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 June 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	**27-2776416**
(State or other jurisdiction of Incorporation or organization)	**(I.R.S. Employer Identification No.)**
1055 Wilshire Blvd., Suite 1200, Los Angeles, California	**90017**
(Address of principal executive offices)	**(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	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☐
Emerging growth company	☒		

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

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

Number of shares of common stock of the registrant: 20,110,203 outstanding as of August 7, 2019.

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PART I - FINANCIAL INFORMATION (UNAUDITED)

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

RBB BANCORP AND SUBSIDIARIES

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

	June 30, 2019	December 31, 2018
Assets		
Cash and due from banks	$ 185,643	$ 147,685
Federal funds sold and other cash equivalents	20,000	—
Cash and cash equivalents	205,643	147,685
Interest-earning deposits in other financial institutions	1,196	600
Securities:		
Available for sale	71,629	73,762
Held to maturity (fair value of $8,999 and $9,940 at June 30, 2019 and December 31, 2018, respectively)	8,733	9,961
Mortgage loans held for sale	249,596	434,522
Loans held for investment:		
Real estate	1,736,322	1,762,864
Commercial	362,589	387,474
Total loans	2,098,911	2,150,338
Unaccreted discount on acquired loans	(6,753)	(9,229)
Deferred loan costs (fees), net	280	906
Total loans, net of deferred loan fees	2,092,438	2,142,015
Allowance for loan losses	(18,561)	(17,577)
Net loans	2,073,877	2,124,438
Premises and equipment	17,214	17,307
Federal Home Loan Bank (FHLB) stock	15,000	9,707
Net deferred tax assets	4,318	4,642
Income tax receivable	3,001	656
Other real estate owned (OREO)	2,075	1,101
Cash surrender value of life insurance (BOLI)	33,963	33,578
Goodwill	58,383	58,383
Servicing assets	17,587	17,370
Core deposit intangibles	6,828	7,601
Accrued interest and other assets	32,913	32,689
Total assets	$ 2,801,956	$ 2,974,002

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

RBB BANCORP AND SUBSIDIARIES

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

	June 30, 2019	December 31, 2018
Liabilities and Shareholders' Equity		
Deposits:		
Noninterest-bearing demand	$ 435,629	$ 438,764
Savings, NOW and money market accounts	462,448	579,247
Time deposits under $250,000	739,551	532,395
Time deposits $250,000 and over	597,706	593,635
Total deposits	2,235,334	2,144,041
Reserve for unfunded commitments	621	688
Income tax payable	1,610	—
FHLB advances	40,000	319,500
Long-term debt, net of debt issuance costs	103,878	103,708
Subordinated debentures	9,590	9,506
Accrued interest and other liabilities	17,103	21,938
Total liabilities	2,408,136	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; 20,077,524 shares issued and outstanding at June 30, 2019 and 20,000,022 shares at December 31, 2018	289,577	288,610
Additional paid-in capital	6,055	5,659
Retained earnings	98,126	81,618
Non-controlling interest	72	72
Accumulated other comprehensive loss, net	(10)	(1,338)
Total shareholders' equity	393,820	374,621
Total liabilities and shareholders' equity	$ 2,801,956	$ 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 SIX MONTHS ENDED JUNE 30, 2019 AND 2018
(In thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Interest and dividend income:				
Interest and fees on loans	$ 34,240	$ 21,132	$ 70,079	$ 40,206
Interest on interest-earning deposits	515	209	983	395
Interest on investment securities	685	603	1,273	1,163
Dividend income on FHLB stock	379	134	577	253
Interest on federal funds sold and other	124	206	237	443
Total interest income	35,943	22,284	73,149	42,460
Interest expense:				
Interest on savings deposits, now and money market accounts	1,238	998	2,532	1,700
Interest on time deposits	7,797	2,410	13,750	4,456
Interest on subordinated debentures and long-term debt	1,929	920	3,862	1,833
Interest on other borrowed funds	662	129	2,776	200
Total interest expense	11,626	4,457	22,920	8,189
Net interest income	24,317	17,827	50,229	34,271
Provision for credit losses	357	700	907	884
Net interest income after provision for credit losses	23,960	17,127	49,322	33,387
Noninterest income:				
Service charges, fees and other	1,222	446	2,042	912
Gain on sale of loans	3,120	2,085	5,318	3,900
Loan servicing fees, net of amortization	899	58	1,739	27
Recoveries on loans acquired in business combinations	55	5	61	11
Unrealized gain on equity investments	—	—	147	—
Increase in cash surrender value of life insurance	194	199	385	398
Gain on Sale of Fixed Assets	6	—	6	—
	5,496	2,793	9,698	5,248
Noninterest expense:				
Salaries and employee benefits	8,169	4,709	17,287	9,660
Occupancy and equipment expenses	2,674	834	4,926	1,626
Data processing	1,219	487	2,228	960
Legal and professional	656	423	1,081	680
Office expenses	294	192	630	363
Marketing and business promotion	316	262	678	465
Insurance and regulatory assessments	284	213	582	422
Amortization of intangibles	385	77	773	158
OREO expenses	81	—	162	7
Merger expenses	15	183	86	223
Other expenses	806	811	1,791	1,916
	14,899	8,191	30,224	16,480
Income before income taxes	14,557	11,729	28,796	22,155
Income tax expense	4,415	2,292	8,274	3,872
Net income	$ 10,142	$ 9,437	$ 20,522	$ 18,283
Net income per share				
Basic	$ 0.51	$ 0.58	$ 1.02	$ 1.13
Diluted	0.50	0.54	1.00	1.06
Cash dividends declared per common share	0.10	0.09	0.20	0.17

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 SIX MONTHS ENDED JUNE 30, 2019 AND 2018
(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Net income	$ 10,142	$ 9,437	$ 20,522	$ 18,283
Other comprehensive income (loss):				
Unrealized gains (losses) on securities available for sale:				
Change in unrealized gains (losses)	928	(379)	1,886	(1,227)
Related income tax effect:				
Change in unrealized gains (losses)	(274)	112	(558)	363
Total other comprehensive income (loss)	654	(267)	1,328	(864)
Total comprehensive income	$ 10,796	$ 9,170	$ 21,850	$ 17,419

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 JUNE 30, 2019 AND 2018
(In thousands, except share amounts)

	Common Stock					Accumulated	
	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Non-Controlling Interest	Other Comprehensive Income (Loss)	Total
Balance at April 1, 2019	20,073,991	$ 289,514	$ 5,890	$ 89,991	$ 72	$ (664)	$ 384,803
Net income	—	—	—	10,142	—	—	10,142
Stock-based compensation	—	—	165	—	—	—	165
Cash dividend	—	—	—	(2,007)	—	—	(2,007)
Stock options exercised, net of expense recognized	3,533	63	—	—	—	—	63
Other comprehensive income, net of taxes	—	—	—	—	—	654	654
Balance at June 30, 2019	20,077,524	$ 289,577	$ 6,055	$ 98,126	$ 72	$ (10)	$ 393,820
Balance at April 1, 2018	16,288,928	$ 210,595	$ 7,429	$ 58,838	$ —	$ (1,040)	$ 275,822
Net income	—	—	—	9,437	—	—	9,437
Stock-based compensation	—	—	131	—	—	—	131
Cash dividend	—	—	—	(1,471)	—	—	(1,471)
Stock options exercised	255,699	3,430	(880)	—	—	—	2,550
Other comprehensive income, net of taxes	—	—	—	—	—	(267)	(267)
Balance at June 30, 2018	16,544,627	$ 214,025	$ 6,680	$ 66,804	$ —	$ (1,307)	$ 286,202

	Common Stock					Accumulated	
	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Non-Controlling Interest	Other Comprehensive Income (Loss)	Total
Balance at January 1, 2019	20,000,022	$ 288,610	$ 5,659	$ 81,618	$ 72	$ (1,338)	$ 374,621
Net income	—	—	—	20,522	—	—	20,522
Stock-based compensation	—	—	396	—	—	—	396
Cash dividend	—	—	—	(4,014)	—	—	(4,014)
Stock options exercised, net of expense recognized	77,502	967	—	—	—	—	967
Other comprehensive income, net of taxes	—	—	—	—	—	1,328	1,328
Balance at June 30, 2019	20,077,524	$ 289,577	$ 6,055	$ 98,126	$ 72	$ (10)	$ 393,820
Balance at January 1, 2018	15,908,893	$ 205,927	$ 8,426	$ 51,266	$ —	$ (443)	$ 265,176
Net income	—	—	—	18,283	—	—	18,283
Stock-based compensation	—	—	262	—	—	—	262
Cash dividend	—	—	—	(2,745)	—	—	(2,745)
Stock options exercised	635,734	8,098	(2,008)	—	—	—	6,090
Other comprehensive income, net of taxes	—	—	—	—	—	(864)	(864)
Balance at June 30, 2018	16,544,627	$ 214,025	$ 6,680	$ 66,804	$ —	$ (1,307)	$ 286,202

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 SIX MONTHS ENDED JUNE 30, 2019 AND 2018
(In thousands)

	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Operating activities		
Net income	$ 20,522	$ 18,283
Adjustments to reconcile net income to net cash from		
Operating activities:		
Depreciation and amortization of premises, and equipment	977	417
Net accretion of securities, loans, deposits, and other	(1,789)	(742)
Unrealized (gain) on equity securities	(147)	—
Amortization of affordable housing tax credits	450	322
Amortization of intangible assets	2,336	1,654
Provision for loan losses	907	884
Stock-based compensation	396	262
Deferred tax benefit	(233)	(1,897)
Gain on sale of loans	(5,318)	(3,900)
Gain on sale of fixed assets	(6)	—
Increase in cash surrender value of life insurance	(385)	(398)
Loans originated and purchased for sale	(57,612)	(208,830)
Proceeds from loans sold	302,018	130,010
Other items	(6,905)	414
Net cash provided by (used in) operating activities	255,211	(63,521)
Investing activities		
Increase in interest-earning deposits	(596)	—
Securities available for sale:		
Purchases	(59,801)	(31,898)
Maturities, prepayments and calls	63,935	34,259
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	(8,148)	(8,010)
Purchase of investment in qualified affordable housing projects	—	(4,500)
Net increase in loans	(3,519)	(107,957)
Proceeds from sale of fixed assets	17	—
Purchases of premises and equipment	(831)	(1,103)
Net cash used in investing activities	(5,987)	(119,209)
Financing activities		
Net (decrease) increase in demand deposits and savings accounts	(119,934)	33,270
Net increase in time deposits	211,215	53,855
Net increase (decrease) in FHLB advances	(279,500)	15,000
Cash dividends paid	(4,014)	(2,745)
Exercise of stock options	967	6,090
Net cash (used in) provided by financing activities	(191,266)	105,470
Net increase (decrease) in cash and cash equivalents	57,958	(77,260)
Cash and cash equivalents at beginning of period	147,685	150,048
Cash and cash equivalents at end of period	$ 205,643	$ 72,788
Supplemental disclosure of cash flow information		
Cash paid during the period:		
Interest paid	$ 15,197	$ 6,429
Taxes paid	$ 9,835	$ 6,085
Non-cash investing and financing activities:		
Transfer from Loans to other real estate owned	$ 974	$ —
Transfer of loans to held for sale	$ 37,861	$ 72,211
Net change in unrealized holding (loss) gain on securities available for sale	$ 1,328	$ (864)

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

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 June 30, 2019, the Company had total consolidated assets of $2.8 billion, gross consolidated loans (held for investment and held for sale) of $2.3 billion, total consolidated deposits of $2.2 billion and total consolidated stockholders' equity of $393.8 million. On July 31, 2017, RBB completed its initial public offering ("IPO") and sold 3,750,000 shares of its common stock at a price to the public of $23.00 per share. 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 principle 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.

