB as in effect immediately prior to the Effective Time.

(d) Directors and Officers.

(i) The directors and officers of the Resulting Corporation immediately after the PGB Merger shall be the directors and officers of the Merger Sub immediately prior to the Effective Time, until such time as their successors shall be duly elected and qualified.

(ii) The directors and officers of RBB Bancorp immediately after the RBB Bancorp Merger shall be the directors and officers of RBB Bancorp immediately prior to the Effective Time, until such time as their successors shall be duly elected and qualified.

(iii) The directors and officers of RBB immediately after the RBB Merger shall be the directors and officers of RBB immediately prior to the Effective Time, until such time as their successors shall be duly elected and qualified.

(e) Effect of the PGB Merger.

(i) At the Effective Time, the effect of the PGB Merger shall be as provided in the DGCL and the CGCL, including any regulations or rules promulgated thereunder. Without limiting the generality of the foregoing, and subject thereto, at the Effective Time, all the property, rights, privileges, powers and franchises of PGB and Merger Sub shall vest in the Resulting Corporation, all debts, liabilities, obligations, restrictions, disabilities and duties of PGB and Merger Sub shall become the debts, liabilities, obligations, restrictions, disabilities and duties of the Resulting Corporation.

(ii) After the Effective Time, the effect of the RBB Bancorp Merger shall be as provided in the CGCL and the DGCL, including any regulations or rules promulgated thereunder. Without limiting the generality of the foregoing, and subject thereto, all the property, rights, privileges, powers and franchises of PGB shall vest in RBB Bancorp, all debts, liabilities, obligations, restrictions, disabilities and duties of PGB shall become the debts, liabilities, obligations, restrictions, disabilities and duties of RBB Bancorp as the Surviving Corporation.

(iii) After the Effective Time, the effect of the RBB Merger shall be as provided in the CFC and the Illinois Banking Act ILCS 5/1 et. seq., including any regulations or rules promulgated thereunder. Without limiting the generality of the foregoing, and subject thereto, all the property, rights, privileges, powers and franchises of the Bank and RBB shall vest in the Surviving Bank, all debts, liabilities, obligations, restrictions, disabilities and duties of the Bank and RBB shall become the debts, liabilities, obligations, restrictions, disabilities and duties of the Surviving Bank and RBB shall continue as the Surviving Bank.

(f) Further Actions.

(i) If, at any time after the Effective Time of the PGB Merger and the RBB Bancorp Merger, the Surviving Corporation shall consider that any further assignments or assurances in law or any other acts are necessary or desirable to (i) vest, perfect or confirm, of record or otherwise, in the Surviving Corporation its right, title or interest in, to or under any of the rights, properties or assets of PGB acquired or to be acquired by the Surviving Corporation as a result of, or in connection with, the PGB Merger, or (ii) otherwise carry out the purposes of this Agreement, PGB, and its proper officers and directors, shall be deemed to have granted to the Surviving Corporation an irrevocable power of attorney to execute and deliver all such proper deeds, assignments and assurances in law and to do all acts necessary or proper to vest, perfect or confirm title to and possession of such rights, properties or assets in the Surviving Corporation and otherwise to carry out the purposes of this Agreement, and the proper officers and directors of the Surviving Corporation are fully authorized in the name of the Resulting Corporation or otherwise to take any and all such action.

(ii) If, at any time after the Effective Time, the Surviving Bank shall consider that any further assignments or assurances in law or any other acts are necessary or desirable to (i) vest, perfect or confirm, of record or otherwise, in the Surviving Bank its right, title or interest in, to or under any of the rights, properties or assets of the Bank acquired or to be acquired by the Surviving Bank as a result of, or in connection with, the RBB Merger, or (ii) otherwise carry out the purposes of this Agreement, the Bank, and its proper officers and directors, shall be deemed to have granted to the Surviving Bank an irrevocable power of attorney to execute and deliver all such proper deeds, assignments and assurances in law and to do all acts necessary or proper to vest, perfect or confirm title to and possession of such rights, properties or assets in the Surviving Bank and otherwise to carry out the purposes of this Agreement, and the proper officers and directors of the Surviving Bank are fully authorized in the name of the Surviving Bank or otherwise to take any and all such action.

SECTION 2.02 EFFECTIVE DATE AND EFFECTIVE TIME.

Subject to the satisfaction or waiver of the conditions set forth in Article VII (other than those conditions that by their nature are to be satisfied at the consummation of the PGB Merger, but subject to the fulfillment or waiver of those conditions), the parties shall cause the filings contemplated by Section 2.01(b) to be made on such date as the parties may agree in writing, but in the absence of such agreement, no later than the tenth Business Day after the date of such satisfaction or waiver. The PGB Merger provided for herein shall become effective upon such filing or filings and on such date as may be specified therein and in accordance with the DGCL and the CGCL. The date of such effectiveness is herein called the “**Effective Date**”. The “**Effective Time**” of the PGB Merger shall be the time as set forth in such filing, but in no event more than one day after the Effective Date.

ARTICLE III

CONSIDERATION; EXCHANGE PROCEDURES

SECTION 3.01 EFFECT ON CAPITAL STOCK.

Subject to the other provisions of this Article III, at the Effective Time, by virtue of the PGB Merger and without any additional action on the part of the holders of shares of PGB Common Stock:

(a) RBB Common Stock. Each share of RBB Bancorp Common Stock issued and outstanding immediately prior to the Effective Time shall remain an issued and outstanding share of common stock and shall not be affected by the PGB Merger;

(b) PGB Common Stock. Each share of PGB Common Stock issued and outstanding immediately prior to the Effective Time (other than any shares entitled to Appraisal Rights, as defined herein) shall be cancelled and converted into the right to receive in cash the Per Share Merger Consideration, without interest, as provided in Section 3.03;

(c) Appraisal Rights Shares. Any shares of PGB Common Stock held by a Person who is entitled to Appraisal Rights in the PGB Merger in accordance with the provisions of Section 262 of the DGCL (“**Appraisal Rights Shares**”) shall not be converted into cash hereunder unless and until such shares have lost their status as Appraisal Rights Shares under Section 262 of the DGCL, at which time such shares shall be converted into cash pursuant to Section 3.03; notwithstanding any other provision of this Agreement, any Appraisal Rights Shares shall not, after the Effective Time, be entitled to vote for any purpose or receive any dividends or other distributions and shall be entitled only to such rights as are afforded in respect of Appraisal Rights Shares pursuant to applicable law. The Per Share Merger Consideration for any Appraisal Rights Shares shall be paid over to RBB by the Exchange Agent pending the determination as to the rights of any Appraisal Rights Shares to consideration under applicable laws.

(d) Cancellation of Certain Shares. Any shares of PGB Common Stock held by RBB Bancorp (or any of its Subsidiaries) or by the Bank, other than those held in a fiduciary capacity or as a result of debts previously contracted, shall be cancelled and retired at the Effective Time and no Per Share Merger Consideration shall be paid or issued in exchange therefore.

(e) Merger Sub Stock. Each share of common stock of Merger Sub issued and outstanding immediately prior to the Effective Time owned by RBB Bancorp will be converted into and exchanged for one validly issued, fully paid share of the Resulting Corporation’s common stock. Each stock certificate of Merger Sub evidencing ownership of any such shares will from and after the Effective Time evidence ownership of shares of the Resulting Corporation’s common stock.

SECTION 3.02 RESERVATION OF RIGHT TO REVISE TRANSACTION.

RBB Bancorp and RBB may, at any time prior to the Effective Time of the PGB Merger (subject to any necessary regulatory approvals and including, to the extent permitted by applicable law, after PGB’s shareholders and/or RBB’s shareholder have approved the principal terms of this Agreement), change the method of effecting the PGB Merger, the RBB Bancorp Merger, or the RBB Merger (including, without limitation, the provisions of this Article III) if and to the extent it deems such change to be necessary, appropriate or desirable; provided, however, that no such change shall (a) alter or change the amount, form or tax treatment of the consideration to be issued to the holders of PGB Common Stock as provided for in this Agreement, (b) impede or unreasonably delay consummation of the transactions contemplated by this Agreement, (c) otherwise be materially prejudicial to the interests of the shareholders of PGB, or (d) extend the Termination Date.

SECTION 3.03 CONVERSION OF PGB COMMON STOCK.

(a) The Process. At the Effective Time, the conversion of each outstanding share of PGB Common Stock shall proceed as follows:

(i) The terms used herein shall have the following meanings:

“Dissenters’ Set Aside” shall mean the aggregate dollar amount in cash necessary to satisfy the claims in full of the Appraisal Rights Shares in accordance with Section 262 of the DGCL.

“Merger Consideration” shall be an amount in cash equal to the sum of (A) \$32.5 million plus (B) fifty percent (50%) of the total amount of all awards, if any, related to the Community Development Financial Institutions Fund that are granted or awarded between the date of this Agreement and the Effective Date; provided, however, that (x) if the PGB Tangible Book Value on the Calculation Date is less than the PGB Minimum Capital amount contained in the definition of PGB Minimum Capital, and/or (y) if the amount of PGB Transaction Expenses is greater than \$3.0 million, then the Merger Consideration shall be reduced by one dollar for (a) each dollar that the PGB Tangible Book Value is less than the PGB Minimum Capital amount on the Calculation Date, and/or (b) each dollar that the amount of PGB Transaction Expenses is greater than \$3.0 million after all Transaction Expenses have been accrued and/or paid and calculated on the Calculation Date.

“Per Share Merger Consideration” shall be the amount of the Merger Consideration divided by the total number of shares of PGB Common Stock outstanding immediately prior to the Effective Time (including Appraisal Rights Shares).

(ii) At the Effective Time, each share of PGB Common Stock (except for Appraisal Rights Shares) shall, by virtue of the PGB Merger and without any action on the part of the holder thereof, be cancelled and converted into the right to receive in cash the Per Share Merger Consideration and the holders of certificates formerly representing shares of PGB Common Stock shall cease to have any rights as PGB stockholders. Except as provided above, until such certificates are surrendered for exchange, the certificates of each holder shall, after the Effective Time, represent for all purposes only the right to receive the Per Share Merger Consideration.

(iii) RBB Bancorp shall set aside from the Merger Consideration an amount of cash equal to the Dissenters’ Set Aside. RBB Bancorp shall deliver to the Exchange Agent the remaining cash.

(b) Stock Transfer Books and Exchange. At the Effective Time, the stock transfer books of PGB shall be closed as to holders of PGB Common Stock immediately prior to the Effective Time and no transfer of PGB Common Stock by any such holder shall thereafter be made or recognized on the stock transfer books of PGB as the Resulting Corporation. If, after the Effective Time, certificates are properly presented in accordance with Article III of this Agreement to the Exchange Agent, such certificates shall be canceled and exchanged for a check representing the amount of cash into which the PGB Common Stock represented thereby was converted in the PGB Merger, plus any payment for a fractional share of PGB Common Stock.

(c) Calculations. Within five (5) Business Days after the Calculation Date, PGB shall provide to RBB Bancorp (i) PGB's unaudited financial statements as of the Calculation Date, (ii) a Certificate of PGB's chief financial officer as to the accuracy of such financial statements, and confirming that, except as set forth in the Certificate, PGB and the Bank are not aware that such financial statements require any material modifications in order to comply with GAAP or the terms of this Agreement, including regulatory guidelines and requirements with respect to loan and OREO classifications, appraisals and the adequacy of the Bank-ALLL as of such date, and (iii) any additional information reasonably requested by RBB Bancorp. Within five (5) Business Days after receipt by RBB Bancorp of the information described in the previous sentence, RBB Bancorp shall provide PGB with a calculation of the PGB Tangible Book Value, the PGB Transaction Expenses and the components thereof, the Bank-ALLL Adjustment Amount, and the Merger Consideration ("**PGB Closing Statement**"). RBB Bancorp, RBB, PGB and the Bank shall be allowed to completely review the financial statements and all elements of the PGB Closing Statement without any limitations, including such calculations with respect thereto, the supporting Certificate, and access to any and all supporting books, records, work papers, documents and personnel. All calculations pursuant to this Agreement shall be rounded to the nearest cent.

(d) Dispute Resolution. PGB and the Bank shall have up to five (5) Business Days after receipt of the PGB Closing Statement to review the PGB Closing Statement as calculated by RBB Bancorp. If PGB and the Bank disagree with the PGB Closing Statement, PGB and the Bank shall notify RBB Bancorp in writing, and PGB and the Bank shall provide reasonable detail of the nature of each disputed item on the PGB Closing Statement, including all supporting documentation thereto. The parties shall first use commercially reasonable and good faith efforts to resolve such dispute between themselves and make such revisions to the PGB Closing Statement as necessary to reflect such resolution. If the parties are unable to resolve such dispute within two (2) Business Days, the parties shall submit the dispute to a nationally recognized accounting firm mutually acceptable to RBB Bancorp and PGB (the "**Accounting Firm**") for a resolution of any issue that is in dispute, and the resolution of the Accounting Firm shall be binding on all parties. The parties shall each pay one-half (1/2) of the fees and costs of the Accounting Firm and the fees paid to the Accounting Firm by PGB and/or the Bank shall be deducted from the PGB Tangible Book Value. The parties agree that they will, and agree to cause their respective representatives and independent accountants to, cooperate and assist in the preparation of the PGB Closing Statement and in the conduct of the audits and review referred to in this Section 3.03(d) including, without limitation, making available books, records, work papers and personnel as shall be necessary to attempt to resolve the dispute.

SECTION 3.04 EXCHANGE PROCEDURES.

(a) Exchange Agent. No later than the Effective Time, RBB Bancorp shall deposit with the Exchange Agent cash in an amount equal to the Merger Consideration (the "**Exchange Fund**").

(b) Exchange of Certificates and Cash. Each holder of a certificate formerly representing PGB Common Stock (other than Appraisal Rights Shares) who surrenders or has surrendered such certificate (or customary affidavits and indemnification regarding the loss or destruction of such certificate), together with duly executed transmittal materials, to the Exchange Agent shall, upon acceptance thereof, be entitled to cash into which the shares of PGB Common Stock shall have been converted pursuant hereto. The Exchange Agent shall accept such PGB certificate upon compliance with such reasonable and customary terms and conditions as the Exchange Agent may impose to cause an orderly exchange thereof in accordance with normal

practices. PGB shall be afforded an opportunity to consent to the Exchange Agent agreement and the form of transmittal materials before they are mailed, which consents shall not be unreasonably withheld. RBB Bancorp shall not be obligated to deliver the consideration to which any former holder of PGB Common Stock is entitled as a result of the PGB Merger until such holder surrenders a certificate or certificates representing such shares of PGB Common Stock for exchange as provided herein, or an affidavit of lost stock certificate.

(c) No Liability. Notwithstanding the foregoing, neither the Exchange Agent nor any party hereto shall be liable to any former holder of PGB Common Stock for any amount properly delivered to a public official pursuant to applicable abandoned property, escheat or similar laws.

(d) PGB Common Stock. Until surrendered for exchange in accordance with the provisions of this Section 3.04, each certificate previously representing shares of PGB Common Stock (other than Appraisal Rights Shares) shall from and after the Effective Time represent for all purposes only the right to receive the Per Share Merger Consideration, as set forth in this Agreement.

(e) Withholding Rights. RBB Bancorp or the Exchange Agent shall be entitled to deduct and withhold from the consideration otherwise payable pursuant to this Agreement to any holder of shares of PGB Common Stock such amounts as RBB Bancorp or the Exchange Agent is required to deduct and withhold with respect to the making of such payment under the Code or any provision of state, local or foreign tax law. To the extent that amounts are so withheld and paid over to the appropriate taxing authority by RBB Bancorp or the Exchange Agent, such withheld amounts shall be treated for all purposes of this Agreement as having been paid to the holder of the shares of PGB Common Stock in respect of which such deduction and withholding was made by RBB Bancorp or the Exchange Agent.

(f) Six Month Anniversary. At any time following the six-month anniversary of the Effective Time, RBB Bancorp shall be entitled to require the Exchange Agent to deliver to it any remaining portion of the Exchange Fund not distributed to holders of shares of PGB Common Stock that was deposited with the Exchange Agent at the Effective Time (including any interest received with respect thereto and other income resulting from investments by the Exchange Agent, as directed by RBB Bancorp), and such holders shall be entitled to look only to RBB Bancorp (subject to abandoned property, escheat or other similar laws) with respect to the Merger Consideration, without any interest thereon. Notwithstanding the foregoing, neither RBB Bancorp nor the Exchange Agent shall be liable to any holder of a PGB Stock Certificate entitled to receive the Merger Consideration (or dividends or distributions with respect thereto), or cash from the Exchange Fund in each case delivered to a public official pursuant to any applicable abandoned property, escheat or similar laws.

(g) Lost, Stolen or Destroyed Certificates. In the event any certificate of PGB Common Stock shall have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the Person claiming such certificate(s) of PGB Common Stock to be lost, stolen or destroyed, and if required by RBB Bancorp or the Exchange Agent, the posting by such Person of a bond in such sum as RBB Bancorp may reasonably direct as indemnity against any claim that may be made against it or the Resulting Corporation with respect to such certificate(s) of PGB Common Stock, RBB Bancorp shall cause the Exchange Agent to issue the Merger Consideration deliverable in respect of the shares of PGB Common Stock represented by such lost, stolen or destroyed certificates of PGB Common Stock.

SECTION 3.05 APPRAISAL RIGHTS SHARES.

(a) Any Appraisal Rights Shareholder that shall be entitled to be paid the value of such shareholder's shares of PGB Common Stock as provided in Section 262 of the DGCL, shall not be entitled to the Per Share Merger Consideration in respect thereof provided for under Section 3.03, unless and until such Appraisal Rights Shareholder shall have failed to perfect or shall have effectively withdrawn or lost such Appraisal Rights Shareholder under Section 262 of the DGCL, and shall be entitled to receive only the payment provided for by DGCL Section 262 with respect to the Appraisal Rights Shares.

(b) If any Appraisal Rights Shareholder shall fail to perfect or shall have effectively withdrawn or lost such right to dissent, each share of PGB Common Stock of such Appraisal Rights Shareholder shall be converted into the right to receive the Per Share Merger Consideration.

(c) PGB shall give RBB Bancorp prompt notice upon receipt by PGB of any written demands by Appraisal Rights Shareholders, withdrawal of such demands, and any other documents received or instruments served relating to Appraisal Rights Shareholders and shall give RBB Bancorp the opportunity to direct all negotiations and proceedings with respect to such demands. PGB shall not voluntarily make any payment with respect to any demands by Appraisal Rights Shareholders and shall not, except with the prior written consent of RBB Bancorp, settle or offer to settle such demands. Each Appraisal Rights Shareholder who becomes entitled to payment for his or her Appraisal Rights shall receive payment therefore from RBB Bancorp, and such Appraisal Rights Shares shall be canceled.

ARTICLE IV

ACTIONS PENDING ACQUISITION

SECTION 4.01 CONDUCT OF PGB'S AND THE BANK'S BUSINESS PRIOR TO THE EFFECTIVE TIME.

