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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 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., 12th floor Los Angeles, California	**90017**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code: (213) 627-9888

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

Securities registered pursuant to Section 12(g) of the Act: **None**

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

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

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☒ NO ☐

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit such files). YES ☒ NO ☐

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

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

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter was $328,999,122.

The number of shares of Registrant's Common Stock outstanding as of March 12, 2020, was 19,960,421.

Portions of the Registrant's Definitive Proxy Statement relating to the Annual Meeting of Shareholders, scheduled to be held on May 13, 2020, are incorporated by reference into Part III of this Report.

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FORWARD-LOOKING STATEMENTS

In this Annual Report on Form 10-K, the term "Bancorp" refers to RBB Bancorp and the term "Bank" refers to Royal Business Bank. The terms "Company," "we," "us," and "our" refer to Bancorp and the Bank collectively. The statements in this report include forward-looking statements within the meaning of the applicable provisions of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), regarding management's beliefs, projections, and assumptions concerning future results and events. We intend such forward-looking statements to be covered by the safe harbor provision for forward-looking statements in these provisions. All statements other than statements of historical fact are "forward-looking statements" for purposes of federal and state securities laws, including statements about anticipated future operating and financial performance, financial position and liquidity, growth opportunities and growth rates, growth plans, acquisition and divestiture opportunities, business prospects, strategic alternatives, business strategies, financial expectations, regulatory and competitive outlook, investment and expenditure plans, financing needs and availability, and other similar forecasts and statements of expectation and statements of assumptions underlying any of the foregoing. Words such as "aims," "anticipates," "believes," "can," "could," "estimates," "expects," "hopes," "intends," "may," "plans," "projects," "seeks," "shall," "should," "will," "predicts," "potential," "continue," "possible," "optimistic," and variations of these words and similar expressions are intended to identify these forward-looking statements. Forward-looking statements by us are based on estimates, beliefs, projections, and assumptions of management and are not guarantees of future performance. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our historical experience and our present expectations or projections. Such risks and uncertainties and other factors include, but are not limited to, adverse developments or conditions related to or arising from:

- *U.S. and international business and economic conditions;*
- *possible additional provisions for loan losses and charge-offs;*
- *credit risks of lending activities and deterioration in asset or credit quality;*
- *extensive laws and regulations and supervision that we are subject to, including potential supervisory action by bank supervisory authorities;*
- *increased costs of compliance and other risks associated with changes in regulation, including any amendments to the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act");*
- *compliance with the Bank Secrecy Act and other money laundering statutes and regulations;*
- *potential goodwill impairment;*
- *liquidity risk;*
- *fluctuations in interest rates;*
- *uncertainty relating to the London Interbank Offering Rate ("LIBOR") calculation process and potential phasing out of LIBOR after 2021;*
- *risks associated with acquisitions and the expansion of our business into new markets;*
- *inflation and deflation;*
- *real estate market conditions and the value of real estate collateral;*
- *environmental liabilities;*
- *our ability to compete with larger competitors;*
- *our ability to retain key personnel;*
- *successful management of reputational risk;*
- *severe weather, natural disasters, acts of war or terrorism, public health issues (including novel coronavirus, or COVID-19), or other adverse external events could harm our business;*
- *general economic or business conditions in Asia, and other regions where the Bank has operations;*
- *failures, interruptions, or security breaches of our information systems;*

- *our ability to adapt our systems to the expanding use of technology in banking;*
- *risk management processes and strategies;*
- *adverse results in legal proceedings;*
- *the impact of regulatory enforcement actions, if any;*
- *certain provisions in our charter and bylaws that may affect acquisition of the Company;*
- *changes in tax laws and regulations;*
- *the effect of changes in accounting policies and practices or accounting standards, as may be adopted from time-to-time by bank regulatory agencies, the U.S. Securities and Exchange Commission ("SEC"), the Public Company Accounting Oversight Board, the Financial Accounting Standards Board ("FASB") or other accounting standards setters, including Accounting Standards Update ("ASU" or "Update") 2016-13 (Topic 326), "Measurement of Credit Losses on Financial Instruments," commonly referenced as the Current Expected Credit Loss ("CECL") model, which will change how we estimate credit losses and may increase the required level of our allowance for credit losses after adoption on January 1, 2023*
- *market disruption and volatility;*
- *fluctuations in the Bancorp's stock price;*
- *restrictions on dividends and other distributions by laws and regulations and by our regulators and our capital structure;*
- *issuances of preferred stock;*
- *our ability to raise additional capital, if needed, and the potential resulting dilution of interests of holders of our common stock; and*
- *the soundness of other financial institutions.*

These and other factors are further described in this Annual Report on Form 10-K (at Item 1A in particular), the Company's other reports filed with the SEC and other filings the Company makes with the SEC from time to time. Actual results in any future period may also vary from the past results discussed in this report. Given these risks and uncertainties, readers are cautioned not to place undue reliance on any forward-looking statements, which speak to the date of this report. We have no intention and undertake no obligation to update any forward-looking statement or to publicly announce any revision of any forward-looking statement to reflect future developments or events, except as required by law.

PART I

Item 1. Business.

Company Overview

The Bank began operations in 2008 as a California state-chartered commercial bank. The Bank was organized by a group of very experienced bankers, some of whom began their banking careers in Asia and have worked together at various banks in California in the 1980s and 1990s. After working for many years in positions of increasing responsibility at such banks, these individuals identified an opportunity resulting from the 2007 credit crisis to capitalize on the general dissatisfaction that many customers had with the nature and level of services that were being provided by existing Asian-American and Chinese-American banks. These bankers observed that first generation Chinese immigrants were not well-served by existing banks.

Our strategic plan focuses on providing commercial banking services to first generation immigrants, concentrating on Chinese immigrants, as well as Koreans and other Asian ethnicities. The Bank's management team has utilized their strong local community ties along with their credibility and relationships with both federal and California bank regulatory agencies to create a bank that we believe emphasizes strong credit quality, a solid balance sheet without the burden of the troubled legacy assets of other banks, and a robust capital base, with the ability to raise additional capital.

Although the Bank serves all ethnicities, our board and management team are comprised of mostly Chinese-Americans. Using the experience and expertise of our officers and employees, we have tailored our loan and deposit products to serve the Chinese-American, Korean-American, and other Asian-American markets. We focus both on existing businesses and individuals already established in our local market area, as well as Asian immigrants who desire to establish their own businesses, purchase a home, or educate their children in the United States. Our size and infrastructure allow us to serve customers that require higher lending limits than normally associated with other smaller, local banking institutions that serve the Asian-American communities in which we operate. Our strategic plan is centered on delivering high-touch, superior customer service, customized solutions, and quick and local decision-making with respect to loan originations and servicing.

The Bank initially offered lending products that included traditional commercial real estate ("CRE") loans, secured commercial and industrial ("C&I") loans, and trade finance services for companies doing business in China, Taiwan and other Asian countries. In 2014, we began originating a significant amount of non-conforming single family residential ("SFR") mortgage loans, a portion of which we accumulate and sell to other banks. Since 2010, we have also originated Small Business Administration ("SBA") loans, with the intent to accumulate and periodically sell the guaranteed portion of such loans.

After forming the Bank and retaining a strong executive management team, we established the Bancorp, a California corporation, as our holding company in January 2011. We began to review potential acquisition candidates and, in July 2011, we acquired Las Vegas, Nevada-based First Asian Bank ("FAB") in an all cash transaction. In September 2011, we acquired Oxnard, California-based Ventura County Business Bank ("VCBB") in an all cash transaction. After closing both transactions, our total assets and total deposits increased by an aggregate of $94.2 million and $91.6 million, respectively. In order to further improve our capital and liquidity to further enhance our ability to consummate acquisitions, we conducted a private placement offering of our common stock in 2012, raising over $54 million from investors, many of whom were original shareholders of the Bank.

In May 2013, we acquired Los Angeles National Bank ("LANB") in an all cash transaction, which added $190.7 million in total assets and $162.0 million in total deposits. In February 2016, we acquired TFC Holding Company ("TFC") and its wholly-owned subsidiary, TomatoBank, which added $469.9 million in total assets and $405.3 million in total deposits.

In March 2016, we further supplemented our capital by issuing $50.0 million of subordinated notes, which we refer to as long-term debt in our consolidated financial statements, and in July 2017, we completed an initial public offering of our common stock, raising $86 million in gross proceeds.

In October 2018, we acquired First American International Corp. ("FAIC") and its wholly-owned subsidiary First American International Bank ("FAIB"), located in the New York City metropolitan area. This transaction involved the issuance by the Company of 3,011,762 shares of common stock (which was valued as of the date of the closing of the acquisition at $69.6 million) and $34.8 million of cash, and which added $850.3 million in total assets, $715.6 million in loans, and $629.7 million in total deposits. In November 2018, we further supplemented our capital by issuing $55.0 million of subordinated notes, which we refer to as long-term debt in our consolidated financial statements.

On January 10, 2020, we acquired PGB Holdings Inc. and its wholly-owned subsidiary, Pacific Global Bank ("PGB") in an all cash transaction for $32.9 million. At the time of the acquisition, PGB had approximately $217.6 million in total assets, $192.3 million in total deposits, and three branches in Chicago, Illinois.

We intend to continue to pursue growth opportunities, both organically as well as through acquisitions that meet our criteria**.** We will target acquisitions that we believe will be beneficial to our long-term growth strategy for loans and deposits and immediately accretive to earnings.

We operate as a minority depository institution, which is defined by the Federal Deposit Insurance Corporation ("FDIC") as a federally insured depository institution where 51% or more of the voting stock is owned by minority individuals. A minority depository institution is eligible to receive from the FDIC and other federal regulatory agencies training, technical assistance and review, and assistance regarding the implementation of proposed new deposit taking and lending programs, as well as with respect to the adoption of applicable policies and procedures governing such programs. We intend to maintain our minority depository institution designation, as it is expected that at least 51% of our issued and outstanding shares of capital shall remain owned by minority individuals. The minority depository institution designation has been historically beneficial to us, as the FDIC has reviewed and assisted with the implementation of our deposit and lending programs, and we continue to use the program for technical assistance.

In addition, in 2016, we became a community development financial institution ("CDFI") which is a financial institution that has a primary mission of community development, serves a target market, is a financing entity, provides development services, remains accountable to its community, and is a non-governmental entity. CDFIs are certified by the CDFI Fund at the U.S. Department of the Treasury, ("Treasury") which provide funds to CDFIs through a variety of programs. The Bank has received grants totaling $1.1 million from the CDFI Fund ($479,000 in 2019, $233,000 in 2018 and $415,000 in prior years). We have established a CDFI advisory board to assist the Bank in finding organizations that provide services to low-to-moderate income people. In our commitment to this designation, the Bank has a policy that requires all directors and management above the level of vice president to contribute at least 24 hours of community service annually to a qualified organization.

The Bank currently operates 25 branches across two separate regions: the Western region with branches in Los Angeles County, California; Orange County, California; Ventura County, California; Clark County, Nevada; and our Eastern region with branches in Manhattan, Brooklyn and Queens New York. We currently have ten branches in Los Angeles County, located in downtown Los Angeles, San Gabriel, Torrance, Rowland Heights, Monterey Park, Silver Lake, Arcadia, Cerritos, Diamond Bar, and west Los Angeles; we have one branch in Orange County, located in Irvine. We have two branches in Ventura County, located in Oxnard and Westlake Village, and one branch in Las Vegas, Nevada. We have two branches located in Manhattan, New York, two branches in Brooklyn, New York, and four in Queens, New York. We refer to the Bank's branches in New York as either the Eastern region or the New York region and we refer to the Bank's branches in California and Nevada as either the Western region or the Los Angeles region. PGB had three branches in the Chinatown area of Chicago which we now operate and are included in the 25 branch count above. We also planning to open a denovo branch in Edison, New Jersey in mid-2020.

As of December 31, 2019, the Company had total consolidated assets of $2.8 billion, total consolidated held for investment loans of $2.2 billion, total consolidated deposits of $2.2 billion and total consolidated shareholders' equity of $407.7 million. Our common stock is traded on the NASDAQ Global Select Market under the symbol "RBB".

Our Strategic Plan

In connection with the organization of the Bank, we adopted a strategic plan that we update periodically to reflect the Bank's growth and recent developments. The Bank's current strategic plan contains the following key elements:

- Maintain regulatory capital levels well in excess of fully phased-in Basel III requirements;

- Provide commercial banking services and products primarily to businesses and their owners operating within Chinese-American communities;
- Maintain a board of directors comprised of local business leaders who work closely with community leaders;
- Attract and retain an experienced management team with demonstrated industry knowledge and lending expertise;
- Focus on a target market consisting of businesses that:
    - are located in southern California, the San Francisco Bay area, the Chicago metropolitan area, the New York metropolitan area (including northern New Jersey), or Nevada, with possible future geographic expansion currently focused on Hawaii, Seattle, Philadelphia and Houston;
    - provide or receive goods or services to or from Asian countries, primarily China (including Hong Kong and Macau) and Taiwan;
    - have annual sales between $5 million and $50 million and between approximately 50 to 500 employees;
    - have loan needs of $1 million to $7 million; and
    - prioritize using bankers with strong market knowledge who are dedicated to serving the local markets in which we operate.
- Provide four main lending products:
    - CRE lending consisting of commercial real estate loans and construction and development (“C&D”) loans;
    - C&I lending that emphasizes trade finance, operating lines of credit, and working capital loans secured by inventory, accounts receivables, fixed assets and real estate;
    - SFR lending primarily to Asian Americans willing to provide higher down payment amounts and pay higher fees and interest rates in return for reduced documentation requirements. The Bank originates these loans through its correspondent banking relationships, and through its branch network, primarily to be sold. In most cases, the Bank retains the loan servicing rights and obligations; in addition, we offer 15-year and 30-year qualified mortgage loans that are sold directly to the Federal National Mortgage Association (“FNMA”), and
    - Through our SBA Preferred Lender status, SBA loans consisting primarily of 7(a) loans to Asian Americans that are accumulated on the Bank’s balance sheet with the SBA guaranteed portion sold in the secondary market generally on a quarterly basis.

Market Area

We are headquartered in Los Angeles County, California. We currently have ten branches in Los Angeles County located in downtown Los Angeles, San Gabriel, Torrance, Rowland Heights, Monterey Park, Silver Lake, Arcadia, Cerritos, Diamond Bar, and West Los Angeles. We operate primarily in the Los Angeles-Long Beach-Anaheim, California MSA. With over 13 million residents, it is the largest MSA in California, the second largest MSA in the United States, and one of the most significant business markets in the world. It is estimated that the greater Los Angeles area has a gross domestic product of approximately $1 trillion, which would rank it as the 16th largest economy in the world. The economic base of the area is heavily dependent on small- and medium-sized businesses, providing us with a market rich in potential customers. According to the U.S. Census Bureau, Asian Americans account for 15.1% of the over 10.1 million residents in Los Angeles County as of July 1, 2016.

We operate two branches in Ventura County, California, in Westlake Village and Oxnard. Westlake Village is considered part of the Los Angeles-Long Beach-Anaheim, California MSA and has similar market characteristics. Oxnard has similar market characteristics of Ventura County, which is home to a broad array of industries, including agriculture, professional business services, technology and tourism. Its proximity to one of the world's leading wine-growing regions and its 43 miles of coastline attracts a large number of visitors. Ventura County is not only a port of call for travelers, but also a shipping hub for automobiles and agricultural goods. Port Hueneme serves as a distribution hub for automobile manufacturers and is a collection point for many agricultural goods that are shipped throughout the United States. According to the U.S. Census Bureau, Asian Americans account for 6.7% of the 850,536 residents in Ventura County as of July 1, 2016.

On October 15, 2018 we opened a branch in Irvine, Orange County, California. Orange County is considered part of the Los Angeles-Long Beach-Anaheim, California MSA and has similar market characteristics.

We operate one branch in the Las Vegas-Paradise, Nevada MSA. This MSA is located in the southern part of the state of Nevada, and includes the cities of Las Vegas, Henderson, North Las Vegas, and Boulder City. A central part of the MSA is the Las Vegas Valley, a 600 square mile basin that includes the MSA's largest city, Las Vegas. With a 2016 gross domestic product of approximately $118 billion, this MSA contains the largest concentration of people in the state (approximately 2.2 million), and is a significant tourist destination, drawing over 43 million international and domestic visitors in 2016. According to the U.S. Census Bureau, Asian Americans account for 10.1% of the over 2.1 million residents in Clark County as of July 1, 2016.

We operate eight branches in the New York City metropolitan MSA. This MSA is located in the south-eastern part of the state of New York, and includes the boroughs of Manhattan, Queens and Brooklyn. A central part of the MSA is the borough of Manhattan. With a 2016 gross domestic product of approximately $1.7 billion, this MSA contains the largest concentration of people in the state, and is a significant business and tourist destination. According to the 2010 U.S. Census Bureau, Asian Americans account for 9% of the over 23.7 million residents in metropolitan New York City.

We recently signed a lease to open a branch in Edison, New Jersey and have made all regulatory applications. We expect the Edison branch to open in mid-2020.

As a result of the PGB acquisition, we operate three branches in the Chinatown area of Chicago in the metropolitan area of Chicago-Naperville-Arlington Heights, IL MSA. According to the U.S. Census Bureau, as of July 1, 2016, Asians account for 90% of Chicago's Chinatown population, and the Asian population is 6.4% of the over 9.7 million residents in the Chicago metropolitan area.

Our Competition

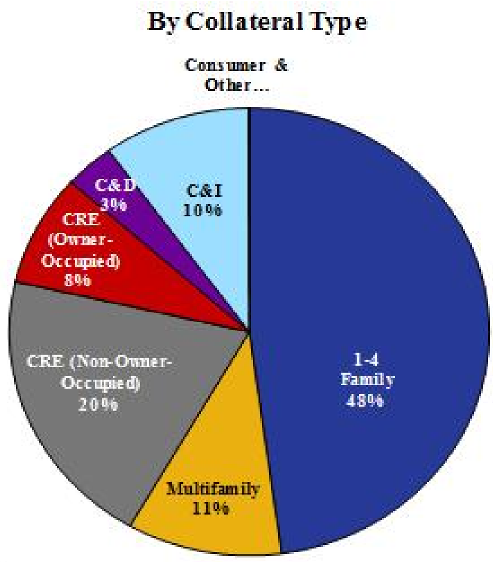
We view the Chinese-American banking market, including the Company, as comprised of 34 banks divided into three segments: publicly-traded banks (4 banks), locally-owned banks (26 banks), and banks that are subsidiaries of Taiwanese or Chinese banks (4 banks). Fifteen of the locally-owned banks are based in California. We are currently the sixth-largest bank among this group of 34 banks.

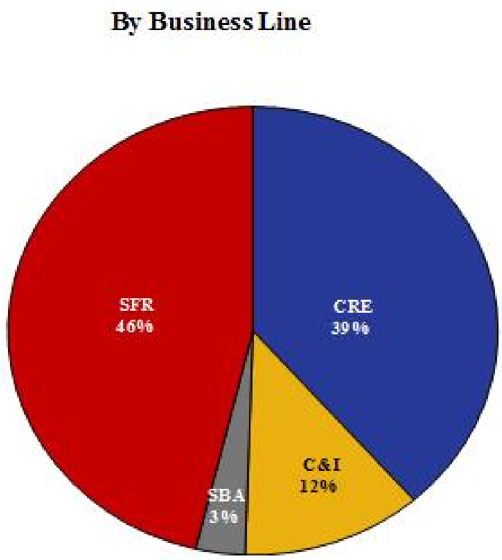
In addition to these Chinese-American banks, we also compete with other banks in the region, particularly with Korean-American banks in our SFR and SBA lending areas. Although we were founded by and market primarily to Chinese Americans, we are broadening our marketing efforts to include all categories of Asian Americans. In certain geographic markets where we currently operate, there is overlap between Chinese-American, Korean-American and other Asian-American banks for loan and deposit business. We aim to grow both organically and potentially through acquisitions in these markets.

Lending Activities

Our lending strategy is to maintain a broadly diversified loan portfolio based on the type of customer (i.e., businesses versus individuals), type of loan product (e.g., owner occupied commercial real estate, commercial loans, etc.), geographic location and industries in which our business customers are engaged (e.g., manufacturing, retail, hospitality, etc.). We principally focus our lending activities on loans that we originate from borrowers located in our market areas. We seek to be the premier provider of lending products and services in our market areas and serve the credit needs of high-quality business and individual borrowers in the communities that we serve.

Our loan portfolio currently consists of four loan types: CRE, C&I, SFR and SBA, with diversified product offerings within each type. The charts below shows our loan portfolio composition as of December 31, 2019, separately by type of collateral support and relevant business line. As described below, the type of collateral supporting a loan is not necessarily indicative of the business line from which the loan was generated.





We have an extensive loan approval process in which we require not only financial and other information from our borrowers, but our loan and executive officers have an extensive knowledge of the local market area and of the borrower's past transactions. After receiving an extensive application and loan documentation and conducting an extensive review, our loan officers meet on a very frequent basis concerning the loan request. After reaching a consensus decision to approve, the loan officer will then submit the loan to the chief executive officer for approval, and if the loan request is above the chief executive officer's lending limit, it will be referred to the board of directors for decision.

We have four principal lending areas:

Commercial and Industrial Loans. We have significant expertise in small to middle market commercial and industrial lending. Our success is the result of our product and market expertise, and our focus on delivering high-quality, customized and quick turnaround service for our clients due to our focus on maintaining an appropriate balance between prudent, disciplined underwriting, on the one hand, and flexibility in our decision making and responsiveness to our clients, on the other hand, which has allowed us to grow our commercial and industrial loan portfolio since December 31, 2010, while maintaining strong asset quality. As of December 31, 2019, we had outstanding commercial and industrial loans of $274.6 million, or 12.5% of our total loan portfolio. We had no non-performing commercial and industrial loans as of December 31, 2019 and 2018.

Commercial Real Estate Loans. We offer real estate loans for owner occupied and non-owner occupied commercial property, including loans secured by single-family residences for a business purposes, multi-family residential property and construction and land development loans. Our management team has an extensive knowledge of the markets where we operate and our borrowers and takes a conservative approach to commercial real estate lending, focusing on what we believe to be high quality credits with low loan-to-value ratios income-producing properties with strong cash flow characteristics, and strong collateral profiles. The real estate securing our existing commercial real estate loans includes a wide variety of property types, such as owner occupied offices, warehouses and production facilities, office buildings, hotels, mixed-use residential and commercial, retail centers, multi-family properties and assisted living facilities.

The total commercial real estate portfolio was $793.3 million at December 31, 2019 of which $133.4 million was secured by owner occupied properties. The multi-family residential loan portfolio totaled $234.2 million as of December 31, 2019. The single-family residential loan portfolio originated for a business purpose totaled $19.2 million as of December 31, 2019. Our non-performing commercial real estate loans as of December 31, 2019 were $2.2 million.

Construction and land development loans. Our construction and land development loans are comprised of residential construction, commercial construction and land acquisition and development construction. Interest reserves are generally established on real estate construction loans. As of December 31, 2019, our real estate construction loan portfolio was divided among the foregoing categories: $60.7 million, or 63.3%, of residential construction; $29.9 million, or 31.1%, of commercial construction; and $5.4 million, or 5.6%, of land acquisition and development.

SBA Loans. We are designated a Preferred Lender under the SBA Preferred Lender Program. We offer mostly SBA 7(a) variable-rate loans. We originate all loans to hold for investment and move loans to available for sale as management decides which loans to sell. We generally sell the 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 secure loans mature in less than 10 years. Collateral may also include inventory, accounts receivable and equipment, and includes personal guarantees. Our unguaranteed loans collateralized by real estate are monitored by collateral type and included in our CRE Concentration Guidance as previously discussed. From time to time, we will also originate SBA 504 loans.

We originate SBA loans through our branch staff, loan officers and through SBA brokers. During 2019, $10.7 million or 38.5% of SBA loan originations were produced by branch staff and loan officers. The remaining $17.1 million was referred to us through SBA brokers.

As of December 31, 2019 our SBA portfolio totaled $75.0 million of which $14.5 million is guaranteed by the SBA and $60.5 million is unguaranteed, of which $57.6 million is secured by real estate and $2.9 million is unsecured or secured by business assets. We monitor the unguaranteed portfolio by type of real estate collateral. As of December 31, 2019, $29.2 million or 48.3% is secured by hotel/motels; $8.9 million or 14.7% by gas stations; and $22.4 million or 37.0% in other real estate types. We further analyze the unguaranteed portfolio by location. As of December 31, 2019, $22.8 million or 37.6% is located in California; $4.9 million or 8.0% is located in Nevada; $6.6 million or 10.9% is located in Texas; $9.6 million or 15.8% is located in Washington; $3.2 million or 5.2% is located in New York; and $13.5 million or 22.5% is located in other states. Our non-performing SBA loans as of December 31, 2019 amounted to $9.4 million of which $7.1 million are guaranteed by the SBA.

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. Our loan product is a five- and seven-year hybrid adjustable mortgage with a current start rate of 4.375% plus 0%-1% in points, which re-prices after five or seven years to the one-year CMT plus 2.50%. We also offer qualified mortgage program as a correspondent to major banking financial institutions. As of December 31, 2019, we had $957.3 million of SFR mortgage loans, representing 43.6% of our total loan portfolio, excluding available for sale SFR loans. We had three non-performing single-family residential real estate loans as of December 31, 2019 totaling $1.3 million.