NOTE 2 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis 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 six months ended June 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 six months ended June 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, 2019 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 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 June 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, 2021 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 July 2019, the FASB announced the probable 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 amendments do 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 EGCs 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. The Company will continue to assess the potential impact that this ASU will have on the Company's consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, *Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting*. The amendments in ASU 2017-09 provide guidance about which changes to the terms or conditions of a share-entity to apply modification accounting. An entity should account for the effects of a modification unless all the following are met: (1) The fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the modified award is the same as the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the original award immediately before the original award is modified. If the modification does not affect any of the inputs to the valuation technique that the entity uses to value the award, the entity is not required to estimate the value immediately before and after the modification; (2) The vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified; (3) The classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified. The amendments in ASU 2017-09 are effective for annual periods, and interim within those annual reporting periods, for an emerging growth company, beginning after December 15, 2018. The Company adopted this ASU on January 1, 2019. This ASU did not have a material impact 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 board of directors. The Company will assess the potential impact that this ASU will have on the Company's consolidated financial statements.

In June 2018, the FASB issued ASU 2018-09, *Codification Improvements*, which affects a wide variety of topics, including amendments to subtopics: 220-10, *Income Statement—Reporting Comprehensive Income—Overall*; 470-50, *Debt—Modifications and Extinguishments*; 480-10, *Distinguishing Liabilities from Equity—Overall*; 718-740, *Compensation—Stock Compensation—Income Taxes*; 805-740, *Business Combinations—Income Taxes*; and, 820-10, *Fair Value Measurement—Overall*. The transition and effective date guidance is based on the facts and circumstances of each amendment. Some of the amendments in ASU 2018-09 do not require transition guidance and will be effective upon issuance of ASU 2018-09. However, many of the amendments do have transition guidance with effective dates for annual periods beginning after December 15, 2018, for public business entities and after December 15, 2019 for EGCs.

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 <u>at a minimum</u> 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, 2020. 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, 2021.

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 require 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.

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:

(dollars in thousands)	FAIC Book Value	Fair Value Adjustments	Fair Value
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	$ 839,753	$ 10,209	$ 849,962
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	776,266	(2,300)	773,966
Excess of assets acquired over liabilities assumed	63,487	12,509	75,996
	$ 839,753	$ 10,209	
Stock consideration			69,602
Cash paid			34,837
Goodwill recognized			$ 28,443

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 June 30, 2019 and December 31, 2018, and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income:

(dollars in thousands) June 30, 2019	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale				
Government agency securities	$ 1,748	$ 1	$ —	$ 1,749
SBA agency securities	5,004	59	(17)	5,046
Mortgage-backed securities- Government sponsored agencies	19,990	32	(107)	19,915
Collateralized mortgage obligations	12,273	43	(148)	12,168
Corporate debt securities	32,629	150	(28)	32,751
Total	$ 71,644	$ 285	$ (300)	$ 71,629
Held to maturity				
Municipal taxable securities	$ 3,583	$ 176	$ —	$ 3,759
Municipal securities	5,150	90	—	5,240
Total	$ 8,733	$ 266	$ —	$ 8,999
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	$ 75,663	$ 106	$ (2,007)	$ 73,762
Held to maturity				
Municipal taxable securities	$ 4,290	$ 142	$ —	$ 4,432
Municipal securities	5,671	1	(164)	5,508
Total	$ 9,961	$ 143	$ (164)	$ 9,940

One security with a fair value of $678,000 and $697,000 at June 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 June 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.

	Less than One Year		More than One Year to Five Years		More than Five Years to Ten Years		More than Ten Years		Total	
(dollars in thousands)	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
June 30, 2019										
Government agency securities	$ —	$ —	$ 1,748	$ 1,749	$ —	$ —	$ —	$ —	$ 1,748	$ 1,749
SBA securities	—	—	806	820	4,198	4,226	—	—	5,004	5,046
Mortgage-backed securities- Government sponsored agencies	412	411	13,004	12,986	6,574	6,518	—	—	19,990	19,915
Collateralized mortgage obligations	—	—	9,907	9,758	2,366	2,410	—	—	12,273	12,168
Corporate debt securities	17,026	17,028	5,083	5,087	6,500	6,634	4,020	4,002	32,629	32,751
Total available for sale	$ 17,438	$ 17,439	$ 30,548	$ 30,400	$ 19,638	$ 19,788	$ 4,020	$ 4,002	$ 71,644	$ 71,629
Municipal taxable securities	$ 125	$ 129	$ 2,953	$ 3,047	$ 505	$ 583	$ —	$ —	$ 3,583	$ 3,759
Municipal securities	—	—	—	—	354	355	4,796	4,885	5,150	5,240
Total held to maturity	$ 125	$ 129	$ 2,953	$ 3,047	$ 859	$ 938	$ 4,796	$ 4,885	$ 8,733	$ 8,999

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

	Less than Twelve Months			Twelve Months or More			Total		
(dollars in thousands)	Unrealized Losses	Estimated Fair Value	No. of Issuances	Unrealized Losses	Estimated Fair Value	No. of Issuances	Unrealized Losses	Estimated Fair Value	No. of Issuances
June 30, 2019									
SBA securities	$ —	$ —	—	$ (17)	$ 1,559	2	$ (17)	$ 1,559	2
Mortgage-backed securities- Government sponsored agencies	—	—	—	(107)	14,160	19	(107)	14,160	19
Collateralized mortgage obligations	—	—	—	(148)	9,758	7	(148)	9,758	7
Corporate debt securities	—	—	—	(28)	5,996	3	(28)	5,996	3
Total available for sale	$ —	$ —	—	$ (300)	$ 31,473	31	$ (300)	$ 31,473	31
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.

	Three months ended June 30,								
	2019				2018				
(dollars in thousands)	Real Estate	Commercial	Other	Total	Real Estate	Commercial	Unallocated	Other	Total
Allowance for loan losses:									
Beginning balance	$ 14,389	$ 3,844	$ 3	$ 18,236	$ 9,962	$ 3,926	$ 69	$ —	$ 13,957
Additions (reductions) to the allowance charged to expense	193	164	—	357	530	174	(4)	—	700
Less loans charged-off	—	(32)	—	(32)	—	—	—	—	—
Ending balance	$ 14,582	$ 3,976	$ 3	$ 18,561	$ 10,492	$ 4,100	$ 65	$ —	$ 14,657

	Six months ended June 30,								
	2019				2018				
(dollars in thousands)	Real Estate	Commercial	Other	Total	Real Estate	Commercial	Unallocated	Other	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	1,145	(241)	3	907	1,183	56	(355)	—	884
Recoveries on loans charged-off	—	109	—	109	—	—	—	—	—
Less loans charged-off	—	(32)	—	(32)	—	—	—	—	—
Ending balance	$ 14,582	$ 3,976	$ 3	$ 18,561	$ 10,492	$ 4,100	$ 65	$ —	$ 14,657

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

(dollars in thousands) **As of and for the three months ended June 30, 2019**	Real Estate	Commercial	Other	Total
Reserves:				
Specific	$ —	$ 11	$ —	$ 11
General	14,582	3,965	3	18,550
Total allowance for loan losses	$ 14,582	$ 3,976	$ 3	$ 18,561
Loans evaluated for impairment:				
Individually	3,225	3,060	—	6,285
Collectively	1,725,436	360,335	382	2,086,153
Total loans, net of deferred loan fees and unaccreted discount on acquired loans	$ 1,728,661	$ 363,395	$ 382	$ 2,092,438

As of and for the three months ended June 30, 2018	Real Estate	Commercial	Unallocated	Total
Reserves:				
Specific	$ —	$ —	$ —	$ —
General	10,492	4,100	65	14,657
Loans acquired with deteriorated credit quality	—	—	—	—
Total allowance for loan losses	10,492	4,100	65	14,657
Loans evaluated for impairment:				
Individually	$ 3,356	$ 3,197	$ —	$ 6,553
Collectively	872,088	405,130	—	1,277,218
Loans acquired with deteriorated credit quality	311	—	—	311
Total loans, net of deferred loan fees and unaccreted discount on acquired loans	$ 875,755	$ 408,327	$ —	$ 1,284,082

As of and for the year ended 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
	$ 13,437	$ 4,140	$ —	$ 17,577
Reserves:				
Specific	$ 44	$ —	$ —	$ 44
General	13,393	4,140	—	17,533
Loans acquired with deteriorated credit quality	—	—	—	—
Total allowance for loan losses	$ 13,437	$ 4,140	$ —	$ 17,577
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 unaccreted discount on acquired loans	$ 1,753,205	$ 388,810	$ —	$ 2,142,015

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 June 30, 2019 and December 31, 2018:

(dollars in thousands) June 30, 2019	Pass	Special Mention	Substandard	Impaired (1)	Total
Real estate:					
Construction and land development	$ 118,535	$ —	$ —	$ 271	$ 118,806
Commercial real estate	728,742	6,335	18,875	2,500	756,452
Single-family residential mortgages	851,782	—	1,166	455	853,403
Commercial:					
Other	270,760	7,852	5,308	—	283,920
SBA	71,605	131	4,680	3,059	79,475
Other:	382	—	—	—	382
Total loans	$ 2,041,806	$ 14,318	$ 30,029	$ 6,285	$ 2,092,438

(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	$ 2,111,225	$ 13,355	$ 14,154	$ 3,281	$ 2,142,015

(1) Loans, net of deferred fees

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

(dollars in thousands) June 30, 2019	30-59 Days	60-89 Days	90 Days Or More	Total Past Due	Loans Not Past Due	Total Loans	Non-Accrual Loans (1)
Real estate:							
Construction and land development	$ —	$ —	$ —	$ —	$ 118,806	$ 118,806	$ —
Commercial real estate	—	—	—	—	756,452	756,452	—
Single-family residential mortgages	1,244	446	455	2,145	851,258	853,403	455
Commercial:							
Other	—	—	—	—	283,920	283,920	—
SBA	1,746	—	3,008	4,754	74,721	79,475	3,008
Other:	—	—	—	—	382	382	—
	$ 2,990	$ 446	$ 3,463	$ 6,899	$2,085,539	$2,092,438	$ 3,463
Real estate:							
Single-family residential mortgages held for sale	$ 341	$ 453	$ —	$ 794	$ 248,802	$ 249,596	$ —
December 31, 2018	30-59 Days	60-89 Days	90 Days Or More	Total Past Due	Loans Not Past Due	Total Loans	Non-Accrual Loans (1)
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
	$ 2,505	$ 1,628	$ 914	$ 5,047	$2,136,968	$2,142,015	$ 914
Real estate:							
Single-family residential mortgages held for sale	$ —	$ 458	$ —	$ 458	$ 434,064	$ 434,522	$ —

(1) Included in total loans.

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

(dollars in thousands) June 30, 2019	Principal Balance	Recorded Investment	Average Balance	Interest Income	Related Allowance
With no related allowance recorded					
Construction and land development	$ 271	$ 271	$ 272	$ 6	$ —
Commercial real estate	2,500	2,562	2,569	26	—
Residential mortgage loans	455	455	455	—	—
Commercial - SBA	2,981	3,007	3,008	1	—
With related allowance recorded					
Commercial - SBA	78	75	75	—	11
Total	$ 6,285	$ 6,370	$ 6,379	$ 33	$ 11

(dollars in thousands) 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	$ 23	$ —
Commercial real estate	2,033	2,033	2,126	134	—
Residential mortgage loans	—	—	—	—	—
Commercial - SBA	797	1,498	1,377	19	—
With related allowance recorded					
Commercial - SBA	175	175	193	1	44
Total	$ 3,281	$ 3,982	$ 3,979	$ 177	$ 44

No interest income was recognized on a cash basis for the six months ended June 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 June 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 June 30, 2019 or December 31, 2018. There are no commitments to lend additional amounts at June 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 six months ended June 30, 2019. There was one loan modified as a TDR during the six months ended June 30, 2019. There were three new TDRs during the six months ended June 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.

(dollars in thousands) June 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 June 30, 2019 and December 31, 2018 are as follows:

(dollars in thousands)	June 30, 2019	December 31, 2018
Loans serviced for others:		
Mortgage loans	$ 1,734,204	$ 1,586,499
SBA loans	$ 181,719	$ 184,664
Commercial real estate loans	$ 4,251	$ 2,838

The fair value of servicing assets for mortgage loans was $13.2 million and $15.3 million at June 30, 2019 and December 31, 2018, respectively. The fair value of servicing assets for SBA loans was $6.1 million at both June 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 $899,000 and $58,000 for the three months ended June 30, 2019 and 2018, respectively and $1.7 million and $27,000 for the six months ended June 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.