Except as expressly provided in this Agreement, or with the prior written consent of RBB Bancorp and RBB, which consent shall not be unreasonably withheld, during the period from the date of this Agreement to the Effective Time, PGB and the Bank shall, (a) conduct their business in the usual, regular and ordinary course, consistent with past practices and consistent with prudent banking practices; (b) use their commercially reasonable efforts to maintain and preserve intact their business organization, employees and advantageous customer relationships and to continue to develop such customer relationships and retain the services of their officers and key employees; (c) maintain and keep their properties in as good repair and condition as at present except for obsolete properties and for deterioration due to ordinary wear and tear; (d) maintain in full force and effect insurance comparable in amount and scope of coverage to that now maintained by them; (e) perform in all material respects all of their obligations under contracts, leases and obligations relating to and affecting their assets, properties and businesses except such obligations as they may in good faith reasonably dispute; (f) charge off all loans, leases and other assets, or portions thereof, deemed uncollectible in accordance with GAAP or applicable law or regulation, classified as "loss", "impaired" or as directed by their regulators; (g) maintain the Bank-ALLL in accordance with GAAP and consistent with past practices and methodology, (h) properly accrue for all vacation days of PGB's and the Bank's employees; and (i) give notice to and consult with RBB Bancorp and RBB

prior to hiring any employees or independent contractors; (j) give notice to and consult with RBB Bancorp and RBB before acquiring any security or investment for the Bank's investment portfolio; and (k) substantially comply with and perform all material obligations and duties imposed upon them by all federal and state laws, statutes and rules, regulations and orders imposed by any Governmental Authority applicable to their business.

SECTION 4.02 FORBEARANCES OF PGB AND THE BANK.

From the date hereof until the Effective Time, except as expressly contemplated by this Agreement, without the prior written consent of RBB Bancorp and RBB, which consent shall not be unreasonably withheld, conditioned or delayed, PGB and the Bank shall not:

(a) Ordinary Course. Conduct the business of PGB and the Bank other than in the ordinary and usual course or fail to use their best efforts to preserve intact their business organizations and assets and maintain their rights, franchises and existing relations with customers, suppliers, employees and business associates, take any action that would materially adversely affect or delay the ability of PGB, the Bank, RBB Bancorp or RBB to perform any of their obligations on a timely basis under this Agreement, or take any action that would be reasonably likely to have a Material Adverse Effect on PGB or the Bank.

(b) Capital Stock. (i) Receive any new capital contribution other than upon the exercise of stock options exercisable into PGB Common Stock specified on the PGB and Bank Disclosure Schedule 4.02(b); (ii) issue, sell or otherwise permit to become outstanding, or authorize the creation of, any additional shares of stock or any Rights including the grant or exercise of any stock option or stock award, (iii) enter into any agreement, or not terminate any existing agreement, with respect to the foregoing, or (iv) permit any shares of stock to become subject to grants of employee or director stock options, other Rights or similar stock-based employee rights.

(c) Dividends; Etc. (i) make, declare, pay or set aside for payment any dividend on or in respect of, or declare or make any distribution on any shares of stock, or (ii) directly or indirectly adjust, split, combine, redeem, reclassify, purchase or otherwise acquire, any shares of its capital stock.

(d) Compensation; Employment Agreements; Etc. Enter into, amend, renew, or make any severance or change of control payments under, any employment, consulting, severance or similar agreements or arrangements with any director, officer or employee of PGB or the Bank or any of its subsidiaries or grant any salary or wage increase or increase any employee benefit (including incentive or bonus payments), except (i) for changes made in the ordinary course of business or that are required by applicable law, (ii) to satisfy contractual or other obligations existing as of the date hereof and set forth in PGB and Bank Disclosure Schedule 4.02(d), or (iii) for amendments specifically required or permitted under this Agreement.

(e) Hiring and Terminations. Hire any person as an employee of PGB or Bank or promote any employee, except (i) to satisfy contractual or regulatory obligations existing as of the date hereof and set forth in the PGB and Bank Disclosure Schedule 4.02(e); (ii) to fill any vacancies only in branch operations arising after the date hereof and whose employment is terminable at the will of the Bank; or (iii) any person to be hired who would have a base salary, including any guaranteed bonus or any similar bonus, considered on an annual basis of less than \$35,000.

(f) Benefit Plans. Enter into, establish, adopt or amend (except (i) as may be required by applicable law or specifically required under this Agreement (ii) to satisfy contractual obligations existing as of the date hereof and set forth in PGB and Bank Disclosure Schedule 4.02(f) or (iii) payments under any PGB or Bank profit sharing plan paid in accordance with PGB's or Bank's past practices), any pension, retirement, stock option, stock purchase, savings, profit sharing, deferred compensation, consulting, bonus, group insurance or other employee benefit, incentive or welfare contract, plan or arrangement, or any trust agreement (or similar arrangement) related thereto, in respect of any employee, officer, director, consultant or other service provider of PGB or Bank or take any action to accelerate the vesting or exercisability of any stock options, restricted stock or other compensation or benefits payable thereunder.

(g) Dispositions. Except as set forth in PGB and Bank Disclosure Schedule 4.02(g), except as permitted by Section 4.02(a) and in accordance with Section 5.02, and except for asset dispositions in the ordinary course of business and nonaccrual loans, sell, transfer, mortgage, encumber or otherwise dispose of or discontinue any of its assets, deposits, business or properties. PGB or Bank may not sell any loan without submitting a complete sale package information to the chief credit officer of RBB for review and comment, which comments shall be received within three (3) Business Days of receipt of the loan package. If RBB has not responded within such three (3) Business Day period, the Bank may make the loan sale on the terms as described in the sale package submitted to RBB.

(h) Acquisitions. Acquire or enter into any new line of business (other than by way of foreclosures or acquisitions of control in a bona fide fiduciary capacity or in satisfaction of debts previously contracted in good faith, in each case in the ordinary and usual course of business consistent with past practice) all or any portion of the assets, business, deposits or properties of any other entity except in the ordinary course of business consistent with past practice.

(i) Capital Expenditures. PGB anticipates making capital expenditures for computer servers and three ATMs as set forth in PGB and Bank Disclosure Schedule 4.02(i), but PGB will not make any other capital expenditures without RBB's prior consent.

(j) Governing Documents. Amend the PGB Articles, Bank Articles, PGB Bylaws or the Bank Bylaws or any other governing documents, or enter into a plan of consolidation, merger, share exchange or reorganization with any Person, or a letter of intent or agreement in principle with respect thereto.

(k) Accounting Methods. Implement or adopt any change in its accounting principles, practices or methods, other than as may be required by GAAP or regulatory accounting requirements.

(l) Contracts. Enter into, renew or terminate, or make any payment not then required under, any contract, lease or agreement and which is not terminable at will or with 30 calendar days' or less notice without payment of a premium or penalty, other than loans and other transactions made in the ordinary course of the banking business.

(m) Claims. Enter into any settlement or similar agreement with respect to, or take any other significant action with respect to the conduct of, any action, suit, proceeding, order or investigation to which PGB, Bank or any of their Subsidiaries are or become a party after the date of this Agreement, which settlement, agreement or action involves payment by PGB or the Bank or any of their Subsidiaries and/or would impose any material restriction on the business of the Surviving Bank or create precedent for claims that are reasonably likely to be material to PGB, the Bank or any of their Subsidiaries.

(n) Banking Operations. Enter into any new line of business; introduce any significant new products or services; change its lending, investment, underwriting, pricing, servicing, risk and asset liability management and other material banking and operating policies, except as required by applicable law, regulation or policies imposed by any Governmental Authority, or the manner in which its investment securities or loan portfolio is classified or reported; or file any application or enter into any contract with respect to the opening, relocation or closing of, or open, relocate or close, any branch, office servicing center or other facility.

(o) Marketing. Introduce any marketing campaigns or any new sales compensation or incentive programs or arrangements.

(p) Derivatives Contracts. Enter into any Derivatives Contract.

(q) Adverse Actions. Take any action which is intended or which is reasonably likely to result in, or omit to take any actions, the omission of which is intended to or reasonably likely to result in, (i) any of its representations and warranties set forth in this Agreement being or becoming untrue in any material respect at any time at or prior to the Effective Time, (ii) any of the conditions to the transactions contemplated hereby set forth in this Agreement not being satisfied, (iii) a material violation of any provision of this Agreement except as may be required by applicable law or regulation, or (iv) a material and adverse delay in or impair consummation of the transactions contemplated hereby beyond the time period contemplated by this Agreement.

(r) Risk Management. Except as required by applicable law or regulation, (i) implement or adopt any material change in its interest rate and other risk management policies, procedures or practices, (ii) fail to follow its existing policies or practices in any material way with respect to managing its exposure to interest rate and other risk or (iii) fail to use commercially reasonable means to avoid any material increase in its aggregate exposure to interest rate risk or other risk.

(s) Indebtedness. Incur any indebtedness for borrowed money (other than deposits, increased Federal Funds borrowings measured as of June 30, 2019, and increased borrowings from the Federal Home Loan Bank of Chicago measured as of June 30, 2019) or assume, guarantee, endorse or otherwise as an accommodation become responsible for the obligations of any other Person.

(t) Loans.

(i) Make any loan or other extension of credit, loan commitment or letter of credit, including any renewals, extensions and modifications, exceeding \$1,000,000 to any Person without first submitting complete loan package information to the chief credit officer of RBB for review and comment, which comments shall be received within three (3) Business Days of receipt of the loan package. If RBB has not responded within such three (3) Business Day period, the Bank may make such loan or other extension of credit or loan commitment or issue such letter of credit, all on the terms as described in the loan package submitted to RBB.

(ii) Make any new loans to, or modify the terms of any existing Loan to, or engage in any other transactions (other than routine banking transactions) with, any Affiliated Person of the Bank without first submitting complete loan package information to the chief credit officer of RBB for review and comment, which comments shall be received within three (3) Business Days of receipt of the loan package. If RBB has not responded within such three (3) Business Day period, the Bank may make such loan or loan modification or engage in such transaction, on the terms as described in the loan package submitted to RBB.

(u) Investments. (i) Other than in the ordinary course of business consistent with past practice in individual amounts not to exceed \$500,000 or in securities transactions as provided in (ii) below, make any investment either by contributions to capital, property transfers or purchase of any property or assets of any Person, (ii) other than purchases of direct obligations of the United States of America or obligations of U.S. government agencies which are entitled to the full faith and credit of the United States of America, in any case with a remaining maturity at the time of purchase of three months or less, purchase or acquire securities of any type; provided, however, that in the case of investment securities, PGB or the Bank may purchase investment securities if, within three (3) Business Days after the Bank first submits in writing (which shall describe in detail the investment securities to be purchased and the price thereof) complete information on such purchase to the chief financial officer of RBB for review and comment, with such comments shall be received by the Bank within three (3) Business Days of the receipt of the information, or RBB has not responded in writing to such request, or (iii) make any equity investment or commitment to make such an investment in real estate or in any real estate development project, other than (x) in connection with foreclosure, settlements in lieu of foreclosure, or troubled loan or debt restructuring, or (y) in the ordinary course of business consistent with past banking practices.

(v) Taxes. (i) File or amend any material Tax Return except in the ordinary course of business; (ii) settle or compromise any material Tax liability; (iii) make, change or revoke any material Tax election except to the extent consistent with past practice or as required by law; (iv) change any material method of Tax accounting, except as required by law; or (v) take any action which would materially adversely affect the Tax position of PGB or the Bank, and of its Subsidiaries or their respective successors after the PGB Merger.

(w) Participations. Except as provided in Section 4.02(g), make, acquire a participation in, reacquire an interest in a participation sold or sell any loan or lease unless it is in response to the recommendations of PGB's or the Bank's regulators; or renew, extend the maturity of, or alter any of the material terms of any such loan or lease for a period of greater than six months.

(x) Real or Personal Property. Sell, purchase, enter into a lease, relocate, open or close any banking or other office, or file an application pertaining to such action with any Governmental Authority, or any take any such actions related to PGB or Bank-OREO other than the sale of PGB or Bank-OREO at a price at or above its then current book value, or otherwise dispose of any other assets outside the ordinary course of business.

(y) Deposits. Incur deposit liabilities or increase the rate of interest paid on interest-bearing deposits or on certificates of deposit, other than in the ordinary course of business consistent with past practices, including deposit pricing policies and otherwise consistent with general economic and competitive conditions in PGB's and the Bank's market area, which would not change the risk profile of PGB or the Bank based on its existing deposit and lending policies.

(z) Antitakeover Statutes. Take any action (i) that would cause this Agreement or the transactions contemplated hereby to be subject to the provisions of any state antitakeover law or state or territorial law that purports to limit or restrict business combinations or the ability to acquire or vote shares (“**Antitakeover Law**”) or (ii) to exempt or make not subject to the provisions of any Antitakeover Law or state law that purports to limit or restrict business combinations or the ability to acquire or vote shares, any Person or any action taken thereby, which Person or action would have otherwise been subject to the restrictive provisions thereof and not exempt therefrom.

(aa) Affiliate Transactions. Except for transactions in the ordinary course of business between PGB and the Bank or transactions set forth in PGB and Bank Disclosure Schedule 4.02(aa), enter into any transaction, commitment, arrangement or other activity with a related entity, Affiliate or Subsidiary.

(bb) Negative Provision. Make a negative provision to the Bank-ALLL.

(cc) Commitments. Agree or commit to do any of the foregoing.

(dd) Except as otherwise provided by this Agreement, the consent of RBB Bancorp to any action by PGB or the Bank that is not permitted by any of the preceding clauses (a) through (bb) shall be evidenced by a writing signed by the President or any Executive Vice President of RBB Bancorp.

(ee) Notwithstanding that the Bank believes it has established all reserves and taken all provisions for possible loan losses required by GAAP and applicable Laws, PGB and the Bank recognize that RBB Bancorp and RBB may have different loan, accrual and reserve policies (including loan classifications and levels of reserves for possible loan losses). In that regard, and in general, from and after the date of this Agreement to the Effective Time, PGB, the Bank, RBB Bancorp and RBB shall consult and cooperate with each other in order to formulate the plan of integration for the PGB Merger, including, among other things, with respect to conforming, based upon such consultation, PGB’s and the Bank’s loan, accrual and reserve policies to those policies of RBB Bancorp and RBB to the extent appropriate; provided however, except as specifically provided herein for adjustment of PGB Tangible Book Value or the Bank-ALLL Adjustment Amount, no such changes shall result in a change to the Merger Consideration.

SECTION 4.03 CONDUCT OF RBB BANCORP’S AND RBB’S BUSINESS PRIOR TO THE EFFECTIVE TIME.

Except as expressly provided in this Agreement, or with the prior written consent of PGB, which consent shall not be unreasonably withheld, during the period from the date of this Agreement to the Effective Time, RBB Bancorp or RBB shall, (a) conduct their business in the usual, regular and ordinary course, consistent with past practices and consistent with prudent banking practices; (b) use their commercially reasonable efforts to maintain and preserve intact their business organizations, employees and advantageous customer relationships and to continue to develop such customer relationships and retain the services of its officers and key employees; (c) maintain and keep its properties in as good repair and condition as at present except for obsolete properties and for deterioration due to ordinary wear and tear; (d) maintain in full force and effect insurance comparable in amount and scope of coverage to that now maintained by it; (e) perform in all material respects all of its obligations under contracts, leases and obligations relating to and affecting its assets, properties and businesses except such obligations as it may in good faith reasonably dispute; (f) charge off all

loans, leases and other assets, or portions thereof, deemed uncollectible in accordance with GAAP or applicable law or regulation, classified as “loss”, “impaired” or as directed by its regulators; (g) maintain its allowances for loan and lease losses; (h) form Merger Sub in connection with the transactions contemplated by this Agreement; and (i) substantially comply with and perform all material obligations and duties imposed upon it by all federal and state laws, statutes and rules, regulations and orders imposed by any Governmental Authority applicable to its business.

SECTION 4.04 FORBEARANCES OF RBB BANCORP AND RBB.

From the date hereof until the Effective Time, except as expressly contemplated by this Agreement, without the prior written consent of PGB and the Bank, which consent shall not be unreasonably withheld, conditioned or delayed, neither RBB Bancorp nor RBB will:

(a) Ordinary Course. Take any action reasonably likely to have an adverse effect on RBB Bancorp’s or RBB’s ability to perform any of their material obligations under this Agreement.

(b) Adverse Actions. Knowingly take any action that is intended or is reasonably likely to result in (i) any of its representations and warranties set forth in this Agreement being or becoming untrue in any material respect at any time at or prior to the Effective Time, (ii) any of the conditions to the transactions contemplated hereby set forth in this Agreement not being satisfied, (iii) a material violation of any provision of this Agreement except as may be required by applicable law or regulation, or (iv) a material and adverse delay in or impair consummation of the transactions contemplated hereby beyond the time period contemplated by this Agreement.

(c) Commitments. Agree or commit to do any of the foregoing.

ARTICLE V

REPRESENTATIONS AND WARRANTIES

SECTION 5.01 DISCLOSURE SCHEDULES.

PGB and the Bank shall deliver a schedule to RBB (the “**PGB and Bank Disclosure Schedule**”) and RBB Bancorp and RBB shall deliver a schedule to PGB (the “**RBB Bancorp and RBB Disclosure Schedule**”), (collectively, the “**Disclosure Schedules**”) prior to the effective date of this Agreement, which, except as otherwise expressly provided herein, will be updated prior to the Effective Time for any changes, setting forth, among other things, items the disclosure of which is necessary or appropriate either in response to an express disclosure requirement contained in a provision of this Agreement or as an exception to one or more representations or warranties contained in Section 5.03 or Section 5.04, respectively, or to one or more of their respective covenants contained in Article VI.

SECTION 5.02 STANDARD.

No representation or warranty of PGB, the Bank, RBB or RBB Bancorp contained in Sections 5.03 or 5.04, respectively, shall be deemed untrue or incorrect, and no party hereto shall be deemed to have breached a representation or warranty, as a consequence of the existence of any fact, event or circumstance unless such fact, circumstance or event, individually or taken together with all other facts, events or circumstances inconsistent with any representation or warranty contained in Section 5.03 or 5.04, has had or is reasonably likely to have a Material Adverse Effect on the party making

such representation or warranty.

SECTION 5.03 REPRESENTATIONS AND WARRANTIES OF PGB AND BANK.

Subject to Sections 5.01 and 5.02 and except as set forth in the PGB and Bank Disclosure Schedule, PGB and the Bank hereby represent and warrant to RBB Bancorp and RBB:

(a) Organization, Standing and Authority.

PGB is a Delaware corporation duly organized and validly existing in good standing under the laws of the State of Delaware, is registered with the FRB as a bank holding company and it has the corporate power and authority to carry on its business as presently conducted. PGB has all requisite corporate power and authority to own, lease and operate its properties and assets and to carry on its business as presently conducted. The nature of its operations and the business transacted by it as of the date hereof make licensing and qualification in any other state or jurisdiction unnecessary other than the State of Illinois. PGB has delivered to RBB Bancorp true and correct copies of its Certificate of Incorporation and Bylaws each as amended and as in effect as of the date hereof.