We originate these non-qualified single-family residential 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 2019, we originated $309.6 million of such loans through our retail channel, and $73.3 million through our correspondent and wholesale channel.

We sell many of these non-qualified single-family residential mortgage loans to other Asian-American banks, FNMA and other investors. We currently engage in loan sales to eight banks and private investors, and are working to expand our network of entities who will acquire our SFR loan product. Loans held for sale consist primarily of first trust deed mortgages on single-family residential properties located in California. Single-family residential mortgage loans held for sale are generally sold with the servicing rights retained.

In our Eastern region, we originate 15-year and 30-year conforming mortgages which are sold directly to FNMA. During 2019, we originated $40.3 million of these loans.

Consumer Loans. During 2018, we started an automobile lending unit to support the Chinese-American immigrant community. We do not expect material volumes of business in this area as it is an accommodation to our customers. As of December 31, 2019, such loans amounted to $761,000.

Deposits

The quality of our deposit franchise and access to stable funding are key components to our success. We offer traditional depository products, including checking, savings, money market and certificates of deposits, to individuals, businesses, municipalities and other entities through our branch network throughout our market areas. Deposits at the Bank are insured by the FDIC up to statutory limits.

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. 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 December 31, 2019, 86.5% or $1.9 billion of our relationships are considered core relationships.

Many of our management team members, including in many cases branch managers, have worked together for up to 30 years, and our deposits relationships have been cultivated over that time period. Many of our depositors have relationships with executive officers and our board of directors. Our ability to gather deposits, particularly core deposits, is an important aspect of our business franchise and we believe core deposits are a significant driver of franchise value as a cost efficient and stable source of funding to support our growth. As of December 31, 2019, we had $2.2 billion of total deposits, with a total interest-bearing deposit cost of 1.93% for the year 2019.

Other Subsidiaries

TFC Statutory Trust. In connection with our 2016 acquisition of TomatoBank and its holding company, TFC, the Company acquired the TFC Statutory Trust (the “TFC Trust”), a statutory business trust that was established by TFC in 2006 as a wholly-owned subsidiary. The TFC Trust issued trust preferred securities representing undivided preferred beneficial interests in the assets of the TFC Trust. The proceeds of these trust preferred securities were invested in certain securities issued by us, with similar terms to the relevant series of securities issued by the TFC Trust, which we refer to as subordinated debentures. The Company guarantees on a limited basis the payments of distributions on the capital securities of the TFC Trust and payments on redemption of the capital securities of the TFC Trust. The Company is the owner of all the beneficial interests represented by the common securities of the TFC Trust.

FAIC Statutory Trust. In connection with our 2018 acquisition of FAIB and its holding company, FAIC, the Company acquired the FAIC Statutory Trust, a statutory business trust that was established by FAIC in 2004 under the laws of Delaware as a wholly-owned subsidiary (the “FAIC Trust”). The FAIC Trust issued trust preferred securities representing undivided preferred beneficial interests in the assets of the FAIC Trust. The proceeds of these trust preferred securities were invested in certain securities issued by us, with similar terms to the relevant series of securities issued by the FAIC Trust, which we refer to as subordinated debentures. The Company guarantees on a limited basis the payments of distributions on the capital securities of the FAIC Trust and payments on redemption of the capital securities of the FAIC Trust. The Company is the owner of all the beneficial interests represented by the common securities of the FAIC Trust.

FAIB Capital Corp. In connection with the 2018 acquisition of FAIC, the Company acquired a real estate investment trust (“REIT”) as a wholly-owned subsidiary of the Bank. FAIB Capital Corp. is a New York State corporation formed on August 28, 2013. The purpose of the REIT is to minimize New York State and local taxes.

With the acquisition of FAIC, we acquired four inactive subsidiaries: FAIC Insurance Services (a New York corporation formed in 2006, and P4G8, LLC, FAIB Reacquisitions I, LLC and FAIB REO Acquisition II, LLC, each of which are New York limited liability companies. FAIC Insurance Services was dissolved in January 2020, and the other three subsidiaries were dissolved in 2019.

RBB Asset Management Company. In 2012, as a result of our acquisitions of FAB and VCBB**,** we established RBB Asset Management Company, or RAM, as a wholly-owned subsidiary of the Company. In March 2013, RAM purchased approximately $6.5 million in loans and $1.7 million in other real estate owned ("OREO") from the Bank that had been acquired in the FAB and VCBB acquisitions. We may continue to utilize RAM to purchase certain assets from the Bank acquired in acquisitions that we may make in the future.

Employees

As of December 31, 2019, we had approximately 355 full-time equivalent employees. None of our employees are represented by any collective bargaining unit or are parties to a collective bargaining agreement. We believe that our relations with our employees are good.

Properties

We believe that the leases to which we are subject are generally on terms consistent with prevailing market terms. None of the leases are with our directors, officers, beneficial owners of more than 5% of our voting securities or any affiliates of the foregoing.

Corporate Information

Our principal executive offices are located at 1055 Wilshire Blvd. Suite 1200, Los Angeles, California 90017, and our telephone number at that address is (213) 627-9888.

Available Information

We invite you to visit our website at *www.royalbusinessbankusa.com*, to access free of charge the Bancorp's Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports, all of which are made available as soon as reasonably practicable after we electronically file such material with or furnish it to the SEC. The content of our website is not incorporated into and is not part of this Annual Report on Form 10-K. In addition, you can write to us to obtain a free copy of any of those reports at RBB Bancorp, 1055 Wilshire Blvd. Suite 1200, Los Angeles, California 90017, Attn: Investor Relations. These reports are also available through the SEC's Public Reference Room, located at 100 F Street NE, Washington, DC 20549 and online at the SEC's website, available at http://*www.sec.gov*. Investors can obtain information about the operation of the SEC's Public Reference Room by calling 800-SEC-0330. Bancorp's Code of Ethics and other corporate governance documents are located on its website at www.royalbusinessbankusa.com.

Supervision and Regulation

General

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

Additional initiatives may be proposed or introduced before Congress, the California Legislature, and other governmental bodies in the future. Such proposals, if enacted, may further alter the structure, regulation, and competitive relationship among financial institutions and may subject us to increased supervision and disclosure and reporting requirements. In addition, the various bank regulatory agencies often adopt new rules and regulations and policies to implement and enforce existing legislation. It cannot be predicted whether, or in what form, any such legislation or regulatory changes in policy may be enacted or the extent to which the business of the Bank would be affected thereby. The outcome of examinations, any litigation, or any investigations initiated by state or federal authorities also may result in necessary changes in our operations and increased compliance costs.

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

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

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

Bank Holding Company and Bank Regulation

Bancorp is a financial holding company within the meaning of the Bank Holding Company Act and is registered as such with the Federal Reserve. Bancorp is also a bank holding company within the meaning of Section 3700 of the California Financial Code. Therefore, Bancorp and its subsidiaries are subject to examination by, and may be required to file reports with, the Federal Reserve and the DBO. Federal Reserve and DBO approvals are also required for financial holding companies to acquire control of a bank. As a California commercial bank, the deposits of which are insured by the FDIC, the Bank is subject to regulation, supervision, and regular examination by the DBO and by the FDIC, as the Bank's primary federal regulator, and must additionally comply with certain applicable regulations of the Federal Reserve.

The wide range of requirements and restrictions contained in both federal and state banking laws include:

- Requirements that bank holding companies and banks file periodic reports.
- Requirements that bank holding companies and banks meet or exceed minimum capital requirements (see "Regulatory Capital Requirements" below).
- Requirements that bank holding companies serve as a source of financial and managerial strength for their banking subsidiaries. In addition, the regulatory agencies have "prompt corrective action" authority to limit activities and require a limited guaranty of a required bank capital restoration plan by a bank holding company if the capital of a bank subsidiary falls below capital levels required by the regulators. (See "Source of Strength" and "Prompt Corrective Action" below.)
- Limitations on dividends payable to stockholders. Bancorp's ability to pay dividends is subject to legal and regulatory restrictions. A substantial portion of Bancorp's funds to pay dividends or to pay principal and interest on our debt obligations is derived from dividends paid by the Bank. (See "The Company – Dividend Payments" below)

- Limitations on dividends payable by bank subsidiaries. These dividends are subject to various legal and regulatory restrictions. The federal banking agencies have indicated that paying dividends that deplete a depositary institution's capital base to an inadequate level would be an unsafe and unsound banking practice. Moreover, the federal agencies have issued policy statements that provide that bank holding companies and insured banks should generally only pay dividends out of current operating earnings. (See "The Bank – Dividend Payments" below)
- Safety and soundness requirements. Banks must be operated in a safe and sound manner and meet standards applicable to internal controls, information systems, internal audit, loan documentation, credit underwriting, interest rate exposure, asset growth, and compensation, as well as other operational and management standards. These safety and soundness requirements give bank regulatory agencies significant latitude in exercising their supervisory authority and the authority to initiate informal or formal enforcement actions.
- Requirements for notice, application and approval, or non-objection of acquisitions and certain other activities conducted directly or in subsidiaries of Bancorp or the Bank.
- Compliance with the Community Reinvestment Act ("CRA"). The CRA requires that banks help meet the credit needs in their communities, including the availability of credit to low and moderate income individuals. If the Bank fails to adequately serve its communities, restrictions may be imposed, including denials of applications for branches, for adding subsidiaries or affiliate companies, for engaging in new activities or for the merger with or purchase of other financial institutions. In its last reported examination by the FDIC in March 2016, the Bank received a CRA rating of "Satisfactory."
- Compliance with the Bank Secrecy Act, the USA Patriot Act, and other anti-money laundering laws ("AML"), and the regulations of the Treasury's Office of Foreign Assets Control ("OFAC"). (See "The Bank – Anti-Money Laundering and OFAC Regulation below.)
- Limitations on the amount of loans to one borrower and its affiliates and to executive officers and directors.
- Limitations on transactions with affiliates.
- Restrictions on the nature and amount of any investments in, and the ability to underwrite, certain securities.
- Requirements for opening of intra- and interstate branches.
- Compliance with truth in lending and other consumer protection and disclosure laws to ensure equal access to credit and to protect consumers in credit transactions. (See "Operations, Consumer and Privacy Compliance Laws" below.)
- Compliance with provisions of the Gramm-Leach-Bliley Act of 1999 ("GLB Act") and other federal and state laws dealing with privacy for nonpublic personal information of customers, including but not limited to the California Consumer Privacy Act of 2018 (the "CCPA"), which took effect January 1, 2020. The federal bank regulators have adopted rules limiting the ability of banks and other financial institutions to disclose non-public information about consumers to unaffiliated third parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to an unaffiliated third party. These regulations affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors.

Specific federal and state laws and regulations which are applicable to banks regulate, among other things, the scope of their business, their investments, their reserves against deposits, the timing of the availability of deposited funds, their activities relating to dividends, the nature and amount of and collateral for certain loans, servicing and foreclosing on loans, borrowings, capital requirements, certain check-clearing activities, branching, and mergers and acquisitions. California banks are also subject to statutes and regulations including Federal Reserve Regulation O and Federal Reserve Act Sections 23A and 23B and Regulation W, which restrict or limit loans or extensions of credit to “insiders,” including officers, directors, and principal shareholders, and affiliates, and purchases of assets from affiliates, including parent bank holding companies, except pursuant to certain exceptions and only on terms and conditions at least as favorable to those prevailing for comparable transactions with unaffiliated parties. The Dodd-Frank Act expanded definitions and restrictions on transactions with affiliates and insiders under Sections 23A and 23B, and also lending limits for derivative transactions, repurchase agreements and securities lending, and borrowing transactions.

The Bank operates branches and/or loan production offices in California, Illinois, Nevada and New York. While the DBO remains the Bank’s primary state regulator, the Bank’s operations in these jurisdictions are subject to examination and supervision by local bank regulators, and transactions with customers in those jurisdictions are subject to local laws, including consumer protection laws.

CFPB Actions

The Dodd-Frank Act provided for the creation of the CFPB as an independent entity within the Federal Reserve with broad rulemaking, supervisory, and enforcement authority over consumer financial products and services, including deposit products, residential mortgages, home-equity loans and credit cards. The CFPB’s functions include investigating consumer complaints, conducting market research, rulemaking, supervising and examining bank consumer transactions, and enforcing rules related to consumer financial products and services. CFPB regulations and guidance apply to all financial institutions and banks with $10 billion or more in assets, which are also subject to examination by the CFPB. As the Bank has less than $10 billion in assets, it is not examined for compliance with CFPB regulation by the CFPB, although it is examined by the FDIC and the DBO.

The CFPB has enforcement authority over unfair, deceptive or abusive act and practices (“UDAAP”). UDAAP is considered one of the most far reaching new enforcement tools at the disposal of the CFPB and covers all consumer and small business financial products or services such as deposit and lending products or services such as overdraft programs and third-party payroll card vendors. It is a wide-ranging regulatory net that potentially picks up the gaps not included in other consumer laws, rules and regulations. Violations of UDAAP can be found in many areas and can include advertising and marketing materials, the order of processing and paying items in a checking account or the design of client overdraft programs. The scope of coverage includes not only direct interactions with clients and prospects but also actions by third-party service providers. The Dodd-Frank Act does not prevent states from adopting stricter consumer protection standards. State regulation of financial products and potential enforcement actions could also adversely affect our business, financial condition or results of operations.

Additionally, in 2014, the CFPB adopted revisions to Regulation Z, which implement the Truth in Lending Act, pursuant to the Dodd-Frank Act, and apply to all consumer mortgages (except home equity lines of credit, timeshare plans, reverse mortgages, or temporary loans). The revisions mandate specific underwriting criteria for home loans in order for creditors to make a reasonable, good faith determination of a consumer's ability to repay and establish certain protections from liability under this requirement for “qualified mortgages” meeting certain standards. In particular, it will prevent banks from making “no doc” and “low doc” home loans, as the rules require that banks determine a consumer’s ability to pay based in part on verified and documented information. We do originate certain “low doc” loans that meet specific underwriting criteria. Given the small volume of such loans, we do not believe that this regulation will have a significant impact on our operations.

Interchange Fees

Under the Durbin Amendment to the Dodd-Frank Act, the Federal Reserve adopted rules establishing standards for assessing whether the interchange fees that may be charged with respect to certain electronic debit transactions are “reasonable and proportional” to the costs incurred by issuers for processing such transactions.

Interchange fees, or “swipe” fees, are charges that merchants pay to us and other card-issuing banks for processing electronic payment transactions. Under the final rules, for those card-issuing banks with $10 million or more in total assets, the maximum permissible interchange fee is equal to no more than 21 cents plus 5 basis points of the transaction value for many types of debit interchange transactions. We are not subject to this limitation because we have less than $10 billion in total assets. The Federal Reserve also adopted a rule to allow a debit card issuer to recover 1 cent per transaction for fraud prevention purposes if the issuer complies with certain fraud-related requirements required by the Federal Reserve. The Federal Reserve also has rules governing routing and exclusivity that require issuers to offer two unaffiliated networks for routing transactions on each debit or prepaid product.

Financial Regulatory Reform

The Dodd-Frank Act, which was enacted in July 2010, significantly restructured the financial regulatory landscape in the United States, including the creation of a new systemic risk oversight body, the Financial Stability Oversight Council (the “FSOC”). The FSOC oversees and coordinates the efforts of the primary U.S. financial regulatory agencies (including the Federal Reserve, SEC, the Commodity Futures Trading Commission and the FDIC) in establishing regulations to address financial stability concerns. The Dodd-Frank Act and the FRB’s implementing regulations impose increasingly stringent regulatory requirements on financial institutions as their size and scope of activities increases.

In May 2018, the Economic Growth, Regulatory Relief, and Consumer Protection Act (“EGRRCPA”) was enacted. While the EGRRCPA reduced the impact of the Dodd-Frank Act on bank holding companies of our size, the Dodd-Frank Act nonetheless subjected us to additional significant regulatory requirements.

Regulatory Capital Requirements

Bank holding companies and banks are subject to various regulatory capital requirements administered by state and federal agencies. These agencies may establish higher minimum requirements if, for example, a banking organization previously has received special attention or has a high susceptibility to interest rate risk. Risk-based capital requirements determine the adequacy of capital based on the risk inherent in various classes of assets and off-balance sheet items. Under the Dodd-Frank Act, the Federal Reserve must apply consolidated capital requirements to depository institution holding companies that are no less stringent than those currently applied to depository institutions. The Dodd-Frank Act additionally requires capital requirements to be countercyclical so that the required amount of capital increases in times of economic expansion and decreases in times of economic contraction, consistent with safety and soundness.

Under federal regulations, bank holding companies and banks must meet certain risk-based capital requirements. Effective as of January 1, 2015, the Basel III final capital framework, among other things, (i) introduced as a new capital measure “Common Equity Tier 1” (“CET1”) (ii) specified that Tier 1 capital consists of CET1 and “Additional Tier 1 capital” instruments meeting specified requirements, (iii) defined CET1 narrowly by requiring that most adjustments to regulatory capital measures be made to CET1 and not to the other components of capital, and (iv) expanded the scope of the adjustments, as compared to existing regulations. Beginning January 1, 2016, financial institutions were required to maintain a minimum capital conservation buffer to avoid restrictions on capital distributions such as dividends and equity repurchases and other payments such as discretionary bonuses to executive officers. The minimum capital conservation buffer was phased in over a four year transition period with minimum buffers of 0.625%, 1.25%, 1.875%, and 2.50% during 2016, 2017, 2018 and 2019, respectively.

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

- a minimum ratio of CET1 to risk-weighted assets of at least 4.5%, plus a 2.5% “capital conservation buffer”;
- a minimum ratio of Tier I capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer, or 8.5%;
- a minimum ratio of Total (Tier 1 plus Tier 2) capital to risk-weighted assets of at least 8.0%, plus the capital conservation buffer, or 10.5%; and
- a minimum leverage ratio of 4%, calculated as the ratio of Tier 1 capital to balance sheet exposures plus certain off-balance sheet exposures.

The Basel III final framework provides for a number of deductions from and adjustments to CET1. These include, for example, the requirement that mortgage servicing rights, deferred tax assets dependent upon future taxable income and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such categories exceed 15% of CET1. Basel III also includes, as part of the definition of

CET1 capital, a requirement that banking institutions include the amount of Additional Other Comprehensive Income ("AOCI"), which primarily consists of unrealized gains and losses on available for sale securities, which are not required to be treated as other-than-temporary impairment, net of tax, in calculating regulatory capital. Banking institutions had the option to opt out of including AOCI in CET1 capital if they elected to do so in their first regulatory report following January 1, 2015. As permitted by Basel III, Bancorp and the Bank elected to exclude AOCI from CET1.

The Dodd-Frank Act excludes trust preferred securities issued after May 19, 2010, from being included in Tier 1 capital, unless the issuing company is a bank holding company with less than $500 million in total assets. Trust preferred securities issued prior to that date will continue to count as Tier 1 capital for bank holding companies with less than $15 billion in total assets, such as Bancorp. The trust preferred securities issued by our unconsolidated subsidiary capital trusts qualify as Tier 1 capital up to a maximum limit of 25% of total Tier 1 capital. Any additional portion of our trust preferred securities would qualify as "Tier 2 capital."

In addition, goodwill and most intangible assets are deducted from Tier 1 capital. For purposes of applicable total risk-based capital regulatory guidelines, Tier 2 capital (sometimes referred to as "supplementary capital") is defined to include, subject to limitations: perpetual preferred stock not included in Tier 1 capital, intermediate-term preferred stock and any related surplus, certain hybrid capital instruments, perpetual debt and mandatory convertible debt securities, allowances for loan and lease losses, and intermediate-term subordinated debt instruments. The maximum amount of qualifying Tier 2 capital is 100% of qualifying Tier 1 capital. For purposes of determining total capital under federal guidelines, total capital equals Tier 1 capital, plus qualifying Tier 2 capital, minus investments in unconsolidated subsidiaries, reciprocal holdings of bank holding company capital securities, and deferred tax assets and other deductions.

We had outstanding subordinated debentures in the aggregate principal amount of $113.7 million. Of this amount, $9.7 million is attributable to subordinated debentures issued to statutory trusts in connection with prior issuances of trust-preferred securities, which qualifies as Tier 1 capital, and $104.0 million is attributable to outstanding subordinated notes, which qualifies as Tier 2 capital.

Basel III changed the manner of calculating risk-weighted assets. New methodologies for determining risk-weighted assets in the general capital rules are included, including revisions to recognition of credit risk mitigation, including a greater recognition of financial collateral and a wider range of eligible guarantors. They also include risk weighting of equity exposures and past due loans; and higher (greater than 100%) risk weighting for certain commercial real estate exposures that have higher credit risk profiles, including higher loan to value and equity components. In particular, loans categorized as "high-volatility commercial real estate" loans, as defined as pursuant to applicable federal regulations, are required to be assigned a 150% risk weighting, and require additional capital support.

The Federal Reserve's Small Bank Holding Company Policy Statement (the "Policy Statement") applies to bank holding companies ("BHCs") with pro forma consolidated assets of less than $3 billion. The Policy Statement was designed to permit the creation of small BHCs and to allow for their expansion by allowing them to have debt levels in excess of what is otherwise allowed for larger BHCs. Under the Policy Statement, a BHC is exempt from the Federal Reserve's risk-based capital and leverage rules (Appendixes A and D of Regulation Y); and may use debt to finance up to 75% of the purchase price of an acquisition allowing (in theory) a BHC to have a debt-to-equity ratio of up to 3:1. The Policy Statement also applies to expedited processing by the Federal Reserve of applications filed by a qualifying BHC and the payment of dividends and the completion of stock redemptions by a qualifying BHC.

In addition to the uniform risk-based capital guidelines and regulatory capital ratios that apply across the industry, the regulators have the discretion to set individual minimum capital requirements for specific institutions at rates significantly above the minimum guidelines and ratios. Future changes in regulations or practices could further reduce the amount of capital recognized for purposes of capital adequacy. Such a change could affect our ability to grow and could restrict the amount of profits, if any, available for the payment of dividends.

In addition, the Dodd-Frank Act requires the federal banking agencies to adopt capital requirements that address the risks that the activities of an institution poses to the institution and the public and private stakeholders, including risks arising from certain enumerated activities.

Basel III became applicable to Bancorp and the Bank on January 1, 2015. However, as a result of the EGRRCPA, Bancorp is no longer subject to the more stringent Basel III minimum capital requirements until Bancorp's total consolidated assets equal or exceed $3 billion. As of December 31, 2019, Bancorp had total consolidated assets of $2.8 billion. Overall, the Company believes that implementation of the Basel III Rule has not had and will not have a material adverse effect on Bancorp's or the Bank's capital ratios, earnings, shareholder's equity, or its ability to pay dividends, effect stock repurchases or pay discretionary bonuses to executive officers.

In September 2017, the federal bank regulators proposed to revise and simplify the capital treatment for certain deferred tax assets, mortgage servicing assets, investments in non-consolidated financial entities and minority interests for banking organizations, such as Bancorp and the Bank, that are not subject to the advanced approaches requirements. In November 2017, the federal banking regulators revised the Basel III Rules to extend the current transitional treatment of these items for non-advanced approaches banking organizations until the September 2017 proposal is finalized. The September 2017 proposal would also change the capital treatment of certain commercial real estate loans under the standardized approach, which we use to calculate our capital ratios.

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

In 2018, the federal bank regulatory agencies issued a variety of proposals and made statements concerning regulatory capital standards. These proposals touched on such areas as commercial real estate exposure, credit loss allowances under generally accepted accounting principles, capital requirements for covered swap entities, among others. In July 2019, the federal bank regulators adopted a final rule that simplifies the capital treatment for certain deferred tax assets, mortgage servicing assets, investments in non-consolidated financial entities and minority interests for banking organizations, such as Bancorp and the Bank, that are not subject to the advanced approaches requirements. We will be assessing the impact on us of these new regulations and supervisory approaches as they are proposed and implemented.

As of December 31, 2019, the Bank's capital ratios exceeded the minimum capital adequacy guideline percentage requirements of the federal banking agencies for "well capitalized" institutions under the Basel III capital rules on a fully phased-in basis.

With respect to the Bank, the Basel III Capital Rules also revise the PCA regulations pursuant to Section 38 of the Federal Deposit Insurance Act, as discussed below under "PCA".

Prompt Corrective Action ("PCA")

The Federal Deposit Insurance Act, as amended, or FDIA, requires federal banking agencies to take PCA in respect of depository institutions that do not meet minimum capital requirements. The FDIA includes the following five capital tiers: "well capitalized", "adequately capitalized", "undercapitalized", "significantly undercapitalized", and "critically undercapitalized". A depository institution's capital tier will depend upon how its capital levels compare with various relevant capital measures and certain other factors, as established by regulation. The Basel III Capital Rules, revised the PCA requirements effective January 1, 2015. Under the revised PCA provisions of the FDIA, an insured depository institution generally will be classified in the following categories based on the capital measures indicated:

PCA Category	Total Risk-Based Capital Ratio	Tier I Risk-Based Capital Ratio	CET1 Risk-Based Ratio	Tier I Leverage Ratio
Well capitalized	10%	8%	6.5%	5%
Adequately capitalized	8%	6%	4.5%	4%
Undercapitalized	< 8%	< 6%	< 4.5%	< 4%
Significantly undercapitalized	< 6%	< 4%	< 3.0%	< 3%
Critically undercapitalized	Tangible Equity/Total Assets =< 2%			

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

The FDIA generally prohibits a depository institution from making any capital distributions (including payment of a dividend) or paying any management fee to its parent holding company, if the depository institution would thereafter be "undercapitalized". "Undercapitalized" institutions are subject to growth limitations and are required to submit capital restoration plans. If a depository institution fails to submit an acceptable plan, it is treated as if it is "significantly undercapitalized". "Significantly undercapitalized" depository institutions may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become "adequately capitalized", requirements to reduce total assets, and cessation of receipt of deposits from correspondent banks. "Critically undercapitalized" institutions are subject to the appointment of a receiver or conservator.