	Three Months Ended June 30, 2019		Six Months Ended June 30, 2019	
(dollars in thousands)	Mortgage Loans	SBA Loans	Mortgage Loans	SBA Loans
Servicing assets:				
Beginning of period	$ 12,963	$ 4,325	$ 12,858	$ 4,512
Additions	736	328	1,340	440
Disposals	(53)	(137)	(86)	(265)
Amortized to expense	(402)	(173)	(868)	(344)
End of period	$ 13,244	$ 4,343	$ 13,244	$ 4,343

	Three Months Ended June 30, 2018		Six Months Ended June 30, 2018	
(dollars in thousands)	Mortgage Loans	SBA Loans	Mortgage Loans	SBA Loans
Servicing assets:				
Beginning of period	$ 1,661	$ 4,318	$ 1,540	$ 4,417
Additions	322	564	637	1,048
Disposals	(76)	(311)	(115)	(736)
Amortized to expense	(179)	(165)	(334)	(323)
End of period	$ 1,728	$ 4,406	$ 1,728	$ 4,406

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 June 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 six months ended June 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 June 30, 2019 and December 31, 2018 was $6.8 million and $7.6 million, respectively. CDI amortization expense was $773,000 and $158,000 for the six months ended June 30, 2019 and June 30, 2018, respectively.

Estimated CDI amortization expense for future years is as follows:

(dollars in thousands)	
As of June 30:	
Remainder of 2019	$ 727
2020	1,285
2021	1,056
2022	879
2023	749
Thereafter	2,132
Total	$ 6,828

NOTE 8 - DEPOSITS

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

(dollars in thousands)	June 30, 2019
One year	$ 1,241,989
Two to three years	93,048
Over three years	2,220
Total	$ 1,337,257

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 3 month 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 June 30, 2019 and December 31, 2018, long-term debt was as follows:

(dollars in thousands)	June 30, 2019	December 31, 2018
Principal	$ 105,000	$ 105,000
Unamortized debt issuance costs	$ 1,122	$ 1,292

The following table presents interest and amortizations expense the Company incurred for the three and six months ended June 30, 2019 and 2019:

(dollars in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Interest Expense:				
Interest	$ 1,662	$ 813	$ 3,324	$ 1,625
Amortization	85	36	171	73

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 London Interbank Offered Rate (LIBOR) plus 1.65%, which was 4.06% as of June 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 June 30, 2019, was 4.66% and 5.04% at December 31, 2018.

The Company paid interest expenses of $140,000 and 49,000 for the three months ended June 30, 2019 and 2018, respectively, and $284,000 and $90,000, respectively, for the six months ended June, 30 2019 and 2018. The amount of aggregate amortization expense recognized for the three months ended June 30, 2019 and 2018 was $42,000 and $22,000, respectively, and $84,000 and $45,000 for the six months ended June 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 notes and 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 June 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 June 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 $16.8 million at June 30, 2019 is collateralized by loans pledged with a carrying value of $29.0 million.

FHLB Secured Line of Credit. The secured borrowing capacity with the FHLB of $649.3 million at June 30, 2019 is collateralized by loans pledged with a carrying value of $730.8 million.

At June 30, 2019, the Company had $40.0 million at 2.52% 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 June 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 June 30, 2019 and 2018, the Company recorded an income tax provision of $4.4 million and $2.3 million, respectively, reflecting an effective tax rate of 30.3% and 19.5% for the three months ended June 30, 2019 and 2018, respectively. During the six months ended June 30, 2019 and 2018, the Company recorded an income tax provision of $8.3 million and $3.9 million, respectively, reflecting an effective tax rate of 28.7% and 17.5% for the six months ended June 30, 2019 and 2018, respectively. The Company recognized of tax benefit from stock option exercises of $40,000 and $2.6 million for the six months ended June 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 June 30, 2019:

(dollars in thousands)		
Year ending December 31:		
2019 remaining	$	2,877
2020		5,401
2021		3,876
2022		3,713
2023		3,186
Thereafter		10,572
Total	$	29,625

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 $458,000 for the three months ended June 30, 2019 and 2018, respectively and $3.1 million and $895,000 for the six months ended June 30, 2019, respectively. The Company received rental income of $49,000 in the first quarter of 2019 and $99,000 in the first half 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 June 30, 2019 and December 31, 2018, the Company had the following financial commitments whose contractual amount represents credit risk:

(dollars in thousands)		**June 30, 2019**		**December 31, 2018**
Commitments to extend credit	$	244,213	$	267,920
Commercial and similar letters of credit		453		1,042
Standby letters of credit		3,693		3,374
Total	$	248,359	$	272,336

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:

(dollars in thousands)	June 30, 2019	December 31, 2018
Beginning balance	$ 3,600	$ 2,300
New loans and advances	6,600	7,400
Repayments	(7,200)	(6,100)
Ending balance	$ 3,000	$ 3,600

Loan commitments outstanding to executive officers, directors and their related interests with whom they are associated totaled approximately $1.4 million at June 30, 2019 and $800,000 at December 31, 2018.

Deposits from principal officers, directors, and their affiliates at June 30, 2019 and December 31, 2018 were $18.7 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. This represents 19% of the issued and outstanding shares of the Company's common stock as of June 30, 2019. As of June 30, 2019, there were 1,254,045 shares of common stock available for issuance under the OSIP. 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 $396,000 and $262,000 and recognized income tax benefits on that expense of $40,000 and $56,000 for the six months ended June 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). The capital conservation buffer for June 30, 2019 is 13.30% and 11.45% for the Bank and RBB, respectively. 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 June 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:

			Amount of Capital Required			
	Actual		Minimum Required for Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Provisions	
(dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of June 30, 2019:						
Tier 1 Leverage Ratio						
Consolidated	$ 339,889	12.19%	NA	NA	NA	NA
Bank	394,917	14.17%	$ 111,485	4.0%	$ 139,356	5.0%
Common Equity Tier 1 Risk-Based Capital Ratio						
Consolidated	330,299	16.96%	NA	NA	NA	NA
Bank	394,917	20.31%	87,650	4.5%	126,606	6.5%
Tier 1 Risk-Based Capital Ratio						
Consolidated	339,889	17.45%	NA	NA	NA	NA
Bank	394,917	20.31%	116,867	6.0%	155,822	8.0%
Total Risk-Based Capital Ratio						
Consolidated	462,949	23.77%	NA	NA	NA	NA
Bank	414,099	21.30%	155,822	8.0%	194,778	10.0%

	Actual		Amount of Capital Required: Minimum Required for Capital Adequacy Purposes		Amount of Capital Required: To Be Well-Capitalized Under Prompt Corrective Provisions	
(dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2018:						
Tier 1 Leverage Ratio						
Consolidated	$ 321,407	11.80%	NA	NA	NA	NA
Bank	370,304	13.66%	$ 108,445	4.0%	$ 135,556	5.0%
Common Equity Tier 1 Risk-Based Capital Ratio						
Consolidated	311,901	15.28%	NA	NA	NA	NA
Bank	370,304	18.17%	91,722	4.5%	132,487	6.5%
Tier 1 Risk-Based Capital Ratio						
Consolidated	321,407	15.74%	NA	NA	NA	NA
Bank	370,304	18.17%	122,296	6.0%	163,061	8.0%
Total Risk-Based Capital Ratio						
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 June 30, 2019.

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

(dollars in thousands)	Fair Value Measurements Using:			
June 30, 2019	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets measured at fair value:				
On a recurring basis:				
Securities available for sale				
Government agency securities		$ 1,749		$ 1,749
SBA agency securities		5,046		5,046
Mortgage-backed securities		19,915		19,915
Collateralized mortgage obligations		12,168		12,168
Corporate debt securities		32,751		32,751
	$ —	$ 71,629	$ —	$ 71,629
On a non-recurring basis:				
Other real estate owned	$ —	$ —	$ 2,075	$ 2,075
December 31, 2018				
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
	$ —	$ 73,762	$ —	$ 73,762
On a non-recurring basis:				
Other real estate owned	$ —	$ —	$ 1,101	$ 1,101

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

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

(dollars in thousands) **June 30, 2019**	**Fair Value Amount**	**Valuation Technique**	**Unobservable Input**	**Adjustment Range**	**Weighted-Average Adjustment**
Other real estate owned	$ 2,075	Third Party Appraisals	Management Adjustments to Reflect Current Conditions and Selling Costs	14%	14%
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 June 30, 2019 consists of two single-family residences with a fair value of $1.1 million and one 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 June 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 June 30, 2019 and December 31, 2018 are summarized as follows:

		June 30, 2019		December 31, 2018	
(dollars in thousands)	Fair Value Hierarchy	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets:					
Cash and due from banks	Level 1	$ 185,643	$ 185,643	$ 147,685	$ 147,685
Federal funds sold and other cash equivalents	Level 1	20,000	20,000	—	—
Interest-earning deposits in other financial institutions	Level 1	1,196	1,196	600	600
Investment securities - AFS	Level 2	71,629	71,629	73,762	73,762
Investment securities - HTM	Level 2	8,733	8,999	9,961	9,940
Mortgage loans held for sale	Level 1	249,596	251,825	434,522	438,948
Loans, net	Level 3	2,073,877	2,083,992	2,124,438	2,114,341
Equity Security	Level 3	11,289	11,289	10,039	10,039
Financial Liabilities:					
Deposits	Level 2	$ 2,235,334	$ 2,235,718	$ 2,144,041	$ 2,143,196
FHLB advances	Level 2	40,000	40,000	319,500	319,500
Long-term debt	Level 2	103,878	99,778	103,708	79,756
Subordinated debentures	Level 3	9,590	10,242	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"):

	Three months ended June 30,			
	2019		2018	
(dollars in thousands except per share amounts)	Income	Shares	Income	Shares
Net income as reported	$ 10,142		$ 9,437	
Shares outstanding		20,077,524		16,544,627
Impact of weighting shares		(2,873)		(137,188)
Used in basic EPS	10,142	20,074,651	9,437	16,407,439
Dilutive effect of outstanding				
Stock options		370,362		915,361
Used in dilutive EPS	$ 10,142	20,445,013	$ 9,437	17,322,800
Basic earnings per common share	$ 0.51		$ 0.58	
Diluted earnings per common share	0.50		0.54	

(dollars in thousands except per share amounts)	Six months ended June 30, 2019 Income	Shares	2018 Income	Shares
Net income as reported	$ 20,522		$ 18,283	
Shares outstanding		20,077,524		16,544,627
Impact of weighting shares		(16,266)		(298,564)
Used in basic EPS	20,522	20,061,258	18,283	16,246,063
Dilutive effect of outstanding				
Stock options		379,642		1,002,062
Used in dilutive EPS	$ 20,522	20,440,900	$ 18,283	17,248,125
Basic earnings per common share	$ 1.02		$ 1.13	
Diluted earnings per common share	1.00		1.06	

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:

(dollars in thousands)	Three months Ended June 30, 2019	2018	Six Months Ended June 30, 2019	2018
Non-interest income, in scope (1)				
Fees and service charges on deposit accounts	$ 315	$ 259	$ 613	$ 546
Other fees (2)	425	11	623	17
Other income (3)	442	143	733	271
Gain (loss) on sale of fixed assets	6	—	6	—
Total in-scope non-interest income	1,188	413	1,975	834
Non-interest income, not in scope (4)	4,308	2,380	7,723	4,414
Total non-interest income	$ 5,496	$ 2,793	$ 9,698	$ 5,248

(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, and (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 other real estate owned ("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 June 30, 2019 and December 31, 2018, the balance of the investment for qualified affordable housing projects was $9.1 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 $5.4 million and $6.8 million at June 30, 2019 and December 31, 2018, respectively. The Company expects to fulfill these commitments during the years ending 2027 and 2028.