The Bank is a Illinois state-chartered banking corporation, duly licensed by and in good standing with the Illinois Department of Financial and Professional Regulation, Division of Banking, and validly existing under the laws of the state of Illinois, and its deposits are insured by the FDIC through the Deposit Insurance Fund in the manner and to the fullest extent provided by law. The Bank is a member of the FRB. The Bank has all requisite corporate power and authority to own, lease and operate its properties and assets and to carry on its business as presently conducted. The nature of its operations and the business transacted by it as of the date hereof make licensing and qualification in any other state or jurisdiction unnecessary. Bank has heretofore delivered to RBB Bancorp true, correct and complete copies of the Bank Articles and Bank Bylaws each as amended and as in effect as of the date hereof.

(b) PGB Capital Stock.

The authorized capital stock of PGB consists of 1,000,000 shares of common stock, no par value, of which 473,270 shares are outstanding on the date hereof, all validly issued, fully paid and nonassessable. Except as provided in the PGB and Bank Disclosure Schedule, no unissued shares of PGB Common Stock or any other securities of PGB are subject to any warrants, options, rights or commitments of any character, kind or nature and PGB is not obligated to issue or repurchase any shares of PGB Common Stock or any other security to or from any person.

As of the date hereof, the only authorized capital stock of Bank consists of 169,260 shares of common stock, \$8.00 par value per share, all of which shares are issued and outstanding on the date hereof, all validly issued, fully paid and nonassessable. As of the date hereof, no shares of Bank Common Stock were held in treasury by the Bank or otherwise owned by the Bank. The Bank has no stock option plan, restricted stock or other equity incentive plan nor any stock option issued, granted, outstanding or exercisable except as provided in the PGB and Bank Disclosure Schedule 5.03(b). The outstanding shares of Bank Common Stock have been duly authorized and are validly issued and outstanding, and subject to no preemptive rights except as required by the Illinois Banking Act (and were not issued in violation of any preemptive rights). There are no authorized shares of Bank Common Stock that are reserved for issuance except as provided in the PGB and Bank Disclosure Schedule 5.03(b). Except as disclosed in PGB and Bank Disclosure Schedule 5.03(b), Bank does not have any other Rights issued or outstanding with respect to Bank Common Stock and

the Bank does not have any commitment to authorize, issue or sell any shares of Bank Common Stock.

(c) Subsidiaries; Equity Investments.

(i) PGB has no Subsidiaries other than the Bank and PGB Capital Trust I. Except as set forth in PGB and Bank Disclosure Schedule 5.03(c), the Bank has no Subsidiaries.

(ii) Neither PGB or the Bank owns beneficially, directly or indirectly, any equity securities or similar interests of any Person or any interests of any Person or any interest in a partnership or joint venture of any kind, except as shown on the PGB and Bank Disclosure Schedule 5.03(c).

(d) Corporate Power. PGB and the Bank have the corporate power and authority to carry on their businesses as they are now being conducted and to own all their properties and assets; and PGB and the Bank have the corporate power and authority and have taken all corporate action necessary to execute, deliver and, subject to approval by the PGB Common Stock shareholders, perform their respective obligations under this Agreement and to consummate the transactions contemplated hereby.

(e) Corporate Authority and Approvals. Subject to approval hereof by the PGB Common Stock shareholders, this Agreement has been authorized by all necessary corporate action of PGB and the Bank. Subject to receipt of the required approvals, consents or waivers of Governmental Authorities referred to in Section 5.03(g), and assuming due authorization, execution and delivery by RBB Bancorp and RBB, this Agreement is a valid and binding agreement of PGB and the Bank enforceable against them in accordance with its terms, subject as to enforcement in bankruptcy, insolvency, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights, general equity principles and 12 U.S.C. 1818(b)(6)(D).

(i) The affirmative vote or written consent of a majority of the outstanding shares of PGB Common Stock and Bank Common Stock are the only shareholder votes or consents required for approval of this Agreement and consummation of the RBB Bancorp Merger, the PGB Merger and the RBB Merger and the other transactions contemplated hereby.

(ii) PGB and Bank Disclosure Schedule 5.03(e)(ii) lists all directors and officers of PGB and the Bank, identifies all of the Bank's loans to and deposits from any director and/or officers as of July 31, 2019 (which schedule shall be updated monthly through the Effective Time) and, to the Knowledge of PGB and the Bank, identifies all of the Bank's loans to and deposits from affiliates or companies controlled by any director and/or officers.

(f) Board Resolutions. As of the date hereof, with respect to each of clauses (i), (ii) and (iii) below, PGB's and the Bank's boards of directors, by resolutions duly adopted at meetings duly called and held, have duly (i) determined that this Agreement, the RBB Bancorp Merger, the PGB Merger and the RBB Merger are advisable and fair to and in the best interests of PGB and its shareholders, and the Bank and its shareholders, (ii) approved this Agreement, the RBB Bancorp Merger, the PGB Merger and the RBB Merger and (iii) recommended that its shareholders approve this Agreement, the RBB Bancorp Merger, the PGB Merger and the RBB Merger.

(g) Regulatory Approvals; No Violations.

(i) No consents or approvals of, or waivers by, or filings or registrations with, any Governmental Authority or with any third party are required to be made or obtained by PGB, the Bank or any Subsidiary of PGB in connection with the execution, delivery or performance by PGB and the Bank of this Agreement or to consummate the RBB Bancorp Merger, the PGB Merger and the RBB Merger except for (A) filings of applications or notices with, and approvals or waivers by, the FRB; the FDIC; the DBO; the Illinois Department of Financial and Professional Regulation, Division of Banking; the California Secretary; the Delaware Secretary; the Illinois Secretary; and any other Governmental Authority, as may be required, (B) filings with state securities authorities, and (C) the approval of this Agreement by the holders of at least a majority of the outstanding shares of PGB Common Stock and Bank Common Stock in accordance with Section 252 of the DGCL, Section 1100 et. seq. of the CGCL and Section 4825 of the CFC. As of the date hereof, PGB and the Bank are not aware of any reason why the approvals set forth in Section 7.01(b) will not be received without the imposition of a condition, restriction or requirement of the type described in Section 7.01(b), except as described on PGB and Bank Disclosure Schedule 5.03(g).

(ii) Except as described on PGB and Bank Disclosure Schedule 5.03(g) and subject to receipt of the approvals referred to in Section 5.03(g)(i), and the expiration of related waiting periods, and required filings under federal and state securities laws, the execution, delivery and performance of this Agreement by PGB and the Bank and the consummation of the transactions contemplated hereby and thereby do not and will not (A) constitute a breach or violation of, or a default under, or give rise to any Lien, any acceleration of remedies or any right of termination under, any law, rule or regulation or any judgment, decree, order, governmental permit or license, or agreement, indenture or instrument of PGB or the Bank, or to which PGB or the Bank or any of its respective properties is subject or bound and that would have a Material Adverse Effect, (B) constitute a breach or violation of, or a default under, the PGB Articles, the Bank Articles, the PGB Bylaws, or the Bank Bylaws (or similar governing documents), (C) require any consent or approval under any such law, rule, regulation, judgment, decree, order, governmental permit or license, agreement, indenture or instrument, or (D) constitute a breach or violation of any non-competition agreement or other agreement that purports to limit in any respect either the type of business in which it (or, after giving effect to the PGB Merger, RBB Bancorp or its Subsidiaries) may engage or the manner or locations in which it may so engage in any business.

(h) Financial Reports; Undisclosed Liabilities.

(i) PGB and the Bank have previously delivered to RBB Bancorp true and complete copies of PGB's and the Bank's financial statements. The balance sheet of PGB and the Bank as of December 31, 2018 and 2017, and the related statements of operations, cash flow and changes in shareholders' equity of PGB and the Bank for the two (2) years then ended, audited by Crowe LLP, and the unaudited balance sheet of PGB and the Bank as of June 30, 2019, and the related unaudited statement of income of PGB and the Bank for the period then ended, did not or will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; and such balance sheets and each balance sheet included therein (including the related notes and schedules thereto) fairly presents the financial position of PGB and the Bank as of its date, and each of the statements of earnings and changes in shareholders' equity and cash flows or equivalent statements in such financial statements and the other financial statements included therein (including any related notes and schedules thereto) fairly present the

financial position, results of operations and cash flows, as the case may be, of PGB and the Bank for the periods to which they relate, in each case in accordance with GAAP consistently applied during the periods involved, except in each case as may be noted therein, subject to normal period-end adjustments in the case of unaudited statements that will not be material in amount or effect. The books and records of PGB and the Bank have been, and are being, maintained in accordance with GAAP and any other applicable legal and accounting requirements.

(ii) Except as disclosed in the PGB and Bank Disclosure Schedule 5.03(h), since December 31, 2018, PGB and the Bank have timely filed all reports, registrations and statements, together with any amendments required to be made with respect thereto, required to be filed with any Governmental Authority (collectively, the “**Regulatory Filings**”) and all other material reports and statements required to be filed, including, without limitation, any report or statement required to be filed pursuant to the laws of the United States and the rules and regulations of the FRB, the DFPR and the FDIC, and any other Governmental Authority, and has paid all fees and assessments due and payable in connection therewith. As of their respective dates, such reports, registrations and statements complied in all material respects with all the laws, rules and regulations of the applicable Regulatory Agency with which they were filed.

(iii) Since December 31, 2018, neither PGB nor the Bank have incurred any liability other than in the ordinary course of business consistent with past practice or as otherwise contemplated by this Agreement.

(iv) Since December 31, 2018, (A) PGB and the Bank have conducted their businesses in the ordinary and usual course consistent with past practice and (B) no event has occurred or circumstance arisen that, individually or taken together with all other facts, circumstances and events (described in any paragraph of this Section 5.03 or otherwise), has had or could be reasonably likely to have a Material Adverse Effect with respect to PGB or the Bank.

(i) Litigation. Except as set forth on the PGB and Bank Disclosure Schedule 5.03(i), no litigation, claim or other proceeding before any court or governmental agency is pending against PGB or the Bank, and to the Knowledge of PGB or the Bank, no such litigation, arbitration, claim or other proceeding has been threatened, and there are no facts which could reasonably give rise to such litigation, claim or other proceeding, which could have a Material Adverse Effect on PGB or the Bank.

(j) Regulatory Matters. Except as set forth on the PGB and Bank Disclosure Schedule 5.03(j):

(i) Neither PGB nor the Bank is, directly or indirectly, party to or subject to any order, decree, agreement, memorandum of understanding or similar arrangement with, or a commitment letter or similar submission to, or extraordinary supervisory letter from, any Governmental Authority and that the Bank may legally disclose to RBB, and has received no written communication from a Governmental Authority requesting that it enter into any of the foregoing. PGB and the Bank have paid all assessments made or imposed by any Governmental Authority.

(ii) Neither PGB nor the Bank has been advised by, nor do they have any Knowledge of facts which could give rise to an advisory notice by, any Governmental Authority that such Governmental Authority is contemplating issuing or requesting (or is considering the appropriateness of issuing or requesting) any such order, decree, agreement, memorandum of understanding, commitment letter, supervisory letter or similar submission.

(i) are in material compliance with all applicable federal, state, local and foreign statutes, laws, regulations, ordinances, rules, interagency policy statements, financial institution letters, judgments, orders or decrees applicable thereto or to the employees conducting such businesses, including, without limitation, the Equal Credit Opportunity Act, the Fair Housing Act, the Community Reinvestment Act, the Home Mortgage Disclosure Act, the Bank Secrecy Act, Title III of the USA Patriot Act, the Truth in Lending Act, RESPA, the privacy provisions of the Gramm-Leach-Bliley Act, the Dodd Frank Wall Street Reform and Consumer Protection Act, and all other applicable fair lending laws and other laws relating to discriminatory business practices, bank secrecy and foreign asset controls, including all regulations promulgated thereunder, and the Bank's most recent rating under the Community Reinvestment Act is at least "satisfactory";

(ii) have adopted such procedures and policies as are, in the reasonable judgment of management, necessary or appropriate or comply with the Bank Secrecy Act and Title III of the USA Patriot Act and, to the Knowledge of PGB and the Bank, are in such compliance;

(iii) have all material permits, licenses, authorizations, orders and approvals of, and have made all filings, applications and registrations with, all Governmental Authorities that are required in order to permit them to own or lease their properties and to conduct their businesses as presently conducted; and all such permits, licenses, certificates of authority, orders and approvals are in full force and effect and no suspension or cancellation of any of them is threatened;

(iv) have not received, since December 31, 2018, notification or communication from any Governmental Authority (A) asserting that PGB or the Bank are not in compliance with any of the statutes, regulations, ordinances, enforcement actions or agreements which such Governmental Authority enforces or (B) threatening to revoke any license, franchise, permit or governmental authorization (nor, to PGB or the Bank's Knowledge, do any grounds for any of the foregoing exist);

(v) have not received notice that either PGB or the Bank is in default with respect to any order, writ, injunction or decree of any court, or in default under any orders, license regulation or demand of any Governmental Authority; and

(vi) (i) are in compliance in all material respects with all applicable federal, Delaware, Illinois or other applicable law respecting employment and employment practices, terms and conditions of employment and wages and hour, and has not and is not engaged in any unfair labor practice as determined by the National Labor Relations Board ("NLRB"); (ii) there is no unfair labor practice charge or complaint against PGB or the Bank pending before the NLRB; (iii) there is no labor strike, slowdown, stoppage or material labor dispute pending or, to the Knowledge of PGB or the Bank, threatened against or involving PGB or the Bank; (iv) have no Knowledge that a representation question exists respecting the employees of PGB or the Bank; (v) have no Knowledge that a collective bargaining agreement is currently being negotiated by PGB or the Bank, and PGB or the Bank are not and have not been a party to a collective bargaining agreement; (vi) are not experiencing and have not experienced any material labor difficulty during the last three years; (vii) have no grievance or arbitration proceeding pending or to PGB's or the Bank's Knowledge currently threatened; (viii) do not have any Equal Employment Opportunity Commission or any other

Governmental Authority charges or other claims of employment discrimination pending or, to PGB's or the Bank's Knowledge, currently threatened against PGB or the Bank; (ix) do not have any wage and hour claim or investigation pending before or by any Governmental Authority, and to their Knowledge no such claim or investigation has been threatened; (x) have not had any occupation health and safety claims against them; (xi) are in compliance in all material respects with the terms and provisions of the Immigration Reform and Control Act of 1986, as amended, and all related regulations promulgated thereunder (the "**Immigration Laws**"); and (xii) have not had any "mass layoff" or "plant closing" as defined in the Federal Workers Adjustment Retraining and Notification Act ("**WARN**") or state law equivalent, or any other mass layoff that would trigger notice pursuant to WARN or state law equivalent within 90 days prior to the Effective Date. To the Knowledge of PGB and the Bank, PGB or the Bank have never been the subject of any inspection or investigation relating to its compliance with or violation of the Immigration Laws, nor have they been warned, fined or otherwise penalized by reason of any such failure to comply with the Immigration Laws, nor is any such proceeding pending or to PGB's and the Bank's Knowledge, threatened. Except for the employment agreements with each of Betty Chow and Sylvia Chung, and as set forth in the PGB and Bank Disclosure Schedule, there exists no employment, consulting, severance, indemnification agreement or deferred compensation agreement between PGB, the Bank and any director, officer or employee of PGB and the Bank or any agreement that would give any Person the right to receive payment from PGB or the Bank as a result of the PGB Merger.

(vii) Have not been involved in or have not had notice of or have no Knowledge of any fraudulent wire transmissions or any failure of PGB or the Bank to comply with all applicable laws regarding electronic banking including obtaining dual authentication where applicable.

(l) Material Contracts; Defaults.

(i) Except as set forth on the PGB and Bank Disclosure Schedule 5.03(1)(1), neither PGB nor the Bank is a party to, bound by or subject to any agreement, contract, arrangement, commitment or understanding (whether written or oral) (a) that is a "material contract" within the meaning of Item 601(b)(10) of SEC Regulation S-K, (b) that provides for any person to provide investment banking, brokerage and/or placement agent services to PGB or the Bank (c) requires a payment over the life of the contract in excess of \$100,000, (d) that requires a change of control or severance payment or (e) that materially restricts the conduct of business by PGB or the Bank. PGB or the Bank are not in default under any of the foregoing agreements, contracts, arrangements, commitments or understandings or any contract, agreement, commitment, arrangement, lease, insurance policy or other instrument to which they are a party, by which their assets, business, or operations may be bound or affected, or under which they or their assets, business, or operations receives benefits, and there has not occurred any event that, with the lapse of time or the giving of notice or both, would constitute such a default. No power of attorney or similar authorization given directly or indirectly by PGB or the Bank is currently outstanding. PGB and the Bank Disclosure Statement 5.03(1)(i) also sets forth a true and complete list of all third party vendor contracts, agreements, commitments, arrangements, leases, insurance policy or other instrument to which PGB or the Bank are a party. PGB and the Bank Disclosure Schedule 5.03(1)(i) sets forth a true and complete list of all third party consents or waivers required to be obtained so as not to be in default under any contract, agreement, commitment, arrangement, lease, insurance policy or other instrument to which PGB or the Bank are parties as a result of the transaction contemplated hereby.

(ii) Except as set forth on the PGB and Bank Disclosure Schedule 5.03(1)(ii), neither PGB nor the Bank is a party to any oral or written (A) consulting agreement not terminable without penalty on 30 days' or less notice, (B) agreement with any executive officer or other key employee of PGB or the Bank the benefits of which are contingent, or the terms of which are materially altered, upon the occurrence of a transaction involving PGB or the Bank of the nature contemplated by this Agreement, (C) agreement with respect to any employee of PGB or the Bank providing any term of employment or compensation guarantee, (D) agreement or plan, including any stock option plan, stock appreciation rights plan, restricted stock plan or stock purchase plan, any of the benefits of which will be increased, or the vesting of the benefits of which will be accelerated, by the occurrence of any of the transactions contemplated by this Agreement or the value of any of the benefits of which will be calculated on the basis of any of the transactions contemplated by this Agreement, (E) agreement which requires the payment of referral fees or commissions or other fees in connection with deposits, loans or any other business, (F) agreement containing covenants that limit the ability of PGB or the Bank to compete in any line of business or with any person, or that involves any restriction on the geographic area in which, or method by which, PGB or the Bank may carry on their business (other than as may be required by law or any Regulatory Authorities) or exclusive dealing contract that limits the ability of PGB or the Bank to contract with certain persons or to directly engage in certain activities, or (G) agreement which requires further payments over the remaining term of the contract in excess of \$50,000.

(m) No Brokers. Except as set forth on the PGB and Bank Disclosure Schedule 5.03(m), no action has been taken by PGB or the Bank that would give rise to any valid claim against any party hereto for a brokerage commission, finder's fee or other like payment with respect to the transactions contemplated by this Agreement.