The capital classification of a bank holding company and a bank affects the frequency of regulatory examinations, the bank holding company's and the bank's ability to engage in certain activities and the deposit insurance premium paid by the bank. As of December 31, 2019, we met the requirements to be "well-capitalized" based upon the aforementioned ratios for purposes of the prompt corrective action regulations, as currently in effect.

The Company

General. Bancorp, as the sole shareholder of the Bank, is a financial holding company under federal law and regulation. As a financial holding company, Bancorp is registered with, and is subject to regulation by, the Federal Reserve under the Bank Holding Company Act of 1956, as amended (the "BHCA"). In accordance with Federal Reserve policy, and as now codified by the Dodd-Frank Act, Bancorp is legally obligated to act as a source of financial strength to the Bank and to commit resources to support the Bank in circumstances where Bancorp might not otherwise do so. Under the BHCA, Bancorp is subject to periodic examination by the Federal Reserve. Bancorp is required to file with the Federal Reserve periodic reports of Bancorp's operations and such additional information regarding Bancorp and its subsidiaries as the Federal Reserve may require.

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

The BHCA generally prohibits Bancorp from acquiring direct or indirect ownership or control of more than 5% of the voting shares of any company that is not a bank and from engaging in any business other than that of banking, managing and controlling banks or furnishing services to banks and their subsidiaries. This general prohibition is subject to a number of exceptions. The principal exception allows bank holding companies to engage in, and to own shares of companies engaged in, certain businesses found by the Federal Reserve prior to November 11, 1999 to be "so closely related to banking ... as to be a proper incident thereto". This authority would permit Bancorp to engage in a variety of banking-related businesses, including the ownership and operation of a savings association, or any entity engaged in consumer finance, equipment leasing, the operation of a computer service bureau (including software development) and mortgage banking and brokerage. The BHCA generally does not place territorial restrictions on the domestic activities of nonbank subsidiaries of bank holding companies.

Additionally, bank holding companies that meet certain eligibility requirements prescribed by the BHCA and elect to operate as financial holding companies may engage in, or own shares in companies engaged in, a wider range of nonbanking activities, including securities and insurance underwriting and sales, merchant banking and any other activity that the Federal Reserve, in consultation with the Secretary of the Treasury, determines by regulation or order is financial in nature or incidental to any such financial activity or that the Federal Reserve determines by order to be complementary to any such financial activity and does not pose a substantial risk to the safety or soundness of depository institutions or the financial system generally. Bancorp has elected to be a financial holding company.

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

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

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

Capital Requirements. Bank holding companies are required to maintain capital in accordance with Federal Reserve capital adequacy requirements, as affected by the Dodd-Frank Act and Basel III. For a discussion of capital requirements, see “Regulatory Capital Requirements” above.

Dividend Payments. Bancorp’s ability to pay dividends to its shareholders may be affected by both general corporate law considerations and the policies of the Federal Reserve applicable to bank holding companies. As a California corporation, Bancorp is subject to the limitations of California law, which allows a corporation to distribute cash or property to shareholders, including a dividend or repurchase or redemption of shares, if the corporation meets either a retained earnings test or a “balance sheet” test. Under the retained earnings test, Bancorp may make a distribution from retained earnings to the extent that its retained earnings exceed the sum of (a) the amount of the distribution plus (b) the amount, if any, of dividends in arrears on shares with preferential dividend rights. Bancorp may also make a distribution if, immediately after the distribution, the value of its assets equals or exceeds the sum of (a) its total liabilities plus (b) the liquidation preference of any shares which have a preference upon dissolution over the rights of shareholders receiving the distribution. Indebtedness is not considered a liability if the terms of such indebtedness provide that payment of principal and interest thereon are to be made only if, and to the extent that, a distribution to shareholders could be made under the balance sheet test. A California corporation may specify in its articles of incorporation that distributions under the retained earnings test or balance sheet test can be made without regard to the preferential rights amount. Bancorp’s articles of incorporation do not address distributions under either the retained earnings test or the balance sheet test.

As a general matter, the Federal Reserve has indicated that the board of directors of a bank holding company should eliminate, defer or significantly reduce dividends to shareholders if: (i) Bancorp’s net income available to shareholders for the past four quarters, net of dividends previously paid during that period, is not sufficient to fully fund the dividends; (ii) the prospective rate of earnings retention is inconsistent with Bancorp’s capital needs and overall current and prospective financial condition; or (iii) Bancorp will not meet, or is in danger of not meeting, its minimum regulatory capital adequacy ratios. The Federal Reserve also possesses enforcement powers over bank holding companies and their nonbank subsidiaries to prevent or remedy actions that represent unsafe or unsound practices or violations of applicable statutes and regulations. Among these powers is the ability to proscribe the payment of dividends by banks and bank holding companies.

The terms of our Junior Subordinated Notes also limit our ability to pay dividends on our common stock. If we are not current on our payment of interest on our Junior Subordinated Notes, we may not pay dividends on our common stock. The amount of future dividends by Bancorp will depend on our earnings, financial condition, capital requirements and other factors, and will be determined by our board of directors in accordance with the capital management and dividend policy.

The Bank is a legal entity that is separate and distinct from its holding company. Bancorp is dependent on the performance of the Bank for funds which may be received as dividends from the Bank for use in the operation of Bancorp and the ability of Bancorp to pay dividends to stockholders. Future cash dividends by the Bank will also depend upon management’s assessment of future capital requirements, contractual restrictions, and other factors. When phased in, the new capital rules will restrict dividends by the Bank if the capital conservation buffer is not achieved.

The Bank

General. The Bank is a California-chartered bank, but is not a member of the Federal Reserve System (a “non-member bank”). The deposit accounts of the Bank are insured by the FDIC’s Deposit Insurance Fund (“DIF”) to the maximum extent provided under federal law and FDIC regulations. As a California-chartered FDIC-insured non-member bank, the Bank is subject to the examination, supervision, reporting and enforcement requirements of the DBO, the chartering authority for California banks, and as a non-member bank, the FDIC.

Supervisory Assessments. California-chartered banks are required to pay supervisory assessments to the DBO to fund its operations. The amount of the assessment paid by a California bank to the DBO is calculated on the basis of the institution’s total assets, including consolidated subsidiaries, as reported to the DBO. During the year ended December 31, 2019, the Bank paid supervisory assessments to the DBO totaling $166,000.

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

Dividend Payments. The primary source of funds for the Company is dividends from the Bank. Under the California Financial Code, the Bank is permitted to pay a dividend in the following circumstances: (i) without the consent of either the DBO or the Bank’s shareholders, in an amount not exceeding the lesser of (a) the retained earnings of the Bank; or (b) the net income of the Bank for its last three fiscal years, less the amount of any distributions made during the prior period; (ii) with the prior approval of the DBO, in an amount not exceeding the greatest of: (a) the retained earnings of the Bank; (b) the net income of the Bank for its last fiscal year; or (c) the net income for the Bank for its current fiscal year; and (iii) with the prior approval of the DBO and the Bank’s shareholders in connection with a reduction of its contributed capital. The payment of dividends by any financial institution is affected by the requirement to maintain adequate capital pursuant to applicable capital adequacy guidelines and regulations, and a financial institution generally is prohibited from paying any dividends if, following payment thereof, the institution would be undercapitalized. As described above, the Bank exceeded its minimum capital requirements under applicable regulatory guidelines as of December 31, 2019.

Transactions with Affiliates and Insiders. Depository institutions are subject to the restrictions contained in the Federal Reserve Act (the “FRA”) with respect to loans to directors, executive officers and principal stockholders. Under the FRA, loans to directors, executive officers and stockholders who own more than 10% of a depository institution and certain affiliated entities of any of the foregoing, may not exceed, together with all other outstanding loans to such person and affiliated entities, the institution’s loans-to-one-borrower limit. Federal regulations also prohibit loans above amounts prescribed by the appropriate federal banking agency to directors, executive officers, and stockholders who own more than 10% of an institution, and their respective affiliates, unless such loans are approved in advance by a majority of the board of directors of the institution. Any “interested” director may not participate in the voting. The proscribed loan amount, which includes all other outstanding loans to such person, as to which such prior board of director approval is required, is the greater of $25,000 or 5% of capital and surplus up to $500,000. The Federal Reserve also requires that loans to directors, executive officers and principal stockholders be made on terms substantially the same as offered in comparable transactions to non-executive employees of the bank and must not involve more than the normal risk of repayment. There are additional limits on the amount a bank can loan to an executive officer.

Transactions between a bank and its “affiliates” are quantitatively and qualitatively restricted under Sections 23A and 23B of the FRA. Section 23A restricts the aggregate amount of covered transactions with any individual affiliate to 10% of the capital and surplus of the financial institution. The aggregate amount of covered transactions with all affiliates is limited to 20% of the institution’s capital and surplus. Certain transactions with affiliates are required to be secured by collateral in an amount and of a type described in Section 23A and the purchase of low quality assets from affiliates are generally prohibited.

Section 23B generally provides that certain transactions with affiliates, including loans and asset purchases, must be on terms and under circumstances, including credit standards, that are substantially the same or at least as favorable to the institution as those prevailing at the time for comparable transactions with non-affiliated companies. The Federal Reserve has promulgated Regulation W, which codifies prior interpretations under Sections 23A and 23B of the FRA and provides interpretive guidance with respect to affiliate transactions. Affiliates of a bank include, among other entities, a bank’s holding company and companies that are under common control with the bank. Bancorp is considered to be an affiliate of the Bank.

The Dodd-Frank Act generally enhanced the restrictions on transactions with affiliates under Section 23A and 23B of the FRA, including an expansion of the definition of “covered transactions” and an increase in the amount of time for which collateral requirements regarding covered credit transactions must be satisfied. Insider transaction limitations are expanded through the strengthening of loan restrictions to insiders and the expansion of the types of transactions subject to the various limits, including derivatives transactions, repurchase agreements, reverse repurchase agreements and securities lending or borrowing transactions. Restrictions are also placed on certain asset sales to and from an insider to an institution, including requirements that such sales be on market terms and, in certain circumstances, approved by the institution’s board of directors.

Loans to One Borrower. Under California law, our ability to make aggregate secured and unsecured loans-to-one-borrower is limited to 25% and 15%, respectively, of unimpaired capital and surplus. At December 31, 2019, the Bank’s limit on aggregate secured loans-to-one-borrower was $122.0 million and unsecured loans-to-one borrower was $73.2 million.

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

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

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

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

Community Reinvestment Act Requirements. The CRA requires the Bank to have a continuing and affirmative obligation in a safe and sound manner to help meet the credit needs of its entire community, including low- and moderate-income neighborhoods. Federal regulators regularly assess the Bank's record of meeting the credit needs of its communities. Applications for additional acquisitions would be affected by the evaluation of the Bank's effectiveness in meeting its CRA requirements. The Bank received a "satisfactory" rating on its most recent CRA examination, which was conducted in February 2017.

Anti-Money Laundering and OFAC Regulation. The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, or the Patriot Act, is designed to deny terrorists and criminals the ability to obtain access to the U.S. financial system and has significant implications for depository institutions, brokers, dealers and other businesses involved in the transfer of money. The Patriot Act mandates financial services companies to have policies and procedures with respect to measures designed to address any or all of the following matters: (i) customer identification programs; (ii) money laundering; (iii) terrorist financing; (iv) identifying and reporting suspicious activities and currency transactions; (v) currency crimes; and (vi) cooperation between financial institutions and law enforcement authorities. Banking regulators also examine banks for compliance with the economic sanctions regulations administered by OFAC. Failure of a financial institution to maintain and implement adequate anti-money laundering and OFAC programs, or to comply with all of the relevant laws or regulations, could have serious legal and reputational consequences for the institution.

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

Consumer Financial Services

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

Many states and local jurisdictions have consumer protection laws analogous, and in addition, to those listed above. These federal, state and local laws regulate the manner in which financial institutions deal with customers when taking deposits, making loans or conducting other types of transactions. Failure to comply with these laws and regulations could give rise to regulatory sanctions, customer rescission rights, action by state and local attorneys general and civil or criminal liability.

The structure of federal consumer protection regulation applicable to all providers of consumer financial products and services changed significantly on July 21, 2011, when the CFPB commenced operations to supervise and enforce consumer protection laws. The CFPB has broad rulemaking authority for a wide range of consumer protection laws that apply to all providers of consumer products and services, including the Bank, as well as the authority to prohibit "unfair, deceptive or abusive" acts and practices. The CFPB has examination and enforcement authority over providers with more than $10 billion in assets. Banks and savings institutions with $10 billion or less in assets, like the Bank, will continue to be examined by their applicable bank regulators.

Mortgage and Mortgage-Related Products, Generally. Because abuses in connection with residential mortgages were a significant factor contributing to the financial crisis, many new rules issued by the CFPB and required by the Dodd-Frank Act address mortgage and mortgage-related products, their underwriting, origination, servicing and sales. The Dodd-Frank Act significantly expanded underwriting requirements applicable to loans secured by 1-4 family residential real property and augmented federal law combating predatory lending practices. In addition to numerous disclosure requirements, the Dodd-Frank Act imposed new standards for mortgage loan originations on all lenders, including banks and savings associations, in an effort to strongly encourage lenders to verify a borrower's ability to repay, while also establishing a presumption of compliance for certain "qualified mortgages". The Dodd-Frank Act generally required lenders or securitizers to retain an economic interest in the credit risk relating to loans that the lender sells, and other asset-backed securities that the securitizer issues, if the loans do not comply with the ability-to-repay standards described below. The risk retention requirement generally is 5%, but could be increased or decreased by regulation. The Bank does not currently expect the CFPB's rules to have a significant impact on its operations, except for higher compliance costs.

Incentive Compensation Guidance

The federal bank regulatory agencies have issued comprehensive guidance intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of those organizations by encouraging excessive risk-taking. The incentive compensation guidance sets expectations for banking organizations concerning their incentive compensation arrangements and related risk-management, control and governance processes. The incentive compensation guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon three primary principles: (1) balanced risk-taking incentives; (2) compatibility with effective controls and risk management; and (3) strong corporate governance. Any deficiencies in compensation practices that are identified may be incorporated into the organization's supervisory ratings, which can affect its ability to make acquisitions or take other actions. In addition, under the incentive compensation guidance, a banking organization's federal supervisor may initiate enforcement action if the organization's incentive compensation arrangements pose a risk to the safety and soundness of the organization. In addition, beginning January 1, 2016, the Basel III Rules limit discretionary bonus payments to the Bank's executive officers if its capital ratios are below the threshold levels of the capital conservation buffer established by the rules. The capital conservation buffer was phased in from January 1, 2016 to January 1, 2019, when the full capital conservation buffer of 2.5% (as a percentage of risk-weighted assets) became effective. The capital conservation buffer is in addition to the minimum risk-based capital requirement. The scope and content of the U.S. banking regulators' policies on executive compensation are continuing to develop and are likely to continue evolving in the near future.

Sarbanes-Oxley Act

The Company is subject to the accounting oversight and corporate governance requirements of the Sarbanes-Oxley Act of 2002, including, among other things, required executive certification of financial presentations, requirements for board audit committees and their members, and disclosure of controls and procedures and internal control over financial reporting.

Enforcement Powers of Federal and State Banking Agencies

The federal bank regulatory agencies have broad enforcement powers, including the power to terminate deposit insurance, impose substantial fines and other civil and criminal penalties, and appoint a conservator or receiver for financial institutions. Failure to comply with applicable laws and regulations could subject us and our officers and directors to administrative sanctions and potentially substantial civil money penalties. In addition to the grounds discussed above under "Prompt Corrective Actions", the appropriate federal bank regulatory agency may appoint the FDIC as conservator or receiver for a banking institution (or the FDIC may appoint itself, under certain circumstances) if any one or more of a number of circumstances exist, including, without limitation, the fact that the banking institution is undercapitalized and has no reasonable prospect of becoming adequately capitalized, fails to become adequately capitalized when required to do so, fails to submit a timely and acceptable capital restoration plan or materially fails to implement an accepted capital restoration plan. The DBO also has broad enforcement powers over us, including the power to impose orders, remove officers and directors, impose fines and appoint supervisors and conservators.

Financial Privacy

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

Additional Constraints on the Company and the Bank

Monetary Policy. The monetary policy of the Federal Reserve has a significant effect on the operating results of financial or bank holding companies and their subsidiaries. Among the tools available to the Federal Reserve to affect the money supply are open market transactions in U.S. government securities, changes in the discount rate on member bank borrowings and changes in reserve requirements against member bank deposits. These means are used in varying combinations to influence overall growth and distribution of bank loans, investments and deposits, and their use may affect interest rates charged on loans or paid on deposits.

The Volcker Rule. In addition to other implications of the Dodd-Frank Act discussed above, the Dodd-Frank Act amended the BHCA to require the federal regulatory agencies to adopt rules that prohibit banking entities and their affiliates from engaging in proprietary trading and investing in and sponsoring certain unregistered investment companies (defined as hedge funds and private equity funds). This statutory provision is commonly called the "Volcker Rule". On December 10, 2013, the federal regulatory agencies issued final rules to implement the prohibitions required by the Volcker Rule. Thereafter, in reaction to industry concern over the adverse impact to community banks of the treatment of certain collateralized debt instruments in the final rule, the federal regulatory agencies approved an interim final rule to permit financial institutions to retain interests in collateralized debt obligations backed primarily by trust preferred securities (""TruPS CDOs"), from the investment prohibitions contained in the final rule. Under the interim final rule, the regulatory agencies permitted the retention of an interest in or sponsorship of covered funds by banking entities if the following qualifications were met: (i) the TruPS CDO was established, and the interest was issued, before May 19, 2010; (ii) the banking entity reasonably believes that the offering proceeds received by the TruPS CDO were invested primarily in qualifying TruPS collateral; and (iii) the banking entity's interest in the TruPS CDO was acquired on or before December 10, 2013.

On May 24, 2018, President Trump signed into law the Economic Growth, Regulatory Relief, and Consumer Protection Act, which increased from $50 billion to $250 billion the asset threshold for designation of "systemically important financial institutions" or "SIFIs" subject to enhanced prudential standards set by the Federal Reserve, staggering application of this change based on the size and risk of the covered bank holding company. In relation to this legislation, on May 30, 2018, the Federal Reserve voted to consider changes to the Volcker Rule that would loosen compliance requirements for all banks. The effect of this change and any further rules or regulations are and could be complex and far-reaching. However, although the Volcker Rule has significant implications for many large financial institutions, the Company does not currently anticipate that it will have a material effect on the operations of the Company or the Bank. The Company may incur costs if it is required to adopt additional policies and systems to ensure compliance with certain provisions of the Volcker Rule, but any such costs are not expected to be material.

Additional Restrictions on Bancorp and Bank Activities

Subject to prior notice or Federal Reserve approval, bank holding companies may generally engage in, or acquire shares of companies engaged in, activities determined by the Federal Reserve to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. Bank holding companies, such as Bancorp, which elect and retain "financial holding company" status pursuant to the GLB Act may engage in these nonbanking activities and broader securities, insurance, merchant banking and other activities that are determined to be "financial in nature" or are incidental or complementary to activities that are financial in nature without prior Federal Reserve approval. Pursuant to the GLB Act and the Dodd-Frank Act, in order to elect and retain financial holding company status, a bank holding company and all depository institution subsidiaries of a bank holding company must be well capitalized and well managed, and, except in limited circumstances, depository subsidiaries must be in satisfactory compliance with the CRA. Failure to sustain compliance with these requirements or correct any non-compliance within a fixed time period could lead to divestiture of subsidiary banks or require all activities to conform to those permissible for a bank holding company.

Pursuant to the Federal Deposit Insurance Act ("FDI Act") and the California Financial Code, California state chartered commercial banks may generally engage in any activity permissible for national banks. Therefore, the Bank may form subsidiaries to engage in the many so-called "closely related to banking" or "nonbanking" activities commonly conducted by national banks in operating subsidiaries or subsidiaries of bank holding companies. Further, pursuant to the GLB Act, California banks may conduct certain "financial" activities in a subsidiary to the same extent as a national bank, provided the bank is and remains "well-capitalized," "well-managed" and in satisfactory compliance with the CRA. The Bank currently has no financial subsidiaries.

Source of Strength

Federal Reserve policy and federal law require bank holding companies to act as a source of financial and managerial strength to their subsidiary banks. Under this requirement, Bancorp is expected to commit resources to support the Bank, including at times when Bancorp may not be in a financial position to provide such resources, and it may not be in Bancorp's, or Bancorp's stockholders' or creditors', best interests to do so. In addition, any capital loans Bancorp makes to the Bank are subordinate in right of payment to depositors and to certain other indebtedness of the Bank. In the event of Bancorp's bankruptcy, any commitment by Bancorp to a federal bank regulatory agency to maintain the capital of the Bank will be assumed by the bankruptcy trustee and entitled to priority of payment.

Enforcement Authority

The federal and California regulatory structure gives the bank regulatory agencies extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. The regulatory agencies have adopted guidelines to assist in identifying and addressing potential safety and soundness concerns before an institution's capital becomes impaired. The guidelines establish operational and managerial standards generally relating to: (i) internal controls, information systems, and internal audit systems; (ii) loan documentation; (iii) credit underwriting; (iv) interest-rate exposure; (v) asset growth and asset quality; (vi) loan concentration; and (vii) compensation, fees, and benefits. Further, the regulatory agencies have adopted safety and soundness guidelines for asset quality and for evaluating and monitoring earnings to ensure that earnings are sufficient for the maintenance of adequate capital and reserves. If, as a result of an examination, the DBO or the FDIC should determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity, or other aspects of the Bank's operations are unsatisfactory or that the Bank or its management is violating or has violated any law or regulation, the DBO and the FDIC have residual authority to:

- Require affirmative action to correct any conditions resulting from any violation or practice;
- Direct an increase in capital and the maintenance of higher specific minimum capital ratios, which may preclude the Bank from being deemed "well-capitalized" and restrict its ability to accept certain brokered deposits, among other things;
- Restrict the Bank's growth geographically, by products and services, or by mergers and acquisitions;
- Issue, or require the Bank to enter into, informal or formal enforcement actions, including required board resolutions, memoranda of understanding, written agreements and consent or cease and desist orders or prompt corrective action orders to take corrective action and cease unsafe and unsound practices;
- Require prior approval of senior executive officer or director changes, remove officers and directors, and assess civil monetary penalties; and
- Terminate FDIC insurance, revoke the Bank's charter, take possession of, close and liquidate the Bank, or appoint the FDIC as receiver.

The Federal Reserve has similar enforcement authority over bank holding companies and commonly takes parallel action in conjunction with actions taken by a subsidiary bank's regulators.

In the exercise of their supervisory and examination authority, the regulatory agencies have recently emphasized corporate governance, stress testing, enterprise risk management and other board responsibilities; anti-money laundering compliance and enhanced high risk customer due diligence; vendor management; cyber security and fair lending and other consumer compliance obligations.

Deposit Insurance

The FDIC is an independent federal agency that insures deposits, up to prescribed statutory limits, of federally insured banks and savings institutions and safeguards the safety and soundness of the banking and savings industries. The FDIC insures our customer deposits through the DIF up to prescribed limits of $250,000 for each depositor pursuant to the Dodd-Frank Act. The amount of FDIC assessments paid by each DIF member institution is based on its relative risk of default as measured by regulatory capital ratios and other supervisory factors. The FDIC uses a performance score and a loss-severity score to calculate an initial assessment rate for the Bank. In calculating these scores, the FDIC uses the Bank's capital level and regulatory supervisory ratings and certain financial measures to assess the Bank's ability to withstand asset-related stress and funding-related stress. The FDIC also has the ability to make discretionary adjustments to the total score based upon significant risk factors that are not adequately captured in the calculations. In addition to ordinary assessments described above, the FDIC has the ability to impose special assessments in certain instances.

We are generally unable to control the amount of assessments that we are required to pay for FDIC insurance. If there are additional bank or financial institution failures or if the FDIC otherwise determines, we may be required to pay even higher FDIC assessments than the recently increased levels. These increases in FDIC insurance assessments may have a material and adverse effect on our earnings and could have a material adverse effect on the value of, or market for, our common stock.