For the six months ended June 30, 2019 and 2018, the Company recognized amortization expense of $450,000 and $322,000, respectively, which was included within income tax expense on the consolidated statements of income.

NOTE 22 - RECENT DEVELOPMENTS

On July 18, 2019, RBB Bancorp announced a cash dividend of $0.10 per share for the second quarter of 2019. The dividend is payable on August 15, 2019 to common shareholders of record as of July 31, 2019.

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, 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;
- 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 June 30, 2019, RBB had total consolidated assets of $2.8 billion, gross consolidated loans of $2.3 billion (held for investment ("HFI") and held for sale ("HFS")), total consolidated deposits of $2.2 billion and total consolidated stockholders' equity of $393.8 million. On July 31, 2017, RBB completed its initial public offering and sold 3,750,000 shares of its common stock at a price to the public of $23.00 per share. 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.

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 second quarter of 2019, we reported net earnings of $10.1 million, compared with $9.4 million for the second quarter of 2018. This represented an increase of $705,000 from the second quarter of 2018. Diluted earnings per share were $0.50 per share for the second quarter of 2019, compared to $0.54 for the same period last year.

At June 30, 2019, total assets were $2.8 billion, a decrease of $172.0 million, or 5.8%, from total assets of $3.0 billion at December 31, 2018. Net interest-earning assets were $2.6 billion as of June 30, 2019, a decrease of $186.2 million, or 6.7%, when compared with $2.8 billion at December 31, 2018. The decrease in net interest-earning assets was primarily due to a $184.9 million decrease in mortgage loans held for sale, a $3.4 million decrease in investment securities, a $50.6 million decrease in net loans held for investment, partially offset by a $58.0 million increase in cash and due from banks.

At June 30, 2019, AFS investment securities totaled $71.6 million inclusive of a pre-tax net unrealized loss of $15,000, 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 June 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 June 30, 2019, compared to $2.1 billion at December 31, 2018 and $1.3 billion at June 30, 2018. Total loans and leases, net of deferred fees and discounts, decreased $50.0 million, or 2.3%, from December 31, 2018. The decrease in total loans was principally due to decreases of $20.2 million in commercial and industrial ("C&I") loans, $5.0 million SBA loans, $2.3 million in commercial real estate ("CRE") loans, and $27.8 million in single-family residential ("SFR") mortgage loans, which were partially offset by a $5.6 million increase in construction and land development ("C&D") loans.

HFS loans held for sale were $249.6 million at June 30, 2019, compared to $434.5 million at December 31, 2018 and $281.8 million at June 30, 2018.

Noninterest-bearing deposits were $435.6 million at June 30, 2019, a decrease of $3.2 million, or 0.7%, compared to $438.8 million at December 31, 2018. At June 30, 2019, noninterest-bearing deposits were 19.5% of total deposits, compared to 20.5% at December 31, 2018. The decrease was driven by a number of factors, including depositors moving funds to time deposits from savings, NOW and money market accounts given the current expectations for lower interest rates, certain import customers investing in inventory ahead of potential additional tariffs on Chinese imports, as well as other customers drawing on their funds to make investments. Compared to June 30, 2018, noninterest-bearing deposits increased $129.3 million from $306.4 million.

Our average cost of total deposits was 1.62% for the quarter ended June 30, 2019, compared to 1.01% for the same period last year. The increase is due to increasing market deposit rates due to Federal Reserve actions. Borrowings, consisting of long-term and subordinated debt, remained nearly constant at $113.5 million as of June 30, 2019 compared to $113.2 million as of December 31, 2018 and increased from $53.1 million as of June 30, 2018. As of June 30, 2019 we had $40.0 million in advances from the FHLB as compared to $319.5 million as of December 31, 2018.

The allowance for loan losses was $18.6 million at June 30, 2019, compared to $17.6 million at December 31, 2018. The allowance for loan losses increased by $325,000 during the second quarter of 2019. The increase was due to a $357,000 credit loss provision reflecting normal loan growth, partially offset by $32,000 in net charge-offs in the second quarter of 2019. The allowance for loan losses to total loans and leases outstanding was 0.89% and 0.82% as of June 30, 2019 and December 31, 2018, respectively.

Shareholders' equity increased $19.2 million, or 5.1%, to $393.8 million during the first half of 2019 due to $20.5 million of net income, $967,000 from the exercise of stock options and $396,000 from stock-based compensation, and a $1.3 million increase in net accumulated other comprehensive income, which was partially offset by $4.0 million of common dividends declared. The increase in accumulated other comprehensive income primarily resulted from increases in unrealized gains on available for sale securities.

Our capital ratios under the revised capital framework referred to as Basel III remain well-above regulatory standards. As of June 30, 2019, the Company's Tier 1 leverage capital ratio was 12.19%, our common equity Tier 1 ratio was 16.96%, our Tier 1 risk-based capital ratio was 17.45%, and our total risk-based capital ratio was 23.77%. See "*Regulatory Capital Requirements*" herein for a further discussion of our regulatory capital requirements.

ANALYSIS OF RESULTS OF OPERATIONS

Financial Performance

(dollars in thousands except per share amounts)	For the three months ended June 30, 2019	2018	Variance $	Variance %	For the six months ended June 30, 2019	2018	Variance $	Variance %
Interest income	$ 35,943	$ 22,284	$ 13,659	61.3 %	$ 73,149	$ 42,460	$ 30,689	72.3 %
Interest expense	11,626	4,457	(7,169)	(160.8)	22,920	8,189	(14,731)	(179.9)
Net interest income	24,317	17,827	6,490	36.4	50,229	34,271	15,958	46.6
Provision for loan losses	357	700	343	49.0	907	884	(23)	(2.6)
Net interest income after provision for credit losses	23,960	17,127	6,833	39.9	49,322	33,387	15,935	47.7
Noninterest income	5,496	2,793	2,703	96.8	9,698	5,248	4,450	84.8
Noninterest expense	(14,899)	(8,191)	6,708	(81.9)	(30,224)	(16,480)	13,744	(83.4)
Income before income taxes	14,557	11,729	2,828	24.1	28,796	22,155	6,641	30.0
Income tax expense	4,415	2,292	(2,123)	(92.6)	8,274	3,872	(4,402)	(113.7)
Net income	$ 10,142	$ 9,437	$ 705	7.5	$ 20,522	$ 18,283	$ 2,239	12.2
Earnings per common share (1):								
Basic	$ 0.51	$ 0.58	$ (0.07)		$ 1.02	$ 1.13	$ (0.11)	
Diluted	0.50	0.54	(0.04)		1.00	1.06	-0.06	
Weighted average shares outstanding (1):								
Basic	20,074,651	16,407,439	3,667,212	22.4	20,061,258	16,246,063	3,815,195	23.5
Diluted	20,445,013	17,322,800	3,122,213	18.0	20,440,900	17,248,125	3,192,775	18.5
Return on average assets	1.43 %	2.18 %		(0.75)	1.44 %	2.18 %		(0.7)
Return on average shareholders' equity	10.42	13.45	(3.03)		10.69	13.35	(2.66)	
Efficiency ratio (2)	49.97	39.72	10.25		50.43	41.70	8.73	
Dividend payout ratio	19.61	16.67	2.94		19.92	16.04	3.88	
Average equity to assets ratio	13.70	16.21	(2.51)		13.42	16.30	(2.88)	
Tangible book value per share (3)	$ 16.37	$ 15.41	$ 0.96		$ 16.37	$ 15.41	$ 0.96	
Return on average tangible common equity (3)	12.51 %	15.13 %	-2.62 %		12.88 %	15.05 %	-2.17 %	

(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, adjusted return on average assets, adjusted return on average tangible common equity, return on average tangible common equity and tangible common equity to tangible assets 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 six months ended June 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

	For the three months ended June 30,					
	2019			2018		
(dollars in thousands)	**Average Balance**	**Interest & Fees**	**Yield / Rate**	**Average Balance**	**Interest & Fees**	**Yield / Rate**
Earning assets:						
Federal funds sold, cash equivalents and other (1)	$ 120,818	$ 1,018	3.38 %	$ 79,065	$ 549	2.78 %
Securities						
Available for sale	87,347	610	2.80	74,836	519	2.78
Held to maturity (2)	9,127	84	3.69	9,992	92	3.68
Mortgage loans held for sale	355,168	4,245	4.79	209,423	2,428	4.65
Loans held for investment: (3)						
Real estate	1,763,749	24,394	5.55	885,630	12,635	5.72
Commercial	347,236	5,601	6.47	377,077	6,069	6.46
Total loans	2,110,985	29,995	5.70	1,262,707	18,704	5.94
Total earning assets	2,683,445	$ 35,952	5.37	1,636,023	$ 22,292	5.47
Noninterest-earning assets	166,719			100,442		
Total assets	$ 2,850,164			$ 1,736,465		
Interest-bearing liabilities						
NOW and money market deposits	$ 387,363	$ 1,188	1.23 %	$ 387,116	$ 968	1.00 %
Savings deposits	97,584	50	0.21	29,499	30	0.40
Time deposits	1,338,631	7,797	2.34	666,493	2,410	1.45
Total interest-bearing deposits	1,823,578	9,035	1.99	1,083,108	3,408	1.26
FHLB short-term advances	95,220	662	2.79	34,011	129	1.52
Long-term debt	103,826	1,748	6.75	49,583	849	6.87
Subordinated debentures	9,564	181	7.59	3,459	71	8.26
Total interest-bearing liabilities	2,032,188	$ 11,626	2.29	1,170,161	$ 4,457	1.53
Noninterest-bearing liabilities						
Noninterest-bearing deposits	408,219			271,920		
Other noninterest-bearing liabilities	19,183			12,930		
Total noninterest-bearing liabilities	427,402			284,850		
Shareholders' equity	390,574			281,454		
Total liabilities and shareholders' equity	$ 2,850,164			$ 1,736,465		
Net interest income / interest rate spreads		$ 24,326	3.08 %		$ 17,835	3.94 %
Net interest margin			3.64 %			4.37 %

(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.

	For the six months ended June 30,					
	2019			2018		
(dollars in thousands)	Average Balance	Interest & Fees	Yield / Rate	Average Balance	Interest & Fees	Yield / Rate
Earning assets:						
Federal funds sold, cash equivalents and other (1)	$ 111,601	$ 1,798	3.25 %	$ 85,509	$ 1,092	2.58 %
Securities						
Available for sale	78,079	1,118	2.89	72,453	996	2.77
Held to maturity (2)	9,377	173	3.72	9,997	184	3.71
Mortgage loans held for sale	402,237	9,735	4.88	184,315	4,266	4.67
Loans held for investment: (3)						
Real estate	1,764,278	48,879	5.59	865,588	23,732	5.53
Commercial	349,818	11,465	6.61	380,740	12,208	6.47
Total loans	2,114,096	60,344	5.76	1,246,328	35,940	5.82
Total earning assets	2,715,390	$ 73,168	5.43	1,598,602	$ 42,478	5.36
Noninterest-earning assets	166,968			95,755		
Total assets	$ 2,882,358			$ 1,694,357		
Interest-bearing liabilities						
NOW and money market deposits	$ 400,584	$ 2,430	1.22 %	$ 365,909	$ 1,636	0.90 %
Savings deposits	99,095	102	0.21	30,709	65	0.43
Time deposits	1,239,474	13,750	2.24	653,837	4,456	1.37
Total interest-bearing deposits	1,739,153	16,282	1.89	1,050,455	6,157	1.18
FHLB short-term advances	216,638	2,776	2.58	32,565	200	1.24
Long-term debt	103,784	3,495	6.79	49,567	1,698	6.91
Subordinated debentures	9,544	367	7.75	3,449	135	7.92
Total interest-bearing liabilities	2,069,119	$ 22,920	2.23	1,136,036	$ 8,190	1.45
Noninterest-bearing liabilities						
Noninterest-bearing deposits	406,713			269,957		
Other noninterest-bearing liabilities	19,582			12,114		
Total noninterest-bearing liabilities	426,295			282,071		
Shareholders' equity	386,944			276,250		
Total liabilities and shareholders equity	$ 2,882,358			$ 1,694,357		
Net interest income / interest rate spreads		$ 50,248	3.20 %		$ 34,288	3.91 %
Net interest margin			3.73 %			4.33 %

(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.