(n) Employee Benefit Plans.

(i) PGB and Bank Disclosure Schedule 5.2(n)(i) lists all benefit and compensation plans, contracts, policies or arrangements covering current or former employees of PGB and the Bank and current or former directors or independent contractors of PGB and the Bank, including, but not limited to, "employee benefit plans" within the meaning of Section 3(3) of ERISA, and severance, employment, change in control, fringe benefit, deferred compensation, stock option, stock purchase, stock appreciation rights, stock based, incentive and bonus plans, agreements, programs, policies or other arrangements (the "**Benefit Plans**"). PGB and the Bank have previously made available to RBB true and complete copies of (A) all Benefit Plans including, but not limited to, any trust instruments and insurance contracts forming a part of any Benefit Plans and all amendments thereto; (B) the most recent annual report (Form 5500), together with all schedules, as required, filed with the IRS or DOL, as applicable, and any financial statements and opinions required by Sections 103(a)(3) and 103(e) of ERISA with respect to each Benefit Plan; (C) for each Benefit Plan which is a "top-hat" plan, a copy of filings with the DOL; (D) the most recent determination letter issued by the IRS (or, in the case of an Benefit Plan maintained pursuant to the adoption of a prototype or volume submitter document a copy of an opinion or notification letter issued by the IRS to the sponsor of the prototype or volume submitter document upon which PGB and the Bank are entitled to rely stating that the form of the prototype or volume submitter plan document is acceptable for the establishment of a qualified retirement plan), for each Benefit Plan that is intended to be "qualified" under Section 401(a) of the Code; (E) the most recent summary plan description and any summary of material modifications, as required, for each Benefit Plan; (F) the most recent actuarial report, if any relating to each Benefit Plan; (G) the most recent actuarial valuation, study or estimate of any retiree medical and life insurance benefits plan or supplemental retirement benefits plan; and (H) the most recent summary annual report for each Benefit Plan required to provide summary annual reports by Section 104 of ERISA.

(ii) Each Benefit Plan has been established and administered to date in all material respects in accordance with the applicable provisions of ERISA, the Code and applicable law and with the terms and provisions of all documents, contracts or agreements pursuant to which such Benefit Plan is maintained. Each Benefit Plan which is an “employee pension benefit plan” within the meaning of Section 3(2) of ERISA (a “**Pension Plan**”) and which is intended to be qualified under Section 401(a) of the Code, has received a favorable determination letter from the IRS, and PGB and the Bank are not aware of any circumstances likely to result in revocation of any such favorable determination letter or the loss of the qualification of such Pension Plan under Section 401(a) of the Code. Neither PGB nor the Bank has received any correspondence or written or verbal notice from the IRS, DOL, any other governmental agency, any participant in or beneficiary of, a Benefit Plan, or any agent representing any of the foregoing that brings into question the qualification of any such Benefit Plan. There is no material pending or, to PGB’s and the Bank’s Knowledge, threatened litigation relating to the Benefit Plans. Neither PGB nor the Bank has engaged in a transaction with respect to any Benefit Plan or Pension Plan that could subject it to a tax or penalty imposed by either Section 4975 of the Code or Section 502(i) of ERISA in an amount which would be material. There are no matters pending before the IRS, DOL or other governmental agency with respect to any Benefit Plan. No Benefit Plan or related trust has been the subject of an audit, investigation or examination by a Governmental Authority.

(iii) No liability under Title IV of ERISA has been or is expected to be incurred by PGB or the Bank with respect to any ongoing, frozen or terminated “single-employer plan,” within the meaning of Section 4001(a)(15) of ERISA, currently or formerly maintained by any of them or the single-employer plan of any entity which is considered one employer with PGB or the Bank under Section 4001 of ERISA or Section 414 of the Code (an “**ERISA Affiliate**”). Neither PGB nor the Bank has incurred, or expects to incur, any withdrawal liability with respect to a multiemployer plan (as defined in 4001(a)(3) of ERISA) under Title IV of ERISA (regardless of whether based on contributions of an ERISA Affiliate). No notice of a “reportable event,” within the meaning of Section 4043 of ERISA for which the 30-day reporting requirement has not been waived, has been required to be filed for any Pension Plan or by any ERISA Affiliate or will be required to be filed in connection with the transactions contemplated hereby. There has been no termination or partial termination, as defined in Section 411(d) of the Code and the regulations thereunder, of any Pension Plan.

(iv) All contributions required to be made under the terms of any Benefit Plan have been timely made. Neither any Pension Plan nor any single-employer plan of an ERISA Affiliate has an “accumulated funding deficiency” (whether or not waived) within the meaning of Section 412 of the Code or Section 302 of ERISA and no ERISA Affiliate has an outstanding funding waiver. Neither PGB nor the Bank has provided, and neither is required to provide, security to any Pension Plan or to any single-employer plan of an ERISA Affiliate pursuant to Section 401(a)(29) of the Code.

(v) Neither PGB nor the Bank has any obligations for retiree health and life benefits under any Benefit Plan, other than coverage as may be required under Section 4980B of the Code or Part 6 of Subtitle B of Title I of ERISA, or under the continuation of coverage provisions of the laws of any state or locality. PGB and the Bank may amend or terminate any such Benefit Plan in accordance with and to the extent permitted by their terms at any time without incurring any liability thereunder. No event or condition exists with respect to a Benefit Plan that could subject PGB or the Bank to a material tax under Section 4980B of the Code.

(vi) Except as set forth on the PGB and Bank Disclosure Schedule 5.03(n)(vi), neither the execution of this Agreement nor consummation of the transactions contemplated hereby, either alone or in connection with a subsequent event, (A) entitle any current or former employee, officer, director, consultant, independent contractor or other service provider of PGB or the Bank to severance pay or any other payment or benefit, or any increase in severance pay or any other payment or benefit upon any termination of employment or other relationship after the date hereof, (B) accelerate the time of payment or vesting or trigger any payment or funding (through a grantor trust or otherwise) of compensation or benefits under, increase the amount payable or trigger any other material obligation pursuant to, any of the Benefit Plans, (C) result in any breach or violation of, or a default under, any of the Benefit Plans, (D) result in any payment that would be a “parachute payment” to a “disqualified individual” as those terms are defined in Section 280G of the Code, without regard to whether such payment is reasonable compensation for personal services performed or to be performed in the future, or (E) result in any payment or portion of any payment that would not be deductible by PGB or the Bank under Section 162(m) of the Code when paid.

(vii) All required reports and descriptions (including but not limited to Form 5500 annual reports and required attachments, Forms 1099-R, summary annual reports, Forms PBGC-1 and summary plan descriptions) have been filed or distributed appropriately with respect to each Benefit Plan. All required tax filings with respect to each Benefit Plan have been made, and any taxes due in connection with such filings have been paid. All contributions required to be made under the terms of any Benefit Plan have been timely made. All contributions to each Benefit Plan in respect of all current and prior plan years have been accrued in accordance with GAAP and are reflected in PGB’s or the Bank’s financial statements.

(viii) No Benefit Plan is or has been funded by, associated with, or related to a “voluntary employee’s beneficiary association” within the meaning of Section 501(c)(9) of the Code, a “welfare benefit fund” within the meaning of Section 419 of the Code, a “qualified asset account” within the meaning of Section 419A of the Code or a “multiple employer welfare arrangement” within the meaning of Section 3(40) of ERISA.

(ix) Each Benefit Plan which is a “nonqualified deferred compensation plan” (within the meaning of Section 409A of the Code) has been operated in compliance with Section 409A of the Code and the guidance issued by the IRS with respect to such plans. To the Knowledge of PGB and the Bank, no Benefit Plan that is subject to Section 409A of the Code fails to meet any requirement of Section 409A of the Code that would result in any Benefit Plan participant having liability for additional interest or the 20% addition to tax under such section of the Code.

(x) Neither PGB nor the Bank has any obligation to provide any current or former employee, officer, director, consultant or other service provider any health, disability or life benefits beyond his or her retirement or other termination of service under any Benefit Plan, other than healthcare continuation coverage mandated by applicable law. Except as set forth on the PGB and Bank Disclosure Schedule 5.03(n)(x), PGB and the Bank have the right to prospectively modify and terminate benefits under the Benefit Plans with respect to both retired and active employees.

(xi) Other than as set forth on the PGB and Bank Disclosure Schedule 5.03(n)(xi), there is no pending or, to the Knowledge of PGB and the Bank, threatened or planned (A) disciplinary action against, employment dispute, action, suit, arbitration, proceeding or other litigation involving, any current or former employees, including officers, of PGB or the Bank, or current or former directors, consultants and other service providers, or (B) action, suit, arbitration, proceeding or other litigation or right of action brought against or relating to the Benefit Plans.

(xii) A full, accurate and complete list of shareholders of PGB Common Stock and the Bank Common Stock, as of the date hereof including the full, complete and accurate name and address of each such shareholders, have been provided to RBB and will be updated promptly upon request by RBB.

(o) Labor Matters.

(i) Set forth on Section 5.02(o) of the PGB and Bank Disclosure Schedule is a true and complete list of the names, titles, annual salaries, other compensation and wage and hour exemption status of all employees of PGB and the Bank and a summary of all contracts or commitments by PGB and the Bank to increase the compensation or to modify the conditions or terms of employment of any of its or their employees.

(ii) To the Knowledge of PGB and the Bank, all PGB and Bank employees are authorized to work in the United States of America and a Form I-9 has been properly completed and retained with regard to each such employee.

(iii) There are no agreements with, or pending petitions for recognition of, a labor union or association as the exclusive bargaining agent for any of the employees of PGB or the Bank and there are no representation or certification proceedings or petitions seeking a representation proceeding presently pending or threatened to be brought or filed with the National Labor Relations Board or any other comparable foreign, state or local labor relations tribunal or authority. There are no organizing activities, labor strikes, work stoppages, slowdowns, lockouts, material arbitrations or material grievances or other material labor disputes, other than routine grievance matters, now pending or threatened against or involving PGB or the Bank and there have not been any such labor strikes, work stoppages or other labor troubles, other than routine grievance matters, with respect to PGB or the Bank at any time within five (5) years of the date of this Agreement.

(iv) Neither PGB nor the Bank is currently or at any time since January 1, 2016 has been a party to, or otherwise bound by, any consent decree with, or citation by, any Governmental Authority relating to employees or employment practices. PGB and the Bank are in material compliance with all applicable state, federal and local Laws relating to labor, employment, termination of employment or similar matters, including but not limited to Laws relating to discrimination, disability, labor relations, hours of work, payment of wages and overtime wages, pay equity, immigration, workers compensation, working conditions, employee scheduling, occupational safety and health, family and medical leave and employee terminations, and has engaged in any unfair labor practices or similar prohibited practices. Except as would not result in any material liability to PGB or the Bank, there are no complaints, lawsuits, arbitrations, administrative proceedings or other proceedings of any nature pending or, to the Knowledge of PGB or the Bank, threatened against PGB or the Bank brought by any current or former employee or their eligible dependents or beneficiaries.

(v) No Person has claimed, or to PGB's and the Bank's Knowledge has valid reason to claim, that any employee or former employee of PGB or the Bank: (x) is in violation of any material term of any employment agreement, confidentiality agreement, non-competition agreement or any restrictive covenant with such Person; (y) has disclosed or utilized any trade secret, confidential or proprietary information or documentation belonging to such Person in connection with employment with PGB or the Bank; or (z) has interfered in the employment relationship with such Person and any of its present or former employees in violation of any law or enforceable agreement between such Person and the applicable employee.

(vi) To PGB's and the Bank's Knowledge, no employee of PGB or the Bank is a party to, or is otherwise bound by, any agreement or arrangement, including any confidentiality, non-competition, or proprietary rights agreement, between such Person and any other Person that could reasonably be expected to (x) prohibit the performance by such Person of his/her duties for or on behalf of PGB or the Bank; or (y) adversely affect the ability of PGB or the Bank to conduct its or their primary business.

(vii) No executive or group of employees has informed PGB or the Bank of his, her or their intent to terminate employment with PGB or the Bank.

(p) Environmental Matters. To the Knowledge of PGB and the Bank: (i) PGB and the Bank have complied at all times in all material respects with applicable Environmental Laws; (ii) no real property (including buildings or other structures) currently or formerly owned or operated by PGB or the Bank, or any property in which PGB or the Bank have held a security interest, Lien or a fiduciary or management role ("**Bank Loan Property**"), has been contaminated with, or has had any release of, any Hazardous Substance that could reasonably be expected to result in a material liability to PGB or the Bank arising out of any Environmental Law as defined below; (iii) neither PGB nor the Bank could be deemed the owner or operator of any Bank Loan Property under any Environmental Law which such PGB or Bank Loan Property has been contaminated with, or has had any release of, any Hazardous Substance; (iv) neither PGB nor the Bank is subject to any material liability for any Hazardous Substance disposal or contamination on any third party property; (v) neither PGB nor the Bank has received any notice, demand letter, claim or request for information alleging any violation of, or liability under, any Environmental Law; (vi) neither PGB nor the Bank is subject to any order, decree, injunction or other agreement with any Governmental Authority or any third party relating to any Environmental Law; (vii) there are no circumstances or conditions (including the presence of asbestos, underground storage tanks, lead products, polychlorinated biphenyls, prior manufacturing operations, dry-cleaning, or automotive services) involving PGB or the Bank, any currently or formerly owned or operated property, or any Bank Loan Property, that could reasonably be expected to result in any material claims, liability or investigations against PGB or the Bank, result in any material restrictions on the ownership, use, or transfer of any property pursuant to any Environmental Law, or materially adversely affect the value of any Bank Loan Property and (viii) PGB and the Bank have made available to RBB Bancorp copies of all environmental reports, studies, sampling data, correspondence, filings and other environmental information in its possession or reasonably available to it relating to PGB and the Bank, and any currently or formerly owned or operated property or any Bank Loan Property.

As used herein, the term "**Environmental Laws**" means any federal, state or local law, regulation, order, decree, permit, authorization, opinion, common law or agency requirement relating to: (A) the protection or restoration of the environment, health, safety, or natural resources, (B) the handling, use, presence, disposal, release or threatened release of any Hazardous Substance or (C) noise, odor, wetlands, indoor air, pollution, contamination or any injury or threat of injury to persons or property in connection with any Hazardous Substance and the term "**Hazardous Substance**" means any substance in any concentration that is: (A) listed, classified or regulated pursuant to any Environmental Law, (B) any petroleum product or by-product, asbestos-containing material, lead-containing paint or plumbing, polychlorinated biphenyls, radioactive materials or radon or (C) any other substance which is the subject of regulatory action by any Governmental Authority in connection with any Environmental Law.

(q) Tax Matters.

(i) (A) All material Tax Returns that are required to be filed on or before the Effective Date by or with respect to PGB and the Bank have been or shall be timely filed on or before the Effective Date, and all such Tax Returns are or shall be true and complete in all material respects.

(B) All Taxes shown to be due on the Tax Returns referred to in clause (A) have been or shall be timely paid in full.

(C) Neither PGB nor the Bank has received any notice of audit of any of the Tax Returns referred to in clause (A) from the IRS or the appropriate state, local or foreign taxing authority.

(D) To the Knowledge of PCB and the Bank, no issues have been raised by the relevant taxing authority in connection with any of the Tax Returns referred to in clause (A).

(ii) Any Taxes which have accrued, but for which payment is not yet required, have been adequately reserved for in PGB's and the Bank's financial statements, and are properly reflected in such financial statements.

(iii) To the Knowledge of PCB and the Bank, all estimated Taxes with respect to PGB and the Bank have been or shall be timely paid in full.

(iv) No waivers of statutes of limitation have been given by or requested with respect to any of PGB and the Bank Taxes.

(v) PGB or the Bank shall not be required, as a result of (A) a change in accounting method for a Tax period beginning on or before the Effective Date, to include any adjustment under Section 481(a) of the Code (or any similar provision of state, local or foreign law) in taxable income for any Tax period beginning on or after the Effective Date or (B) any "closing agreement" as described in Section 7121 of the Code (or any similar provision of state, local or foreign Tax law), to include any item of income in or exclude any item of deduction from any Tax period beginning on or after the Effective Date.

(vi) There are no Liens on any of PGB's or the Bank's assets that arose in connection with any failure (or alleged failure) to pay any Tax.

(vii) Except for PGB, the Bank has never been a member of an affiliated, combined, consolidated or unitary Tax group for purposes of filing any Tax Return.

(viii) No closing agreements, private letter rulings, technical advice memoranda or similar agreement or rulings have been entered into or issued by any taxing authority with respect to PGB or the Bank, and no such agreement or ruling has been applied for and is currently pending.

(ix) As a result of the PGB Merger or the RBB Merger, PGB or the Bank shall not be obligated to make a payment to an individual that would be a “parachute payment” to a “disqualified individual” as those terms are defined in Section 280G of the Code without regard to whether such payment is reasonable compensation for personal services performed or to be performed in the future.

(x) Neither PGB nor the Bank has constituted either a “distributing corporation” or a “controlled corporation” (within the meaning of Section 355(a)(1)(A) of the Code) in a distribution of stock qualifying for Tax-free treatment under Section 355 of the Code since the effective date of Section 355(e) of the Code.

(xi) No audit or other administrative or court proceedings are pending with any taxing authority with respect to any federal, state or local income or other material Taxes of PGB or the Bank, and no written notice thereof has been received by PGB or the Bank. No issue has been raised by any Taxing authority in writing in any presently pending Tax audit that could be material and adverse to PGB or the Bank for any period after the Effective Date. Neither PGB nor the Bank has any outstanding agreements, waivers or arrangements extending the statutory period of limitations to any claim for, or the period for the collection or assessment of, any federal, state or local income or other material Taxes.

(xii) To the Knowledge of PGB and the Bank, neither PGB nor the Bank is currently receiving any material Tax benefit or credit or other favorable material Tax treatment that will not be extended and available to RBB Bancorp following the PGB Merger.

(xiii) No written claim that could give rise to material Taxes has been made to PGB or the Bank within the previous three years by a Taxing authority in a jurisdiction where PGB or the Bank does not file Tax returns that PGB or the Bank are or may be subject to the payment of Taxes in that jurisdiction.

(xiv) PGB and the Bank have made available to RBB Bancorp correct and complete copies of (A) all income and franchise Tax Returns of PGB and the Bank for the preceding three taxable years and (B) any audit report issued within the last three years (or otherwise with respect to any audit or proceeding in progress) relating to income or franchise Taxes of PGB and the Bank.

(xv) Neither PGB nor the Bank has entered into any “reportable transactions” within the meaning of Treasury Regulation Section 1.6011-4(b).

(xvi) PGB and the Bank have complied with all applicable information reporting Tax withholding requirements.

(xvii) To the Knowledge, of PGB and the Bank, PGB and the Bank have complied with the requirements of applicable law with respect to abandoned and unclaimed property.