Under the FDI Act, the FDIC may terminate deposit insurance upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

Operations, Consumer and Privacy Compliance Laws

The Bank must comply with numerous federal and state anti-money laundering and consumer protection statutes and implementing regulations, including the USA Patriot Act, the Bank Secrecy Act, the Foreign Account Tax Compliance Act, the CRA, the Fair Credit Reporting Act, as amended by the Fair and Accurate Credit Transactions Act, the Equal Credit Opportunity Act, the Truth in Lending Act, the Fair Housing Act, the Home Mortgage Disclosure Act, the Real Estate Settlement Procedures Act, the National Flood Insurance Act, the California Homeowner Bill of Rights and various federal and state privacy protection laws, including but not limited to the CCPA. The Bank and Bancorp are also subject to federal and state laws prohibiting unfair or fraudulent business practices, untrue or misleading advertising, and unfair competition. Some of these laws are further discussed below:

The Equal Credit Opportunity Act ("ECOA") generally prohibits discrimination in any credit transaction, whether for consumer or business purposes, on the basis of race, color, religion, national origin, sex, marital status, age, receipt of income from public assistance programs, or good faith exercise of any rights under the Consumer Credit Protection Act.

The Truth in Lending Act ("TILA") is designed to ensure that credit terms are disclosed in a meaningful way so that consumers may compare credit terms more readily and knowledgeably. As a result of the TILA, all creditors must use the same credit terminology to express rates and payments, including the annual percentage rate, the finance charge, the amount financed, the total of payments and the payment schedule, among other things.

The Fair Housing Act ("FH Act") regulates many practices, including making it unlawful for any lender to discriminate in its housing-related lending activities against any person because of race, color, religion, national origin, sex, handicap or familial status. A number of lending practices have been found by the courts to be, or may be considered, illegal under the FH Act, including some that are not specifically mentioned in the FH Act itself.

The Home Mortgage Disclosure Act ("HMDA") grew out of public concern over credit shortages in certain urban neighborhoods and provides public information that will help show whether financial institutions are serving the housing credit needs of the neighborhoods and communities in which they are located. The HMDA also includes a "fair lending" aspect that requires the collection and disclosure of data about applicant and borrower characteristics as a way of identifying possible discriminatory lending patterns and enforcing anti-discrimination statutes.

Finally, the Real Estate Settlement Procedures Act ("RESPA") requires lenders to provide borrowers with disclosures regarding the nature and cost of real estate settlements. Also, RESPA prohibits certain abusive practices, such as kickbacks, and places limitations on the amount of escrow accounts. Penalties under the above laws may include fines, reimbursements and other civil money penalties.

Due to heightened regulatory concern related to compliance with the CRA, TILA, FH Act, ECOA, HMDA and RESPA generally, the Bank may incur additional compliance costs or be required to expend additional funds for investments in its local community.

The Federal Reserve and other bank regulatory agencies also have adopted guidelines for safeguarding confidential, personal customer information. These guidelines require financial institutions to create, implement and maintain a comprehensive written information security program designed to ensure the security and confidentiality of customer information, protect against any anticipated threats or hazards to the security or integrity of such information and protect against unauthorized access to or use of such information that could result in substantial harm or inconvenience to any customer. Financial institutions are also required to implement policies and procedures regarding the disclosure of nonpublic personal information about consumers to non-affiliated third parties. In general, financial institutions must provide explanations to consumers on policies and procedures regarding the disclosure of such nonpublic personal information and, except as otherwise required by law, prohibits disclosing such information. The Bank has adopted a customer information security and privacy program to comply with such requirements.

Operations, consumer and privacy compliance laws and regulations also mandate certain disclosure and reporting requirements and regulate the manner in which financial institutions must deal with customers when taking deposits, making loans, collecting loans, and providing other services. Failure to comply with these laws and regulations can subject the Bank to lawsuits and penalties, including enforcement actions, injunctions, fines or criminal penalties, punitive damages to consumers, and the loss of certain contractual rights.

Federal Home Loan Bank System

The Bank is a member of the Federal Home Loan Bank ("FHLB") of San Francisco. Among other benefits, each FHLB serves as a reserve or central bank for its members within its assigned region. Each FHLB is financed primarily from the sale of consolidated obligations of the FHLB system. Each FHLB makes available loans or advances to its members in compliance with the policies and procedures established by the board of directors of the individual FHLB. Each member of the FHLB of San Francisco is required to own stock in an amount equal to the greater of (i) a membership stock requirement, or (ii) an activity based stock requirement (based on a percentage of outstanding advances). There can be no assurance that the FHLB will pay dividends at the same rate it has paid in the past, or that it will pay any dividends in the future.

Impact of Monetary Policies

The earnings and growth of the Bank are largely dependent on its ability to maintain a favorable differential or spread between the yield on its interest-earning assets and the rates paid on its deposits and other interest-bearing liabilities. As a result, the Bank's performance is influenced by general economic conditions, both domestic and foreign, the monetary and fiscal policies of the federal government, and the policies of the regulatory agencies. The Federal Reserve implements national monetary policies (with objectives such as seeking to curb inflation and combat recession) by its open-market operations in U.S. government securities, by adjusting the required level of reserves for financial institutions subject to its reserve requirements, and by varying the discount rate applicable to borrowings by banks from the Federal Reserve Banks. The actions of the Federal Reserve in these areas influence the growth of bank loans, investments and deposits, and also affect interest rates charged on loans and deposits. The nature and impact of any future changes in monetary policies cannot be predicted.

Securities and Corporate Governance

Bancorp is subject to the disclosure and regulatory requirements of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, both as administered by the SEC. As a company listed on the NASDAQ Global Select Market, the Company is subject to NASDAQ listing standards for listed companies. Bancorp is also subject to the Sarbanes-Oxley Act of 2002, provisions of the Dodd-Frank Act, and other federal and state laws and regulations which address, among other issues, required executive certification of financial presentations, corporate governance requirements for board audit and compensation committees and their members, and disclosure of controls and procedures and internal control over financial reporting, auditing and accounting, executive compensation, and enhanced and timely disclosure of corporate information. NASDAQ has also adopted corporate governance rules, which are intended to allow stockholders and investors to more easily and efficiently monitor the performance of companies and their directors. Under the Sarbanes-Oxley Act, management and the Bancorp's independent registered public accounting firm were required to assess the effectiveness of the Bancorp's internal control over financial reporting as of December 31, 2016. These assessments are included in Part II — Item 9A — "Controls and Procedures."

Federal Banking Agency Compensation Guidelines

Guidelines adopted by the federal banking agencies pursuant to the FDI Act prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal stockholder. In June 2010, the federal banking agencies issued comprehensive guidance on incentive compensation policies intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking.

In addition, the Dodd-Frank Act requires the federal bank regulatory agencies and the SEC to establish joint regulations or guidelines prohibiting certain incentive-based payment arrangements. These regulators must establish regulations or guidelines requiring enhanced disclosure to regulators of incentive-based compensation arrangements. The agencies proposed such regulations in April 2011, but the regulations have not been finalized. In April 2016, the agencies published a notice of proposed rulemaking further revising the incentive-based compensation standards originally proposed in 2011. Similar to the 2011 proposed rule, the 2016 proposed rule would prohibit financial institutions with at least $1 billion in consolidated assets from establishing or maintaining incentive-based compensation arrangements that encourage inappropriate risk by providing any executive officer, employee, director or principal shareholder who is a covered person with excessive compensation, fees or benefits or that could lead to material financial loss to the covered institution. It cannot be predicted whether, or in what form, any such proposed compensation rules may be enacted, particularly in light of the stated intention of the current administration to curtail the Dodd-Frank Act.

The scope, content and application of the U.S. banking regulators' policies on incentive compensation continue to evolve. It cannot be determined at this time whether compliance with such policies will adversely affect the ability of Bancorp and the Bank to hire, retain and motivate key employees.

The Federal Reserve will review, as part of the regular, risk-focused examination process, the incentive compensation arrangements of banking organizations, such as us, that are not "large, complex banking organizations." These reviews will be tailored to each organization based on the scope and complexity of the organization's activities and the prevalence of incentive compensation arrangements. The findings of the supervisory initiatives will be included in reports of examination. Deficiencies will be incorporated into the organization's supervisory ratings, which can affect the organization's ability to make acquisitions and take other actions. Enforcement actions may be taken against a banking organization if its incentive compensation arrangements, or related risk management control or governance processes, pose a risk to the organization's safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

Audit Requirements

The Bank is required to have an annual independent audit, alone or as a part of its bank holding company's audit, and to prepare all financial statements in accordance with U.S. generally accepted accounting principles. The Bank and Bancorp are also each required to have an audit committee comprised entirely of independent directors. As required by NASDAQ, Bancorp has certified that its audit committee has adopted formal written charters and meets the requisite number of directors, independence, and other qualification standards. As such, among other requirements, Bancorp must maintain an audit committee that includes members with banking or related financial management expertise, has access to its own outside counsel, and does not include members who are large customers of the Bank.

Regulation of Non-Bank Subsidiaries

Non-bank subsidiaries are subject to additional or separate regulation and supervision by other state, federal and self-regulatory bodies. Additionally, any foreign-based subsidiaries would also be subject to foreign laws and regulations.

Future Legislation and Regulation

Congress may enact, modify or repeal legislation from time to time that affects the regulation of the financial services industry, and state legislatures may enact, modify or repeal legislation from time to time affecting the regulation of financial institutions chartered by or operating in those states. Federal and state regulatory agencies also periodically propose and adopt changes to their regulations or change the manner in which existing regulations are applied. The substance or impact of pending or future legislation or regulation, or the application thereof, cannot be predicted, although enactment of proposed legislation (or modification or repeal of existing legislation) could impact the regulatory structure under which the Company and Bank operate and may significantly increase its costs, impede the efficiency of its internal business processes, require the Bank to increase its regulatory capital and modify its business strategy, and limit its ability to pursue business opportunities in an efficient manner. The Company's business, financial condition, results of operations or prospects may be adversely affected, perhaps materially.

Federal and State Taxation

Bancorp and the Bank report their income on a consolidated basis using the accrual method of accounting, and are subject to federal income taxation in the same manner as other corporations with some exceptions. The Company has not been audited by the Internal Revenue Service. For 2019 and 2018, the Company was subject to a maximum federal income tax rate of 21.00% and California state income tax rate of 8.84%. For its 2017, the Company was subject to a maximum federal income tax rate of 35.00% and California state income tax rate of 8.84%.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the "Tax Act") was signed into law. The Tax Act included a number of provisions that impacted us, including the following:

- Tax Rate. The Tax Act replaced the graduated corporate income tax rates applicable under prior law, which imposed a maximum corporate income tax rate of 35%, with a reduced 21% flat corporate income tax rate. Although the reduced corporate income tax rate generally was favorable to us, resulting in increased earnings and capital, it decreased the value of our existing deferred tax assets. Accounting principles generally accepted in the United States requires that the impact of the provisions of the Tax Act be accounted for in the period of enactment. Accordingly, the total incremental income tax expense recorded by Bancorp related to the Tax Act was $2.4 million in 2017.
- Employee Compensation. A "publicly held corporation" is not permitted to deduct compensation in excess of $1 million per year paid to certain employees. The Tax Act eliminated certain exceptions to the $1 million limit applicable under prior law related to performance-based compensation (for example, equity grants and cash bonuses paid only on the attainment of performance goals). As a result, our ability to deduct certain compensation paid to our most highly compensated employees is now limited.
- Business Asset Expensing. The Tax Act allows taxpayers to immediately expense the entire cost (instead of only 50%, as under prior law) of certain depreciable tangible property and real property improvements acquired and placed in service after September 27, 2017 and before January 1, 2023 (with an additional year for certain property). This 100% "bonus" depreciation is phased out proportionately for property placed in service on or after January 1, 2023 and before January 1, 2027 (with an additional year for certain property).
- Interest Expense. The Tax Act limits a taxpayer's annual deduction of business interest expense to the sum of (i) business interest income, and (ii) 30% of "adjusted taxable income," defined as a business's taxable income without taking into account business interest income or expense, net operating losses, and, for 2018 through 2021,

depreciation, amortization and depletion. Because we generate significant amounts of net interest income, we do not expect to be impacted by this limitation.

Item 1A. Risk Factors.

Risks Related to Our Business

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

Our business and operations are sensitive to general business and economic conditions in the United States, generally, and particularly in the states of California, Illinois and New York, and the Los Angeles, New York City, Chicago and Las Vegas, Nevada metropolitan areas. Unfavorable or uncertain economic and market conditions could lead to credit quality concerns related to repayment ability and collateral protection as well as reduced demand for the products and services we offer. In recent years there has been a gradual improvement in the U.S. economy as evidenced by a rebound in the housing market, lower unemployment and higher equities markets; however, economic growth has been uneven, and opinions vary on the strength and direction of the economy. Uncertainties also have arisen regarding the potential for a reversal or renegotiation of international trade agreements, as the current U.S. administration has with China, the European Union and the United Kingdom. The administration has also withdrawn the United States from the United Nations Immigration Agreement, and the United States Supreme Court has now upheld the administration's bill to restrict travel from six mostly Muslim countries. Congress enacted comprehensive tax reform that includes a substantial reduction of the U.S. corporate income tax rate to 21%, elimination of the alternative minimum tax, increased the standard deduction, increased the deduction for pass through income, and reduced the amount of the mortgage interest and state and local tax deductions. The impact such actions and other policies of President Trump's administration may have on economic and market conditions is uncertain. In addition, concerns about the performance of international economies, especially in Europe and emerging markets, and economic conditions in Asia, particularly the economies of China and Taiwan, can impact the economy and financial markets here in the United States. If the national, regional and local economies experience worsening economic conditions, including high levels of unemployment, our growth and profitability could be constrained. Weak economic conditions are characterized by, among other indicators, deflation, elevated levels of unemployment, fluctuations in debt and equity capital markets, increased delinquencies on mortgage, commercial and consumer loans, residential and commercial real estate price declines, lower home sales and commercial activity, and fluctuations in the commercial Federal Housing Administration financing sector. All of these factors are generally detrimental to our business. Our business is significantly affected by monetary and other regulatory policies of the U.S. federal government, its agencies and government-sponsored entities. Changes in any of these policies are influenced by macroeconomic conditions and other factors that are beyond our control, are difficult to predict and could have a material adverse effect on our business, financial position, results of operations and growth prospects.

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

Our business is based on successfully attracting and retaining Asian-American immigrants as clients for both our non-qualified residential mortgage loans and deposits. We may be limited in our ability to attract Asian-American clients to the extent the U.S. adopts restrictive domestic immigration laws. Changes to U.S. immigration policies as proposed by the current administration that restrain the flow of immigrants may inhibit our ability to meet our goals and budgets for non-qualified SFR mortgage loans and deposits, which may adversely affect our net interest income and net income.

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

Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, and the sale of loans and/or investment securities and from other sources could have a substantial negative effect on our liquidity. Our most important source of funds consists of our customer deposits. Such deposit balances can decrease when customers perceive alternative investments, such as the stock market, as providing a better risk/return tradeoff, or, in connection with our commercial mortgage servicing business, third parties for whom we provide servicing choose to terminate that relationship with us. If customers move money out of bank deposits and into other investments, we could lose a relatively low cost source of funds, which would require us to seek wholesale funding alternatives in order to continue to grow, thereby increasing our funding costs and reducing our net interest income and net income.

Other primary sources of funds consist of cash from operations, investment maturities and sales, and proceeds from the issuance and sale of our equity and debt securities to investors. Additional liquidity is provided by repurchase agreements and the ability to borrow from the Federal Reserve and the FHLB of San Francisco. We also may borrow from third-party lenders from time to time. Our access to funding sources in amounts adequate to finance or capitalize our activities or on terms that are acceptable to us could be impaired by factors that affect us directly or the financial services industry or economy in general, such as disruptions in the financial markets or negative views and expectations about the prospects for the financial services industry.

Any decline in available funding could adversely impact our ability to continue to implement our strategic plan, including originate loans, invest in securities, meet our expenses, pay dividends to our shareholders or to fulfill obligations such as repaying our borrowings or meeting deposit withdrawal demands, any of which could have a material adverse impact on our liquidity, business, financial condition and results of operations.

Risks Related to Our Loans

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

At December 31, 2019, approximately 83% of our loan portfolio was comprised of loans with real estate as a primary or secondary component of collateral. As a result, adverse developments affecting real estate values in our market areas could increase the credit risk associated with our real estate loan portfolio. The market value of real estate can fluctuate significantly in a short period of time as a result of market conditions in the area in which the real estate is located. Adverse changes affecting real estate values and the liquidity of real estate in one or more of our markets could increase the credit risk associated with our loan portfolio, significantly impair the value of property pledged as collateral on loans and affect our ability to sell the collateral upon foreclosure without a loss or additional losses, which could result in losses that would adversely affect profitability. Such declines and losses would have a material adverse impact on our business, results of operations and growth prospects. In addition, if hazardous or toxic substances are found on properties pledged as collateral, the value of the real estate could be impaired. If we foreclose on and take title to such properties, we may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require us to incur substantial expenses to address unknown liabilities and may materially reduce the affected property's value or limit our ability to use or sell the affected property.

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

At December 31, 2019, we had $1.2 billion of commercial loans, consisting of $793.3 million of CRE loans and $274.6 million of C&I loans for which real estate is not the primary source of collateral, $96.0 million of C&D loans. Commercial loans represented 53.0% of our total loan portfolio at December 31, 2019. Commercial loans are often larger and involve greater risks than other types of lending. Because payments on such loans are often dependent on the successful operation or development of the property or business involved, repayment of such loans is often more sensitive than other types of loans to adverse conditions in the real estate market or the general business climate and economy. Accordingly, a downturn in the real estate market and a challenging business and economic environment may increase our risk related to commercial loans, particularly commercial real estate loans. Unlike residential mortgage loans, which generally are made on the basis of the borrowers' ability to make repayment from their employment and other income and which are secured by real property whose value tends to be more easily ascertainable, commercial loans typically are made on the basis of the borrowers' ability to make repayment from the cash flow of the commercial venture. Our C&I loans are primarily made based on the identified cash flow of the borrower and secondarily on the collateral underlying the loans. Most often, this collateral consists of accounts receivable, inventory and equipment. Inventory and equipment may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business. If the cash flow from business operations is reduced, the borrower's ability to repay the loan may be impaired. Due to the larger average size of each commercial loan as compared with other loans such as residential loans, as well as collateral that is generally less readily-marketable, losses incurred on a small number of commercial loans could have a material adverse impact on our financial condition and results of operations.

We have a concentration in commercial real estate which could cause our regulators to restrict our ability to grow.

As a part of their regulatory oversight, the federal regulators have issued the CRE Concentration Guidance on sound risk management practices with respect to a financial institution's concentrations in commercial real estate lending activities. These guidelines were issued in response to the agencies' concerns that rising CRE concentrations might expose institutions to unanticipated earnings and capital volatility in the event of adverse changes in the commercial real estate market. The CRE Concentration Guidance identifies certain concentration levels that, if exceeded, will expose the institution to additional supervisory analysis with regard to the institution's CRE concentration risk. The CRE Concentration Guidance is designed to promote appropriate levels of capital and sound loan and risk management practices for institutions with a concentration of CRE loans. In general, the CRE Concentration Guidance establishes the following supervisory criteria as preliminary indications of possible CRE concentration risk: (1) the institution's total construction, land development and other land loans represent 100% or more of total risk-based capital; or (2) total CRE loans as defined in the regulatory guidelines represent 300% or more of total risk-based capital, and the institution's CRE loan portfolio has increased by 50% or more during the prior 36-month period. Pursuant to the CRE Concentration Guidelines, loans secured by owner occupied commercial real estate are not included for purposes of CRE Concentration calculation. We believe that the CRE Concentration Guidance is applicable to us. As of December 31, 2019, our CRE loans represented 166% of our total risk-based capital, as compared to 238.4% and 164.6% as of December 31, 2018 and 2017, respectively. We actively work to manage our CRE concentration and we have discussed the CRE Concentration Guidance with the FDIC and believe that our underwriting policies, management information systems, independent credit administration process, and monitoring of real estate loan concentrations are currently sufficient to address the CRE Concentration Guidance. Nevertheless, the FDIC could become concerned about our CRE loan concentrations, and they could limit our ability to grow by restricting their approvals for the establishment or acquisition of branches, or approvals of mergers or other acquisition opportunities.

Our SFR loan product consists primarily of non-qualified SFR mortgage loans which may be considered less liquid and more risky.

As of December 31, 2019, our SFR mortgage loan portfolio amounted to $957.3 million or 43.6% of our held for investment loan portfolio. As of such date, 79.2% of our *SFR* mortgage loans consisted of non-qualified mortgage loans, which are considered to have a higher degree of risk and are less liquid than qualified mortgage loans. We offer two *SFR* mortgage products, a low loan-to-value, alternative document hybrid non-qualified *SFR* mortgage loan, or non-qualified *SFR* mortgage loan, and a qualified *SFR* mortgage loan. We originated $181.1 million for the year ended December 31, 2019 and $725.2 million for the year ended December 31, 2018 of non-qualified *SFR* mortgage loans. We originated qualified SFR mortgage loans of $40.3 million for the year ended December 31, 2019 of and we originated $12.5 million for the year ended December 31, 2018. As of December 31, 2019, our non-qualified *SFR* mortgage loans had an average loan-to-value of 57.3% and an average FICO score of 760. As of December 31, 2019, 6.3% of our total SFR mortgage loan portfolio was originated to foreign nationals. The non-qualified single-family residential mortgage loans that we originate are designed to assist Asian-Americans who have recently immigrated to the United States and as such are willing to provide higher down payment amounts and pay higher interest rates and fees in return for reduced documentation requirements. Non-qualified *SFR* mortgage loans are considered less liquid than qualified *SFR* mortgage loans because such loans are not able to be securitized and can only be sold directly to other financial institutions. Such non-qualified loans may be considered more risky than qualified mortgage loans although we attempt to address this enhanced risk through our underwriting process, including requiring larger down payments and, in some cases, interest reserves.

We sold in the secondary market $281.4 million of our non-qualified mortgage loans for the year ended December 31, 2019, and we realized $3.3 million gains on the sale of non-qualified SFR mortgage loans for the year ended December 31, 2019. We also have a concentration in our SFR secondary sale market, as a substantial portion of our non-qualified mortgage loans have been sold to two banks; however, we are currently selling SFR mortgage loans to three banks. Although, we are taking steps to reduce our dependence on these banks, and we are attempting to expand the number of banks that we sell our non-qualified *SFR* mortgages, we may not be successful expanding our sales market for our non-qualified mortgage loans. These loans also present pricing risk as rates change, and our sale premiums cannot be guaranteed. Further, the criteria for our loans to be purchased by other banks may change from time to time, which could result in a lower volume of corresponding loan originations.

Mortgage production historically, including refinancing activity, declines in rising interest rate environments. While we have been experiencing historically low interest rates over the last few years, this low interest rate environment likely will not continue indefinitely. Consequently, when interest rates increase further, there can be no assurance that our mortgage production will continue at current levels. Nonetheless, our SFR mortgage loan production is primarily originated to Asian Americans and Asian-American immigrants, who we believe are not as sensitive to changes in interest rates.

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

We originated $24.0 million of SBA loans for the year ended December 31, 2019. We sold $15.2 million for the year ended December 31, 2019, of the guaranteed portion of our SBA loans. Consequently, as of December 31, 2019, we held $75.0 million of SBA loans on our balance sheet, $60.5 million of which consisted of the non-guaranteed portion of SBA loans and $14.5 million or 19.3% consisted of the 75% guaranteed portion of SBA loans which are intended to be sold later in 2020. The non-guaranteed portion of SBA loans have a higher degree of credit risk and risk of loss as compared to the guaranteed portion of such loans. We attempt to limit this risk by generally requiring such loans be collateralized and limiting the overall amount that can be held on our balance sheet to 75% of our total capital.

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

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

A significant segment of our business consists of originating and periodically selling U.S. government guaranteed loans, in particular those guaranteed by the SBA. Presently, the SBA guarantees 75% of the principal amount of each qualifying SBA loan originated under the SBA's 7(a) loan program. There is no assurance that the U.S. government will maintain the SBA 7(a) loan program or if it does, that such guaranteed portion will remain at its current level. In addition, from time to time, the government agencies that guarantee these loans reach their internal limits and cease to guarantee future loans. In addition, these agencies may change their rules for qualifying loans or Congress may adopt legislation that would have the effect of discontinuing or changing the loan guarantee programs. Non-governmental programs could replace government programs for some borrowers, but the terms might not be equally acceptable. Therefore, if these changes occur, the volume of loans to small business, industrial and agricultural borrowers of the types that now qualify for government guaranteed loans could decline. Also, the profitability associated with the sale of the guaranteed portion of these loans could decline as a result of market displacements due to increases in interest rates, and could cause the premiums realized on the sale of the guaranteed portions to decline from current levels. As the funding and sale of the guaranteed portion of SBA 7(a) loans is a major portion of our business and a significant portion of our noninterest income, any significant changes to the funding for the SBA 7(a) loan program may have an unfavorable impact on our prospects, future performance and results of operations.

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 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 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.

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

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

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

Real estate construction loans, including land development loans, comprised approximately 4.4% of our total loan portfolio as of December 31, 2019, and such lending involves additional risks because funds are advanced upon the security of the project, which is of uncertain value prior to its completion, and costs may exceed realizable values in declining real estate markets. Because of the uncertainties inherent in estimating construction costs and the realizable market value of the completed project and the effects of governmental regulation of real property, it is relatively difficult to evaluate accurately the total funds required to complete a project and the related loan-to-value ratio. As a result, construction loans often involve the disbursement of substantial funds with repayment dependent, in part, on the success of the ultimate project and the ability of the borrower to sell or lease the property, rather than the ability of the borrower or guarantor to repay principal and interest. If our appraisal of the value of the completed project proves to be overstated or market values or rental rates decline, we may have inadequate security for the repayment of the loan upon completion of construction of the project. If we are forced to foreclose on a project prior to or at completion due to a default, we may not be able to recover all of the unpaid balance of, and accrued interest on, the loan as well as related foreclosure and holding costs. In addition, we may be required to fund additional amounts to complete the project and may have to hold the property for an unspecified period of time while we attempt to dispose of it.