	Comparison of three months ended June 30, 2019 and June 30, 2018			Comparison of six months ended June 30, 2019 and June 30, 2018		
	Change due to:			Change due to:		
(tax-equivalent basis, dollars in thousands)	Volume	Rate	Interest Variance	Volume	Rate	Interest Variance
Earning assets:						
Federal funds sold, cash equivalents & other (1)	$ 290	$ 179	$ 469	$ 337	$ 369	$ 706
Securities (2)						
Available for sale	87	4	91	78	44	122
Held to maturity	(9)	1	(8)	(12)	1	(11)
Mortgage loans held for sale	1,694	123	1,817	5,088	381	5,469
Loans held for investment: (3)						
Real estate	12,557	(798)	11,759	24,849	298	25,147
Commercial	(482)	14	(468)	(1,000)	257	(743)
Total loans	12,075	(784)	11,291	23,849	555	24,404
Total earning assets	$ 14,137	$ (477)	$ 13,660	$ 29,340	$ 1,350	$ 30,690
Interest-bearing liabilities						
NOW and money market deposits	$ 1	$ 219	$ 220	$ 156	$ 638	$ 794
Savings deposits	68	(48)	20	147	(110)	37
Time deposits	2,437	2,950	5,387	4,012	5,282	9,294
Total interest-bearing deposits	2,506	3,121	5,627	4,315	5,810	10,125
FHLB short-term advances	233	300	533	1,141	1,435	2,576
Long-term debt	932	(33)	899	1,873	(76)	1,797
Subordinated debentures	126	(16)	110	241	(9)	232
Total interest-bearing liabilities	3,797	3,372	7,169	7,570	7,160	14,730
Net interest	$ 10,340	$ (3,849)	$ 6,491	$ 21,770	$ (5,810)	$ 15,960

(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 June 30, 2019 and 2018

The following discussion of our results of operations compares the three months ended June 30, 2019 and the three months ended June 30, 2018. The results of operations for the three months ended June 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 second quarter of 2019, we generated $24.3 million of net interest income, which was an increase of $6.5 million, or 36.4%, from the $17.8 million of net interest income we produced in the second quarter of 2018. The increase in net interest income was primarily due to a $1.0 billion or 64.0% increase in the average balance of interest-earning assets, partially offset by a 10 basis point decrease in the average yield on interest-earning assets, and a 73 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 loan (HFI and HFS) average balances, plus increases in average cash equivalents and average investment securities.

Our average deposit balances increased by $876.8 million, primarily as a result of the FAIC acquisition in October 2018 and an increase of $117.6 million in average brokered certificates of deposit in the second quarter of 2019. The increase in interest expense was primarily due to a $862.0 million increase in average interest-bearing liabilities and a 76 basis point increase in the average rate paid on interest-bearing liabilities. For the three months ended June 30, 2019 and 2018, our net interest margin was 3.64% and 4.37%, respectively. Our net interest margin benefits from discount accretion on our purchased loan portfolios. Our net interest margin for the three months ended June 30, 2019 and 2018, excluding accretion income, would have been 3.52% and 4.15%, respectively.

Total interest income was $35.9 million for the second quarter of 2019 compared to $22.3 million for the second quarter of 2018. The $13.6 million, or 61.3%, increase in total interest income was primarily due to increases in loan (HFI and HFS) average balances of approximately $278.4 billion in organic growth and approximately $715.6 million from the FAIC acquisition, as well as increases in yields on securities, partially offset by a 10 basis point decrease in HFI loan yields, and decreases in average balances of federal funds sold and other cash equivalents.

Interest and fees on HFI and HFS loans for the second quarter of 2019 was $34.2 million compared to $21.1 million for the second quarter of 2018. The $13.1 million, or 62.0%, increase was primarily due to a 67.5% increase in the average balance of HFI and HFS loans outstanding partially offset by a 19 basis point decrease in the average yield on loans. The increase in the average loan balance was primarily due to loan growth in construction and land development, single-family residential mortgages, and commercial real estate loans resulting from the FAIC acquisition. Accretion income totaled $753,000 in the second quarter of 2019 compared to $921,000 in the second quarter of 2018. The average yield on loans benefits from discount accretion on our purchased loan portfolio. For the three months ended June 30, 2019 and 2018, the yield on total loans was 5.57% and 5.76%, respectively, while the yield on total loans excluding accretion income would have been 5.45% and 5.51%, respectively. Due to payoffs of acquired loans, we expect accretion income to decline quarterly throughout 2019.

	As of and for the three months ended June 30,		As of and for the six months ended June 30,	
(dollars in thousands)	**2019**	**2018**	**2019**	**2018**
Beginning balance of discount on purchased loans	$ 7,809	$ 2,410	$ 9,228	$ 2,763
Accretion:				
Commercial and industrial	34	35	18	75
SBA	3	35	7	39
Commercial real estate	740	850	1,569	1,156
Single-family residential mortgages	278	2	880	5
Total accretion	1,055	922	2,474	1,275
Ending balance of discount on purchased loans	$ 6,754	$ 1,488	$ 6,754	$ 1,488

Interest income on our securities portfolio increased $82,000, or 13.6%, to $685,000 in the second quarter of 2019 compared to $603,000 in the second quarter of 2018. This increase is mainly attributable to $11.6 million, or 13.7%, increase in the average balance with a slight increase in the yield on average securities from the second quarter of 2018 compared to the second 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 have 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 $1.0 million for the three months ended June 30, 2019 compared to $549,000 for the three months ended June 30, 2018. This increase was primarily due to a 60 basis point increase in the average yield plus a $41.8 million increase in the average balance of short-term cash investments.

Interest expense on interest-bearing liabilities increased $7.2 million, or 160.8%, to $11.6 million for the second quarter of 2019 as compared to $4.5 million in the second 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 $9.0 million for the second quarter of 2019 as compared to $3.4 million for the second quarter of 2018. The $5.6 million, or 165.1%, increase in interest expense on deposits was primarily due to a 73 basis point increase in the average rate paid on interest-bearing deposits as well as a $740.5 million, or 68.4%, increase in the average balance of interest-bearing deposits. The increase in the average balance of interest-bearing deposits resulted from the FAIC acquisition. Average brokered certificates of deposit were $177.6 million in the second quarter of 2019 and zero in the second quarter of 2018. Brokered certificates of deposit were acquired in 2018 for liquidity purposes and will likely run off during the remainder of 2019. Average non-interest bearing deposits increased to $408.2 million or 50.1% from $271.9 million in the second quarter of 2018. The 73 basis point increase in the average rate paid on interest-bearing deposits was primarily due to the impact of a bank-wide promotion and higher market interest rates and the change in the deposit mix from non-maturity deposits to certificates of deposit.

Interest expense on long-term debt increased $899,000 to $1.7 million in the second quarter of 2019 as compared to $849,000 in the second quarter of 2018. This increase was due to a $54.2 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 $662,000 in the second quarter of 2019, as compared to $129,000 in the second quarter of 2018. This increase was primarily due to the $61.2 million increase in the average balance of FHLB advances for the second quarter of 2019 compared to the second quarter of 2018 plus a 127 basis point increase in the average rate paid. The Company had $40.0 million in FHLB advances as of June 30, 2019.

Provision for Credit Losses. The $343,000 decrease in the provision for credit losses from the second quarter of 2018 compared to the second quarter of 2019 and is due primarily to a change in the loan mix. From June 30, 2018 to June 30, 2019, commercial and industrial loans decreased $27.3 million or 8.8%, SBA loans decreased $17.7 million or 18.2%, construction and land development loans increased $23.9 million or 25.2%, commercial real estate loans increased $263.4 million or 53.4%, and SFR mortgages increased $565.5 million or 196.5%. There was a $32,000 loan charge-off in the second quarter of 2019.

Noninterest Income. Noninterest income increased $2.7 million, or 96.8%, to $5.5 million for the second quarter of 2019, compared to $2.8 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 six months ended June 30, 2019 and 2018:

	For the three months ended June 30,		Increase (Decrease)		For the six months ended June 30,		Increase (Decrease)	
(dollars in thousands)	**2019**	**2018**	**$**	**%**	**2019**	**2018**	**$**	**%**
Noninterest income:								
Service charges, fees and other	$ 1,222	$ 446	$ 776	174.0 %	$ 2,042	$ 912	$ 1,130	123.9 %
Gain on sale of loans	3,120	2,085	1,035	49.6	5,318	3,900	1,418	36.4
Loan servicing fee, net of amortization	899	58	841	1,450.0	1,739	27	1,712	6340.7
Recoveries on loans acquired in business combinations	55	5	50	1,000.0	61	11	50	454.5
Unrealized gain on equity securities	—	—	—	—	147	—	147	100.0
Increase (decrease) in cash surrender of life insurance	194	199	(5)	(2.5)	385	398	(13)	(3.2)
Gain on sale of fixed assets	6	—	6	100.0	6	—	6	100.0
Total noninterest income	$ 5,496	$ 2,793	$ 2,703	96.8	$ 9,698	$ 5,248	$ 4,450	84.8

Service charges, fees and other income. Service charges, fees and other income totaled $1.2 million in the second quarter of 2019 compared to $446,000 in the second quarter of 2018. The increase was due to an additional $227,000 in safe deposit box income, $153,000 in wealth management commissions (both primarily generated from the acquisition of FAIC), and a $233,000 CDFI award (which was last 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, SBA loans and CRE loans. Gains on sale of loans totaled $3.1 million in the second quarter of 2019 compared to $2.1 million in the second quarter of 2018.

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

(dollars in thousands)	For the three months ended June 30, 2019	For the three months ended June 30, 2018	Increase (Decrease) $	Increase (Decrease) %	For the six months ended June 30, 2019	For the six months ended June 30, 2018	Increase (Decrease) $	Increase (Decrease) %
Loans sold:								
SBA	$ 10,025	$ 18,247	$ (8,222)	-45.1%	$ 13,765	$ 35,559	$ (21,794)	-61.3%
SFR mortgage	175,032	52,852	122,180	231.2%	346,419	91,757	254,662	277.5%
CRE	1,584	—	1,584	100.0%	10,422	—	10,422	100.0%
	$ 186,641	$ 71,099	$ 115,542	162.5%	$ 370,606	$ 127,316	$ 243,290	191.1%
Gain on loans sold:								
SBA	$ 616	$ 885	$ (269)	-30.4%	$ 741	$ 1,717	$ (976)	-56.8%
SFR mortgage	2,504	1,200	1,304	108.7%	4,425	2,183	2,242	102.7%
CRE	—	—	—	100.0%	152	—	152	100.0%
	$ 3,120	$ 2,085	$ 1,035	49.6%	$ 5,318	$ 3,900	$ (824)	-21.1%

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 our originations and sales of SFR mortgage and SBA loans for the three months ended June 30, 2019.

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

(dollars in thousands)	For the three months ended June 30, 2019	For the three months ended June 30, 2018	Increase (Decrease) $	Increase (Decrease) %	For the six months ended June 30, 2019	For the six months ended June 30, 2018	Increase (Decrease) $	Increase (Decrease) %
For the period								
Loan servicing income, net of amortization								
SFR loans	$ 751	$ 102	$ 649	636.7%	$ 1,432	$ 244	$ 1,188	486.9%
SBA loans	147	(44)	191	434.3%	307	(217)	524	241.4%
Total	$ 899	$ 58	$ 841	1449.2%	$ 1,739	$ 27	$ 1,712	6340.1%

Our loan servicing income, net of amortization, increased by $841,000 to $899,000 for the three months ended June 30, 2019 compared to net servicing income of $58,000 for the three months ended June 30, 2018.