(xviii) There are no deferred intercompany transactions within the meaning of Treasury Regulation Section 1.1502-13.

(xix) Neither PGB nor the Bank is subject to the personal holding company Tax in any years that are open to assessment for such Tax.

(xx) Since December 31, 2017, PGB and the Bank have not amended any Tax Returns or entered into any settlement or compromise of any income tax liability of PGB or the Bank.

(xxi) Neither PGB nor the Bank has granted in writing any power of attorney which is currently in force with respect to any Taxes or Tax Returns.

(r) Risk Management Instruments. Neither PGB nor the Bank is a party to nor have they agreed to enter into an exchange traded or over-the-counter equity, interest rate, foreign exchange or other swap, forward, future, option, cap, floor or collar or any other contract that is not included on the balance sheet and is a derivatives contract (including various combinations thereof) (each, a **“Derivatives Contract”**) or owns securities that (i) are referred to generically as “structured notes,” “high risk mortgage derivatives,” “capped floating rate notes” or “capped floating rate mortgage derivatives” or (ii) are likely to have changes in value as a result of interest or exchange rate changes that significantly exceed normal changes in value attributable to interest or exchange rate changes, except for those Derivatives Contracts and other instruments legally purchased or entered into in the ordinary course of business, consistent with safe and sound banking practices and regulatory guidance. All of such Derivatives Contracts or other instruments are legal, valid and binding obligations of PGB or the Bank, as the case may be, enforceable in accordance with their terms (except as enforcement may be limited by general principles of equity whether applied in a court of law or a court of equity and by bankruptcy, insolvency and similar laws affecting creditors’ rights and remedies generally), and are in full force and effect. PGB and the Bank have duly performed in all material respects all of their material obligations thereunder to the extent that such obligations to perform have accrued; and, to PGB’s and the Bank’s Knowledge, there are no breaches, violations or defaults or allegations or assertions of such by any party thereunder.

(s) Books and Records. The books and records of PGB and the Bank, including the list of holders of PGB Common Stock and all stock awards, have been fully, properly and accurately maintained in all material respects. There are no material inaccuracies or discrepancies of any kind contained or reflected therein and they fairly present the financial position of PGB or the Bank as of the date hereof.

(t) Loans; Nonperforming and Classified Assets.

(i) Except as set forth on the PGB and Bank Disclosure Schedule 5.03(t), each loan on the books and records of PGB or the Bank was made and has been serviced in all material respects in accordance with its customary lending standards in the ordinary course of business, is evidenced in all material respects by appropriate and sufficient documentation and, to the Knowledge of PGB or the Bank, constitutes the legal, valid and binding obligation of the obligor named therein, subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer and similar laws of general applicability relating to or affecting creditor’s rights or by general equity principles.

(ii) PGB and the Bank have set forth on the PGB and Bank Disclosure Schedule 5.03(t) as of the latest practicable date prior to the date of this Agreement: (A) any loan under the terms of which the obligor is 30 or more days delinquent in payment of principal or interest, or to the Knowledge of PGB or the Bank, in default of any other material provision thereof; (B) each loan which has been classified as “substandard,” “doubtful,” “loss” or “special mention” (or words of similar import) by PGB or the Bank, or an applicable Governmental Authority; (C) a listing of the OREO acquired by foreclosure or by deed-in-lieu thereof, including the book value thereof; and (D) each loan with any director or executive officer of PGB or the Bank or an Affiliate of PGB or the Bank.

(iii) PGB or the Bank has set forth on the PGB and Bank Disclosure Schedule 5.03(t) a list and description of all loan participations entered into between PGB or the Bank and any third party which are reflected on the books and records of PGB or the Bank. A true and complete copy of each document relating to each loan participation has been delivered to RBB, with the exception of loan files for loans guaranteed or unguaranteed by the SBA or another Governmental Authority and sold in the ordinary course of business.

(u) Insurance. PGB and Bank Disclosure Schedule 5.03(u) sets forth a true and complete list of all of the insurance policies, binders, or bonds maintained by PGB and the Bank (“**Insurance Policies**”). PGB and the Bank are insured with reputable insurers against such risks and in such amounts as the management of PGB and the Bank reasonably has determined to be prudent in accordance with industry practices against such risks as companies engaged in a similar business would customarily be insured. Insurance applications for policies that are currently in force are complete and accurate in all material respects. All the Insurance Policies are in full force and effect; PGB or the Bank are not in default thereunder; and to PGB’s and the Bank’s Knowledge, all claims thereunder have been filed in due and timely fashion.

(v) Allowance For Loan and Lease Losses. The Bank’s Allowance for Loan and Lease Losses (“**Bank-ALLL**”) is, and shall be as of the Effective Date, in compliance with the Bank’s existing methodology for determining the adequacy of the Bank-ALLL as well as the standards established by applicable Governmental Authorities and the Financial Accounting Standards Board, is and shall be adequate under all such standards, and shall not be less than 1.0% of total gross loans.

(w) Trust Business. Neither PGB nor the Bank has trust powers and neither engages in any trust business which requires trust powers.

(x) Real Property.

(i) All real property or premises owned by PGB and the Bank, including the Bank-OREO, are, and shall be as of the Effective Date, in compliance with standards established by applicable Governmental Authorities and the Financial Accounting Standards Board, and shall reflect current value less all costs of sale, maintenance and remedial work and other costs and expenses associated with the property. PGB and Bank Disclosure Schedule 5.03(x) contains a complete and correct list of (A) all real property or premises owned, including all Bank-OREO, on the date hereof, in whole or in part by PGB and the Bank and all indebtedness secured by any encumbrance thereon, and (B) all real property or premises leased in whole or in part by PGB or the Bank together with a list of all applicable leases and the name of the lessor. None of such premises or properties has been condemned or otherwise taken by any public authority and to PGB’s and the

Bank's Knowledge no condemnation or taking is threatened or contemplated, and to PGB's and the Bank's Knowledge none thereof is subject to any claim, contract or law which might affect its use or value for the purposes now made of it. To PGB's and the Bank's Knowledge, none of the premises or properties of PGB or the Bank are subject to any current or potential interests of third parties or other restrictions or limitations that would impair or be inconsistent in any material respect with the current use of such property by PGB or the Bank, as the case may be.

(ii) Each of the leases referred to in PGB and Bank Disclosure Schedule 5.03(x) is valid and existing and in full force and effect, and no party thereto is in default and no notice of a claim of default by any party has been delivered to PGB or the Bank or is now pending, and to PGB's and the Bank's Knowledge there does not exist any event that with notice or the passing of time, or both, would constitute a default or excuse performance by any party thereto.

(y) Title to Assets. PGB and Bank Disclosure Schedule 5.03(y) sets forth a summary of all items of personal property and equipment with a book value of \$100,000 or more, or having an annual lease payment of \$100,000 or more, owned or leased by PGB or the Bank. PGB and the Bank have good and marketable title to all of PGB's and the Bank's properties and assets, free and clear of all Liens except: (a) as set forth in the financial statements of PGB and the Bank; (b) Liens for current taxes not yet due; (c) Liens incurred in the ordinary course of business, if any, that, to the Knowledge of PGB and the Bank, (i) are not substantial in character, amount or extent, (ii) do not materially detract from the value, (iii) do not interfere with present use, of the property subject thereto or affected thereby, and (iv) do not otherwise materially impair the conduct of business of PGB and the Bank; or (d) as set forth in PGB and Bank Disclosure Schedule 5.03(y).

(z) Intellectual Property. PGB and the Bank own or possess valid and binding licenses and other rights to use (without payment) all material trade secrets, trade names, trademarks, service marks, inventions and processes used in their businesses; and PGB or the Bank have not received any notice of conflict with respect thereto that asserts a right of others. PGB and the Bank have in all material respects performed all the obligations required to be performed by them and are not in default in any material respect under any contract, agreement, arrangement or commitment relating to any of the foregoing.

(aa) Operating Losses. PGB and Bank Disclosure Schedule 5.03(aa) sets forth any Operating Loss which has occurred at PGB or the Bank during the period after December 31, 2018. To the Knowledge of PGB and the Bank, no action has been taken or omitted to be taken by an employee of PGB or the Bank that has resulted in the incurrence by PGB or the Bank of cumulative Operating Losses or that might reasonably be expected to result in cumulative Operating Losses after December 31, 2018, which, net of any insurance proceeds payable in respect thereof, would exceed \$25,000. **“Operating Loss”** means any loss exceeding \$25,000 resulting from cash shortages, lost or misposted items, disputed clerical and accounting errors, forged checks, payment of checks over stop payment orders, counterfeit money, wire transfers made in error, theft, robberies, defalcations, check kiting, fraudulent use of credit cards or electronic teller machines or other similar acts or occurrences.

(bb) Past Actions. To their Knowledge, neither PGB nor the Bank has extended or renewed any extension of credit in material violation of its applicable policies, applicable laws, regulations or administrative orders or interpretations. Since December 31, 2018, to PGB's and the Bank's Knowledge, there have not been any acts of dishonesty, self-dealing or any breach of any statutory, contractual or fiduciary duties, or duty of loyalty on the part of any of the directors, or officers of PGB or the Bank in connection with their duties and responsibilities at PGB and the Bank, respectively.

(cc) Fairness Opinion. PGB and the Bank have received the written opinion of Janney Montgomery Scott, LLC to the effect that as of the date hereof the Merger Consideration is fair to the shareholders of PGB and the Bank from a financial point of view, a copy of which opinion has been delivered to RBB Bancorp, and Janney Montgomery Scott, LLC has consented to the inclusion of the written opinion in the Proxy Materials.

(dd) Non-Reliance. PGB and the Bank acknowledge and agree that in entering into this Agreement, they have not relied and are not relying on any representations, warranties or other statements whatsoever, whether written or oral (from or by RBB Bancorp or any Person acting on RBB Bancorp's behalf), other than those expressly set forth in this Agreement and RBB Bancorp and RBB Disclosure Schedule.

(ee) Accurate Disclosure.

(i) None of the information supplied or to be supplied by PGB or the Bank for inclusion in the Proxy Materials, or incorporated by reference therein, or any other document to be filed with any Governmental Authority in connection with the transactions contemplated hereby will, in the case of the Proxy Materials (or incorporated by reference therein), contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements made therein, in light of the circumstances under which such statements are made, not misleading with respect to any material fact, or omit to state any material fact necessary in order to make the statements therein not misleading, or, in the case of the Proxy Materials or any amendment thereof or supplement thereto, at the time of the meeting of shareholders of PGB, be false or misleading with respect to any material fact or omit to state any material fact necessary to correct any statement or remedy any omission in any earlier communication with respect to the solicitation of any proxy for the Special Meeting.

(ii) PGB and the Bank agree that through the Effective Time of the PGB Merger, each of its Regulatory Filings, and other filings required to be filed with any applicable Governmental Authority will comply in all material respects with all of the applicable rules enforced or promulgated by the Governmental Authority with which it will be filed and none will contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they will be made, not misleading. Any financial statement contained in any such Regulatory Filing, or other filing that is intended to present the financial position of PGB or the Bank will fairly present the financial position of PGB or the Bank and will be prepared in accordance with GAAP consistently applied during the periods involved.

(ff) Due Diligence. Prior to execution of this Agreement, PGB and the Bank have provided RBB Bancorp with all material information regarding PGB and the Bank requested in RBB Bancorp's various due diligence requests and as requested by RBB Bancorp.

SECTION 5.04 REPRESENTATIONS AND WARRANTIES OF RBB BANCORP AND RBB.

Subject to Sections 5.01 and Section 5.02, RBB Bancorp and RBB hereby represent and warrant to PGB and the Bank as follows:

(a) Organization, Standing and Authority of RBB Bancorp and RBB. RBB Bancorp is a California corporation duly organized and validly existing in good standing under the laws of the state of California, is registered with the FRB as a bank holding company and it has the corporate power and authority to carry on its business as presently conducted. RBB Bancorp has all requisite corporate power and authority to own, lease and operate its properties and assets and to carry on its business as presently conducted. The nature of its operations and the business transacted by it as of the date hereof make licensing and qualification in any other state or jurisdiction unnecessary. RBB Bancorp has delivered to PGB true and correct copies of its Certificate of Incorporation and Bylaws each as amended and as in effect as of the date hereof.

RBB is a California state-chartered banking corporation, duly licensed by and in good standing with the DBO, and its deposits are insured by the FDIC through the Deposit Insurance Fund in the manner and to the fullest extent provided by law. RBB has all requisite corporate power and authority to own, lease and operate its properties and assets and to carry on its business as presently conducted. The nature of its operations and the business transacted by it as of the date hereof make licensing and qualification in any other state or jurisdiction unnecessary.

(b) Following its formation, Merger Sub will be a corporation duly organized and validly existing and in good standing under the laws of the State of California.

(c) Subsidiaries. Except for Merger Sub and as set forth in the RBB Bancorp and RBB Disclosure Schedule 5.04(c), RBB Bancorp has one Subsidiary, RBB.

(d) Corporate Power. RBB Bancorp and RBB have the corporate power and authority to carry on their businesses as they are now being conducted and to own all their properties and assets; RBB Bancorp and RBB have the corporate power and authority to execute, deliver and perform its obligations under this Agreement and to consummate the transactions contemplated hereby.

(e) Corporate Authority.

(i) This Agreement and the transactions contemplated hereby have been authorized by all necessary corporate action of the boards of directors of RBB Bancorp and RBB. This Agreement has been duly executed and delivered by RBB Bancorp and RBB, and assuming due authorization, execution and delivery by PGB and the Bank, this Agreement is a valid and legally binding agreement of RBB Bancorp and RBB enforceable in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer and similar laws of general applicability relating to or affecting creditors' rights or by general equity principles.

(ii) Immediately prior to the Effective Time, Merger Sub will have full corporate power and authority to execute and deliver the PGB Merger Agreement and, subject to receipt of the required regulatory approvals specified herein, to consummate the transactions contemplated thereby. Immediately prior to the Effective Time, the execution and delivery of the PGB Merger Agreement and the consummation of the transactions contemplated thereby will have been duly and validly approved by the Board of Directors of Merger Sub and by RBB Bancorp as the sole stockholder of Merger Sub. Immediately prior to the Effective Time, all corporate proceedings

on the part of Merger Sub necessary to approve the PGB Merger Agreement and to consummate the transactions contemplated thereby will have been taken. The PGB Merger Agreement, upon execution and delivery by Merger Sub, will be duly and validly executed and delivered by Merger Sub and will (assuming due authorization, execution and delivery by PGB and the Bank) constitute a valid and binding obligation of Merger Sub in accordance with its terms, except as enforcement may be limited by general principles of equity whether applied in a court of law or a court of equity and by bankruptcy, insolvency and similar laws affecting creditors' rights and remedies generally.

(f) Board Resolutions. As of the date hereof, with respect to each of clauses (i), (ii) and (iii) below, RBB Bancorp's and RBB's boards of directors, by resolutions duly adopted at meetings duly called and held, have (i) determined that this Agreement, the RBB Bancorp Merger, the PGB Merger and the RBB Merger are advisable and fair to and in the best interests of RBB Bancorp and their respective shareholders, (ii) approved this Agreement, the PGB Merger, the RBB Bancorp Merger and the RBB Merger, and (iii) recommended that its shareholder approve the principal terms of this Agreement.

(g) Regulatory Approvals; No Violations.

(i) No consents or approvals of, or waivers by, or filings or registrations with, any Governmental Authority or with any third party are required to be made or obtained by RBB Bancorp in connection with the execution, delivery or performance by RBB Bancorp of this Agreement or to consummate the PGB Merger except for (A) filings of applications or notices with and approvals or waivers by the FRB; the California Secretary; the Illinois Secretary; the Delaware Secretary; the DBO; and the Illinois Department of Financial and Professional Regulation, Division of Banking; as may be required, (B) filings with the FDIC and state securities authorities, as may be required, and (C) the filing of the executed Bank Merger Agreement with the California Secretary, the DFPR and the Delaware Secretary. As of the date hereof, RBB Bancorp is not aware of any reason why the approvals set forth in Section 7.01(b) will not be received in a timely manner and without the imposition of a condition, restriction or requirement of the type described in Section 7.01(b).

(ii) Subject to receipt, or the making, of the consents, approvals and filings referred to in the preceding paragraph and expiration of the related waiting periods, the execution, delivery and performance of this Agreement by RBB Bancorp and RBB, or the PGB Merger Agreement by Merger Sub and the consummation of the transactions contemplated hereby do not and will not (A) constitute a breach or violation of, or a default under, or give rise to any Lien, any acceleration of remedies or any right of termination under, any law, rule or regulation or any judgment, decree, order, governmental permit or license, or agreement, indenture or instrument of RBB Bancorp or RBB, or to which RBB Bancorp or RBB or any of its respective properties are subject or bound, or Merger Sub will become bound, (B) constitute a breach or violation of, or a default under, the articles of incorporation or bylaws of RBB Bancorp, Merger Sub or RBB (or similar governing documents) or (C) require any consent or approval under any such law, rule, regulation, judgment, decree, order, governmental permit or license, agreement, indenture or instrument.

(h) Financial Reports; Material Adverse Effect.

(i) RBB Bancorp has previously delivered to PGB and the Bank true and complete copies of RBB Bancorp's financial statements. The balance sheet of RBB Bancorp as of December 31, 2017 and 2018, and the related statements of operations, cash flow and changes in shareholders' equity of RBB Bancorp for the two (2) years then ended, audited by Vavrinek, Trine, Day and Co., and the unaudited balance sheet of RBB Bancorp as of June 30, 2019, and the related unaudited statement of income of RBB Bancorp for the period then ended, did not or will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; and such balance sheet and each balance sheet included therein (including the related notes and schedules thereto) fairly presents the financial position of RBB Bancorp as of its date, and each of the statements of earnings and changes in shareholders' equity and cash flows or equivalent statements in such financial statements and the other financial statements included therein (including any related notes and schedules thereto) fairly present the financial position, results of operations and cash flows, as the case may be, of RBB Bancorp for the periods to which they relate, in each case in accordance with GAAP consistently applied during the periods involved, except in each case as may be noted therein, subject to normal period-end adjustments in the case of unaudited statements that will not be material in amount or effect. The books and records of RBB Bancorp have been, and are being, maintained in accordance with GAAP and any other applicable legal and accounting requirements.

(ii) Except as set forth on RBB Bancorp and RBB Disclosure Schedule 5.04(h)(ii), since December 31, 2018, RBB Bancorp and RBB have timely filed all Regulatory Filings and all other material reports and statements required to be filed, including, without limitation, any report or statement required to be filed pursuant to the laws of the United States and the rules and regulations of the FRB, the FDIC, the DBO, and any other Governmental Authority, and has paid all fees and assessments due and payable in connection therewith. As of their respective dates, such reports, registrations and statements complied in all material respects with all the laws, rules and regulations of the applicable Regulatory Agency with which they were filed.