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

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

As of December 31, 2019, our nonperforming loans (which consist of nonaccrual loans, loans past due 90 days or more and still accruing interest, and loans modified under troubled debt restructurings) totaled $13.2 million, or 0.60% of our HFI loan portfolio, and our nonperforming assets (which include nonperforming loans plus OREO) totaled $13.5 million, or 0.48% of total assets. In addition, we had $4.4 million in accruing loans that were 30-89 days delinquent as of December 31, 2019.

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

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

As of December 31, 2019, we had $293,000 of OREO. Our OREO portfolio consisted of one property that we obtained through foreclosure or through an in-substance foreclosure in satisfaction of loans. Properties in our OREO portfolio are recorded at fair value at the date of foreclosure, establishing a new cost basis by a charge to the allowance for loan losses, if necessary. Other real estate owned is carried at the lower of the Company's carrying value of the property or its fair value, less estimated carrying costs and costs of disposition. Fair value is based on current appraisals less estimated selling costs. Any subsequent write-downs are charged against operating expenses and recognized as a valuation allowance. Operating expenses and related income of such properties and gains and losses on their disposition are included in other operating income and expenses. Significant judgment is required in estimating the fair value of other real estate owned property, and the period of time within which such estimates can be considered current is significantly shortened during periods of market volatility.

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

Our use of appraisals in deciding whether to make a loan on or secured by real property does not ensure the value of the real property collateral.

In considering whether to make a loan secured by real property, we require an appraisal of the property. However, an appraisal is only an estimate of the value of the property at the time the appraisal is made. If the appraisal does not reflect the amount that may be obtained upon any sale or foreclosure of the property, we may not realize an amount equal to the indebtedness secured by the property.

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

Although we believe less than 1% of our loans and less than 2% of our deposits are with customers that have economic and cultural ties to Asia, we are still likely to feel the effects of adverse economic and political conditions in Asia, including the effects of rising inflation or slowing growth and volatility in the real estate and stock markets in China and other regions. U.S. and global economic policies, military tensions, and unfavorable global economic conditions may adversely impact the Asian economies. In addition, pandemics and other public health crises or concerns over the possibility of such crises could create economic and financial disruptions in the region. A significant deterioration of economic conditions in Asia could expose us to, among other things, economic and transfer risk, and we could experience an outflow of deposits by those of our customers with connections to Asia. Transfer risk may result when an entity is unable to obtain the foreign exchange needed to meet its obligations or to provide liquidity. This may adversely impact the recoverability of investments with, or loans made to, such entities. Adverse economic conditions in Asia, and in China or Taiwan in particular, may also negatively impact asset values and the profitability and liquidity of our customers who operate in this region.

The Company is a California state chartered bank with operations in California, New York, Chicago and, in mid-2020, New Jersey. We have no overseas operations, including in China and the Far East. However, as a Chinese-American business bank our client base may have customer and operational contact in the Far East, which could be adversely affected by the current coronavirus outbreak. Management will monitor this situation for its impact on our clients.

Risks Related to Our Deposits

Our deposit portfolio includes significant concentrations and a large percentage of our deposits are attributable to a relatively small number of clients.

As a commercial bank, we provide services to a number of clients whose deposit levels vary considerably and have a significant amount of seasonality. At December 31, 2019, 120 clients maintained balances (aggregating all related accounts, including multiple business entities and personal funds of business owners) in excess of $2.0 million. This amounted to $847.7 million or approximately 37.7% of the Bank's total deposits as of December 31, 2019. In addition, our ten largest depositor relationships accounted for approximately 14.4% of our deposits at December 31, 2019. Our largest depositor relationship accounted for approximately 2.6% of our deposits at December 31, 2019. These deposits can and do fluctuate substantially. The depositors are not concentrated in any industry or business. The loss of any combination of these depositors, or a significant decline in the deposit balances due to ordinary course fluctuations related to these customers' businesses, would adversely affect our liquidity and require us to raise deposit rates to attract new deposits, purchase federal funds or borrow funds on a short-term basis to replace such deposits. Depending on the interest rate environment and competitive factors, low cost deposits may need to be replaced with higher cost funding, resulting in a decrease in net interest income and net income. While these events could have a material impact on the Bank's results, the Bank expects, in the ordinary course of business, that these deposits will fluctuate and believes it is capable of mitigating this risk, as well as the risk of losing one of these depositors, through additional liquidity, and business generation in the future. However, should a significant number of these customers leave the Bank, it could have a material adverse impact on the Bank.

Risks Related to our Management

We are highly dependent on our management team, and the loss of our senior executive officers or other key employees could harm our ability to implement our strategic plan, impair our relationships with customers and adversely affect our business, results of operations and growth prospects.

Our success is dependent, to a large degree, upon the continued service and skills of our executive management team, particularly Mr. Alan Thian, our chairman, president and chief executive officer, and Mr. David Morris, our executive vice president and chief financial officer.

Our business and growth strategies are built primarily upon our ability to retain employees with experience and business relationships within their respective market areas. We seek to manage the continuity of our executive management team through regular succession planning. In addition, the Company has employment agreements with Mr. Thian, Mr. Morris, Mr. Liu and Mr. Pang. For a summary of Messrs. Thian's, Morris' and Pang's employment agreements, see Part III, Item 11 of this Annual Report on Form 10-K. The loss of Mr. Thian, Mr. Morris or any of our other key personnel could have an adverse impact on our business and growth because of their skills, years of industry experience, knowledge of our market areas, the difficulty of finding qualified replacement personnel, and any difficulties associated with transitioning of responsibilities to any new members of the executive management team. In addition, although we have non-solicitation agreements, which limits the ability of executives to solicit our customers and employees, with each of our executive officers, we do not have any such agreements with other employees who are important to our business, and in any event the enforceability of non-competition agreements varies across the states in which we do business. While our mortgage originators and loan officers are generally subject to non-solicitation provisions as part of their employment, our ability to enforce such agreements may not fully mitigate the injury to our business from the breach of such agreements, as such employees could leave us and immediately begin soliciting our customers. The departure of any of our personnel who are not subject to enforceable non-competition agreements could have a material adverse impact on our business, results of operations and growth prospects.

Risk Related to our Allowance for Loan Losses ("ALLL")

If we do not effectively manage our credit risk, we may experience increased levels of delinquencies, nonperforming loans and charge-offs, which could require increases in our provision for loan losses.

There are risks inherent in making any loan, including risks inherent in dealing with individual borrowers, risks of nonpayment, risks resulting from uncertainties as to the future value of collateral and cash flows available to service debt and risks resulting from changes in economic and market conditions. We cannot guarantee that our credit underwriting and monitoring procedures will reduce these credit risks, and they cannot be expected to completely eliminate our credit risks. If the overall economic climate in the United States, generally, or our market areas, specifically, declines, our borrowers may experience difficulties in repaying their loans, and the level of nonperforming loans, charge-offs and delinquencies could rise and require further increases in the provision for loan losses, which would cause our net income, return on equity and capital to decrease.

Our ALLL may prove to be insufficient to absorb potential losses in our loan portfolio.

We establish our ALLL and maintain it at a level that management considers adequate to absorb probable loan losses based on an analysis of our portfolio and market environment. The ALLL represents our estimate of probable losses in the portfolio at each balance sheet date and is based upon relevant information available to us. The allowance contains provisions for probable losses that have been identified relating to specific borrowing relationships, as well as probable losses inherent in the loan portfolio and credit undertakings that are not specifically identified. Additions to the ALLL, which are charged to earnings through the provision for loan losses, are determined based on a variety of factors, including an analysis of the loan portfolio, historical loss experience and an evaluation of current economic conditions in our market areas. The actual amount of loan losses is affected by changes in economic, operating and other conditions within our markets, which may be beyond our control, and such losses may exceed current estimates.

As of December 31, 2019, our ALLL as a percentage of total loans was 0.86% and as a percentage of total nonperforming loans was 142.4%. Although management believes that the ALLL is adequate to absorb losses on any existing loans that may become uncollectible, we may be required to take additional provisions for loan losses in the future to further supplement the ALLL, either due to management's decision to do so or because our banking regulators require us to do so. Our bank regulatory agencies will periodically review our ALLL and the value attributed to nonaccrual loans or to real estate acquired through foreclosure and may require us to adjust our determination of the value for these items. These adjustments may adversely affect our business, financial condition and results of operations.

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

In the aftermath of the 2007-2008 financial crisis, the FASB, decided to review how banks estimate losses in the ALLL calculation, and it issued the final Current Expected Credit Loss ("CECL"), standard on June 16, 2016. Currently, the impairment model used by financial institutions is based on incurred losses, and loans are recognized as impaired when there is no longer an assumption that future cash flows will be collected in full under the originally contracted terms. This model will be replaced by the CECL model that will become effective for the Bank for the fiscal year beginning January 1, 2023 (as the implementation date was deferred by the FASB) in which financial institutions will be required to use historical information, current conditions and reasonable forecasts to estimate the expected loss over the life of the loan. The Bank has run CECL models on its loan portfolio, and although the new CECL standard is currently not expected to have a significant impact on the Bank's ALLL, the transition to the CECL model will require significantly greater data requirements and changes to methodologies to accurately account for expected losses. There can be no assurance that the Bank will not be required to increase its reserves and ALLL as a result of the implementation of CECL.

On December 21, 2018, federal bank regulatory agencies approved a final rule, effective as of April 1, 2019, modifying their regulatory capital rules and providing an option to phase in over a three-year period the initial regulatory capital effects of the CECL methodology. The Company is currently evaluating the magnitude of the one-time cumulative adjustment to its allowance and of the ongoing impact of the CECL model on its loan loss allowance and results of operations, together with the final rule that becomes effective as of April 1, 2019, to determine if the phase-in option will be elected.

Risks Related to our Acquisition Strategy

Our strategy of pursuing growth via acquisitions exposes us to financial, execution and operational risks that could have a material adverse effect on our business, financial position, results of operations and growth prospects.

Since late 2010, we have been pursuing a strategy of leveraging our human and financial capital by acquiring other financial institutions in our target markets. We have completed several acquisitions in recent years, including most recently the PGB acquisition, and we may continue pursuing this strategy.

Our acquisition activities could require us to use a substantial amount of cash, other liquid assets, and/or incur debt. In addition, if goodwill recorded in connection with our potential future acquisitions were determined to be impaired, then we would be required to recognize a charge against our earnings, which could materially and adversely affect our results of operations during the period in which the impairment was recognized.

There are risks associated with an acquisition strategy, including the following:

- We may incur time and expense associated with identifying and evaluating potential acquisitions and negotiating potential transactions, resulting in management's attention being diverted from the operation of our existing business.
- We may encounter insufficient revenue and/or greater than anticipated costs in integrating acquired businesses.
- We may encounter difficulties in retaining business relationships with vendors and customers of the acquired companies.
- We are exposed to potential asset and credit quality risks and unknown or contingent liabilities of the banks or businesses we acquire. If these issues or liabilities exceed our estimates, our earnings, capital and financial condition may be materially and adversely affected.
- The acquisition of other entities generally requires integration of systems, procedures and personnel of the acquired entity. This integration process is complicated and time consuming and can also be disruptive to the customers and employees of the acquired business and our business. If the integration process is not conducted successfully, we may not realize the anticipated economic benefits of acquisitions within the expected time frame, or ever, and we may lose customers or employees of the acquired business. We may also experience greater than anticipated customer losses even if the integration process is successful.

- To finance an acquisition, we may borrow funds or pursue other forms of financing, such as issuing voting and/or non-voting common stock or convertible preferred stock, which may have high dividend rights or may be highly dilutive to holders of our common stock, thereby increasing our leverage and diminishing our liquidity, or issuing capital stock, which could dilute the interests of our existing shareholders.
- We may be unsuccessful in realizing the anticipated benefits from acquisitions. For example, we may not be successful in realizing anticipated cost savings. We also may not be successful in preventing disruptions in service to existing customer relationships of the acquired institution, which could lead to a loss in revenues.

In addition to the foregoing, we may face additional risks in acquisitions to the extent we acquire new lines of business or new products, or enter new geographic areas, in which we have little or no current experience, especially if we lose key employees of the acquired operations. Future acquisitions or business combinations also could cause us to incur debt or contingent liabilities or cause us to issue equity securities. These actions could negatively impact the ownership percentages of our existing shareholders, our financial condition and results of operations. In addition, we may not find candidates which meet our criteria for such transactions, and if we do find such a situation, our shareholders may not agree with the terms of such acquisition or business relationship.

In addition, our ability to grow may be limited if we cannot make acquisitions. We compete with other financial institutions with respect to proposed acquisitions. We cannot predict if or when we will be able to identify and attract acquisition candidates or make acquisitions on favorable terms.

We cannot assure you that we will be successful in overcoming these risks or any other problems encountered in connection with acquisitions. Our inability to overcome risks associated with acquisitions could have an adverse effect on our ability to successfully implement our acquisition growth strategy and grow our business and profitability.

If the goodwill that we recorded in connection with a business acquisition becomes impaired, it could require charges to earnings, which would have a negative impact on our financial condition and results of operations.

Goodwill represents the amount by which the cost of an acquisition exceeded the fair value of net assets we acquired in connection with the purchase. We review goodwill for impairment at least annually, or more frequently if events or changes in circumstances indicate that the carrying value of the asset might be impaired.

We determine impairment by comparing the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. Any such adjustments are reflected in our results of operations in the periods in which they become known. As of December 31, 2019, our goodwill totaled $58.6 million. There can be no assurance that our future evaluations of goodwill will not result in findings of impairment and related write-downs, which may have a material adverse effect on our financial condition and results of operations.

We may not be able to continue growing our business, particularly if we cannot make acquisitions or increase loans and deposits through organic growth, either because of an inability to find suitable acquisition candidates, constrained capital resources or otherwise.

We have grown our consolidated assets from $300.5 million as of December 31, 2010 to $2.8 billion as of December 31, 2019, and our deposits from $236.4 million as of December 31, 2010 to $2.2 billion as of December 31, 2019. Some of this growth has resulted from several acquisitions that we have completed since 2010. While we intend to continue to grow our business through strategic acquisitions coupled with organic loan and deposit growth, we anticipate that much of our future growth will be dependent on our ability to successfully implement our acquisition growth strategy. A risk exists, however, that we will not be able to identify suitable additional candidates for acquisitions.

In addition, even if suitable targets are identified, we expect to compete for such businesses with other potential bidders, many of which may have greater financial resources than we have, which may adversely affect our ability to make acquisitions at attractive prices. Although we have historically been disciplined in pricing our acquisitions, there can be no assurance that the higher multiples being paid in bank acquisitions will not adversely impact our ability to execute acquisitions in the future or adversely affect the return we earn from such acquisitions.

Furthermore, many acquisitions we may wish to pursue would be subject to approvals by bank regulatory authorities, and we cannot predict whether any targeted acquisitions will receive the required regulatory approvals. Moreover, our ability to continue to grow successfully will depend to a significant extent on our capital resources. It also will depend, in part, upon our ability to attract deposits and lessen our dependence on larger deposit accounts, identify favorable loan and investment opportunities and on whether we can continue to fund growth while maintaining cost controls and asset quality, as well on other factors beyond our control, such as national, regional and local economic conditions and interest rate trends.

Paydowns on our acquired loan portfolio will result in reduced total loan yield, net interest income and net income if not replaced with other high-yielding loans.

Our total loan yield and net interest margin has been positively affected by the accretion of purchased loan discounts relating to loans acquired in prior acquisitions. As our acquired loan portfolio is paid down, we expect downward pressure on our total loan yield and net interest income to the extent that the run-off is not replaced with other high-yielding loans. The accretable yield represents the excess of the net present value of expected future cash flows over the acquisition date fair value and includes both the expected coupon of the loan and the discount accretion. For example, the total loan yield for the year ended December 31, 2019 and 2018 was 5.54% and 5.57%, respectively, and the yield generated using only the expected coupon would have been 5.25% and 5.13%, during the same respective periods. Notwithstanding, if we are unable to replace loans in our existing portfolio with comparable high-yielding loans or a larger volume of loans, our total loan yield, net interest income and net income could be adversely affected.

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

We primarily operate in California, New York and Illinois markets with a concentration of Chinese-American individuals and businesses; however, one of our strategies is to expand beyond California into other domestic markets that have concentrations of Chinese-American individuals and businesses. We also currently have operations in Las Vegas, Nevada, including operating a branch office, and are currently looking for additional expansion opportunities in the San Francisco Bay area and Houston and, secondarily, San Diego and Riverside counties in southern California, Hawaii and Phoenix. In the course of this expansion, we will encounter significant risks and uncertainties that could have a material adverse effect on our operations. These risks and uncertainties include increased expenses and operational difficulties arising from, among other things, our ability to attract sufficient business in new markets, to manage operations in noncontiguous market areas, to comply with all of the various local laws and regulations, and to anticipate events or differences in markets in which we have no current experience.

The accounting for loans acquired in connection with our acquisitions is based on numerous subjective determinations that may prove to be inaccurate and have a negative impact on our results of operations.

Loans acquired in connection with our acquisitions have been recorded at estimated fair value on their acquisition date without a carryover of the related ALLL. In general, the determination of estimated fair value of acquired loans requires management to make subjective determinations regarding discount rate, estimates of losses on defaults, market conditions and other factors that are highly subjective in nature. A risk exists that our estimate of the fair value of acquired loans will prove to be inaccurate and that we ultimately will not recover the amount at which we recorded such loans on our balance sheet, which would require us to recognize losses.

Loans acquired in connection with acquisitions that have evidence of credit deterioration since origination and for which it is probable at the date of acquisition that we will not collect all contractually required principal and interest payments are accounted for under ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*. These credit-impaired loans, like non-credit-impaired loans acquired in connection with our acquisitions, have been recorded at estimated fair value on their acquisition date, based on subjective determinations regarding risk ratings, expected future cash flows and fair value of the underlying collateral, without a carryover of the related ALLL. We evaluate these loans quarterly to assess expected cash flows. Subsequent decreases to the expected cash flows will generally result in a provision for loan losses. Subsequent increases in cash flows result in a reversal of the provision for loan losses to the extent of prior charges or a reclassification of the difference from non-accretable to accretable with a positive impact on interest income. Because the accounting for these loans is based on subjective measures that can change frequently, we may experience fluctuations in our net interest income and provisions for loan losses attributable to these loans. These fluctuations could negatively impact our results of operations.

Risks Related to Our Capital

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

We face significant capital and other regulatory requirements as a financial institution. Although management currently believes that funds raised to date are sufficient, absent an acquisition opportunity, to fund our operations and growth initiatives, we may need to raise additional capital in the future to provide us with sufficient capital resources and liquidity to meet our commitments and business needs, which could include the possibility of financing acquisitions. In addition, the Company, on a consolidated basis, and the Bank, on a stand-alone basis, must meet certain regulatory capital requirements and maintain sufficient liquidity. Importantly, regulatory capital requirements could increase from current levels, which could require us to raise additional capital or contract our operations. Our ability to raise additional capital depends on conditions in the capital markets, economic conditions and a number of other factors, including investor perceptions regarding the banking industry, market conditions and governmental activities, and on our financial condition and performance. Accordingly, we cannot assure you that we will be able to raise additional capital if needed or on terms acceptable to us. If we fail to maintain capital to meet regulatory requirements, our financial condition, liquidity and results of operations would be materially and adversely affected.

Risks Related to Interest Rates

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

Shifts in short-term interest rates may reduce net interest income, which is the principal component of our earnings. Net interest income is the difference between the amounts received by us on our interest-earning assets and the interest paid by us on our interest-bearing liabilities. When interest rates rise, the rate of interest we pay on our assets, such as loans, rises more quickly than the rate of interest that we receive on our interest-bearing liabilities, such as deposits, which may cause our profits to increase. When interest rates decrease, the rate of interest we pay on our assets, such as loans, declines more quickly than the rate of interest that we receive on our interest-bearing liabilities, such as deposits, which may cause our profits to decrease. The impact on earnings is more adverse when the slope of the yield curve flattens, that is, when short-term interest rates increase more than long-term interest rates or when long-term interest rates decrease more than short-term interest rates.

Interest rate increases often result in larger payment requirements for our borrowers, which increases the potential for default. At the same time, the marketability of the underlying property may be adversely affected by any reduced demand resulting from higher interest rates. In a declining interest rate environment, there may be an increase in prepayments on loans as borrowers refinance their mortgages and other indebtedness at lower rates. At December 31, 2019, total loans held for investment were 87.9% of our earning assets and exhibited a positive 6% sensitivity to rising interest rates in a 100 basis point parallel shock.

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

Rising interest rates will result in a decline in value of the fixed-rate debt securities we hold in our investment securities portfolio. The unrealized losses resulting from holding these securities would be recognized in accumulated other comprehensive income (loss) and reduce total shareholders' equity. Unrealized losses do not negatively impact our regulatory capital ratios; however, tangible common equity and the associated ratios would be reduced. If debt securities in an unrealized loss position are sold, such losses become realized and will reduce our regulatory capital ratios.

If short-term interest rates remain at their historically low levels for a prolonged period, and assuming longer term interest rates fall, we could experience net interest margin compression as our interest earning assets would continue to reprice downward while our interest-bearing liability rates could fail to decline in tandem. This would have a material adverse effect on our net interest income and our results of operations.

We could recognize losses on securities held in our securities portfolio, particularly if interest rates increase or economic and market conditions deteriorate.

As of December 31, 2019, the fair value of our securities portfolio was approximately $134.7 million. Factors beyond our control can significantly influence the fair value of securities in our portfolio and can cause potential adverse changes to the fair value of these securities. For example, fixed-rate securities acquired by us are generally subject to decreases in market value when interest rates rise. Additional factors include, but are not limited to, rating agency downgrades of the securities or our own analysis of the value of the security, defaults by the issuer or individual mortgagors with respect to the underlying securities, and continued instability in the credit markets. Any of the foregoing factors could cause other-than-temporary impairment in future periods and result in realized losses. The process for determining whether impairment is other-than-temporary usually requires difficult, subjective judgments about the future financial performance of the issuer and any collateral underlying the security in order to assess the probability of receiving all contractual principal and interest payments on the security. Because of changing economic and market conditions affecting interest rates, the financial condition of issuers of the securities and the performance of the underlying collateral, we may recognize realized and/or unrealized losses in future periods, which could have an adverse effect on our financial condition and results of operations.

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

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

The monetary policies and regulations of the Federal Reserve have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future. The effects of such policies upon our business, financial condition and results of operations cannot be predicted.

Other Risks Related to Our Business

Our ability to maintain our reputation is critical to the success of our business, and the failure to do so may materially adversely affect our business and the value of our common stock.

We are a community bank, and our reputation is one of the most valuable components of our business. As such, we strive to conduct our business in a manner that enhances our reputation. This is done, in part, by recruiting, hiring and retaining employees who share our core values of being an integral part of the communities we serve, delivering superior service to our customers and caring about our customers and associates. If our reputation is negatively affected, by the actions of our employees or otherwise, our business and, therefore, our operating results and the value of our common stock may be materially adversely affected.

Our risk management framework may not be effective in mitigating risks and/or losses to us.

Our risk management framework is comprised of various processes, systems and strategies, and is designed to manage the types of risk to which we are subject, including, among others, credit, market, liquidity, interest rate and compliance. Our framework also includes financial or other modeling methodologies that involve management assumptions and judgment. Our risk management framework may not be effective under all circumstances or that it will adequately mitigate any risk or loss to us. If our framework is not effective, we could suffer unexpected losses and our business, financial condition, results of operations or growth prospects could be materially and adversely affected. We may also be subject to potentially adverse regulatory consequences.

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

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

We rely heavily on communications, information systems (both internal and provided by third parties) and the internet to conduct our business. Our business is dependent on our ability to process and monitor large numbers of daily transactions in compliance with legal, regulatory and internal standards and specifications. In addition, a significant portion of our operations relies heavily on the secure processing, storage and transmission of personal and confidential information, such as the personal information of our customers and clients. These risks may increase in the future as we continue to increase mobile payments and other internet-based product offerings and expand our internal usage of web-based products and applications.

In addition, U.S. financial institutions have experienced significant distributed denial-of-service attacks, some of which involved sophisticated and targeted attacks intended to disable or degrade service, or sabotage systems. Other potential attacks have attempted to obtain unauthorized access to confidential information or destroy data, often through the introduction of computer viruses or malware, cyber-attacks and other means. To date, none of these type of attacks have had a material effect on our business or operations. Such security attacks can originate from a wide variety of sources, including persons who are involved with organized crime or who may be linked to terrorist organizations or hostile foreign governments. Those same parties may also attempt to fraudulently induce employees, customers or other users of our systems to disclose sensitive information in order to gain access to our data or that of our customers or clients. We are also subject to the risk that our employees may intercept and transmit unauthorized confidential or proprietary information. An interception, misuse or mishandling of personal, confidential or proprietary information being sent to or received from a customer or third party could result in legal liability, remediation costs, regulatory action and reputational harm.