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

(dollars in thousands)	June 30, 2019	June 30, 2018	Increase (Decrease) $	Increase (Decrease) %
As of period-end				
SFR loans serviced	$ 1,734,204	$ 432,990	$ 1,301,214	300.5%
SBA loans serviced	181,719	177,264	4,455	2.5%
CRE loans serviced	4,251	—	4,251	0.0%

We were servicing $1.7 billion of SFR mortgage loans for other banks and FNMA as of June 30, 2019 compared to $433.0 million as of June 30, 2018. We were also servicing $181.7 million of SBA loans as of June 30, 2019 compared to $177.3 million as of June 30, 2018. The increase 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 $55,000 in the quarter ended June 30, 2019 compared to $5,000 in the comparable quarter of 2018.

Unrealized gain on equity investments. The unrealized gain on equity investments was zero in the second quarter of 2019 and zero in the second quarter 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 $5,000 to $194,000 in the quarter ended June 30, 2019 compared to $199,000 in the second quarter in 2018.

Gain on sale of OREO and fixed assets. No OREO properties were sold in the second quarter of 2019 or 2018. In the second quarter of 2019, the Company sold fixed assets for a $6,000 gain.

Noninterest expense. Noninterest expense increased $6.7 million, or 81.9%, to $14.9 million in the second quarter of 2019 compared to $8.2 million in the second quarter of 2018. The following table sets forth major components of our noninterest expense for the three and six months ended June 30, 2019 and 2018:

	For the three months ended June 30,		Increase (Decrease)		For the six months ended June 30,		Increase (Decrease)	
(dollars in thousands)	**2019**	**2018**	**$**	**%**	**2019**	**2018**	**$**	**%**
Noninterest expense:								
Salaries and employee benefits	$ 8,169	$ 4,709	$ 3,460	73.5 %	$ 17,287	$ 9,660	$ 7,627	79.0 %
Occupancy and equipment expenses	2,674	834	1,840	220.6	4,926	1,626	3,300	203.0
Data processing	1,219	487	732	150.3	2,228	960	1,268	132.1
Legal and professional	656	423	233	55.1	1,081	680	401	59.0
Office expenses	294	192	102	53.1	630	363	267	73.6
Marketing and business promotion	316	262	54	20.6	678	465	213	45.8
Insurance and regulatory assessments	284	213	71	33.3	582	422	160	37.9
Amortization of intangibles	385	77	308	400.0	773	158	615	389.2
OREO expenses (income)	81	—	81	100.0	162	7	155	2,214.3
Merger expenses	15	183	(168)	(91.8)	86	223	(137)	(61.4)
Other expenses	806	811	(5)	(0.6)	1,791	1,916	(125)	(6.5)
Total noninterest expense	$ 14,899	$ 8,191	$ 6,708	81.9	$ 30,224	$ 16,480	$ 13,744	83.4

Salaries and employee benefits expense increased $3.5 million, or 73.5%, to $8.2 million for the second quarter of 2019 compared to $4.7 million for the second 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 372 at June 30, 2019 compared to 242 at June 30, 2018.

Occupancy and equipment expense increased $1.8 million, or 220.6%, to $2.7 million for the first quarter of 2019 compared to $834,000 for the second quarter of 2018. This increase was due to the FAIC acquisition, plus the new Irvine, California and Flushing, New York locations.

Data processing expense increased $732,000, or 150.3%, to $1.2 million for the second quarter of 2019, compared to $487,000 for the second quarter of 2018. These increases resulted primarily from the financial management system conversion, increased processing volumes, and increased data processing conversion expense for the short-term as we integrated FAIC.

Legal and professional expense increased $233,000 to $656,000 in the three months ended June 30, 2019 compared to $423,000 for the three months ended June 30, 2018. This increase was primarily due to additional legal, external audit and SOX audit fees in 2019 for being a public company, and additional expenses following the FAIC acquisition.

Office expenses are comprised of communications, postage, armored car, and office supplies and were $294,000 for the three months ended June 30, 2019 compared to $192,000 for the three months ended June 30, 2018. This increase primarily resulted from the FAIC acquisition and normal business growth.

Marketing and business promotion expense increased $54,000, or 20.6%, to $316,000 in the second quarter of 2019, compared to $262,000 for the second quarter of 2018. This increase was due to increased CRA and other donations, advertising and business development, in addition to costs to expand and integrate our market in New York and Irvine (Orange County) in 2019.

Insurance and regulatory assessments increased $71,000, or 33.3%, primarily due to the FAIC acquisition. Amortization of intangibles increased $308,000, or 400.0%, due to the amortization of the additional core deposit intangible resulting from the FAIC acquisition. Merger expenses decreased $168,000, or 91.8%, following the 2018 merger.

Other expenses decreased $5,000, or 0.6%, to $806,000 million for the second quarter of 2019, compared to $811,000 in the second quarter of 2018. The provision for unfunded commitments was a credit of $18,000 in the second quarter of 2019 compared to a credit of $92,000 in the second quarter of 2019.

Income Tax Expense

Income tax expense was $4.4 million in the second quarter of 2019 compared to $2.3 million in the second quarter of 2018. The increase was in part due to $52,000 in additional tax expense and $1.1 million in tax deductions for stock option exercises, for the second quarter of 2019 and 2018, respectively. Effective tax rates were 30.3% and 19.5% in the second quarter of 2019 and the second quarter of 2018, respectively. The increase in the effective tax rate was primarily due to the $1.2 million reduction in the tax benefit from the exercise of stock options.

Net Income

Net income amounted to $10.1 million for the second quarter 2019, a $705,000 or 7.5% increase from the second quarter of 2018, primarily due to the growth in earning assets from the FAIC acquisition and net interest income, growth in non-interest income, and a decreased credit loss provision, which were partially offset by increased noninterest expenses and income tax expense.

Results of Operations—Comparison of Results of Operations for the Six Months Ended June 30, 2019 and June 30, 2018

The following discussion of our results of operations compares the first half ended June 30, 2019 and June 30, 2018, respectively. The results of operations for the six months ended June 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 first half of 2019, we generated net interest income of $50.2 million, an increase of $16.0 million, or 46.6%, from the $34.3 million in net interest income of the first half of 2018. This increase was largely due to a 69.9% increase in the average balance of interest-earning assets, as well as a 7 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 $715.6 million in loans from the FAIC acquisition and $178.0 million in organic loan growth. For the six-months ended June 30, 2019 and 2018, our net interest margin was 3.73% and 4.33%, respectively. Our net interest margin benefits from discount accretion on our purchased loan portfolios. The net interest margin for the six-months ended June 30, 2019 and 2018, excluding accretion income, would have been 3.60% and 4.16%, respectively.

Total interest income was $73.1 million for the first half of 2019 compared to $42.5 million for the first half of 2018. The $30.7 million, or 72.3%, increase in total interest income was due to increases in interest earned on our loan portfolio, securities portfolio and federal funds sold.

Interest and fees on loans was $70.1 million for the first half of 2019 compared to $40.2 million for the first half of 2018. The $29.9 million, or 74.3%, increase in interest income on loans was primarily due to a 75.9% increase in the average balance of total loans outstanding primarily due to the FAIC acquisition and organic loan growth, partially offset by a 6 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 six months ended June 30, 2019 and 2018, the yield on total loans was 5.67% and 5.76%, respectively, while the yield on total loans excluding accretion income would have been 5.49% and 5.56%, respectively. A substantial portion of our acquired loan portfolio that is subject to discount accretion consists of commercial real estate loans. The table on page 41 illustrates by loan type the accretion income for the first half of 2018 and 2017.

Interest income on our securities portfolio increased $110,000, or 9.5%, to $1.3 million in the first half of 2019 compared to $1.2 million in the first half of 2018. The increase in interest income on securities was primarily due to an increase in the average balance of the portfolio of $5.0 million, or 6.1%, and a 9 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 $706,000, or 64.7%, to $1.8 million in the first half of 2019 compared to $1.1 million in the first half of 2018. The increase in interest income on cash equivalents was due to a 67 basis point increase in the average yield plus an increase in the average balance of $26.1 million. The reasons for the increased yield were the increase in the federal funds rate over the period plus a $324,000 increase in the FHLB dividend.

Interest expense on interest-bearing liabilities increased $14.7 million, or 179.9%, to $22.9 million in in the first half of 2019 compared to $8.2 million in the first half of 2018 due to increases in balances of $933.1 million (deposits, FHLB short-term advances, long-term debt and subordinated debentures) and rates on interest bearing liabilities (NOW, money market and time deposits, and FHLB advances).

Interest expense on deposits increased to $16.3 million in the first half of 2019 compared to $6.2 million in the first half of 2018. The $10.1 million, or 164.4%, increase in interest expense on deposits was primarily due to a 62.5% increase in the average balance of total deposits, combined with a 59 basis point increase in rates. The increase in the average balance of deposits resulted primarily from the FAIC acquisition and normal growth of deposit accounts.

Interest expense on borrowings (FHLB, long-term debt and subordinated debentures) increased to $6.6 million in the first half of 2019 compared to $2.0 million in the first half of 2018. The $184.0 million increase in average balance of FHLB advances and a $54.2 million increase in average balance of long term debt was primarily used to fund held-for-sale loans. In addition, in October 2018, RBB issued $55.0 in subordinated debt.

Provision for credit loss expense in the first half of 2019 was $907,000 due to normal loan growth, compared to an $884,000 provision in the first half of 2018.

Noninterest income increased $4.5 million, or 84.8%, to $9.7 million in the first half of 2019. The table on page 42 sets forth major components of our noninterest income for the respective periods.

Service charges, fees and other income increased to $2.0 million in the first half of 2019 compared to $912,000 in the first half of 2018. The increase primarily resulted from $357,000 increase in safe deposit box rental income, an additional $278,000 in wealth management commissions, and a $233,000 CDFI award.

Gain on sale of loans increased to $5.3 million in the first half of 2019 compared to $3.9 million in the first half of 2018 due to an increased amount of sales of mortgage loans. As noted in the table on page 43, we sold $329.0 million in SFR mortgage, SBA and CRE loans in the first half of 2019 compared to $127.3 million in the same period of 2018.

Our loan servicing income, net of amortization increased by $1.7 million to $1.7 million for the six months ended June 30, 2019 compared to $27,000 for the six months ended June 30, 2018. The increase is due to increase in loans being serviced in 2019 partially offset by write-downs in serving assets due to pay-offs of SBA serviced loans. We were servicing $1.9 billion in SFR mortgage, SBA and CRE loans as of June 30, 2019 compared to $610.3 million as of June 30, 2018. Additional details are in the table on page 43.

Recoveries on loans acquired in business combinations increased $50,000 to $61,000 in the first half of 2019 compared to $11,000 in the first half of 2018. This increase resulted from greater recoveries on loans acquired from other bank acquisitions.

Noninterest expense increased $13.7 million, or 83.4%, to $30.2 million for the first half of 2019 compared to $16.5 million in the same period of 2018. The table on page 44 sets forth major components of our noninterest expense for the six months ended June 30, 2019 compared to the six months ended June 30, 2018. The primary reason for the increase was the FAIC acquisition plus normal business growth.

Salaries and employee benefits expense increased $7.6 million, or 79.0%, to $17.3 million in the first half of 2019 compared to $9.7 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 372 at June 30, 2019, 365 at December 31, 2018 and 242 at June 30, 2018.

Occupancy and equipment expense increased $3.3 million, or 202.9%, to $4.9 million in the first half of 2019 compared to $1.6 million in the first half 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 June 30, 2019, the Company had 24 branch and office locations, compared to 23 at December 31, 2018 and 14 at June 30, 2018. In November 2018, our headquarters office moved to a new location in downtown Los Angeles.

Data processing expense increased $1.3 million, or 132.1%, to $2.2 million in the first half of 2019 compared to $960,000 for the first half of 2018. This increase resulted primarily from the financial management system conversion, and increased processing volumes.

Legal and professional expense increased $401,000, or 58.9%, from $680,000 in the first half of 2018 compared to $1.1 million for the first half of 2019. This increase was primarily due to additional legal and professional fees for being a public company and the FAIC acquisition.