(iii) Since December 31, 2018, RBB Bancorp or RBB have not incurred any liability other than in the ordinary course of business consistent with past practice or as otherwise contemplated by this Agreement.

(iv) Since December 31, 2018, (A) RBB Bancorp and RBB have conducted their businesses in the ordinary and usual course consistent with past practice and (B) no event has occurred or circumstance arisen that, individually or taken together with all other facts, circumstances and events (described in any paragraph of this Section 5.04 or otherwise), has had or could be reasonably likely to have a Material Adverse Effect with respect to RBB Bancorp or RBB.

(i) Litigation. Except as set forth on RBB Bancorp and RBB Disclosure Schedule 5.04(i), neither RBB Bancorp nor RBB is involved in any material litigation, claim or other proceeding before any court or governmental agency, and to RBB Bancorp's and RBB's Knowledge, no such litigation, claim or other proceeding has been threatened, and there are no facts which could reasonably be expected to give rise to any such litigation, claim or proceeding, which could have a Material Adverse Effect on RBB Bancorp or RBB. RBB's most recent rating under the Community Reinvestment Act is at least "Satisfactory."

(j) Regulatory Matters. Except as set forth on RBB Bancorp and RBB Disclosure Schedule 5.04(j):

(i) Neither RBB Bancorp nor RBB are, directly or indirectly, a party to or subject to any order, decree, agreement, memorandum of understanding or similar arrangement with, or a commitment letter or similar submission to, or extraordinary supervisory letter from, any Governmental Authority, and has not received any written communication from a Governmental Authority requesting it enter into any of the foregoing. RBB Bancorp and RBB have paid all assessments made or imposed by any Governmental Authority.

(ii) RBB Bancorp or RBB have not been advised by, nor do they have any Knowledge of facts which could give rise to an advisory notice by, any Governmental Authority that such Governmental Authority is contemplating issuing or requesting (or is considering the appropriateness of issuing or requesting) any such order, decree, agreement, memorandum of understanding, commitment letter, supervisory letter or similar submission.

(k) Labor Matters.

(i) There are no agreements with, or pending petitions for recognition of, a labor union or association as the exclusive bargaining agent for any of the employees of RBB Bancorp or RBB and there are no representation or certification proceedings or petitions seeking a representation proceeding presently pending or threatened to be brought or filed with the National Labor Relations Board or any other comparable foreign, state or local labor relations tribunal or authority. There are no organizing activities, labor strikes, work stoppages, slowdowns, lockouts, material arbitrations or material grievances or other material labor disputes, other than routine grievance matters, now pending or threatened against or involving RBB Bancorp or RBB and there have not been any such labor strikes, work stoppages or other labor troubles, other than routine grievance matters, with respect to RBB Bancorp or RBB at any time within five (5) years of the date of this Agreement.

(ii) Neither RBB Bancorp or RBB is currently or at any time since January 1, 2017 has not been a party to, or otherwise bound by, any consent decree with, or citation by, any Governmental Authority relating to employees or employment practices. RBB Bancorp and RBB are in material compliance with all applicable state, federal and local Laws relating to labor, employment, termination of employment or similar matters, including but not limited to Laws relating to discrimination, disability, labor relations, hours of work, payment of wages and overtime wages, pay equity, immigration, workers compensation, working conditions, employee scheduling, occupational safety and health, family and medical leave and employee terminations, and has engaged in any unfair labor practices or similar prohibited practices. Except as set forth on the RBB Bancorp and RBB Disclosure Schedule 5.04(k)(ii), there are no complaints, lawsuits, arbitrations, administrative proceedings or other proceedings of any nature pending or, to the Knowledge of RBB Bancorp or RBB, threatened against RBB Bancorp or RBB brought by any current or former employee or their eligible dependents or beneficiaries.

(iii) No Person has claimed, or to RBB Bancorp's and RBB's Knowledge has valid reason to claim, that any employee or former employee of RBB Bancorp or RBB: (x) is in violation of any material term of any employment agreement, confidentiality agreement, non-competition agreement or any restrictive covenant with such Person; (y) has disclosed or utilized any trade secret, confidential or proprietary information or documentation belonging to such Person in connection with employment with RBB Bancorp or RBB; or (z) has interfered in the employment relationship with such Person and any of its present or former employees in violation of any law or enforceable agreement between such Person and the applicable employee.

(iv) To RBB Bancorp's and RBB's Knowledge, no employee of RBB Bancorp or RBB is a party to, or is otherwise bound by, any agreement or arrangement, including any confidentiality, non-competition, or proprietary rights agreement, between such Person and any other Person that could reasonably be expected to (x) prohibit the performance by such Person of his/her duties for or on behalf of RBB Bancorp or RBB; or (y) adversely affect the ability of RBB Bancorp or RBB to conduct its or their primary business.

(v) No executive or group of employees has informed RBB Bancorp or RBB of his, her or their intent to terminate employment with RBB Bancorp or RBB.

(l) RBB Bancorp Information. The information relating to RBB Bancorp and RBB provided by RBB Bancorp and RBB herein or to be provided by RBB Bancorp and RBB and to be included by PGB and the Bank in the Proxy Materials will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements herein or therein, in light of the circumstances in which they are made, not misleading.

(m) Financing. As of the Effective Time, RBB Bancorp will have sufficient liquid assets available to deposit sufficient cash with the Exchange Agent to allow payments of the Merger Consideration, and RBB Bancorp will have sufficient capital levels in order to complete the PGB Merger.

ARTICLE VI

COVENANTS

SECTION 6.01 REASONABLE BEST EFFORTS.

Subject to the terms and conditions of this Agreement, each of RBB Bancorp, RBB, PGB and the Bank agrees to use their reasonable best efforts in good faith to take, or cause to be taken, all actions, and to do, or cause to be done, all things necessary, proper or desirable, or advisable under applicable laws, so as to permit consummation of the PGB Merger as promptly as practicable and otherwise to enable consummation of the transactions contemplated in this Agreement, including the satisfaction of the conditions set forth in Article VII hereof, and shall cooperate fully with the other parties hereto to that end.

SECTION 6.02 SHAREHOLDERS' APPROVALS.

(a) RBB Bancorp and RBB shall cooperate with PGB and the Bank in the preparation of the Proxy Materials by PGB to be utilized in connection with securing PGB stockholders' approval of the PGB Merger. PGB shall (i) duly call, give notice of, convene, and hold a Special Meeting of its shareholders to be held as soon as practicable following the date hereof for the purpose of obtaining the requisite shareholder approvals required in connection with this Agreement and the transactions contemplated hereby; and (ii) subject to Section 6.06, its board of directors shall recommend to the shareholders approval of such matters. Anything to the contrary contained herein notwithstanding, PGB's Proxy Materials shall not include any information with respect to either party or their affiliates or associates, the form and content of which information shall not have been approved by both PGB and RBB Bancorp prior to such inclusion. PGB and the Bank represent and covenant that the Proxy Materials and any amendment or supplement thereto, at the

dates of mailing to shareholders of PGB and the date of the Special Meeting to be held in connection with the Agreement, will not contain any untrue statement of a material fact or omit to state any material fact required to be stated or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading; provided, however, that PGB and the Bank make no representations or covenants with respect to information provided to it in writing by RBB Bancorp specifically for inclusion in the Proxy Materials, and RBB Bancorp hereby represents that any such information so provided by it will not contain any untrue statement of a material fact or omit to state any material fact required to be stated or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

(b) Certain PGB stockholders have executed the Shareholder Agreement attached hereto as Exhibit A providing that they shall vote all PGB Common Stock in which they have a beneficial interest in favor of the Agreement, the PGB Merger and the other transactions contemplated in this Agreement.

SECTION 6.03 PRESS RELEASES.

RBB Bancorp, RBB, PGB and the Bank shall consult with each other before issuing any press release with respect to the PGB Merger or this Agreement and shall not issue any such press release or make any such public statements without the prior consent of the other parties, which shall not be unreasonably withheld; provided, however, that a party may, without the prior consent of the other parties (but after such consultation, to the extent practicable in the circumstances), issue such press release or make such public statements as may upon the advice of outside counsel be required by law. RBB Bancorp, RBB, PGB and the Bank shall cooperate to develop all public announcement materials and make appropriate management available at presentations related to the transactions contemplated by this Agreement as reasonably requested by the other party.

SECTION 6.04 ACCESS; INFORMATION.

PGB and the Bank agree that upon reasonable notice from RBB Bancorp and subject to applicable laws relating to the exchange of information, PGB and the Bank shall afford RBB Bancorp, RBB, and their officers, employees, counsel, accountants and other authorized representatives such access during normal business hours throughout the period prior to the Effective Time to the books, records (including, without limitation, Tax Returns and work papers of independent auditors), properties and personnel and to such other information as RBB Bancorp or RBB may reasonably request and, during such period, PGB and the Bank shall furnish promptly to RBB Bancorp and RBB all information concerning their businesses, properties and personnel as RBB Bancorp or RBB may reasonably request. PGB and the Bank further agree that until the Effective Time, PGB and the Bank shall provide the following reports to RBB Bancorp and RBB on a monthly basis: (i) past due loans, (ii) loan risk grade changes, (iii) new and renewed loans, (iv) loan trial balance by risk code, (v) monthly OREO report; (vi) monthly non-accrual loan report; (vii) any problem loan reports; (viii) any internal or external audit reports; (ix) detailed general ledger balance sheet and income statement, (x) monthly ALCO packages and (xi) monthly board packages.

PGB and the Bank shall provide RBB Bancorp and RBB sufficient information to commence the mapping of products and system parameters as soon as possible after the execution of this Agreement. PGB and the Bank shall assist RBB Bancorp with the integration of operations that is expected to begin shortly after this Agreement is executed.

SECTION 6.05 CONFIDENTIAL INFORMATION.

Each party agrees that it will not, and will cause its representatives not to, use any information obtained pursuant hereto (as well as any other information obtained prior to the date hereof in connection with the entering into of this Agreement) for any purpose unrelated to the consummation of the transactions contemplated by this Agreement. Subject to the requirements of law, each party shall keep confidential, and shall cause its representatives to keep confidential, all information and documents obtained pursuant hereto (as well as any other information obtained prior to the date hereof in connection with the entering into of this Agreement) unless such information (i) was already known to such party (except if obtained on a confidential basis), (ii) becomes available to such party from other sources not known by such party to be bound by a confidentiality obligation, (iii) is disclosed with the prior written approval of the party to which such information pertains or (iv) is or becomes readily ascertainable from publicly available sources. In the event that this Agreement is terminated or the transactions contemplated by this Agreement shall otherwise fail to be consummated, (A) each party shall promptly cause all copies of documents or extracts thereof containing information and data as to another party hereto to be returned to the party which furnished the same; (B) PGB or the Bank shall not, on the one hand, nor shall RBB Bancorp or RBB, on the other hand, and each of the parties shall cause its respective representatives not to, use any confidential information to solicit customers of the other party; and (C) PGB or the Bank shall not, on the one hand, nor shall RBB Bancorp or RBB, on the other hand, and each of the parties shall cause its respective representatives not to use any confidential information to solicit the services of any employee of such other party for purposes of engaging them as an employee, agent, consultant or independent contractor of such soliciting party, provided, however, that neither party will be barred from retaining the services, in any capacity, of any current employee of the other party in the event such employee approaches such party with the intent of securing employment with such party. Notwithstanding the foregoing, nothing herein shall prevent the parties hereto from any general advertising or recruitment activities not directed specifically at the employees of the other party hereto. No investigation by any party of the business and affairs of any other party shall affect or be deemed to modify or waive any representation, warranty, covenant or agreement in this Agreement, or the conditions to any party's obligation to consummate the transactions contemplated by this Agreement.

SECTION 6.06 ACQUISITION PROPOSALS.

PGB and the Bank agree that they shall not, and that PGB and the Bank shall direct and use their reasonable best efforts to cause all of their respective directors, officers, employees, attorneys, investment bankers, agents and representatives not to, directly or indirectly, initiate, solicit, encourage or otherwise facilitate any inquiries or the making of any proposal or offer with respect to a merger, reorganization, share exchange, consolidation or similar transaction involving PGB or the Bank, or any purchase of all or substantially all of the assets of PGB or the Bank, or more than 10% of the outstanding equity securities of PGB or the Bank (any such proposal or offer being hereinafter referred to as an "**Acquisition Proposal**"). PGB or the Bank further agree that they shall not, and that they shall direct and use their reasonable best efforts to cause their directors, officers, employees, agents and representatives not to, directly or indirectly, engage in any negotiations concerning, or provide any confidential information or data to, or have any discussions with, any Person relating to an Acquisition Proposal, or otherwise facilitate any effort or attempt to make or implement an Acquisition Proposal; provided, however, that nothing contained in this Agreement shall prevent PGB and the Bank, or the PGB Board or the Bank Board, from (A) complying with its disclosure obligations under federal or state law; (B) providing information in response to a request therefor by a Person

who has made an unsolicited bona fide written Acquisition Proposal if the PGB Board or the Bank Board receives from the Person so requesting such information an executed confidentiality agreement; (C) engaging in any negotiations or discussions with any Person who has made an unsolicited bona fide written Acquisition Proposal or (D) recommending such an Acquisition Proposal to the shareholders of PGB, if and only to the extent that, in each such case referred to in clause (B), (C) or (D) above, (i) the PGB Board or the Bank Board determines in good faith (after consultation with outside legal counsel) that such action would be required in order for its directors to comply with their respective fiduciary duties under applicable law and (ii) the PGB Board or the Bank Board determines in good faith (after consultation with its financial advisor) that such Acquisition Proposal, if accepted, is reasonably likely to be consummated, taking into account all legal, financial and regulatory aspects of the proposal and the Person making the proposal and would, if consummated, result in a transaction more favorable to PGB's shareholders from a financial point of view than the PGB Merger. An Acquisition Proposal which is received and considered by PGB or the Bank in compliance with this Section 6.06 and which meets the requirements set forth in (i) and (ii) above of the preceding sentence is herein referred to as a "**Superior Proposal.**" PGB and the Bank agree that they will immediately cease and cause to be terminated any existing activities, discussions or negotiations with any parties conducted heretofore with respect to any Acquisition Proposals. PGB and the Bank agree that they will take the necessary steps to promptly inform the individuals referred to in the foregoing sentence of the obligations undertaken in this Section 6.06. PGB and the Bank agree that they will notify RBB Bancorp and RBB promptly, but in no event later than the second succeeding Business Day, if any such inquiries, proposals or offers are received by, any such information is requested from, or any such discussions or negotiations are sought to be initiated or continued with, any of its representatives, indicating, in connection with such notice, the name of such Person and the material terms and conditions of any proposal or offer.

SECTION 6.07 CERTAIN POLICIES.

Subject to the objection of any Governmental Authorities, after the approval of the Agreement, and the PGB Merger by the PGB stockholders, and by RBB Bancorp as the sole shareholder of Merger Sub, and the receipt of approvals of any applications requested by Governmental Authorities and upon RBB Bancorp's request, prior to the Effective Date, (i) PGB and the Bank shall, consistent with GAAP, the rules and regulations of the FRB, DBO, DFPR or FDIC (as applicable) and applicable banking laws and regulations, modify or change its loan, OREO, accrual, reserve, tax, litigation and real estate valuation policies and practices (including loan classifications and levels of reserves) so as to be applied on a basis that is consistent with that of RBB Bancorp and RBB, (ii) all PGB and the Bank employees will be paid their accrued vacation on PGB's and the Bank's last payroll, and (iii) PGB and the Bank shall record all merger-related expenses; provided, however, that no accrual or reserve made by PGB or the Bank related to the Bank ALLL pursuant to this Section 6.07 shall constitute or be deemed to be a breach, violation of or failure to satisfy any representation, warranty, covenant, agreement, condition or other provision of this Agreement or otherwise be considered in determining whether any such breach, violation or failure to satisfy shall have occurred, provided, however, except as otherwise provided herein, no such changes shall result in a change to the Merger Consideration. The recording of any such adjustments shall not be deemed to imply any misstatement of previously furnished financial statements or information and shall not be construed as concurrence of PGB or the Bank, or their management, with any such adjustments.

SECTION 6.08 REGULATORY APPLICATIONS.

(a) Each of RBB Bancorp, RBB, PGB and the Bank shall cooperate and use their respective reasonable best efforts to prepare and file, or cause to be filed, all documentation, to effect all necessary notices, reports and other filings and to obtain all permits, consents, approvals and authorizations necessary or advisable to be obtained from any third parties and/or Governmental Authorities in order to consummate the PGB Merger, the RBB Bancorp Merger, the RBB Merger, or any of the other transactions contemplated by this Agreement; and any initial filings with Governmental Authorities shall be made by RBB Bancorp or RBB as soon as reasonably practicable after the execution hereof, but in no event later than forty-five (45) days after the date of this Agreement. Each of RBB Bancorp, RBB, PGB and the Bank shall have the right to review in advance, and to the extent practicable each shall consult with the other, in each case subject to applicable laws relating to the exchange of information, with respect to all material written information submitted to any third party and/or any Governmental Authority in connection with the PGB Merger, the RBB Bancorp Merger, the RBB Merger and the other transactions contemplated by this Agreement. In exercising the foregoing right, each of such parties agrees to act reasonably and as promptly as practicable. Each party hereto agrees that it shall consult with the other parties hereto with respect to the obtaining of all material permits, consents, approvals and authorizations of all third parties and/or Governmental Authorities necessary or advisable to consummate the transactions contemplated by this Agreement and each party shall keep the other parties apprised of the status of material matters relating to completion of the transactions contemplated hereby (including promptly furnishing the other with copies of notices or other communications received by RBB Bancorp, RBB, PGB or the Bank, as the case may be, from any third party and/or Governmental Authority with respect to the PGB Merger, the RBB Bancorp Merger, the RBB Merger and the other transactions contemplated by this Agreement).

(b) Each party agrees, upon request, to furnish the other parties with all information known to it (which Knowledge shall be deemed to include Knowledge which could be acquired after reasonable due inquiry) concerning itself, its Subsidiaries, directors, advisory directors, officers and shareholders and such other matters as may be reasonably necessary or advisable in connection with any filing, notice or application made by or on behalf of such other parties to any third party or Governmental Authority.

SECTION 6.09 INSURANCE

PGB and the Bank shall obtain, prior to the Effective Time, liability insurance for a coverage amount agreed between the parties that will be at least \$5 million which shall provide for a period of a minimum of five (5) years from the Effective Time, that portion of director's and officer's liability insurance that includes EPL insurance, with RBB named as an insured, that serves to reimburse the present and former officers and directors of PGB and the Bank (as opposed to the portion that serves to reimburse PGB or the Bank) with respect to claims against such directors and officers arising from facts or events which occurred before the Effective Time, which insurance shall contain at least the same coverage and amounts, and contain terms and conditions no less advantageous, as that coverage currently provided by PGB and the Bank; further provided, however, that officers and directors of PGB or the Bank may be required to make application and provide customary representations and warranties to PGB's and the Bank's insurance carrier for the purpose of obtaining such insurance, and further provided that RBB may, in RBB's sole discretion, obtain such coverage prior to the Effective Time if PGB or the Bank shall advise RBB that they cannot obtain such coverage. In addition, PGB and Bank directors will be required as a condition to closing to represent and warrant to RBB that at such time they have no knowledge, personal or otherwise, of a proceeding or pendency of a proceeding, or that a proceeding is contemplated or expected, which would result in a claim against PGB or the Bank.