We regularly add additional security measures to our computer systems and network infrastructure to mitigate the possibility of cyber security breaches, including firewalls and penetration testing. However, it is difficult or impossible to defend against every risk being posed by changing technologies as well as criminal intent on committing cyber-crime. Increasing sophistication of cyber criminals and terrorists make keeping up with new threats difficult and could result in a breach. Controls employed by our information technology department and cloud vendors could prove inadequate. A breach of our security that results in unauthorized access to our data could expose us to a disruption or challenges relating to our daily operations, as well as to data loss, litigation, damages, fines and penalties, significant increases in compliance costs and reputational damage, any of which could have an adverse effect on our business, financial condition and results of operations.

Our operations could be interrupted if our third-party service providers experience difficulty, terminate their services or fail to comply with banking regulations.

We depend to a significant extent on a number of relationships with third-party service providers. Specifically, we receive core systems processing, essential web hosting and other internet systems, deposit processing and other processing services from third-party service providers. If these third-party service providers experience difficulties or terminate their services and we are unable to replace them with other service providers, our operations could be interrupted. If an interruption were to continue for a significant period of time, our business, financial condition and results of operations could be adversely affected, perhaps materially. Even if we are able to replace them, it may be at a higher cost to us, which could adversely affect our business, financial condition and results of operations.

We are subject to certain operational risks, including, but not limited to, customer or employee fraud and data processing system failures and errors.

Employee errors and employee and customer misconduct could subject us to financial losses or regulatory sanctions and seriously harm our reputation. Misconduct by our employees could include hiding unauthorized activities from us, improper or unauthorized activities on behalf of our customers or improper use of confidential information. It is not always possible to prevent employee errors and misconduct, and the precautions we take to prevent and detect this activity may not be effective in all cases. Employee errors could also subject us to financial claims for negligence.

We maintain a system of internal controls and insurance coverage to mitigate against operational risks, including data processing system failures and errors and customer or employee fraud. If our internal controls fail to prevent or detect an occurrence, or if any resulting loss is not insured or exceeds applicable insurance limits, it could have a material adverse effect on our business, financial condition and results of operations.

Changes in accounting standards could materially impact our financial statements.

From time to time, the FASB or the SEC may change the financial accounting and reporting standards that govern the preparation of our financial statements. Such changes may result in us being subject to new or changing accounting and reporting standards. In addition, the bodies that interpret the accounting standards (such as banking regulators or outside auditors) may change their interpretations or positions on how these standards should be applied. These changes may be beyond our control, can be hard to predict and can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retrospectively, or apply an existing standard differently, also retrospectively, in each case resulting in our needing to revise or restate prior period financial statements.

Liabilities from environmental regulations could materially and adversely affect our business and financial condition.

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

A natural disaster, recurring energy shortage or impacts of a pandemic in our geographic markets, especially in California, could harm our business.

We are based in California and at December 31, 2019, approximately 53.3% of the aggregate outstanding principal of our loans was secured by real estate located in California. In addition, the computer systems that operate our Internet websites and some of their back-up systems are located in California. Historically, California has been vulnerable to natural disasters. Therefore, we are susceptible to the risks of natural disasters, such as earthquakes, wildfires, floods and mudslides. Natural disasters could harm our operations directly through interference with communications, including the interruption or loss of our information technology structure and websites, which could prevent us from gathering deposits, originating loans and processing and controlling our flow of business, as well as through the destruction of facilities and our operational, financial and management information systems. A natural disaster or recurring power outages may also impair the value of our largest class of assets, our loan portfolio, which is comprised substantially of real estate loans. Uninsured or underinsured disasters may reduce borrowers' ability to repay mortgage loans. Disasters may also reduce the value of the real estate securing our loans, impairing our ability to recover on defaulted loans through foreclosure and making it more likely that we would suffer losses on defaulted loans. California has also experienced energy shortages, which, if they recur, could impair the value of the real estate in those areas affected. Although we have implemented several back-up systems and protections (and maintain business interruption insurance), these measures may not protect us fully from the effects of a natural disaster. The occurrence of natural disasters or energy shortages in California could have a material adverse effect on our business prospects, financial condition and results of operations.

In addition, most of our branches are located in states where cases of COVID-19 have already been identified. We may experience impacts from quarantines, market downturns and changes in consumer behavior related to pandemic fears and impacts on our workforce if the virus becomes widespread in any of our markets. We cannot predict the full impact of COVID-19 or any other future global pandemic on our business, but we could suffer financial losses as a result of the crisis. In addition, downturns in the global market related to pandemic fears could result in a lowering of interest rates as a stimulus to boost consumer spending, which could further negatively impact our results of operations.

If the COVID-19 pandemic becomes more pronounced in our markets, or if a more significant natural disaster or pandemic were to occur in the future, our operations in areas impacted by such events could experience an adverse financial impact due to office closures and market changes. In addition, our financial results could be impacted due to an inability of our customers to meet their loan commitments in a timely manner because of their losses, including a decrease in revenues for certain businesses in areas impacted by quarantines during a pandemic or other changes in consumer behavior, a reduction in housing inventory due to losses caused by natural disaster, and negative impacts to the local economy as it seeks to recover from these disasters.

The obligations associated with being a public company will require significant resources and management attention, which may divert from our business operations.

As a result of our July 2017 initial public offering, we became subject to the reporting requirements of the Exchange Act and the Sarbanes-Oxley Act. The Exchange Act requires that we file annual, quarterly and current reports with respect to our business and financial condition with the SEC. The Sarbanes-Oxley Act requires, among other things, that we establish and maintain effective internal controls and procedures for financial reporting. As a result, we will incur significant legal, accounting and other expenses that we did not previously incur. We anticipate that these costs will materially increase our general and administrative expenses. Furthermore, the need to establish the corporate infrastructure demanded of a public company may divert management's attention from implementing our strategic plan, which could prevent us from successfully implementing our growth initiatives and improving our business, results of operations and financial condition.

As an "emerging growth company" as defined in the Jumpstart Our Business Startups Act ("JOBS Act"), we currently take advantage of certain temporary exemptions from various reporting requirements, including reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements and an exemption from the requirement to obtain an attestation from our auditors on management's assessment of our internal control over financial reporting. When these exemptions cease to apply, we expect to incur additional expenses and devote increased management effort toward ensuring compliance with them. We cannot predict or estimate the amount of additional costs we may incur as a result of becoming a public company or the timing of such costs.

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

The financial services industry is undergoing rapid technological changes with frequent introductions of new technology-driven products and services. In addition to better serving customers, the effective use of technology increases efficiency and enables financial institutions to reduce costs. Our future success will depend in part upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands for convenience as well as to create additional efficiencies in our operations as we continue to grow and expand our market area. We may experience operational challenges as we implement these new technology enhancements, or seek to implement them across all of our offices and business units, which could result in us not fully realizing the anticipated benefits from such new technology or require us to incur significant costs to remedy any such challenges in a timely manner.

Many of our larger competitors have substantially greater resources to invest in technological improvements. As a result, they may be able to offer additional or superior products to those that we will be able to offer, which would put us at a competitive disadvantage. Accordingly, a risk exists that we will not be able to effectively implement new technology-driven products and services or be successful in marketing such products and services to our customers.

Confidential customer information transmitted through our online banking service is vulnerable to security breaches and computer viruses, which could expose us to litigation and adversely affect our reputation and ability to generate deposits.

We provide our customers the ability to bank online. The secure transmission of confidential information over the Internet is a critical element of online banking. Our network could be vulnerable to unauthorized access, computer viruses, phishing schemes and other security problems. We may be required to spend significant capital and other resources to protect against the threat of security breaches and computer viruses, or to alleviate problems caused by security breaches or viruses. To the extent that our activities or the activities of our customers involve the storage and transmission of confidential information, security breaches and viruses could expose us to claims, litigation and other possible liabilities. Any inability to prevent security breaches or computer viruses could also cause existing customers to lose confidence in our systems and could adversely affect our reputation and our ability to generate deposits.

We depend on the accuracy and completeness of information provided by customers and counterparties.

In deciding whether to extend credit or enter into other transactions with customers and counterparties, we may rely on information furnished to us by or on behalf of customers and counterparties, including financial statements and other financial information. We also may rely on representations of customers and counterparties as to the accuracy and completeness of that information. In deciding whether to extend credit, we may rely upon our customers' representations that their financial statements conform to generally accepted accounting principles ("GAAP") and present fairly, in all material respects, the financial condition, results of operations and cash flows of the customer. We also may rely on customer representations and certifications, or other audit or accountants' reports, with respect to the business and financial condition of our clients. Our financial condition, results of operations, financial reporting and reputation could be negatively affected if we rely on materially misleading, false, inaccurate or fraudulent information.

We face strong competition from financial services companies and other companies that offer banking and mortgage banking services, which could harm our business.

Our operations consist of offering banking and mortgage banking services to generate both interest and noninterest income. Many of our competitors offer the same, or a wider variety of, banking and related financial services within our market areas. These competitors include national banks, regional banks and other community banks. We also face competition from many other types of financial institutions, including savings and loan institutions, finance companies, brokerage firms, insurance companies, credit unions, mortgage banks and other financial intermediaries. In addition, a number of out-of-state financial intermediaries have opened production offices or otherwise solicit deposits in our market areas. Additionally, we face growing competition from so-called "online businesses" with few or no physical locations, including online banks, lenders and consumer and commercial lending platforms, as well as automated retirement and investment service providers. Increased competition in our markets may result in reduced loans, deposits and commissions and brokers' fees, as well as reduced net interest margin and profitability. Ultimately, we may not be able to compete successfully against current and future competitors. If we are unable to attract and retain banking and mortgage loan customers and expand our sales market for such loans, we may be unable to continue to grow our business, and our financial condition and results of operations may be adversely affected.

Future tax reform legislation could negatively affect our financial condition and results of operations.

In late 2017, the U.S. Congress passed significant legislation reforming the Internal Revenue Code known as the Tax Act. Although the Company has generally benefited from the legislation's reduction in the federal corporate income tax rate, a tax rate reduction has broader implications for the Company's operations as the new rates could cause positive or negative impacts on loan demand and on the Company's pricing models, municipal bonds, tax credits and CRA investments and capital market transactions. Additionally, the interest deduction limitation implemented by the new tax law could make some businesses and industries less inclined to borrow, potentially reducing demand for the Company's commercial loan products.

Technical corrections or other forthcoming guidance could change how we interpret provisions of the Tax Act, which may impact our effective tax rate and could affect our deferred tax assets, tax positions and/or our tax liabilities. The ultimate overall impact of any tax reform on our business, customers and shareholders is uncertain and could be adverse.

Legislative and regulatory actions taken now or in the future may increase our costs and impact our business, governance structure, financial condition or results of operations.

Our operations are subject to extensive regulation by federal, state and local governmental authorities and are subject to various laws and judicial and administrative decisions imposing requirements and restrictions on part or all of our operations. Federal and state banking regulators have significant discretion and authority to prevent or remedy unsafe or unsound practices or violations of laws or regulations by financial institutions and bank holding companies in the performance of their supervisory and enforcement duties. The exercise of regulatory authority may have a negative impact on our financial condition and results of operations. Additionally, in order to conduct certain activities, including acquisitions, we are required to obtain regulatory approval. There can be no assurance that any required approvals can be obtained, or obtained without conditions or on a timeframe acceptable to us.

Because our business is highly regulated, the laws, rules and regulations applicable to us are subject to regular modification and change. Regulations affecting banks and other financial institutions, such as the Dodd-Frank Act, are continuously reviewed and change frequently. For instance, the Dodd-Frank Act has changed the bank regulatory framework, created an independent consumer protection bureau that has assumed the consumer protection responsibilities of the various federal banking agencies, and established more stringent capital standards for banks and bank holding companies. The ultimate effect of such changes cannot be predicted. Because our business is highly regulated, compliance with such regulations and laws may increase our costs and limit our ability to pursue business opportunities. There can be no assurance that laws, rules and regulations will not be proposed or adopted in the future, which could (i) make compliance much more difficult or expensive, (ii) restrict our ability to originate, modify, broker or sell loans or accept certain deposits, (iii) restrict our ability to foreclose on property securing loans, (iv) further limit or restrict the amount of commissions, interest or other charges earned on loans originated or sold by us, or (v) otherwise materially and adversely affect our business or prospects for business. These risks could affect our deposit funding and the performance and value of our loan and investment securities portfolios, which could negatively affect our financial performance and financial condition.

While recent federal legislation has scaled back portions of the Dodd-Frank Act and the current administration in the United States may further roll back or modify certain of the regulations adopted since the financial crisis, including those adopted under the Dodd-Frank Act, uncertainty about the timing and scope of any such changes as well as the cost of complying with a new regulatory regime, may negatively impact our business, at least in the short-term, even if the long-term impact of any such changes are positive for our business.

In addition, other new proposals for legislation continue to be introduced in the U.S. Congress that could further substantially increase regulation of the bank and non-bank financial services industries and impose restrictions on the operations and general ability of firms within the industry to conduct business consistent with historical practices. Federal and state regulatory agencies also frequently adopt changes to their regulations or change the manner in which existing regulations are applied. Certain aspects of current or proposed regulatory or legislative changes to laws applicable to the financial industry, if enacted or adopted, may impact the profitability of our business activities, require more oversight or change certain of our business practices, including the ability to offer new products, obtain financing, attract deposits, make loans and achieve satisfactory interest spreads and could expose us to additional costs, including increased compliance costs. These changes also may require us to invest significant management attention and resources to make any necessary changes to operations to comply and could have an adverse effect on our business, financial condition and results of operations.

Our deposit insurance premiums could increase in the future, which could have a material adverse impact on future earnings and financial condition.

The FDIC insures deposits at FDIC-insured financial institutions, including the Bank. The FDIC charges insured financial institutions premiums to maintain the DIF at a specific level. Unfavorable economic conditions, increased bank failures and additional failures decreased the DIF. In order to restore the DIF to its statutorily mandated minimum of 1.35% of total deposits by September 30, 2020, the FDIC may need to increase deposit insurance premium rates. Insured institutions with assets of $10 billion or more will be responsible for funding this increase. The FDIC has issued regulations to implement these provisions of the Dodd-Frank Act. It has, in addition, established a higher reserve ratio of 2% as a long term goal which goes beyond what is required by statute. There is no implementation deadline for the 2% ratio. The FDIC may increase the assessment rates or impose additional special assessments in the future to keep the DIF at the statutory target level. Any increase in the Bank's FDIC premiums could have an adverse effect on its financial condition and results of operations.

Our use of third party vendors and our other ongoing third party business relationships are subject to increasing regulatory requirements and attention.

We regularly use third party vendors as part of our business. We also have substantial ongoing business relationships with other third parties. These types of third party relationships are subject to increasingly demanding regulatory requirements and attention by our federal bank regulators. Recent regulation requires us to enhance our due diligence, ongoing monitoring and control over our third party vendors and other ongoing third party business relationships. In certain cases we may be required to renegotiate our agreements with these vendors to meet these enhanced requirements, which could increase our costs. We expect that our regulators will hold us responsible for deficiencies in our oversight and control of our third party relationships and in the performance of the parties with which we have these relationships. As a result, if our regulators conclude that we have not exercised adequate oversight and control over our third party vendors or other ongoing third party business relationships or that such third parties have not performed appropriately, we could be subject to enforcement actions, including civil money penalties or other administrative or judicial penalties or fines as well as requirements for customer remediation, any of which could have a material adverse effect our business, financial condition or results of operations.

We may experience goodwill impairment.

Goodwill is initially recorded at fair value and is not amortized, but is reviewed at least annually or more frequently if events or changes in circumstances indicate that the carrying value may not be fully recoverable. If our estimates of goodwill fair value change, we may determine that impairment charges are necessary. Estimates of fair value are determined based on a complex model using cash flows and company comparisons. If management’s estimates of future cash flows are inaccurate, the fair value determined could be inaccurate and impairment may not be recognized in a timely manner.

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

In July 2013, the U.S. federal banking authorities approved the implementation of the Basel III regulatory capital reforms, or Basel III, and issued rules effecting certain changes required by the Dodd-Frank Act. Basel III is applicable to all U.S. banks that are subject to minimum capital requirements as well as to bank and saving and loan holding companies, other than “small bank holding companies” (generally bank holding companies with consolidated assets of less than $1.0 billion). Basel III not only increases most of the required minimum regulatory capital ratios, it introduces a new common equity Tier 1 capital ratio and the concept of a capital conservation buffer. Basel III also expands the current definition of capital by establishing additional criteria that capital instruments must meet to be considered additional Tier 1 and Tier 2 capital.

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

Federal and state regulators periodically examine our business, and we may be required to remediate adverse examination findings.

The Federal Reserve, the FDIC, and the DBO periodically examine our business, including our compliance with laws and regulations. If, as a result of an examination, a banking agency were to determine that our financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of any of our operations had become unsatisfactory, or that we were in violation of any law or regulation, they may take a number of different remedial actions as they deem appropriate. These actions include the power to enjoin “unsafe or unsound” practices, to require affirmative action to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in our capital, to restrict our growth, to assess civil money penalties, to fine or remove officers and directors and, if it is concluded that such conditions cannot be corrected or there is an imminent risk of loss to depositors, to terminate our deposit insurance and place us into receivership or conservatorship. Any regulatory action against us could have an adverse effect on our business, financial condition and results of operations.

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

The CRA, the ECOA, the FH Act and other fair lending laws and regulations prohibit discriminatory lending practices by financial institutions. The U.S. Department of Justice, federal banking agencies, and other federal agencies are responsible for enforcing these laws and regulations. A challenge to an institution’s compliance with fair lending laws and regulations could result in a wide variety of sanctions, including damages and civil money penalties, injunctive relief, restrictions on mergers and acquisitions activity, restrictions on expansion, and restrictions on entering new business lines. Private parties may also challenge an institution’s performance under fair lending laws in private class action litigation. Such actions could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

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

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

Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for us. Any of these results could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

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

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

We may be adversely affected by the soundness of other financial institutions.

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services companies are interrelated as a result of trading, clearing, counterparty, and other relationships. We have exposure to different industries and counterparties, and through transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, and other institutional clients. As a result, defaults by, or even rumors or questions about, one or more financial services companies, or the financial services industry generally, have led to market-wide liquidity problems and could lead to losses or defaults by us or by other institutions. These losses or defaults could have a material adverse effect on our business, financial condition, results of operations and growth prospects. Additionally, if our competitors were extending credit on terms we found to pose excessive risks, or at interest rates which we believed did not warrant the credit exposure, we may not be able to maintain our business volume and could experience deteriorating financial performance.

Risks Related to an Investment in Our Common Stock

The price of our common stock may fluctuate significantly, and this may make it difficult for you to sell shares of common stock owned by you at times or at prices you find attractive.

The trading price of our common stock may fluctuate widely as a result of a number of factors, many of which are outside our control. In addition, the stock market is subject to fluctuations in the share prices and trading volumes that affect the market prices of the shares of many companies. These broad market fluctuations could adversely affect the market price of our common stock. Among the factors that could affect our stock price are:

- actual or anticipated quarterly fluctuations in our operating results and financial condition and prospects;
- changes in revenue or earnings estimates or publication of research reports and recommendations by financial analysts;
- failure to meet analysts’ revenue or earnings estimates;
- speculation in the press or investment community;
- strategic actions by us or our competitors, such as acquisitions or restructurings;
- acquisitions of other banks or financial institutions;
- actions by institutional stockholders;
- fluctuations in the stock price and operating results of our competitors;
- general market conditions and, in particular, developments related to market conditions for the financial services industry;
- proposed or adopted regulatory changes or developments;
- anticipated or pending investigations, proceedings, or litigation that involve or affect us;
- successful management of reputational risk;
- geopolitical and public health conditions such as acts or threats of terrorism, military conflicts, pandemics and public health issues or crises, such as that related to COVID-19; and
- domestic and international economic factors, such as interest or foreign exchange rates, stock, commodity, credit, or asset valuations or volatility, unrelated to our performance.

The stock market and, in particular, the market for financial institution stocks, has experienced significant volatility. As a result, the market price of our common stock may be volatile. In addition, the trading volume in our common stock may fluctuate more than usual and cause significant price variations to occur. The trading price of the shares of our common stock and the value of our other securities will depend on many factors, which may change from time to time, including, without limitation, our financial condition, performance, creditworthiness and prospects, future sales of our equity or equity related securities, and other factors identified above in “Forward-Looking Statements,” and in this Item 1A — “Risk Factors.” The capital and credit markets can experience volatility and disruption. Such volatility and disruption can reach unprecedented levels, resulting in downward pressure on stock prices and credit availability for certain issuers without regard to their underlying financial strength. A significant decline in our stock price could result in substantial losses for individual stockholders and could lead to costly and disruptive securities litigation.

An investment in our common stock is not an insured deposit.

An investment in our common stock is not a bank deposit and, therefore, is not insured against loss by the FDIC, any other deposit insurance fund or by any other public or private entity. Investment in our common stock is inherently risky for the reasons described herein, and is subject to the same market forces that affect the price of common stock in any company. As a result, if you acquire our common stock, you could lose some or all of your investment.

If equity research analysts do not publish research or reports about our business, or if they do publish such reports but issue unfavorable commentary or downgrade our common stock, the price and trading volume of our common stock could decline.

The trading market for our common stock could be affected by whether equity research analysts publish research or reports about us and our business. We cannot predict at this time whether any research analysts will publish research and reports on us and our common stock. If one or more equity analysts do cover us and our common stock and publish research reports about us, the price of our stock could decline if one or more securities analysts downgrade our stock or if those analysts issue other unfavorable commentary or cease publishing reports about us or our business.

If any of the analysts who elect to cover us downgrades our stock, our stock price could decline rapidly. If any of these analysts ceases coverage of us, we could lose visibility in the market, which in turn could cause our common stock price or trading volume to decline and our common stock to be less liquid.

Our dividend policy may change.

We have paid quarterly dividends since our initial public offering in the third quarter of 2017. In 2017 we paid $0.38 per share, in 2018 we paid $0.35 per share and in 2019 we paid $0.40. We have no obligation to pay dividends and we may change our dividend policy at any time without notice to our shareholders. Holders of our common stock are only entitled to receive such cash dividends as our board of directors, in its discretion, may declare out of funds legally available for such payments. Furthermore, consistent with our strategic plans, growth initiatives, capital availability and requirements, projected liquidity needs, financial condition, and other factors, we have made, and will continue to make, capital management decisions and policies that could adversely impact the amount of dividends paid to our common shareholders.

We are a separate and distinct legal entity from our subsidiaries, including the Bank. We receive substantially all of our revenue from dividends from the Bank and RAM, which we use as the principal source of funds to pay our expenses. Various federal and/or state laws and regulations limit the amount of dividends that the Bank and certain of our non-bank subsidiaries may pay us. Such limits are also tied to the earnings of our subsidiaries. If the Bank does not receive regulatory approval or if our subsidiaries' earnings are not sufficient to make dividend payments to us while maintaining adequate capital levels, our ability to pay our expenses and our business, financial condition or results of operations could be materially and adversely impacted.

Shares of certain shareholders may be sold into the public market in the near future. This could cause the market price of our common stock to decline.

We have outstanding options to purchase 1,090,968 shares of our common stock as of December 31, 2019 that may be exercised and sold, and we have the ability to issue options exercisable for up to an additional 1,245,045 shares of common stock pursuant to our 2017 Omnibus Stock Incentive Plan. The sale of any of such shares could cause the market price of our stock to decline, and concerns that those sales may occur could cause the trading price of our common stock to decrease or to be lower than it might otherwise be.

Failure to maintain effective internal controls over financial reporting could have a material adverse effect on our business and stock price.

If we identify any material weaknesses in our internal control over financial reporting or are unable to comply with the requirements of Section 404 in a timely manner or assert that our internal control over financial reporting is effective, or if our independent registered public accounting firm is unable to express an opinion as to the effectiveness of our internal control over financial reporting once we are no longer an emerging growth company, investors, counterparties and customers may lose confidence in the accuracy and completeness of our financial statements and reports; our liquidity, access to capital markets and perceptions of our creditworthiness could be adversely affected; and the market price of our common stock could decline. In addition, we could become subject to investigations by NASDAQ, the SEC, the Federal Reserve, the FDIC, the DBO or other regulatory authorities, which could require additional financial and management resources. These events could have an adverse effect on our business, financial condition and results of operations.

Our business and financial results could be impacted materially by adverse results in legal proceedings.

Various aspects of our operations involve the risk of legal liability. We have been, and expect to continue to be, named or threatened to be named as defendants in legal proceedings arising from our business activities. We establish accruals for legal proceedings when information related to the loss contingencies represented by those proceedings indicates both that a loss is probable and that the amount of the loss can be reasonably estimated, but we do not have accruals for all legal proceedings where we face a risk of loss. In addition, amounts accrued may not represent the ultimate loss to us from those legal proceedings. Thus, our ultimate losses may be higher or lower, and possibly significantly so, than the amounts accrued for loss contingencies arising from legal proceedings, and these losses could have a material and adverse effect on our business, financial condition, results of operations and the value of our common stock.

Future equity issuances could result in dilution, which could cause our common stock price to decline.