Office expenses are comprised of communications, postage, armored car, and office supplies and totaled $630,000 in first half of 2019 compared to $363,000 for the first half of 2018. The 73.6% increase primarily resulted from the FAIC acquisition and normal business growth.

Marketing and business promotion expense increased $267,000, or 45.8%, to $678,000 in the first half of 2018 compared to $465,000 for the first half of 2018. This increase was primarily due to the FAIC acquisition, normal business growth, business development, CRA and other donations.

Insurance and regulatory assessments increased $160,000, or 37.9%, compared to $422,000 in the first half of 2018. This was due to the FAIC acquisition.

Amortization of the core deposit intangible was $773,000 in the first half of 2019, compared to $158,000 in the first half of 2018. This increase was due to the FAIC acquisition.

Merger expense was $86,000 in the first half of 2019 compared to $223,000 in the first half of 2018, following the completion of the FAIC acquisition in mid-2018.

Other noninterest expense totaled $1.8 million in the first half of 2019 compared to $1.9 million for the same period of 2018. The decrease is partially attributable to a decrease in the provision for off-balance sheet commitments of $268,000.

Income tax expense was $8.3 million in the first half of 2019 compared to $3.9 million in the same period of 2018. This increase was consistent with the $2.5 million decrease in tax deductions for stock option exercises and increase in pre-tax income. Effective tax rates were 28.7% and 17.5% in the first half of 2019 and 2018, respectively. The increase in 2019 was primarily due to the change in tax deductions for stock option exercises.

Net income increased $2.2 million to $20.5 million in the first half of 2019, compared to $18.3 million in the same period of 2018. The increase is primarily due to the growth in earning assets, net interest income, non-interest income, partially offset by increasesd in non-interest income, the loan loss provision and income tax expense.

ANALYSIS OF FINANCIAL CONDITION

Assets

Total assets were $2.8 billion as of June 30, 2019 and $3.0 billion as of December 31, 2018. The total loan portfolio decreased by $49.6 million, primarily in commercial and industrial, SBA, and commercial real estate, with increases in construction and land development and SFR mortgages. Mortgage loans held for sale decreased by $184.9 million in the six months ended June 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 June 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)	June 30, 2019 Fair Value	June 30, 2019 % of Total	December 31, 2018 Fair Value	December 31, 2018 % of Total
Securities, available for sale, at fair value				
U.S. government agency securities	$ 1,749	2.2 %	$ 1,815	2.2 %
SBA agency securities	5,046	6.3	5,169	6.2
Mortgage-backed securities Government sponsored agencies	19,915	24.8	22,541	26.9
Collateralized mortgage obligations	12,168	15.1	12,066	14.4
Commercial paper	14,990	18.7	14,918	17.8
Corporate debt securities (1)	17,761	22.1	17,253	20.6
Total securities, available for sale, at fair value	$ 71,629	89.1 %	$ 73,762	88.1 %

(dollars in thousands)	June 30, 2019 Amortized Cost	June 30, 2019 % of Total	December 31, 2018 Amortized Cost	December 31, 2018 % of Total
Securities, held to maturity, at amortized cost				
Taxable municipal securities	$ 3,583	4.5	$ 4,290	5.1
Tax-exempt municipal securities	5,150	6.4	5,671	6.8
Total securities, held to maturity, at amortized cost	8,733	10.9	9,961	11.9
Total securities	$ 80,362	100.0 %	$ 83,723	100.0 %

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

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

(dollars in thousands) June 30, 2019	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale				
U.S government agency securities	$ 1,748	$ 1	$ —	$ 1,749
SBA securities	5,004	59	(17)	5,046
Mortgage-backed securities - Government sponsored agencies	19,990	32	(107)	19,915
Collateralized mortgage obligations	12,273	43	(148)	12,168
Corporate debt securities	32,629	150	(28)	32,751
	$ 71,644	$ 285	$ (300)	$ 71,629
Held to maturity				
Municipal taxable securities	$ 3,583	$ 176	$ —	$ 3,759
Municipal securities	5,150	90	—	5,240
	$ 8,733	$ 266	$ —	$ 8,999
December 31, 2018				
Available for sale				
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
Commercial paper	14,918	—	—	14,918
Corporate debt securities	17,697	105	(549)	17,253
	$ 75,663	$ 106	$ (2,007)	$ 73,762
Held to maturity				
Municipal taxable securities	$ 4,290	$ 142	$ —	$ 4,432
Municipal securities	5,671	1	(164)	5,508
	$ 9,961	$ 143	$ (164)	$ 9,940

The weighted-average taxable equivalent book yield on the total investment portfolio at June 30, 2019 was 2.89% with a weighted-average life of 5.2 years. This compares to a weighted-average yield of 2.70% with a weighted-average life of 6.6 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 June 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 full y 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.

	Less than Twelve Months			Twelve Months or More			Total		
(dollars in thousands)	Unrealized Losses	Estimated Fair Value	No. of Issuances	Unrealized Losses	Estimated Fair Value	No. of Issuances	Unrealized Losses	Estimated Fair Value	No. of Issuances
June 30, 2019									
SBA securities	$ —	$ —	—	$ (17)	$ 1,559	2	$ (17)	$ 1,559	2
Mortgage-backed securities- Government sponsored agencies	—	—	—	(107)	14,160	19	(107)	14,160	19
Collateralized mortgage obligations	—	—	—	(148)	9,758	7	(148)	9,758	7
Corporate debt securities	—	—	—	(28)	5,996	3	(28)	5,996	3
Total available for sale	$ —	$ —	—	$ (300)	$ 31,473	31	$ (300)	$ 31,473	31
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

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

Loans

At June 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 June 30, 2019 and December 31, 2018:

	As of June 30, 2019		As of December 31, 2018	
(dollars in thousands)	Amount	%	Amount	%
Loans: (2)				
Commercial and industrial	$ 283,920	13.6	$ 304,084	14.2
SBA	79,475	3.8	84,500	3.9
Construction and land development	118,806	5.7	113,235	5.3
Commercial real estate (1)	756,452	36.2	758,721	35.4
Single-family residential mortgages	853,403	40.7	881,249	41.2
Other loans	382	0.0	226	0.0
Total loans	$ 2,092,438	100.0	$ 2,142,015	100.0
Allowance for loan losses	(18,561)		(17,577)	
Total loans, net	$ 2,073,877		$ 2,124,438	

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

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

Total loans (HFI and HFS) decreased $234.5 million, or 9.1%, to $2.3 billion at June 30, 2019 compared to December 31, 2018. The total loan portfolio decreased primarily in commercial and industrial, SBA, commercial real estate and SFR mortgages, with an increase in construction and land development. HFI loans decreased $49.6 million, or 2.3%, to $2.1 billion at June 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 $20.2 million, or 6.6%, to $283.9 million as of June 30, 2019 compared to $304.1 million at December 31, 2018. This decrease resulted primarily from a decrease in shared national credits of $2.1 million and mortgage warehouse lines of $6.6 million. Mortgage warehouse lines decreased due to increased interest rates on our warehouse lines.

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. At June 30, 2019, approximately 19.8% of the commercial real estate portfolio consisted of fixed-rate loans. Our policy maximum loan-to-value (LTV) ratio is 75% for commercial real estate loans. The total commercial real estate portfolio decreased $2.3 million, or 0.3%, to $756.5 million at June 30, 2019, compared to $758.7 million at December 31, 2018. The multi-family residential loan portfolio was $225.2 million as of June 30, 2019 and $215.1 million as of December 31, 2018. The SFR mortgage loan portfolio originated for a business purpose totaled $37.7 million as of June 30, 2019 and $35.7 million as of December 31, 2018.

Construction and land development loans. Construction and land development loans increased $5.4 million or 4.7%, to $118.6 million at June 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 June 30, 2019 and December 31, 2018:

	As of June 30, 2019		As of December 31, 2018	
(dollars in thousands)	**Amount**	**%**	**Amount**	**%**
Residential construction	$ 76,540	64.4	$ 73,152	64.6
Commercial construction	37,164	31.3	34,209	30.2
Land development	5,102	4.3	5,874	5.2
Total construction and land development loans	$ 118,806	100.0	$ 113,235	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 $5.0 million, or 5.9%, to $79.5 million at June 30, 2019 compared to $84.5 million at December 31, 2018. This decrease was primarily due to loan sales of $13.8 million, offset by $7.3 million in originations in the three months ended June 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 June 30, 2019, we had $853.4 million of SFR real estate loans, representing 40.7% of our total loan portfolio, excluding available for sale SFR loans. We had one non-performing single-family residential real estate loan amounting to $455,000 as of June 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 second quarter of 2019, we originated $19.1 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 June 30, 2019, the weighted average loan-to-value of the portfolio was 53.69%, the weighted average FICO score was 759 and the average duration of the portfolio was 5.23 years. We also offer qualified SFR mortgage loans as a correspondent to a national financial institution.

SFR mortgage real estate loans (which include $8.0 million of home equity loans) decreased $27.8 million, or 3.2%, to $853.4 million as of June 30, 2019 as compared to $881.2 million as of December 31, 2018. In addition, loans held for sale decreased $184.9 million or 42.6% to $249.6 million as of June 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 second 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 June 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:

	As of June 30, 2019		As of December 31, 2018	
(dollars in thousands)	**Amount**	**% (1)**	**Amount**	**% (1)**
Loans:				
Commercial and industrial	$ 3,012	1.06	$ 3,112	1.02
SBA	964	1.21	1,027	1.22
Construction and land development	1,566	1.32	1,500	1.32
Commercial real estate (2)	7,209	0.95	6,449	0.85
Single-family residential mortgages	5,807	0.68	5,489	0.62
Other	3	0.79	—	0.00
Allowance for loan losses	$ 18,561	0.89	$ 17,577	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 $6.3 million at June 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 acquisition. 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 June 30, 2019 and December 31, 2018. We have recorded additional reserves of $1.5 million due to the credit discounts on acquired loans being less than the analysis for loan losses on those acquisitions as of June 30, 2019.

(dollars in thousands)	**As of June 30, 2019**	**As of December 31, 2018**
Commercial and industrial	$ 45	$ 105
SBA	47	50
Construction and land development	—	—
Commercial real estate	2,279	3,369
Single-family residential mortgages	3,937	4,536
Total credit discount on purchased loans	$ 6,308	$ 8,060
Total remaining balance of purchased loans through acquisition	$ 637,297	$ 758,853
Credit-discount to remaining balance of purchased loans	0.99%	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 deminimus for the three and six months ended June 30, 2019 and 2018, respectively.

The allowance for credit losses was $18.6 million at June 30, 2019 compared to $17.6 million at December 31, 2018. The $984,000 increase was due to a $907,000 loan loss provision based on loan growth and a $77,000 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 loan 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 loan 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 loan losses and net charge-offs for the three months ended June 30, 2019 and 2018:

	For the three months ended June 30,		For the six months ended June 30,	
(dollars in thousands)	**2019**	**2018**	**2019**	**2018**
Balance, beginning of period	$ 18,236	$ 13,957	$ 17,577	$ 13,773
Charge-offs:				
Commercial and industrial	32	—	32	—
Total charge-offs	32	—	32	—
Recoveries:				
SBA	—	—	109	—
Total recoveries	—	—	109	—
Net charge-offs (recoveries)	32	—	(77)	—
Provision for credit losses	357	700	907	884
Balance, end of period	$ 18,561	$ 14,657	$ 18,561	$ 14,657
Total loans at end of period (1) (2)	$ 2,092,438	$ 1,284,082	$ 2,092,438	$ 1,284,082
Average loans (2)	$ 2,110,985	$ 1,262,707	$ 2,114,097	$ 1,246,329
Net charge-offs (recoveries) annualized, to average loans	0.01%	0.00%	-0.01%	0.00%
Allowance for credit losses to total loans	0.89%	1.14%	0.89%	1.14%
Credit-discount on loans purchased through acquisition	$ 6,308	$ 887	$ 6,308	$ 887

(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 the balance of the loan at the time of foreclosure or at estimated fair value less estimated costs to sell, whichever is less.