SECTION 6.10 BENEFIT PLANS.

(a) Prior to the Effective Time, PGB and the Bank shall take all action necessary to terminate any and all equity incentive plans PGB or the Bank maintain. In addition, all PGB options that have not been exercised will be terminated by PGB without liability to RBB Bancorp, RBB, PGB or the Bank. Further, all indemnification agreements will be amended to comply with Supervisory Letter SR 02-17, as determined by RBB.

(b) The former officers and employees of PGB and the Bank (each, a “**Former PGB and Bank Employee**”, and collectively, the “**Former PGB and Bank Employees**”) shall become employees of RBB following the Effective Time and eligible to participate in RBB’s employee benefit plans in which the similarly situated employees of RBB participate, to the same extent as such similarly situated employees of RBB participate, subject to the terms and conditions of RBB’s applicable plans, including RBB’s severance plan. Notwithstanding anything in this Agreement to the contrary, no Former PGB and Bank Employee shall be entitled to receive any options or rights to purchase or otherwise receive any shares of RBB Common Stock pursuant to the RBB Benefit Plans or RBB Plan (as defined below) by reason of, as a result of or arising out of or in connection with this Merger or the transaction contemplated thereby.

(c) Except for vacation accruals which have been fully accrued by PGB or the Bank and which shall be paid to PGB or Bank employees by PGB or the Bank, as appropriate, on PGB’s last payroll at or prior to the Effective Date, service with PGB or the Bank shall be treated as service with RBB for the purpose of eligibility to participate, vesting and benefits in each employee benefit plan, program, policy or arrangement maintained by RBB for the benefit of current employees of RBB (each such plan, program, policy or arrangement, a “**RBB Plan**”). RBB shall cause each RBB Plan to waive (i) any pre-existing condition restriction that did not apply under the terms of any analogous Benefit Plan immediately prior to the Effective Time and (ii) any waiting period limitation or evidence of insurability requirement which would otherwise be applicable to a Former PGB and Bank Employee on or after the Effective Time to the extent such Former PGB and Bank Employee had satisfied any similar limitation or requirement under an analogous Benefit Plan prior to the Effective Time and shall cause such RBB Plan to give each Former PGB and Bank Employee credit for amounts paid under any analogous Benefit Plan for purposes of applying deductibles, co-payments and out-of-pocket maximums as though such amounts had been paid in accordance with the terms and conditions of the RBB Plan.

(d) Prior to the Effective Time, PGB and the Bank shall fully satisfy and pay on the last day prior to the Effective Time any and all obligations arising out of or under the employment agreements and in the amounts set forth next to each such agreement and employee listed on PGB and Bank Disclosure Schedule 6.10(d) (“**Employment Agreements**”) to employees of PGB or the Bank and terminate all such Employment Agreements. PGB and the Bank shall also take all reasonable steps to assure that all executive officers and other employees remain in place at PGB or the Bank until the Effective Time.

(e) From the date of this Agreement until the Effective Time, all director and committee fees shall be paid in cash only.

SECTION 6.11 FUTURE EMPLOYMENT.

(a) PGB and the Bank will provide RBB with information regarding each Former PGB and Bank Employee's current employment arrangements with PGB or the Bank.

(b) RBB shall pay a retention bonus equal to one month's salary to all Bank officers and employees (except for any such officers and employees who have separate agreements with the Bank providing for severance, retention bonuses, COBRA or other health benefit payments or change of control payments) who will remain employed by RBB after the Effective Time ("**New RBB Plan**"). Such payments by RBB under the New RBB Plan are considered to be PGB Transaction Expenses of PGB and the Bank and included in the calculation of PGB Transaction Expenses. All retention bonus payments shall under the New RBB Plan provide for the execution of a retention receipt agreement satisfactory to RBB as a condition to receipt of payments, which shall provide for (x) release of claims, (y) confidentiality of information, and (z) no solicitation of the Surviving Bank's customers or employees for a period of one year after the Effective Time.

SECTION 6.12 NOTIFICATION OF CERTAIN MATTERS.

Each of PGB, the Bank, RBB Bancorp and RBB shall give prompt notice to the other of any fact, event or circumstance known to it that (i) is reasonably likely, individually or taken together with all other facts, events and circumstances known to it, to result in any Material Adverse Effect with respect to it or (ii) would cause or constitute a material breach of any of its representations, warranties, covenants or agreements contained herein.

SECTION 6.13 HUMAN RESOURCES ISSUES.

PGB and the Bank agree to cooperate with RBB with respect to any formal meetings or interviews with one or more employees called or arranged by PGB or the Bank and held for the purpose of discussing the transactions contemplated by this Agreement or their effect on such employees, with RBB given the opportunity to participate in such meetings or interviews. This section is not intended to apply to casual conversations about the transaction or informal meetings initiated by employees, or to prohibit discussion in general, but rather to allow RBB a role in the formal presentation of the transaction to employees, and an opportunity to participate in the significant, formal meetings at which the transaction is explained and discussed.

SECTION 6.14 THIRD-PARTY AGREEMENTS.

(a) PGB or the Bank shall obtain any required consent for PGB's information technology provider and landlords of all of their leased properties, and PGB or the Bank shall use commercially reasonable efforts to (i) obtain any required material consents from all of its other third-party vendors and other parties to material agreements, promptly after the execution of this Agreement, and (ii) obtain the cooperation of such third parties in a smooth transition in accordance with RBB's timetable at or after the Effective Time. PGB and the Bank shall cooperate with RBB in minimizing the extent to which any contracts will continue in effect following the Effective Time, in addition to complying with the prohibition of Section 4.02 hereof.

(b) Without limiting Section 6.14(a), and at the cost of RBB Bancorp or RBB, PGB and the Bank shall use all reasonable efforts to provide data processing and other processing support to assist RBB in performing all tasks reasonably required to result in a successful conversion of PGB and the Bank data and other files and records to RBB's production environment at such time as RBB requests prior to or at the Effective Time. Among other things, PGB and the Bank shall:

(i) cooperate with RBB to establish a mutually agreeable project plan to effectuate the conversion;

(ii) use its commercially reasonable efforts to have PGB's and the Bank's outside contractors continue to support both the conversion effort and its needs until the conversion can be established;

(iii) provide, or use its commercially reasonable efforts to obtain from any outside contractors, all data or other files and layouts requested by RBB for use in planning the conversion, as soon as reasonably practicable;

(iv) provide reasonable access to personnel at corporate headquarters, data and other processing centers, all branches and, with the consent of outside contractors, at outside contractors, to enable the conversion effort to be completed on schedule; and

(v) to the extent reasonably practicable, give notice of termination, conditioned upon the completion of the transactions contemplated hereby, of the contracts of outside data and other processing contractors or other third-party vendors when directed to do so by RBB.

(vi) RBB agrees that all actions taken pursuant to this Section 6.14 shall be taken in a manner intended to minimize disruption to the customary business activities of PGB and the Bank.

SECTION 6.15 TAX TREATMENT OF THE PGB MERGER.

In its sole discretion and unless otherwise waived, RBB Bancorp shall request the opinion of RSM US LLP, dated the Effective Date, in form and substance reasonably satisfactory to RBB Bancorp, to the effect that, on the basis of facts, representations and assumptions set forth in such opinion, that are assumed in the opinion to be consistent with the state of facts existing at the Effective Date, the PGB Merger will be treated for federal income tax purposes under the Code as a purchase of PGB shares for cash. In rendering its opinion, RSM US LLP may require and rely upon representations contained in letters from RBB Bancorp, RBB, PGB or the Bank and/or their officers or principal shareholders as are customary for such opinions, and all parties to this agreement shall cooperate by providing the representations required by RSM US LLP.

SECTION 6.16 NON-SOLICITATION AND CONFIDENTIALITY AGREEMENT.

PGB and the Bank have delivered to RBB Bancorp and RBB Non-Solicitation and Confidentiality Agreements, substantially in the form of Exhibit B hereto, executed by each of the Persons identified on Exhibit B-1 hereto.

SECTION 6.17 PRE-CLOSING ADJUSTMENTS.

At or immediately before the Effective Time, as determined by PGB, the Bank, RBB Bancorp and RBB, PGB and the Bank shall make such accounting entries or adjustments, including additions to Bank ALLL and charge-offs of loans (collectively, “**Pre-Closing Adjustments**”) as RBB shall direct as a result of its ongoing review of PGB and the Bank (including its review of the information provided to it pursuant to Sections 6.05 and 6.14), including the possible sale of a portion or all of its securities as directed by RBB Bancorp or RBB just prior to the Effective Date, or in order to implement its plans following the Effective Time or to reflect expenses and costs related to the PGB Merger; provided, however, that unless the Pre-Closing Adjustment would otherwise be required by applicable law, rule or regulation, or by regulatory accounting principles and GAAP applied on a basis consistent with the financial statements of PGB and the Bank, no such Pre-Closing Adjustment shall (i) violate any law, rule or regulation applicable to PGB or the Bank, (ii) otherwise materially disadvantage PGB or the Bank if the PGB Merger was not consummated, or (iii) result in a change to the Merger Consideration.

SECTION 6.18 FIRPTA CERTIFICATE.

PGB shall furnish to RBB Bancorp a certification that PGB and the Bank are not United States real property holding corporations, dated not more than 30 days prior to the Effective Date, in compliance with Treasury Regulations Sections 1.1445-2(c)(3) and 1.897-2(h), in a form reasonably satisfactory to RBB.

SECTION 6.19 ADVICE OF CHANGES.

PGB, the Bank, RBB Bancorp and RBB shall promptly advise the other parties of any change or event that, individually or in the aggregate, has or would be reasonably likely to have a Material Adverse Effect on it or to cause or constitute a material breach of any of its respective representations, warranties or covenants contained herein. PGB and the Bank shall also promptly notify RBB Bancorp and RBB of any changes in employment status of officers and employees, loan collection activities and other material changes. From time to time prior to the Effective Time, PGB and the Bank will promptly supplement or amend its disclosure schedule delivered in connection with the execution of this Agreement to reflect any matter which, if existing, occurring or known at the date of this Agreement, would have been required to be set forth or described in such disclosure schedule or which is necessary to correct any information in such disclosure schedule which has been rendered inaccurate thereby. No supplement or amendment to such disclosure schedule shall have any effect for the purpose of determining satisfaction of the conditions set forth in Article VII, or the compliance by PGB and the Bank with the covenants set forth in Sections 4.01, 4.02, and Article VI.

SECTION 6.20 CURRENT INFORMATION.

During the period from the date of this Agreement to the Effective Time, PGB and the Bank will cause one or more of its designated representatives to confer on a regular and frequent basis (not less than monthly) with representatives of RBB Bancorp and RBB and to report the status of the ongoing operations of PGB and the Bank. PGB and the Bank will promptly notify RBB Bancorp and RBB of any material change in the normal course of business or in the operation of the properties of PGB and the Bank and, subject to applicable Laws, or any complaints, investigations or hearings (or communications indicating that the same may be contemplated) or any Governmental Authority, or the institution or threat of litigation involving PGB or the Bank, and they will keep RBB Bancorp and RBB fully informed of such events.

SECTION 6.21 EXECUTION AND AUTHORIZATION OF MERGER AGREEMENTS.

Prior to the Effective Date, PGB, the Bank, RBB and RBB Bancorp shall execute and deliver, and RBB Bancorp shall cause Merger Sub to execute and deliver, the PGB Merger Agreement and the RBB Merger Agreement, as applicable.

SECTION 6.22 TRANSACTION EXPENSES OF PGB AND THE BANK.

(a) Promptly after the execution of this Agreement, PGB and the Bank shall require all of its attorneys and other professionals to promptly render current and correct invoices for all unbilled time and disbursements. PGB and the Bank shall accrue and/or pay all of such amounts which are actually due and owing as soon as possible.

(b) PGB and the Bank shall advise RBB Bancorp and RBB monthly of all out- of-pocket expenses which PGB and the Bank has incurred in connection with this transaction.

(c) PGB and the Bank, in reasonable consultation with RBB Bancorp and RBB, shall make all arrangements with respect to the printing and mailing of Proxy Materials.

SECTION 6.23 RESIGNATIONS AND TERMINATIONS.

The members of the PGB Board and the Bank Board shall resign from their positions as directors, and the Bank's Chief Executive Officer and its Chief Financial Officer shall resign from their positions as executive officers, each effective as of the Effective Time.

SECTION 6.24 BANK-ALLL.

PGB and the Bank shall make such additional increases to the Bank ALLL as are required as a result of any loan review conducted on its portfolio by federal or state regulatory agencies and/or external third party, and that the Bank ALLL shall be a minimum of 1.2% of the Bank's total gross loans.

SECTION 6.25 ASSUMPTION OF PGB DEBT.

RBB Bancorp agrees to execute and deliver, or cause to be executed and delivered, by or on behalf of the Surviving Corporation, at or prior to the Effective Time, one or more supplemental indentures, guarantees, and other instruments required for the due assumption of PGB's obligations in respect of its outstanding debt, guarantees, securities, and other agreements to the extent required by the terms of such debt, guarantees, securities, and other agreements, including the trust preferred securities and the related subordinated debt of PGB.

ARTICLE VII

CONDITIONS TO CONSUMMATION OF THE PGB MERGER AND THE RBB MERGER

SECTION 7.01 CONDITIONS TO THE PARTIES' OBLIGATIONS TO EFFECT THE PGB MERGER AND THE RBB MERGER.

The respective obligations of the parties hereto to consummate the PGB Merger are subject to the fulfillment or written waiver by the parties hereto prior to the Effective Time of each of the following conditions:

(a) Shareholder Approvals. This Agreement, the RBB Bancorp Merger, the PGB Merger and the RBB Merger have been duly approved by the affirmative votes of the PGB and the Bank shareholders, the affirmative vote of the RBB shareholder, and the respective boards of directors of PGB, the Bank, RBB Bancorp and RBB in accordance with applicable law. Said approvals shall continue in effect and shall not have been revoked.

(b) Regulatory Approvals. All regulatory approvals required to consummate the transactions contemplated hereby, including the RBB Bancorp Merger, the PGB Merger and the RBB Merger, shall have been obtained and shall remain in full force and effect and all statutory waiting periods in respect thereof shall have expired and no such approvals shall contain any conditions, restrictions or requirements which would following the Effective Time, have a Material Adverse Effect on RBB Bancorp or RBB.

(c) No Injunction; No Litigation. No Governmental Authority of competent jurisdiction shall have enacted, issued, promulgated, enforced or entered any statute, rule, regulation, judgment, decree, injunction or other order (whether temporary, preliminary or permanent) which is in effect and prohibits consummation of the transactions contemplated by this Agreement.

SECTION 7.02 CONDITIONS TO OBLIGATION OF PGB AND THE BANK TO EFFECT THE PGB MERGER AND THE RBB MERGER.

The obligation of PGB and the Bank to consummate the RBB Bancorp Merger, the PGB Merger and the RBB Merger is also subject to the fulfillment or written waiver prior to the Effective Time of each of the following additional conditions:

(a) Representations and Warranties; Agreements and Covenants. The representations and warranties of RBB Bancorp and RBB set forth in this Agreement shall be true and correct as of the date of this Agreement and as of the Effective Date as though made on and as of the Effective Date (except that representations and warranties that by their terms speak as of the date of this Agreement or some other date shall be true and correct as of such date). For purposes of this paragraph, such representations and warranties shall be deemed to be true and correct in all material respects unless the failure or failures of such representations and warranties to be true and correct in all material respects, either individually or in the aggregate, and without giving effect to any materiality, material adverse effect or similar qualifications set forth in such representations and warranties, will have or would reasonably be expected to have a Material Adverse Effect on RBB Bancorp or RBB. RBB Bancorp and RBB shall have performed, in all material respects, each of their covenants and agreements contained in this Agreement, and a Material Adverse Effect with respect to RBB Bancorp or RBB shall not have occurred.

(b) Officers' Certificate. PGB and the Bank shall have received a certificate from RBB Bancorp and RBB, dated the Effective Date, signed by the Chief Executive Officer and the Chief Financial Officer of RBB Bancorp and RBB, verifying that RBB Bancorp and RBB are in compliance with all of the requirements of Section 7.02(a).

(c) Merger Consideration. The Merger Consideration shall have been delivered by RBB Bancorp to the Exchange Agent and the Exchange Agent shall have provided a receipt therefor to PGB and the Bank.

(d) Consents. RBB Bancorp and RBB shall have obtained all material consents.

(e) Indemnification Agreements. RBB Bancorp shall have entered into indemnity agreements with each of the directors and officers of PGB and the Bank in the form attached hereto as Exhibit C; provided that each such director or officer shall have represented and warranted to RBB Bancorp that they have no Knowledge of any proceeding which would result in a claim against PGB or the Bank.

SECTION 7.03 CONDITIONS TO OBLIGATION OF RBB BANCORP TO EFFECT THE PGB MERGER AND THE RBB MERGER.

The obligation of RBB Bancorp to consummate the PGB Merger is also subject to the fulfillment or written waiver prior to the Effective Time of each of the following conditions:

(a) Representations and Warranties; Agreements and Covenants. The representations and warranties of PGB and the Bank set forth in this Agreement shall be true and correct as of the date of this Agreement and as of the Effective Date as though made on and as of the Effective Date (except that representations and warranties that by their terms speak as of the date of this Agreement or some other date shall be true and correct as of such date). For purposes of this paragraph, such representations and warranties shall be deemed to be true and correct in all material respects unless the failure or failures of such representations and warranties to be true and correct in all material respects, either individually or in the aggregate, and without giving effect to any materiality, material adverse effect or similar qualifications set forth in such representations and warranties, will have or would reasonably be expected to have a Material Adverse Effect on PGB or the Bank. PGB and the Bank shall have performed, in all material respects, each of its covenants and agreements contained in this Agreement, and a Material Adverse Effect with respect to PGB and the Bank shall not have occurred.

(b) PGB and Bank Disclosure Schedule. The PGB and Bank Disclosure Schedule shall be updated and made current as of the day prior to the Effective Date and a draft of the updated PGB and Bank Disclosure Schedule shall have been delivered to RBB Bancorp and RBB no later than 72 hours prior to the Effective Date; such update of the PGB and Bank Disclosure Schedule shall not in any way affect the representations and warranties set forth in Section 5.03 and 7.03(a).

(c) Non-Solicitation and Confidentiality Agreements. All the agreements required pursuant to Section 6.17 shall have been executed and delivered to RBB Bancorp and RBB.