We are generally not restricted from issuing additional shares of our common stock, up to the 100 million shares of common stock and 100 million shares of preferred stock authorized in our articles of incorporation, which in each case could be increased by a vote of a majority of our shares. We may issue additional shares of our common stock in the future pursuant to current or future equity compensation plans, upon conversions of preferred stock or debt, upon exercise of warrants or in connection with future acquisitions or financings. If we choose to raise capital by selling shares of our common stock for any reason, the issuance would have a dilutive effect on the holders of our common stock and could have a material negative effect on the market price of our common stock.

We may issue shares of preferred stock in the future, which could make it difficult for another company to acquire us or could otherwise adversely affect holders of our common stock, which could depress the price of our common stock.

Although there are currently no shares of our preferred stock issued and outstanding, our articles of incorporation authorize us to issue up to 100 million shares of one or more series of preferred stock. The board also has the power, without shareholder approval, to set the terms of any series of preferred stock that may be issued, including voting rights, dividend rights, preferences over our common stock with respect to dividends or in the event of a dissolution, liquidation or winding up and other terms. In the event that we issue preferred stock in the future that has preference over our common stock with respect to payment of dividends or upon our liquidation, dissolution or winding up, or if we issue preferred stock with voting rights that dilute the voting power of our common stock, the rights of the holders of our common stock or the market price of our common stock could be adversely affected. In addition, the ability of our board of directors to issue shares of preferred stock without any action on the part of our shareholders may impede a takeover of us and prevent a transaction perceived to be favorable to our shareholders.

The holders of our debt obligations and preferred stock, if any, will have priority over our common stock with respect to payment in the event of liquidation, dissolution or winding up and with respect to the payment of interest and dividends.

In any liquidation, dissolution or winding up of the Company, our common stock would rank below all claims of debt holders against us. As of December 31, 2019, we had outstanding $104.0 million of subordinated notes ($105.0 million aggregate principal balance less $951,000 unamortized discount) and $9.7 million of subordinated debt (which reflects a discount of $2.7 million to the aggregate principal balance of $12.4 million as a result of purchase accounting adjustments).

As a result, holders of our common stock will not be entitled to receive any payment or other distribution of assets upon the liquidation, dissolution or winding up of the Company until after all of our obligations to our debt holders have been satisfied and holders of subordinated debt and senior equity securities, including preferred shares, if any, have received any payment or distribution due to them. In addition, we are required to pay interest on our subordinated notes and dividends on our trust preferred securities and preferred stock before we pay any dividends on our common stock.

Our outstanding debt securities restrict our ability to pay dividends on our capital stock.

We acquired trust preferred securities through prior acquisitions. We have an aggregate of $12.4 million in trust preferred securities (collectively, the “Trust Preferred Securities”). Payments to investors in respect of the Trust Preferred Securities are funded by distributions on certain series of securities issued by us, with similar terms to the relevant series of Trust Preferred Securities, which we refer to as the “Junior Subordinated Notes.” If we are unable to pay interest in respect of the Junior Subordinated Notes (which will be used to make distributions on the Trust Preferred Securities), or if any other event of default occurs, then we will generally be prohibited from declaring or paying any dividends or other distributions, or redeeming, purchasing or acquiring, any of our capital securities, including our common stock, during the next succeeding interest payment period applicable to any of the Junior Subordinated Notes.

Moreover, any other financing agreements that we enter into in the future may limit our ability to pay cash dividends on our capital stock, including the common stock. In the event that any other financing agreements in the future restrict our ability to pay such dividends, we may be unable to pay dividends in cash on the common stock unless we can refinance amounts outstanding under those agreements.

Provisions in our charter documents and California law may have an anti-takeover effect, and there are substantial regulatory limitations on changes of control of bank holding companies.

Provisions of our charter documents and the California General Corporation Law (“CGCL”) could make it more difficult for a third party to acquire us, even if doing so would be perceived to be beneficial by our shareholders. Furthermore, with certain limited exceptions, federal regulations prohibit a person or company or a group of persons deemed to be “acting in concert” from, directly or indirectly, acquiring more than 10% (5% if the acquirer is a bank holding company) of any class of our voting stock or obtaining the ability to control in any manner the election of a majority of our directors or otherwise direct the management or policies of our company without prior notice or application to and the approval of the Federal Reserve. Accordingly, prospective investors need to be aware of and comply with these requirements, if applicable, in connection with any purchase of shares of our common stock. Moreover, the combination of these provisions effectively inhibits certain mergers or other business combinations, which, in turn, could adversely affect the market price of our common stock.

We are an "emerging growth company", and the reduced regulatory and reporting requirements applicable to emerging growth companies may make our common stock less attractive to investors.

We are an "emerging growth company", as described in the JOBS Act. For as long as we continue to be an emerging growth company, we may take advantage of reduced regulatory and reporting requirements that are otherwise generally applicable to public companies. These include, without limitation, not being required to comply with the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act, reduced financial reporting requirements, reduced disclosure obligations regarding executive compensation, and exemptions from the requirements of holding non-binding advisory votes on executive compensation and golden parachute payments. The JOBS Act also permits an "emerging growth company" such as us to take advantage of an extended transition period to comply with new or revised accounting standards applicable to public companies. However, we have irrevocably "opted out" of this provision, and we will comply with new or revised accounting standards to the same extent that compliance is required for non-emerging growth companies.

We may take advantage of these provisions for up to five years (which should be through December 2022), unless we earlier cease to be an emerging growth company, which would occur if our annual gross revenues exceed $1.0 billion, if we issue more than $1.0 billion in non-convertible debt in a three-year period, or if the market value of our common stock held by non-affiliates exceeds $700.0 million as of any June 30 before that time, in which case we would no longer be an emerging growth company as of the following December 31. Investors may find our common stock less attractive if we rely on the exemptions, which may result in a less active trading market and increased volatility in our stock price.

Item 1B. Unresolved Staff Comments.

Not Applicable

Item 2. Properties.

We are headquartered in Los Angeles County, California. We currently have ten branches in Los Angeles County located in downtown Los Angeles, San Gabriel, Torrance, Rowland Heights, Monterey Park, Silver Lake, Arcadia, Cerritos, Diamond Bar, and west Los Angeles. We have one branch in Irvine, Orange County, California. We operate two branches in Ventura County, California, in Westlake Village and in Oxnard. These branches are in the Los Angeles-Long Beach-Anaheim, California Metropolitan Statistical Area ("MSA").

With the acquisition of FAIC in October 2018, the Company added eight branches in the New York City metropolitan area: two branches in Manhattan, two branches in the Sunset Park area of Brooklyn, three branches in the Flushing area of Queens, and one in Elmhurst, Queens. These branches operate in the New York-Newark-Jersey City, NY-NJ-PA MSA. Our Eastern region loan center, located at 4401 8th Avenue, Brooklyn, New York, houses our Eastern region mortgage unit, FNMA servicing, commercial lending and credit administration areas.

We operate one branch in the Las Vegas-Paradise, Nevada MSA.

In January 2020, we acquired Pacific Global Bank and its three branches in Chicago, Illinois.

Our headquarters office is located at 1055 Wilshire Blvd. Suite 1200, Los Angeles, California 90017. The headquarters is in downtown Los Angeles and houses our risk management unit, including compliance and BSA groups, and our single-family residential mortgage group, SBA lending, commercial lending and credit administration.

Our administrative center is located at 123 East Valley Blvd., San Gabriel, California and houses our branch administration, human resources and administrative groups. Our operation center is located at 7025 Orangethorpe Avenue, Buena Park, California and houses the operations, IT and finance groups.

Except for our Monterey Park, CA branch, our Buena Park, CA operations center, our Eastern region loan center, and two branches in Chicago, all of our offices are leased. We believe that the leases to which we are subject are generally on terms consistent with prevailing market terms. None of the leases are with our directors, officers, beneficial owners of more than 5% of our voting securities or any affiliates of the foregoing.

Item 3. Legal Proceedings.

In the normal course of business, we are named or threatened to be named as a defendant in various lawsuits. Management, following consultation with legal counsel, does not expect the ultimate disposition of any or a combination of these matters to have a material adverse effect on our business. However, given the nature, scope and complexity of the extensive legal and regulatory landscape applicable to our business (including laws and regulations governing consumer protection, fair lending, fair labor, privacy, information security and anti-money laundering and anti-terrorism laws), we, like all banking organizations, are subject to heightened legal and regulatory compliance and litigation risk.

Where appropriate, we establish reserves in accordance with FASB guidance over loss contingencies (ASC 450). The outcome of litigation and other legal and regulatory matters is inherently uncertain, however, and it is possible that one or more of the legal or regulatory matters currently pending or threatened could have a material adverse effect on our liquidity, consolidated financial position, and/or results of operations. As of December 31, 2019, the Company does not have any litigation reserves.

Item 4. Mine Safety Disclosures.

Not Applicable.

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

Market Information

Our common stock began trading on the NASDAQ Global Select Market (NASDAQ) under the symbol “RBB” on July 27, 2017. Prior to that, there was no public market for our common stock.

Shareholders

As of March 13, 2020, the Company had 206 common stock shareholders of record, and the closing price of the Company’s common stock was $14.00 per share. The number of holders of record does not represent the actual number of beneficial owners of our common stock because securities dealers and others frequently hold shares in “street name” for the benefit of individual owners who have the right to vote shares.

Dividend Policy

It has been our policy to pay quarterly dividends to holders of our common stock, and we intend to generally maintain our current dividend levels. Our dividend policy and practice may change in the future, however, and our board of directors may change or eliminate the payment of future dividends at its discretion, without notice to our shareholders. Any future determination to pay dividends to holders of our common stock will depend on our results of operations, financial condition, capital requirements, banking regulations, contractual restrictions and any other factors that our board of directors may deem relevant.

Under the terms of our subordinated notes issued in March 2016 and November 2018, and the related subordinated note 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 subordinated notes. Additionally, under the terms of such notes, we are not permitted to declare or pay any dividends on our capital stock if we are not “well capitalized” for regulatory purposes immediately prior to the payment of such dividend. The terms of the debentures underlying our Trust Preferred Securities also prohibit us from paying dividends on our capital stock if we are in deferral of interest payments on those debentures.

As a bank holding company, our ability to pay dividends is affected by the policies and enforcement powers of the Federal Reserve. Information on regulatory restrictions on our ability to pay dividends is set forth in “Part I, Item I – Business – Supervision and Regulation – The Company – Dividend Payments”. In addition, because we are a holding company, we are dependent upon the payment of dividends by the Bank to us as our principal source of funds to pay dividends in the future, if any, and to make other payments. The Bank is also subject to various legal, regulatory and other restrictions on its ability to pay dividends and make other distributions and payments to us, as further discussed in “Part I, Item I – Business – Supervision and Regulation—The Bank—Dividend Payments”.

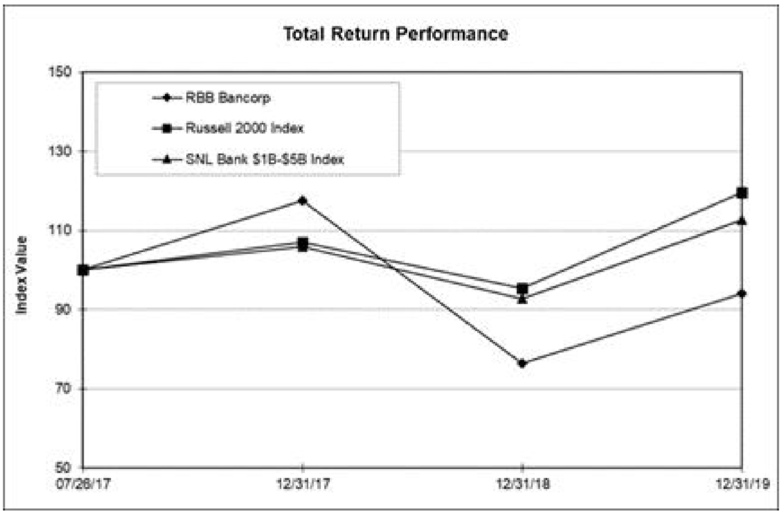
Equity Compensation Plan Information

The following table provides information as of December 31, 2019 with respect to options outstanding and available under our 2017 Stock Incentive Plan, which is our only equity compensation plan other than an employee benefit plan meeting the qualification requirements of Section 401(a) of the Internal Revenue Code:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options	Weighted-Average Exercise Price of Outstanding Options	Number of Securities Remaining Available for Future Issuance
Equity compensation plans approved by security holders	1,090,968	$ 13.11	1,254,045

Stock Performance Graph

The following graph compares the cumulative total shareholder return on the Company's common stock from July 27, 2017 (the date of the Company’s initial public offering and listing on NASDAQ) through December 31, 2019. The graph compares the Company's common stock with the Russell 2000 Index and the SNL Bank $1B-$5B Index. The graph assumes an investment of $100.00 in the Company's common stock and each index on July 27, 2017 and reinvestment of all quarterly dividends. Measurement points are July 27, 2017 and the last trading day of each year-end through December 31, 2019. There is no assurance that the Company's common stock performance will continue in the future with the same or similar results as shown in the graph.



Index	*Period Ending* 07/26/17	12/31/17	12/31/18	12/31/19
RBB Bancorp	100.00	117.60	76.45	94.02
Russell 2000 Index	100.00	107.12	95.32	119.65
SNL Bank $1B-$5B Index	100.00	105.83	92.72	112.72

Source: S&P Global Market Intelligence © 2020

The Company has made no repurchases of shares of its outstanding common stock during the fourth quarter of 2019.

Unregistered Sales and Issuer Purchases of Equity Securities

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 six months ended December 31, 2019, we repurchased shares of common stock, as set forth in the table below.

	Issuer Purchases of Equity Securities			
Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publically Announced Plan	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plan
July 1, 2019 -- July 31, 2019	5,000	$ 20.10	5,000	995,000
August 1, 2019 -- August 31, 2019	144,197	$ 18.57	149,197	850,803
September 1, 2019 -- September 30, 2019	20,588	$ 20.04	169,785	830,215
October 1, 2019 -- October 31, 2019	—	$ —	—	830,215
November 1, 2019 -- November 30, 2019	—	$ —	—	830,215
December 1, 2019 -- December 31, 2019	—	$ —	—	830,215
Total	169,785		323,982	5,166,663

Item 6. Selected Financial Data.

The following consolidated selected financial data is derived from the Company’s audited consolidated financial statements as of and for the five years ended December 31, 2019. This information should be read in connection with our audited consolidated financial statements, related notes and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” appearing elsewhere in this report.

	As of and for the Year Ended December 31,				
(Dollars in thousands, except per share data)	**2019**	**2018**	**2017**	**2016**	**2015**
Balance sheet data:					
Total assets	$ 2,788,535	$ 2,974,002	$ 1,691,059	$ 1,395,551	$ 1,023,084
Total loans, held for investment, net	2,196,934	2,142,015	1,249,074	1,110,446	792,362
Allowance for loan losses	(18,816)	(17,577)	(13,773)	(14,162)	(10,023)
Mortgage loans held for sale	108,194	434,522	125,847	44,345	41,496
Securities	134,401	83,723	74,966	45,491	27,094
Total deposits	2,248,938	2,144,041	1,337,281	1,152,763	853,417
Long-term debt	9,673	103,708	49,528	49,383	—
Subordinated debentures	104,049	9,506	3,424	3,334	—
Total shareholders' equity	407,690	374,621	265,176	181,585	163,645
Tangible common equity	343,027	308,637	233,798	149,852	159,178
Income statement data:					
Total interest income	$ 141,725	$ 102,115	$ 74,104	$ 68,189	$ 42,513
Total interest expense	44,861	23,645	13,938	11,707	6,936
Net interest income	96,864	78,470	60,166	56,482	35,577
Provision (recapture) for loan losses	2,390	4,469	(1,053)	4,974	1,386
Noninterest income	18,320	12,842	13,201	8,966	7,862
Noninterest expense	57,473	40,637	27,623	27,906	20,084
Income before income taxes	55,321	46,206	46,797	32,568	21,969
Income tax expense	16,112	10,101	21,269	13,489	8,996
Net income	39,209	36,105	25,528	19,079	12,973
Revenue (13)	160,045	114,957	87,305	77,155	50,375
Non-interest income / revenue	11.45%	11.17%	15.12%	11.62%	15.61%
Per share data (common stock):					
Earnings:					
Basic (1)	$ 1.96	$ 2.11	$ 1.81	$ 1.49	$ 1.02
Diluted (1)	1.92	2.01	1.68	1.39	0.96
Dividends declared	0.40	0.35	0.38	0.20	0.25
Book value (2)	20.35	18.73	16.67	14.16	12.81
Tangible book value (3)	17.12	15.43	14.70	11.68	12.46
Weighted average shares outstanding:					
Basic	20,017,306	17,151,222	14,078,281	12,800,990	12,761,832
Diluted	20,393,424	17,967,653	15,238,365	13,695,900	13,552,682
Shares outstanding at period end	20,030,866	20,000,022	15,908,893	12,827,803	12,770,571
Performance metrics					
Return on average assets	1.38%	1.78%	1.66%	1.41%	1.29%
Return on average shareholders' equity	9.95%	12.16%	11.67%	11.08%	8.23%
Return on average tangible common equity (3)	11.93%	13.66%	13.64%	13.14%	8.47%
Yield on average earning assets	5.31%	5.36%	5.13%	5.35%	4.44%
Cost of average interest-bearing liabilities	2.24%	1.69%	1.28%	1.15%	0.96%
Net interest spread	3.07%	3.67%	3.85%	4.20%	3.48%
Net interest margin (4)	3.63%	4.12%	4.16%	4.43%	3.72%
Efficiency ratio	49.9%	44.50%	37.65%	42.64%	48.73%
Common stock dividend payout ratio (5)	20.41%	16.44%	20.95%	19.61%	30.49%
Loan to deposit ratio	97.69%	120.17%	93.40%	96.33%	92.85%
Adjusted loan to deposit ratio (6)	97.69%	120.17%	108.80%	102.13%	98.65%
Core deposits / total deposits (7)	70.46%	77.92%	74.09%	67.83%	66.55%
Adjusted core deposits / total deposits (8)	86.47%	91.19%	75.16%	78.47%	76.15%
Net non-core funding dependence ratio (9)	21.04%	23.93%	18.11%	12.20%	6.08%
Adjusted net non-core funding dependence ratio (10)	9.00%	12.82%	9.13%	8.90%	7.60%

(Dollars in thousands, except per share data)	As of and for the Year Ended December 31, 2019	2018	2017	2016	2015
Credit quality Data:					
Loans 30-89 days past due	$ 5,277	$ 4,677	$ 3,636	$ 343	$ 271
Loans 30-89 days past due to total loans	0.24%	0.22%	0.29%	0.03%	0.03%
Nonperforming loans (11)	$ 13,218	$ 3,282	$ 2,575	$ 6,133	$ 6,112
Nonperforming loans to total loans (11)	0.60%	0.15%	0.21%	0.55%	0.77%
Nonperforming assets (12)	$ 13,511	$ 4,383	$ 2,868	$ 6,966	$ 6,405
Nonperforming assets to total assets (12)	0.48%	0.15%	0.16%	0.50%	0.63%
Allowance for loan losses to total loans	0.86%	0.82%	1.10%	1.28%	1.26%
Allowance for loan losses to nonperforming loans (11)	142.35%	535.55%	534.87%	230.91%	163.99%
Net (recoveries) charge-offs to average loans	0.05%	0.05%	-0.06%	0.08%	0.03%
Regulatory and other capital ratios—Company					
Tangible common equity to tangible assets (3)	12.59%	10.61%	14.09%	10.99%	15.63%
Tier 1 leverage ratio	12.89%	11.80%	14.35%	10.99%	15.28%
Tier 1 common capital to risk-weighted assets	17.16%	15.28%	17.54%	13.30%	20.23%
Tier 1 capital to risk-weighted assets	17.65%	15.74%	17.80%	13.55%	20.23%
Total capital to risk-weighted assets	23.82%	21.71%	22.55%	19.16%	21.48%
Regulatory capital ratios—Bank only					
Tier 1 leverage ratio	15.23%	13.66%	14.50%	12.81%	13.94%
Tier 1 common capital to risk-weighted assets	20.87%	18.17%	17.42%	15.81%	18.48%
Tier 1 capital to risk-weighted assets	20.87%	18.17%	17.42%	15.81%	18.48%
Total capital to risk-weighted assets	21.86%	19.07%	18.47%	17.06%	19.73%

(1) Earnings per share are calculated utilizing the two-class method. 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) For purposes of computing book value per common share, book value equals total common shareholders' equity.

(3) Tangible book value per share, 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.

(4) Net interest margin is presented on a fully taxable equivalent ("FTE") basis. Our management believes that measuring net interest margin, net of purchase accounting accretion, is useful when assessing our net interest margin as compared to the net interest margin of banks that do not reflect purchase accounting adjustments because they are not active acquirers of financial institutions. The effect of accretion income from acquired loans on our net interest margin was an increase of 0.11%, 0.12%, 0.37%, 0.59 %, and 0.11%, for the twelve-month periods ended December 31, 2019, 2018, 2017, 2016, and 2015, respectively. We anticipate that the impact of purchase accounting on our net interest margin will decrease as our previously acquired loans are paid off, charged off, foreclosed upon or sold, offset with new acquired loans.

(5) Common stock dividend payout ratio represents dividends per share divided by basic earnings per share. See "Dividend Policy." The common stock dividend payout ratio reflected for the years ended December 31, 2016 and 2015 represent the dividends declared and paid by the Company during 2016 and 2015 based on the Company's earnings for the 12 months ended December 31, 2015 and 2014, respectively.

(6) For the purposes of calculating the loan to deposit ratio, short-term loans with maturities of less than 90-days, specifically "Term Fed Funds" and purchased receivables are not included as loans as defined by the regulatory agencies.

(7) Unadjusted core deposits include non-maturity deposits (non-interest bearing demand deposits, savings deposits, NOW accounts, money market demand accounts) and certificates of deposit under $250,000.

(8) The Bank measures adjusted 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. Adjusted core deposits ratio is a ratio management uses to measure core deposits. See "Non-GAAP Financial Measures".

(9) Net non-core funding dependency ratio represents the degree to which the Bank is funding longer term assets with non-core funds. We calculate this ratio as non-core liabilities, less short term investments, divided by long term assets.

(10) Adjusted non-core funding dependency ratio is a ratio management uses to measure dependency on non-core deposits. To determine non-core liabilities we review each deposit relationship using the criteria for determining whether a relationship is core as described in footnote 8 above.

(11) Nonperforming loans include nonaccrual loans, loans past due 90 days or more and still accruing interest and loans modified under troubled debt restructurings. Nonperforming loans exclude PCI loans acquired in prior acquisitions.

Nonperforming loans include a SBA guaranteed loan at December 31, 2016 and 2015 as to which we received a $3.6 million payment in July 2017 pursuant to a SBA loan guaranty. SBA guaranteed loans at December 31, 2019 were $14.5 million.

(12) Nonperforming assets include nonperforming loans and other repossessed assets. As discussed in footnote 11, above, nonperforming loans exclude PCI loans. This ratio may therefore not be comparable to a similar ratio of our peers.

(13) Revenue consists of interest income plus non-interest income.

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

CRITICAL ACCOUNTING POLICIES

The discussion and analysis of the Company's audited consolidated financial statements are based upon its audited consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these audited 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 2019 audited financial statements included in Item 8. Financial Statements and Supplementary Data of this Annual Report on Form 10-K, specifically in "Note 2 – Summary of Significant Accounting Policies" which are essential to understanding Management's Discussion and Analysis of Financial Condition and Results of Operations.

OVERVIEW

For the year 2019, we reported net earnings of $39.2 million, compared with $36.1 million for the year 2018. This represented an increase of $3.1 million or 8.6% over the prior year. The increase in net earnings reflected a $18.4 million increase in net interest income, a $2.1 million decrease in the provision for credit losses, and a $5.5 million increase in non-interest income, which was partially offset by a $16.8 million increase in non-interest expenses and a $6.0 million increase in income tax expense.

At December 31, 2019, total assets were $2.8 billion, a decrease of $185.5 million, or 6.2%, from total assets of $3.0 billion at December 31, 2018. Interest-earning assets were $2.6 billion as of December 31, 2019, a decrease of $186.7 million, or 6.7%, compared to $2.8 billion at December 31, 2018. The decrease in interest-earning assets was primarily due to a decrease of $326.3 million in mortgage loans available for sale partially offset by net loan growth of $54.9 million.

At December 31, 2019, available for sale ("AFS") investment securities totaled $126.1 million inclusive of a pre-tax unrealized gain of $340,000, compared to $73.8 million inclusive of a pre-tax unrealized loss of $1.9 million at December 31, 2018. At December 31, 2019, held to maturity ("HTM") investment securities totaled $8.3 million, compared to $10.0 million as of December 31, 2018.

Net loans and leases (held for investment, net of deferred fees, discounts, and the allowance for loan losses) were $2.2 billion at December 31, 2019, compared to $2.1 billion at December 31, 2018. Net loans and leases increased $53.7 million, or 2.5%, from December 31, 2018. The increase in gross loans was primarily due to increases of approximately $76.0 million in SFR mortgage loans and $34.5 million in CRE loans, partially offset by decreases of $29.5 million in C&I loans, $17.2 million in construction loans, and $9.5 million in SBA loans.