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 June 30, 2019	As of December 31, 2018
Troubled debt restructured loans:		
SBA	$ 51	$ 58
Construction and land development	271	276
Commercial real estate	2,500	2,033
Total troubled debt restructured loans	2,822	2,367
Non-accrual loans:		
SBA	3,008	914
Single-family residential mortgages	455	—
Total non-accrual loans	3,463	914
Total non-performing loans	6,285	3,281
Other real estate owned	2,075	1,101
Nonperforming assets	$ 8,360	$ 4,382
Nonperforming loans to total loans (excluding HFS loans)	0.30%	0.15%
Nonperforming assets to total assets	0.30%	0.15%

The $3.1 million increase in nonperforming loans at June 30, 2019 was primarily due to the addition of one SBA loan of $2.9 million.

Our 30-89 day delinquent loans decreased to $3.4 million as of June 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 June 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 $112,000 and $205,000 during the six months ended June 30, 2019 and June 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 $58.0 million, or 39.2%, to $205.6 million as of June 30, 2019 as compared to $147.7 million at December 31, 2018. This increase was primarily due to $255.2 million of cash from operating activities less $191.3 million used for financing activities and $6.0 million used for investing activities.

Goodwill and Other Intangible Assets. Goodwill was $58.4 million at both June 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 $6.8 million and $7.6 million at June 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 three to ten years.

Liabilities. Total liabilities decreased $191.2 million to $2.4 billion at June 30, 2019 from $2.6 billion at December 31, 2018, primarily due to a $279.5 million decrease in FHLB advances, partially offset by $91.3 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 June 30, 2019, the Bank considers $1.8 billion or 82.23% of our deposits as core relationships.

As of June 30, 2019, our top ten deposit relationships totaled $331.3 million, of which two are related to directors and shareholders of the Company for a total of $66.0 million or 19.9% of our top ten deposit relationships. As of June 30, 2019, our directors and shareholders with deposits over $250,000 totaled $108.1 million or 7.5% of all relationships over $250,000.

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

	For the three months ended June 30, 2019		For the year ended December 31, 2018	
(dollars in thousands)	**Average Balance**	**Weighted Average Rate (%)**	**Average Balance**	**Weighted Average Rate (%)**
Noninterest-bearing demand	$ 408,219	0.00	$ 310,282	0.00
Interest-bearing:				
NOW	24,012	0.29	24,591	0.32
Savings	97,584	0.21	46,260	0.38
Money market	363,351	1.23	376,479	1.10
Time, less than $250,000	769,843	2.31	369,416	1.59
Time, $250,000 and over	568,788	2.38	400,046	1.67
Total interest-bearing	1,823,578	1.99	1,216,792	1.39
Total deposits	$ 2,231,797	1.62	$ 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 June 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	$ 151,771	$ 111,760	$ 316,780	$ 22,065	$ 602,376
Wholesale deposits (1)	2,110	2,719	8,717	3,652	17,198
Time, brokered	67,184	65,489	—	2,400	135,073
Total	$ 221,065	$ 179,968	$ 325,497	$ 28,117	$ 754,647

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

We acquire 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 June 30, 2019 was $152.3 million and $132.2 million as of December 31, 2018. The Bank had $135.0 million in brokered deposits at June 30, 2019 and $113.8 million as of December 31, 2018. The brokered deposits were acquired for liquidity needs.

Total deposits increased $91.3 million to $2.2 billion at June 30, 2019 as compared to $2.1 billion at December 31, 2018. As of June 30, 2019, total deposits were comprised of 19.5% noninterest-bearing demand accounts, 20.7% of interest-bearing non-maturity accounts and 59.8% 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 $40.0 million and $319.5 million in FHLB advances at June 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:

	As of and for the three months ended June 30,		As of and for the six months ended June 30,	
(dollars in thousands)	**2019**	**2018**	**2019**	**2018**
Outstanding at period-end	$ 40,000	$ 40,000	$ 40,000	$ 40,000
Average amount outstanding	95,220	34,011	216,638	32,564
Maximum amount outstanding at any month-end	110,000	40,000	364,500	40,000
Weighted average interest rate:				
During period	2.79%	1.52%	2.58%	1.23%
End of period	2.52%	1.96%	2.52%	1.96%

Long-term Debt. Long-term debt consists of fixed-to-floating rate subordinated notes. 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 but excluding April 1, 2021, payable on June 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 30.

The Company issued $55.0 million, 6.18% fixed-to-floating rate subordinated notes due December 1, 2028 on November 29, 2018. 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 June 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 notes and 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 $19.2 million, or 5.12%, to $393.8 million during the six months of 2019 as $20.5 million of net income and $1.4 million from the exercise of stock options and stock-based compensation and a $1.3 million increase in net accumulated other comprehensive income, which were partially offset by $4.0 million of common dividends declared. The increase in net accumulated other comprehensive income primarily resulted from increases in unrealized gains on available for sale 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 June 30, 2019 and December 31, 2018, we had $47.0 million and $49.0 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 $16.8 million at June 30, 2019 and $14.0 million at December 31, 2018, respectively. Federal Reserve Discount Window lines were collateralized by a pool of commercial real estate loans totaling $29.0 million and $25.8 million as of June 30, 2019 and December 31, 2018, respectively. We did not have any borrowings outstanding with the Federal Reserve at June 30, 2019 and December 31, 2018, and our borrowing capacity is limited only by eligible collateral.

At June 30, 2019, we had $40.0 million in FHLB advances outstanding, and $319.5 million at December 31, 2018. Based on the values of loans pledged as collateral, we had $649.3 million and $119.9 million of additional borrowing capacity with the FHLB as of June 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 June 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 June 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
Tier 1 Leverage Ratio					
Consolidated	12.19%	11.80%	4.00%	4.00%	N/A
Bank	14.17%	13.66%	4.00%	4.00%	5.00%
Common Equity Tier 1 Risk-Based Capital Ratio					
Consolidated	16.96%	15.28%	4.50%	7.00%	N/A
Bank	20.31%	18.17%	4.50%	7.00%	6.50%
Tier 1 Risk-Based Capital Ratio					
Consolidated	17.45%	15.74%	6.00%	8.50%	N/A
Bank	20.31%	18.17%	6.00%	8.50%	8.00%
Total Risk-Based Capital Ratio					
Consolidated	23.77%	21.71%	8.00%	10.50%	N/A
Bank	21.30%	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 June 30, 2019:

	Payments Due				
(dollars in thousands)	**Within One Year**	**One to Three Years**	**Three to Five Years**	**After Five Years**	**Total**
Deposits without a stated maturity	$ 898,077	$ —	$ —	$ —	$ 898,077
Time deposits	1,241,967	93,070	2,220	—	1,337,257
FHLB advances and other borrowings	40,000	—	—	—	40,000
Long-term debt	—	—	—	103,878	103,878
Suborditaed debentures	—	—	—	9,590	9,590
Leases	5,710	8,278	6,213	9,424	29,625
Total contractual obligations	$ 2,185,754	$ 101,348	$ 8,433.00	$ 122,892	$ 2,418,427

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)	**June 30, 2019**	**December 31, 2018**
Tangible common equity:		
Total shareholders' equity	$ 393,820	$ 374,621
Adjustments		
Goodwill	(58,383)	(58,383)
Core deposit intangible	(6,828)	(7,601)
Tangible common equity	$ 328,609	$ 308,637
Tangible assets:		
Total assets-GAAP	$ 2,801,956	$ 2,974,002
Adjustments		
Goodwill	(58,383)	(58,383)
Core deposit intangible	(6,828)	(7,601)
Tangible assets:	$ 2,736,745	$ 2,908,018
Common shares outstanding	20,077,524	20,000,022
Tangible common equity to tangible assets ratio	12.01%	10.61%
Tangible book value per share	$ 16.37	$ 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:

	For the three months ended June 30,		For the six months ended June 30,	
(dollars in thousands)	**2019**	**2018**	**2019**	**2018**
Net income available to common shareholders	$ 10,142	$ 9,437	$ 20,522	$ 18,283
Average shareholder's equity	390,574	281,454	386,944	276,250
Adjustments:				
Goodwill	(58,383)	(29,940)	(58,383)	(29,940)
Core deposit intangible	(7,067)	(1,316)	(7,264)	(1,665)
Adjusted average tangible common equity	$ 325,124	$ 250,198	$ 321,296	$ 244,645
Return on average tangible common equity	12.51%	15.13%	12.88%	15.07%

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 June 30, 2019**	**As of December 31, 2018**
Adjusted core deposit to total deposit ratio:		
Core deposits (1)	$ 1,637,627	$ 1,670,572
Adjustments to core deposits		
CD > $250,000 considered core deposits (2)	435,646	468,773
Less brokered deposits considered non-core	(134,989)	(113,832)
Less internet deposits < $250,000 considered non-core (3)	(17,198)	(18,286)
Less other deposits not considered core (4)	(82,916)	(52,002)
Adjusted core deposits	1,838,170	1,955,225
Total deposits	$ 2,235,334	$ 2,144,041
Adjusted core deposits to total deposits ratio	82.23%	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 June 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 June 30, 2019	As of December 31, 2018
Non-core deposits (1)	$ 597,706	$ 473,469
Adjustment to Non-core deposits:		
CD > $250,000 considered core deposits (2)	(435,646)	(468,773)
Brokered deposits	134,989	113,832
Internet deposits considered non-core (3)	17,198	18,286
Other deposits not considered core (4)	82,916	52,002
Adjusted non-core deposits	397,163	188,816
Short term borrowings outstanding	40,000	319,500
Adjusted non-core liabilities (A)	437,163	508,316
Short term assets (5)	205,603	148,285
Adjustment to short term assets:		
Purchased receivables with maturities less than 90-days	—	—
Adjusted short term assets (B)	205,603	148,285
Net non-core funding (A-B)	$ 231,560	$ 360,031
Total earning assets	$ 2,631,969	$ 2,808,803
Adjusted net non-core funding dependency ratio	8.80%	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.

	Net Interest Income Sensitivity Immediate Change in Rates			
(dollars in thousands)	**-200**	**-100**	**+100**	**+200**
June 30, 2019				
Dollar change	$ 3,337	$ 1,551	$ 3,985	$ 7,687
Percent change	3.62%	1.68%	4.32%	8.34%
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 June 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.

	Economic Value of Equity Sensitivity (Shock) Immediate Change in Rates			
(dollars in thousands)	**-200**	**-100**	**+100**	**+200**
June 30, 2019				
Dollar change	$ (102,914)	$ (56,624)	$ 4,466	$ 6,077
Percent change	-25.41%	-13.98%	1.10%	1.50%
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 within board policy limits for the +/-100 and +200 basis point scenarios. The EVE reported at June 30, 2019 projects that as interest rates increase immediately, the economic value of equity position will be expected to increase. 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. 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 six months ended June 30, 2019, we have not repurchased any shares of common stock.

	Issuer Purchases of Equity Securities			
	(a)	(b)	(c)	(d)
Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publically Announced Plan	Maximum Number of Shares that May Yet Be Purchased Under the Plan
April 1, 2019 -- April 30, 2019	—	—	—	—
May 1, 2019 -- May 31, 2019	—	—	—	—
June 1, 2019 -- June 30, 2019	—	—	—	1,000,000
Total	—	—	—	

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

Exhibit No	Description of Exhibits
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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: August 9, 2019

/s/ David Morris
David Morris
Duly Authorized Officer, Executive Vice President and
Chief Financial Officer

Exhibit 31.1

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: August 9, 2019

By: /s/ Yee Phong (Alan) Thian
Yee Phong (Alan) Thian
President and Chief Executive Officer

Exhibit 31.2

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: August 9, 2019

By: /s/ David Morris
David Morris,
Executive Vice President and Chief Financial Officer

Exhibit 32.1

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 June 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: August 9, 2019

By: /s/ Yee Phong (Alan) Thian
Yee Phone (Alan) Thian
President and Chief Executive Officer

Exhibit 32.2

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 June 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: August 9, 2019

By: /s/ David Morris
David Morris,
Executive Vice President and Chief Financial Officer