(d) Consents. PGB and the Bank shall have obtained each of the consents listed in PGB and Bank Disclosure Schedule 5.03(1)(i) including, without limitation, the consent of each landlord of each lease to which PGB or the Bank is a tenant for the operation of PGB's and the Bank's business wherever located.

(f) Brokered Funds. As of and after the date of this Agreement, including the Effective Date, PGB or the Bank shall not renew or otherwise acquire any Brokered Deposits, any internet deposits or deposits from deposit originators with a maturity longer than one year.

(g) FHLB Borrowing. As of the Effective Date, PGB or the Bank shall not have any additional term borrowings from the Federal Home Loan Bank other than those existing on June 30, 2019, or additional borrowings with no more than a 90-day period to maturity.

(h) Change in Control Payments. Any severance or change of control payments in any PGB and Bank employment or change of control agreement will be accrued as of the Calculation Date and paid by PGB and the Bank prior to the Effective Time of the PGB Merger, and any such payment will not be required nor will be paid by RBB Bancorp to officers of PGB and the Bank at the Effective Time of the PGB Merger.

(i) Regulatory Action. Except as provided on the PGB and Bank Disclosure Schedule, no Governmental Authority with authority over PGB and the Bank will have issued a written agreement, formal order or cease and desist order with regard to PGB or the Bank or any portion thereof, or any officer, director or, to PGB's and to the Bank's Knowledge, holder of 10% or more of PGB Common Stock.

(j) Dissenting Shareholders and Appraisal Rights Shareholders. Holders of not more than ten percent (10%) of the outstanding shares of PGB Common Stock shall have not voted in favor of the PGB Merger and made written demand under the DGCL relating to Appraisal Rights for the purchase of their shares of PGB Common Stock or Bank Common Stock which demand has not been rescinded or otherwise not perfected under applicable law.

(k) Fairness Opinion. PGB and the Bank shall have received a fairness opinion from Janney Montgomery Scott LLC to the effect that the Merger Consideration is fair, from a financial point of view, to the PGB stockholders.

(l) Officers' Certificate. RBB shall have received a certificate from PGB and the Bank, dated the Effective Date, signed by the Chief Executive Officer and the Chief Financial Officer of PGB and the Bank verifying that PGB and the Bank are in compliance with all of the requirements of Sections 7.03(a) through (k).

ARTICLE VIII

TERMINATION

SECTION 8.01 TERMINATION.

This Agreement may be terminated and the PGB Merger, the RBB Bancorp Merger and the RBB Merger may be abandoned:

(a) Mutual Consent. At any time prior to the Effective Time, by the mutual consent of RBB Bancorp, RBB, PGB and the Bank, if the board of directors of each so determines by the vote of a majority of the members of its entire board.

(b) Breach. At any time prior to the Effective Time, by RBB Bancorp and RBB, or PGB and the Bank, if the respective board of directors so determines by the vote of a majority of the members of its entire board, in the event of either (i) a breach by the other party of any representation or warranty contained herein, which breach cannot be or has not been cured within 30 calendar days after the giving of written notice to the breaching party of such breach; or (ii) a breach by the other party of any of the covenants, agreements or conditions contained herein, which breach cannot be or has not been cured within 30 calendar days after the giving of written notice to the breaching party of such breach; provided that any such breach under clause (i) or clause (ii) would entitle the non-breaching party not to consummate the PGB Merger under Article VII hereof.

(c) Adverse PGB or Bank Board Action. At any time prior to the Effective Time, by RBB Bancorp and RBB, if the PGB Board: (i) submits the principal terms of this Agreement to PGB's shareholders without a recommendation for approval thereof or with special and materially adverse conditions on such approval; (ii) otherwise withdraws or materially and adversely modifies (or discloses its intention to withdraw or materially and adversely modify) its recommendation referred to in Section 6.02; (iii) rescinds its notice of the Special Meeting or declines to submit the principal terms of this Agreement to a vote of its shareholders; or (iv) recommends to its shareholders an Acquisition Proposal other than the PGB Merger.

(d) Delay. At any time prior to the Effective Time, by RBB Bancorp and RBB or PGB and the Bank, if its respective board of directors so determines by the vote of a majority of the members of its entire board, in the event that the PGB Merger is not consummated by eight (8) months from the date of this Agreement (the "**Termination Date**"), except to the extent that (i) the failure of the PGB Merger to be so consummated arises out of or results from the knowing and willful action or inaction of (A) the party seeking to terminate pursuant to this Section 8.01(d), (B) any of the PGB stockholders that are parties to the Shareholder Agreement (if PGB or the Bank are the parties seeking to terminate), which action or inaction is in violation of its obligations under this Agreement or the Shareholder Agreement, or (ii) the Termination Date falls within the 30-calendar day cure period provided in Section 8.01(b) hereof with respect to any breach notified pursuant to such section, in which case the reference to the Termination Date shall be replaced with the date of such 30th calendar day.

(e) Denial of Regulatory Approvals. By RBB Bancorp and RBB, or PGB and the Bank, if the boards of directors so determines by the vote of a majority of the members of its entire board, in the event that any court or Governmental Authority of competent jurisdiction shall have enacted, issued, promulgated, enforced or entered any law (whether temporary, preliminary or permanent) that is in effect and restrains, enjoins or otherwise prohibits consummation of the PGB Merger or the other transactions contemplated by this Agreement that has become final and nonappealable.

(f) Shareholder Approvals. By RBB Bancorp and RBB, or PGB and the Bank, if the approval of the principal terms of this Agreement by the PGB stockholders shall not have been obtained at the Special Meeting or any adjournment thereof.

(g) Superior Proposal. By PGB or the Bank, at any time prior to the time the requisite vote of PGB stockholders is obtained, if (i) PGB and the Bank are not in material breach of any of the terms of this Agreement, (ii) the respective boards of directors of PGB and the Bank authorizes PGB or the Bank, subject to compliance with the terms of this Agreement, to enter into a definitive agreement (other than a mere confidentiality agreement) with respect to a Superior Proposal and PGB or the Bank notifies RBB Bancorp and RBB in writing that it intends to enter into such an agreement, attaching the most current version of such agreement to such notice, (iii) RBB Bancorp or RBB does not make, within five (5) Business Days of receipt of PGB's or the Bank's written notification of its intention to enter into a binding agreement for a Superior Proposal, an offer that PGB or the Bank board of directors determines, in good faith after consultation with its financial advisors, is at least as favorable, from a financial point of view, to the PGB stockholders as the Superior Proposal and (iv) PGB or the Bank, prior to such termination, pays RBB Bancorp in immediately available funds the Termination Fee required to be paid pursuant to Section 8.02(b). PGB or the Bank shall (x) not enter into the binding agreement referred to in clause (ii) above until at least the sixth Business Day after it has provided the notice to RBB Bancorp and RBB required thereby, (y) notify RBB Bancorp and RBB promptly if its intention to enter into the written agreement referred to in its notification shall change at any time after giving such notification and (z) during such five-Business Day period, negotiate in good faith with RBB Bancorp and RBB with respect to any revisions to the terms of the transaction contemplated by this Agreement proposed by RBB Bancorp and RBB in response to a Superior Proposal, if any.

SECTION 8.02 EFFECT OF TERMINATION AND ABANDONMENT.

(a) In the event of termination of this Agreement and the abandonment of the PGB Merger pursuant to this Article VIII, this Agreement shall become void and of no effect (other than as set forth in Section 9.01) with no liability or further obligation on the part of any party hereto (or of any of its Representatives or affiliates), except as otherwise provided in this Section 8.02; provided that, and notwithstanding anything in the foregoing to the contrary except as provided in Section 8.02(b), (i) no such termination shall relieve any party hereto of any liability or damages to the other parties hereto resulting from any willful material breach of this Agreement, and (ii) the provisions set forth in Section 9.01 shall survive termination of this Agreement and termination shall not relieve any party of any liability under such provisions.

(b) In the event that (i) a bona fide Acquisition Proposal shall have been made to PGB or the Bank or any of its shareholders or any Person shall have publicly announced an intention (whether or not conditional) to make an Acquisition Proposal with respect to PGB or the Bank (and such Acquisition Proposal or publicly announced intention shall not have been publicly withdrawn without qualification at least (x) 30 calendar days prior to, with respect to any termination pursuant to Section 8.01(c) or Section 8.01(d), the date of termination, or (y) at least 10 Business Days prior to, with respect to a termination pursuant to Section 8.01(f), the date of the Special Meeting); and thereafter this Agreement is terminated by either RBB Bancorp and RBB or PGB and the Bank pursuant to Section 8.01(d), or (ii) this Agreement is terminated (x) by PGB and the Bank pursuant to Section 8.01(g) or (y) by RBB Bancorp and RBB pursuant to Section 8.01(b), (c) or (f), then PGB or the Bank shall promptly, and in any event no later than two Business Days after the date of such

termination (except as provided in Section 8.01(g)(iv)), pay RBB Bancorp a termination fee of \$500,000 (the “**Termination Fee**”), payable by wire transfer of same-day funds. PGB’s or the Bank’s payment shall be the sole and exclusive remedy of RBB Bancorp and RBB for damages against PGB and the Bank and their respective Representatives with respect to the breach by either PGB or the Bank of any covenant or agreement in this Agreement, including, but not limited to, the breach giving rise to such payment. In addition, for purposes of this Agreement, and subject to proviso (i) of Section 8.02(a), no damages will be payable by RBB Bancorp if it terminates this Agreement for failure to obtain regulatory approval pursuant to Section 7.01(b) or Section 8.01(e).

In the event this Agreement is terminated by PGB and the Bank pursuant to Section 8.01(b), then RBB Bancorp shall promptly, and in any event no later than two Business Days after the date of such termination, pay PGB the Termination Fee, payable by wire transfer of same-day funds. RBB’s payment shall be the sole and exclusive remedy of PGB and the Bank for damages against RBB and their respective Representatives with respect to the breach of any covenant or agreement giving rise to such payment other than for fraud.

Each of PGB and the Bank, and RBB Bancorp and RBB, acknowledge that the agreement contained in Section 8.02(b) is an integral part of the transactions contemplated by this Agreement and that without the agreement, RBB Bancorp, RBB, PGB and the Bank would not enter into this Agreement; accordingly, if PGB or the Bank fails to pay the Termination Fee pursuant to Section 8.02(b), and RBB Bancorp and RBB commence a suit in order to obtain payment of the Termination Fee and that results in a judgment against PGB or the Bank for the Termination Fee, then PGB or the Bank shall pay to RBB Bancorp and RBB their costs and expenses (including attorneys’ fees and expenses) in connection with such suit, together with interest on the amount of such fee at the publicly announced prime rate of interest published in The Wall Street Journal on the date such payment was required to be made from the date such payment was required to be made through the date of payment, *provided, however*, that if RBB Bancorp and RBB commence a suit in which they fail to obtain a judgment against PGB or the Bank for the Termination Fee, then RBB Bancorp or RBB Bank shall pay to PGB and the Bank the costs and expenses incurred by PGB and the Bank (including attorneys’ fees and expenses) in connection with such suit, together with interest on the amount of such fee at the publicly announced prime rate of interest published in The Wall Street Journal on the date such payment was required to be made from the date such payment was required to be made through the date of payment.

ARTICLE IX

MISCELLANEOUS

SECTION 9.01 SURVIVAL.

The representations, warranties, agreements and covenants contained in this Agreement shall not survive the Effective Time (other than Sections 6.05, 6.09, 6.10, 6.11, 6.15, 6.18, and this Article IX, which shall survive the Effective Time indefinitely unless otherwise specifically provided therein) or the termination of this Agreement if this Agreement is terminated prior to the Effective Time. This Article IX and the covenants contained in Section 8.02 (Effect of Termination and Abandonment) shall survive the termination of this Agreement. All other representations, warranties, covenants and agreements in this Agreement shall not survive the consummation of the PGB Merger or the termination of this Agreement if this Agreement is terminated prior to the Effective Time.

SECTION 9.02 WAIVER; AMENDMENT.

Prior to the Effective Time and subject to applicable provisions of the DGCL, any provision of this Agreement may be (i) waived in whole or in part by the party benefited by the provision or by all parties or (ii) amended or modified at any time, by an agreement in writing among the parties hereto executed in the same manner as this Agreement.

SECTION 9.03 COUNTERPARTS.

This Agreement may be executed in one or more counterparts, each of which shall be deemed to constitute an original but all of which together shall constitute one and the same instrument. Facsimiles containing original signatures shall be deemed for all purposes to be originally signed copies of documents which are the subject of such facsimiles.

SECTION 9.04 GOVERNING LAW, JURISDICTION AND VENUE.

This Agreement shall be governed by, and interpreted in accordance with, the laws of the State of California (however, not to the exclusion of any applicable Federal law), without regard to California statutes or judicial decisions regarding choice of law questions. The parties hereby irrevocably submit to the jurisdiction of the courts of the State of California and the federal courts of the United States of America located in the Southern District of the State of California solely in respect of the interpretation and enforcement of the provisions of this Agreement and of the documents referred to in this Agreement, and in respect of the transactions contemplated herein and therein, and hereby waive, and agree to assert, as a defense in any action, suit or proceeding for the interpretation or enforcement hereof or of any such documents, that it is not subject thereto or that such action, suit or proceeding may not be brought or is not maintainable in said courts or that the venue thereof may not be appropriate or that this Agreement or any such document may not be enforced in or by such courts, and the parties hereto irrevocably agree that all claims with respect to such action or proceeding shall be heard and determined in such California state or federal court. The parties hereby consent to and grant any such court jurisdiction over the person of such parties and over the subject matter of such dispute and agree that mailing of process or other papers in connection with any such action or proceeding in the manner provided in Section 9.06 or in such other manner as may be permitted by law, shall be valid and sufficient service thereof.

SECTION 9.05 EXPENSES.

Each party hereto will bear all expenses incurred by it in connection with this Agreement and the transactions contemplated hereby except as otherwise specifically provided. RBB shall bear all costs associated with obtaining all Regulatory Approvals.

SECTION 9.06 NOTICES.

All notices, requests and other communications hereunder to a party shall be in writing and shall be deemed given if personally delivered, by electronic mail (with confirmation) or mailed by registered or certified mail (return receipt requested) to such party at its address set forth below or such other address as such party may specify by notice to the parties hereto.

If to PGB and the Bank:

PGB Holdings, Inc.
2323 S. Wentworth Avenue
Chicago, Illinois 60616
Attention: Ms. Betty Chow, President
Telephone: (312) 225-2323
Email: bchow@pacificglobalbank.com

With a copy to:

Dennis R. Wendte, Esq.
Barack Ferrazzano Kirschbaum & Nagelberg LLP
200 West Madison Street, Suite 3900
Chicago, Illinois 60606
Telephone: (312) 984-3188
Email: dennis.wendte@bfkn.com

If to RBB to:

Royal Business Bank
1055 Wilshire Blvd., 12th floor,
Los Angeles, California 90017
Attention: Alan Thian, President and Chief Executive Officer
Telephone: (213) 573-7928
Email: athian@rbbusa.com

With a copy to:

Loren P. Hansen, Esq.
Loren P. Hansen, APC
1301 Dove Street, Suite 370
Newport Beach, CA 92660
Telephone: (949) 851-6125
Email: lphansen@lphansenlaw.com

SECTION 9.07 ENTIRE UNDERSTANDING; NO THIRD PARTY BENEFICIARIES.

This Agreement, the Disclosure Schedules attached hereto and incorporated herein, and the exhibits to the Agreement represent the entire understanding of the parties hereto and thereto with reference to the transactions contemplated hereby and thereby and this Agreement, the Disclosure Schedules attached hereto and incorporated herein, and the exhibits to the Agreement, supersede any and all other oral or written agreements heretofore made. Except for Sections 6.09, 6.10, and 6.11, nothing in this Agreement, expressed or implied, is intended to confer upon any Person, other than the parties hereto or their respective successors, any rights, remedies, obligations or liabilities under or by reason of this Agreement.

SECTION 9.08 EFFECT.

No provision of this Agreement shall be construed to require PGB, the Bank, RBB Bancorp RBB or any Subsidiaries, affiliates or directors of any of them to take any action or omit to take any action which action or omission would violate applicable law (whether statutory or common law), rule or regulation.

SECTION 9.09 SEVERABILITY.

Except to the extent that application of this Section 9.09 would have a Material Adverse Effect on PGB and the Bank, or RBB Bancorp and RBB, any term or provision of this Agreement which is invalid or unenforceable in any jurisdiction shall, as to that jurisdiction, be ineffective to the extent of such invalidity or unenforceability without rendering invalid or unenforceable the remaining terms and provisions of this Agreement or affecting the validity or enforceability of any of the terms or provisions of this Agreement in any other jurisdiction. If any provision of this Agreement is so broad as to be unenforceable, the provision shall be interpreted to be only so broad as is enforceable.

SECTION 9.10 ENFORCEMENT OF THE AGREEMENT.

The parties hereto agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. Except as provided in Section 8.02(a), it is accordingly agreed that the parties shall be entitled to an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions hereof in any court of the United States or any state having jurisdiction, this being in addition to any other remedy to which they are entitled at law or in equity.

SECTION 9.11 INTERPRETATION.

When a reference is made in this Agreement to Sections, Exhibits or Disclosure Schedules, such reference shall be to a Section of, or Exhibit or Disclosure Schedule to, this Agreement unless otherwise indicated. The table of contents and headings contained in this Agreement are for reference purposes only and are not part of this Agreement. Whenever the words "include," "includes" or "including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation".

SECTION 9.12 TIME.

Time is of the essence of this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed in counterparts by their duly authorized officers, all as of the day and year first above written.

RBB Bancorp

By: /s/ Alan Thian
Name: Alan Thian
Title: President and Chief Executive Officer

Royal Business Bank

By: /s/ Alan Thian
Name: Alan Thian
Title: President and Chief Executive Officer

PGB Holdings, Inc.

By: /s/ Betty Chow
Name: Betty Chow
Title: President and Chief Executive Officer

Pacific Global Bank

By: /s/ Betty Chow
Name: Betty Chow
Title: Chief Executive Officer

CERTIFICATION

I, Alan Thian, certify that:

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

Date: November 12, 2019

By: /s/ Yee Phong (Alan) Thian
Yee Phong (Alan) Thian
President and Chief Executive Officer

CERTIFICATION

I, David Morris, certify that:

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

Date: November 12, 2019

By: /s/ David Morris

David Morris,

Executive Vice President and Chief Financial Officer

CERTIFICATION

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

In connection with the Quarterly Report of RBB Bancorp (the "Company") on Form 10-Q for the period ended September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Alan Thian, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) 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.

Date: November 12, 2019

By: /s/ Yee Phong (Alan) Thian
Yee Phone (Alan) Thian
President and Chief Executive Officer

CERTIFICATION

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

In connection with the Quarterly Report of RBB Bancorp (the "Company") on Form 10-Q for the period ended September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David Morris, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) 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.

Date: November 12, 2019

By: /s/ David Morris

David Morris,

Executive Vice President and Chief Financial Officer