Total deposits were $2.2 billion at December 31, 2019, an increase of $105.0 million, or 4.9%, compared to $2.1 billion at December 31, 2018. Excluding the maturity of wholesale and brokered deposits of $93.1 million, total deposits would have increased by $144.0 million or 6.7%.

Noninterest-bearing deposits were $458.9 million at December 31, 2019, an increase of $20.1 million, or 4.6%, from $438.8 million at December 31, 2018. At December 31, 2019, noninterest-bearing deposits were 20.4% of total deposits, compared to 20.5% at December 31, 2018.

Our average cost of total deposits was 1.56% for the year 2019, compared to 1.11% for 2018. The increase is due to an increase in average deposits of $666.5 million and a 54 basis point increase in the average rate paid. Borrowings, consisting of FHLB advances, long-term debt and subordinated debt, decreased $319.0 million to $113.7 million as of December 31, 2019 compared to $432.7 million as of December 31, 2018. The Company paid off all FHLB advances during 2019 and had no short-term FHLB borrowings at December 31, 2019, compared to $319.5 million at December 31, 2018. In November 2018, $55.0 million was raised in a subordinated debenture offering, and $7.6 million in trust preferred securities were acquired in connection with the FAIC acquisition.

The allowance for loan losses was $18.8 million at December 31, 2019, an increase of $1.2 million or 7.0%, from $17.6 million at December 31, 2018. During 2019, there was a $2.4 million provision for loan losses compared to $4.5 million for 2018. The ALLL to total loans and leases outstanding was 0.86% and 0.82% as of December 31, 2019 and December 31, 2018, respectively.

Shareholders' equity increased $32.9 million, or 8.8%, to $407.6 million as of December 31, 2019. The increase during 2019 was due to $39.2 million of net income and $2.7 million from the exercise of common stock options, less $8.0 million of common dividends paid and $3.2 million from the repurchase of common stock.

Our capital ratios under the Basel III capital framework regulatory standards remain well capitalized. As of December 31, 2019, the Company's Tier 1 leverage capital ratio was 12.89%, common equity Tier 1 ratio was 17.16%, Tier 1 risk-based capital ratio totaled 17.65%, and total risk-based capital ratio was 23.82%.

ANALYSIS OF THE RESULTS OF OPERATIONS

Financial Performance

	Years Ended December 31, 2019	Years Ended December 31, 2018	2019 vs. 2018 Variance $	2019 vs. 2018 Variance %	Year Ended December 31, 2017	2018 vs. 2017 Variance $	2018 vs. 2017 Variance %
	(Dollars in thousands, except per share amounts)						
Interest income	$ 141,725	$ 102,115	$ 39,610	38.8%	$ 74,104	$ 28,011	37.8%
Interest expense	44,861	23,645	21,216	89.7%	13,938	9,707	69.6%
Net interest income	96,864	78,470	18,394	23.4%	60,166	18,304	30.4%
Provision (recapture) for loan losses	2,390	4,469	(2,079)	-46.5%	(1,053)	5,522	-524.4%
Net interest income after provision (recapture) for credit losses	94,474	74,001	20,473	27.7%	61,219	12,782	20.9%
Noninterest income	18,320	12,842	5,478	42.7%	13,201	(359)	-2.7%
Noninterest expense	57,473	40,637	16,836	41.4%	27,623	13,014	47.1%
Income before income taxes	55,321	46,206	9,115	19.7%	46,797	(591)	-1.3%
Income tax expense	16,112	10,101	6,011	59.5%	21,269	11,168	52.5%
Net income	$ 39,209	$ 36,105	$ 3,104	8.6%	$ 25,528	$ 10,577	41.4%
Earnings per common share:							
Basic	$ 1.96	$ 2.11	$ (0.15)		$ 1.81	$ 0.30	
Diluted (1)	$ 1.92	$ 2.01	$ (0.09)		$ 1.68	$ 0.33	
Return on average assets	1.38%	1.78%	-0.40%		1.66%	0.12%	
Return on average shareholders' equity	9.95%	12.16%	-2.21%		11.67%	0.49%	
Efficiency ratio	49.90%	44.50%	5.40%		37.65%	6.85%	
Tangible common equity to tangible assets (2)	-0.93%	10.61%	-11.55%		14.09%	-3.48%	
Tangible book value per share (2)	$ 17.12	$ 15.43	$ 1.69		$ 14.70	$ 0.73	
Return on average tangible common equity (2)	11.93%	13.66%	-1.73%		13.64%	0.02%	

(1) Earnings per share are calculated utilizing the two-class method. 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) Tangible book value per share, 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.

Results of Operations—Comparison of Results of Operations for the Years Ended December 31, 2019 to December 31, 2018

Net Interest Income/Average Balance Sheet

In 2019, we generated fully-taxable equivalent net interest income of $96.9 million, an increase of $18.4 million, or 23.4%, from the net interest income produced in 2018. This increase was largely due to a 39.9% increase in the average balance of interest-earning assets, mainly due to the FAIC acquisition, partially offset by a 49 basis point decrease in the net interest margin. For the years ended December 31, 2019 and 2018 our reported net interest margin was 3.63% and 4.12%, respectively. Our net interest margin benefits from discount accretion on our purchased loan portfolios. The impact of accretion income on our net interest margin for the years ended December 31, 2019 and 2018 was to increase our reported net interest margin by 0.11%, and 0.13%, respectively.

Interest Income. Total interest income was $141.7 million in 2019 compared to $102.1 million in 2018. The $39.6 million, or 38.8%, increase in total interest income was mainly due to increases in average total loan balances of $689.2 million partially offset by a 3 basis point decrease in average loan yield. This increase was augmented by higher Federal funds, cash equivalent and other balances resulting in $1.6 million in additional interest income, and $300,000 from an $11.1 million increase in average investment securities, partially offset by a 2 basis point decrease in the average yield on investment securities during the year ended 2019.

Interest and fees on loans was $135.2 million in 2019 compared to $97.5 million in 2018. The $37.7 million, or 38.7%, increase in interest income on loans was primarily due to a 39.4% increase in the average balance of held for investment and held for sale loans outstanding partially offset by a 3 basis point decrease in the average yield on loans. The increase in the average balance of loans outstanding was primarily due to the FAIC acquisition in late 2018 plus organic growth in CRE and SFR mortgage loans during 2019. The yield on the loan portfolio benefited from accretion income associated with purchase accounting discounts established on loans acquired in the FAIC acquisition. For the years ended December 31, 2019 and 2018, the reported yield on total loans was 5.54% and 5.57%, respectively. The impact of accretion income on our yield on total loans for the years ended December 31, 2019 and 2018 was to increase our reported yield on total loans by 0.11% and 0.13%, respectively. A substantial portion of our acquired loan portfolio that is subject to discount accretion consists of CRE loans and SFR mortgages.

The table below illustrates by loan type the accretion income for December 31, 2019, 2018 and 2017:

	Years Ended December 31,		
(dollars in thousands)	**2019**	**2018**	**2017**
Beginning balance of discount on purchased loans	$ 9,228	$ 2,762	$ 8,085
Additions due to acquisitions:			
C&I	—	10	—
CRE	—	3,906	—
SFR mortgages	—	4,984	—
Total additions	$ —	$ 8,900	$ —
Accretion:			
C&I	15	119	234
SBA	18	120	23
C&D	—	—	43
CRE	2,893	2,116	4,983
SFR mortgages	1,234	79	40
Total accretion	$ 4,160	$ 2,434	$ 5,323
Ending balance of discount on purchased loans	$ 5,068	$ 9,228	$ 2,762

Interest income from our securities portfolio increased $300,000, or 12.6%, to $2.7 million in 2019. The increase in interest income on securities was primarily due to an increased average balance of $11.1 million, or 13.3%, partially offset by a 2 basis point decrease in the average yield of securities.

Interest income on our federal funds sold, cash equivalents and other investments increased $1.6 million, or 71.4%, to $3.9 million in 2019. The increase in interest income on these earning assets was primarily due to an increase in the average balance of $61.1 million partially offset by an 18 basis point decrease in average yield of cash equivalents. The increase in the average balance resulted from pending utilization of these funds to higher yielding loans and securities.

Interest Expense. Interest expense on interest-bearing liabilities increased $21.2 million, or 89.7%, to $44.9 million in 2019 due to increases in interest expense on both deposits and borrowings.

Interest expense on total deposits increased to $34.2 million in 2019. The $17.3 million, or 101.9%, increase in interest expense on total deposits was primarily due to the average balance of deposits increasing 43.6% in addition to a 45 basis point increase in the average rate paid. The increase in the average balance of deposits resulted primarily from the FAIC acquisition in late 2018, organic growth in 2019 and a $100.7 million increase in average brokered deposits.

Interest expense on borrowings increased from $6.7 million in 2018 to $10.6 million or 58.9% in 2019. This increase reflected increased interest expense on subordinated notes, subordinated debentures, and other borrowed funds consisting of FHLB short-term advances of less than 90-days. The increase in interest expense on long-term debt and subordinated notes of $3.6 million was due to the issuance of $55.0 million of subordinated notes in November 2018. The increase in interest expense on FHLB advances (other borrowed funds) of $324,000, from $2.6 million in 2018 to $2.9 million in 2019 was due to a 49 basis point increase in the average rate partially offset by a $10.6 million decrease in the average FHLB advances. These FHLB advances were utilized to fund SFR mortgage loans that were originated and held for sale during the year.

Average Balance Sheet, Interest and Yield/Rate Analysis

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 2019 and 2018 (and 35% for 2017). 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. See "Analysis of Financial Condition—*Capital Resources and Liquidity Management*" and Item 7A *Quantitative and Qualitative Disclosures about Market Risk* included herein.

The following tables present average balance sheet information, interest income, interest expense and the corresponding average yields earned and rates paid for the years 2019, 2018 and 2017. 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.

	Years Ended December 31,								
	2019			2018			2017		
(tax-equivalent basis, dollars in thousands)	**Average Balance**	**Interest & Fees**	**Yield / Rate**	**Average Balance**	**Interest & Fees**	**Yield / Rate**	**Average Balance**	**Interest & Fees**	**Yield / Rate**
Interest-earning assets:									
Federal funds sold, cash equivalents and other (1)	$ 135,133	$ 3,914	2.90%	$ 74,038	$ 2,284	3.08%	$ 152,674	$ 2,409	1.58%
Securities (2)									
Available for sale	85,775	2,354	2.74%	72,515	2,019	2.78%	46,035	1,170	2.54%
Held to maturity	8,978	334	3.72%	11,114	369	3.33%	6,104	264	4.33%
Mortgage loans held for sale	325,039	15,754	4.85%	292,328	13,307	4.55%	88,834	4,149	4.67%
Loans held for investment: (3)									
Real estate	1,767,923	97,024	5.49%	1,076,438	59,494	5.52%	775,809	45,268	5.82%
Commercial (4)	345,010	22,381	6.49%	380,042	24,679	6.49%	376,156	20,872	5.55%
Total loans held for investment	2,112,933	119,405	5.65%	1,456,480	84,173	5.78%	1,151,965	66,140	5.74%
Total earning assets	2,667,858	$ 141,761	5.31%	1,906,475	$ 102,152	5.36%	1,445,612	$ 74,132	5.13%
Noninterest-earning assets	167,324			117,936			95,906		
Total assets	$ 2,835,182			$ 2,024,411			$ 1,541,518		
Interest-bearing liabilities:									
NOW and money market deposits	$ 395,376	$ 4,689	1.19%	$ 401,070	$ 4,234	1.06%	$ 315,550	$ 2,220	0.70%
Savings deposits	97,670	197	0.20%	46,260	174	0.38%	34,939	162	0.46%
Time deposits	1,279,344	29,347	2.29%	769,462	12,548	1.63%	682,457	7,891	1.16%
Total interest-bearing deposits	1,772,390	34,233	1.93%	1,216,792	16,956	1.39%	1,032,946	10,273	0.99%
FHLB short-term advances	114,388	2,930	2.56%	124,990	2,606	2.07%	4,603	36	0.78%
Long-term debt	103,870	6,991	6.73%	54,486	3,714	6.82%	49,451	3,395	6.87%
Subordinated debentures	9,586	707	7.38%	4,968	369	7.43%	3,377	234	6.93%
Total interest-bearing liabilities	2,000,234	$ 44,861	2.24%	1,401,236	$ 23,645	1.69%	1,090,377	$ 13,938	1.28%
Noninterest-bearing liabilities									
Noninterest-bearing deposits	421,174			310,282			221,425		
Other noninterest-bearing liabilities	19,879			16,024			10,999		
Total noninterest-bearing liabilities	441,053			326,306			232,424		
Shareholders' equity	393,895			296,869			218,717		
Total liabilities and shareholders equity	$ 2,835,182			$ 2,024,411			$ 1,541,518		
Net interest income / interest rate spreads		$ 96,900	3.07%		$ 78,507	3.67%		$ 60,194	3.85%
Net interest margin			3.63%			4.12%			4.16%

(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 and loans held for sale. Interest income on loans includes amortization of deferred loan fees, net of deferred loan costs.

(4) Includes purchased receivables, which are short term loans made to investment grade companies and are used for cash management purposes by the Company.

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 tables show 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.

	Year Ended December 31, 2019 Compared with Year Ended December 31, 2018			Year Ended December 31, 2018 Compared with Year Ended December 31, 2017		
	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)	$ 1,772	$ (142)	$ 1,630	$ (2,426)	$ 2,301	$ (125)
Securities (2)						
Available for sale	363	(28)	335	737	112	849
Held to maturity	(79)	44	(35)	167	(63)	104
Mortgage loans held for sale	1,586	861	2,447	9,263	(105)	9,158
Loans held for investment: (3)						
Real estate	37,963	(433)	37,530	16,585	(2,359)	14,226
Commercial (4)	(2,274)	(24)	(2,298)	252	3,555	3,807
Total loans held for investment	35,689	(457)	35,232	16,837	1,196	18,033
Total earning assets	$ 39,331	$ 278	$ 39,609	$ 24,578	$ 3,441	$ 28,019
Noninterest-earning assets						
Total assets						
Interest-bearing liabilities:						
NOW and money market deposits	$ (68)	$ 523	$ 455	$ 903	$ 1,111	$ 2,014
Savings deposits	103	(80)	23	43	(31)	12
Time deposits	11,676	5,123	16,799	1,419	3,238	4,657
Total interest-bearing deposits	11,711	5,566	17,277	2,365	4,318	6,683
FHLB short-term advances	(271)	595	324	2,498	72	2,570
Long-term debt	3,324	(47)	3,277	343	(24)	319
Subordinated debentures	341	(3)	338	118	17	135
Total interest-bearing liabilities	15,105	6,111	21,216	5,324	4,383	9,707
Changes in net interest income	$ 24,226	$ (5,833)	$ 18,393	$ 19,254	$ (942)	$ 18,312

(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 and loans held for sale. Interest income on loans includes amortization of deferred loan fees, net of deferred loan costs.

(4) Includes purchased receivables, which are short term loans made to investment grade companies and are used for cash management purposes by the Company.

Provision for Credit Losses

The provision for credit loss expense in 2019 was $2.4 million compared to $4.5 million in 2018. The decrease in the 2019 provision expense was primarily attributable to a decrease in our concentration levels of commercial real estate and single-family residential mortgage loans. While non-performing loans increased during the year, they were individually analyzed without a net addition to the allowance for loan losses.

Noninterest Income

Noninterest income increased $5.5 million, or 42.7%, to $18.3 million in 2019 from $12.8 million in 2018. The following table sets forth the major components of noninterest income for the years ended December 31, 2019, 2018 and 2017:

	Years Ended December 31,			2019 vs. 2018 Increase (decrease)		2018 vs. 2017 Increase (decrease)	
(dollars in thousands)	**2019**	**2018**	**2017**	**$**	**%**	**$**	**%**
Noninterest income:							
Service charges, fees and other	$ 4,072	$ 2,679	$ 2,111	$ 1,393	52.0%	568	26.9%
Gain on sale of loans	9,893	7,126	9,318	2,767	38.8%	(2,192)	-23.5%
Loan servicing fee, net of amortization	3,383	850	722	2,533	298.0%	128	17.7%
Recoveries on loans acquired in business combinations	143	1,385	84	(1,242)	-89.7%	1,301	1548.8%
Unrealized gain on equity investments	147	—	—	147	100%	—	—
Increase in cash surrender of life insurance	775	797	824	(22)	-2.8%	(27)	-3.3%
Gain on sale of securities	7	5	—	2	40.0%	5	—
(Loss) gain on sale of OREO	(106)	—	142	(106)	-100%	(142)	-100.0%
(Loss) on sale of fixed assets	6	—	—	6	100%	—	—
Total noninterest income	$ 18,320	$ 12,842	$ 13,201	$ 5,478	42.7%	$ (359)	-2.7%

Service charges, fees and others. The increase in noninterest income from service charges, fees and other income was primarily from service charges on the additional transactional deposit accounts acquired in the FAIC acquisition.

Gain on sale of loans. The gain on sales of loans increased $2.8 million due primarily to the increase of $241.7 million in SFR mortgage loans sold offset by a $37.9 million decrease in SBA loans sold and a decrease in premiums paid on SFR mortgage loans sold in the first half of 2019. The lower premiums on mortgage loans is due to increased 10-year Treasury rates in the first half of 2019 and changes in market conditions. The amounts of loans sold and gains on loans sold during 2019, 2018 and 2017 are set forth below. The decrease in SBA loans sold in 2019 reflected lower SBA originations.

	Years Ended December 31,			2019 vs. 2018 Increase (Decrease)		2018 vs. 2017 Increase (Decrease)	
(dollars in thousands)	**2019**	**2018**	**2017**	**$**	**%**	**$**	**%**
Loans sold:							
SBA	$ 28,803	$ 66,700	$ 85,574	$ (37,897)	-56.8%	$ (18,874)	-22.1%
SFR Mortgage	472,477	230,771	171,378	241,706	104.7%	59,393	34.7%
CRE	10,422	—	—	10,422	100.0%	—	—
	$ 511,702	$ 297,471	$ 256,952	$ 214,231	72.0%	$ 40,519	15.8%
Gain on loans sold:							
SBA	$ 1,542	$ 2,847	$ 5,569	$ (1,305)	-45.8%	$ (2,722)	-48.9%
SFR Mortgage	8,199	4,279	3,749	3,920	91.6%	530	14.1%
CRE	152	—	—	152	100.0%	—	—
	$ 9,893	$ 7,126	$ 9,318	$ 2,767	38.8%	$ (2,192)	-23.5%

Loan servicing income, net of amortization. Servicing income increased due to an increase in the volume of mortgage loans we are servicing. SBA loan servicing income also increased due to a decline in SBA pre-payments.

				2019 vs. 2018 Increase (Decrease)		2018 vs. 2017 Increase (Decrease)	
For the year, dollars in thousands	**2019**	**2018**	**2017**	**$**	**%**	**$**	**%**
Loan servicing income, net of amortization:							
SFR loans serviced	$ 2,981	$ 966	$ 309	$ 2,015	208.6%	$ 657	212.6%
SBA loans serviced	402	(116)	413	518	446.6%	(529)	-128.1%
Total	$ 3,383	$ 850	$ 722	$ 2,533	298.0%	$ 128	17.7%
As of year-end, dollars in thousands							
SFR loans serviced	$ 1,683,298	$ 1,586,499	$ 384,537	$ 96,799	6.1%	$ 1,201,962	312.6%
SBA loans serviced	170,849	184,664	175,919	(13,815)	-7.5%	8,745	5.0%
Total	$ 1,854,147	$ 1,771,163	$ 560,456	$ 82,984	4.7%	$ 1,210,707	216.0%

Recoveries on loans acquired in business combinations. Recoveries on loans acquired in business combinations decreased by $1.2 million to $143,000 in 2019 compared to $1.4 million in 2018. The decrease in 2019 was due to a recovery on one VCBB loan purchased that occurred in 2018.

Unrealized gain on equity investments. The $147,000 represents the amount of unrealized gains in equity position the Company has with bankers' banks and as of a result of implementing ASU 2016-01.

Cash surrender value income of bank owned life insurance. Cash surrender value income of bank owned life insurance ("BOLI") decreased $22,000 due to slightly lower rates.

Gain on sales of securities, net. Gain on sales of securities, net was $7,000 in 2019. In 2019, the Company sold $6.1 million securities. In late 2018, the Company sold $44.6 million in securities mainly from the FAIC investment portfolio, which were sold immediately after the purchase of FAIC to limit any gains or losses.

Gain (loss) on Sale of OREO. A $106,000 loss on sale of OREO was recognized in 2019 from the sale of two OREO properties. There were no OREO sales during 2018.

Noninterest Expense

Noninterest expense increased $16.8 million, or 41.4%, to $57.5 million in 2019 from $40.6 million in 2018. The following table sets forth the major components of our noninterest expense for the years ended December 31, 2019, 2018 and 2017:

	Years Ended December 31,			2019 vs. 2018 Increase (decrease)		2018 vs. 2017 Increase (decrease)	
(dollars in thousands)	**2019**	**2018**	**2017**	**$**	**%**	**$**	**%**
Noninterest expense:							
Salaries and employee benefits	$ 32,909	$ 23,254	$ 16,821	$ 9,655	41.5%	$ 6,433	38.2%
Occupancy and equipment expenses	9,750	4,554	2,940	5,196	114.1%	1,614	54.9%
Data processing	3,699	2,323	1,622	1,376	59.2%	701	43.2%
Legal and professional	1,832	1,714	331	118	6.9%	1,383	417.8%
Office expenses	1,257	890	679	367	41.2%	211	31.1%
Marketing and business promotion	1,308	1,143	837	165	14.4%	306	36.6%
Insurance and regulatory assessments	900	951	799	(51)	-5.4%	152	19.0%
Amortization of intangibles	1,501	575	355	926	161.0%	220	62.0%
OREO expenses	337	24	28	313	1304.2%	(4)	-14.3%
Merger expenses	471	1,658	37	(1,187)	-71.6%	1,621	4381.1%
Other expenses	3,509	3,551	3,174	(42)	-1.2%	377	11.9%
Total noninterest expense	$ 57,473	$ 40,637	$ 27,623	$ 16,836	41.4%	$ 13,014	47.1%

Salaries and employee benefits. Salaries and employee benefits expense increased $9.7 million. The number of full-time equivalent employees averaged 355 in 2019, 256 in 2018 and 186 in 2017. This increase was primarily due to additional staff and expenses from the FAIC acquisition, plus annual salary increases and increased benefit costs of $994,000.

Occupancy and equipment. Occupancy and equipment expense increased $5.2 million in 2019 mainly due to the addition of the eight branches in the New York region including the depreciation, real estate taxes, utilities, ongoing maintenance and lease obligations associated with the branch and office facilities we added as a result. These expenses were higher as a result of the FAIC acquisition. During 2018, we recognized additional rent expense of $280,000 due to building out our new headquarters location. On October 15, 2018, we opened a new branch in Irvine, California. In 2019 we opened one new branch in Queens, New York and closed one branch and administration center in Manhattan, New York.

Data processing. Data processing expense increased $1.4 million in 2019. This increase was primarily due to upgrading our infrastructure and also reflected the impact of increased processing costs incurred subsequent to the 2018 FAIC acquisition of approximately $350,000. Effective June 2019, the Company renegotiated its data processing master agreement with the vendor, under which the Company is allowed to offset future monthly data processing expenses up to approximately $2.2 million through January 2026. Conversion expense associated with the FAIC acquisition is in the “other expenses” line item.

Legal and professional. Legal and professional expense increased $118,000 in 2019. This increase in 2019 is due to increased auditing and internal control testing fees as the Company grows. In 2018, our legal and professional fees increased substantially due to going public in 2017 and the increased accounting and control audits as well as the cost of the accounting work associated with the FAIC acquisition.

Office expenses. Office expenses comprised of communications, postage, armored car, and office supplies, increased by $367,000 in 2019. The increase was primarily due to the addition of the locations in the New York region for a full year and to normal business activity.

Marketing and business promotion. Marketing and business promotion expense increased $165,000, primarily due to our increase in CRA activities, including increased donations to qualifying non-profit organizations, plus beginning stages of promoting the Company's presence in the New York City metropolitan area following the FAIC acquisition.

Insurance and regulatory assessments. Insurance and regulatory assessments expense decreased by $51,000 to $900,000 in 2019 compared to $951,000 in 2018, following the FAIC acquisition in 2018. Our FDIC insurance assessment was $386,000 in 2019 and $561,000 in 2018, a decrease of $175,000. Our California DBO regulatory assessment increased by $17,000 from $131,000 for the year ended 2018 to $149,000 for year ended 2019. Our corporate insurance expenses (including directors and officers insurance and fidelity bond), was $360,000 for 2019 compared to $258,000 for 2018.

Amortization of intangibles. Amortization of intangibles totaled $1.5 million in 2019 as compared to $575,000 for 2018. The increase was due to the additional core deposit intangible asset of $6.7 million from the FAIC acquisition less continued amortization of the core deposit intangible asset associated with the acquisitions of FAIC and TomatoBank.

OREO expenses. OREO expenses were $337,000 in 2019 and $24,000 in 2018. The $313,000 increase was due to payments made for delinquent property taxes and construction costs incurred during the year ended 2019.

Merger expenses. Merger expenses were $471,000 in 2019 compared to $1.7 million in 2018, following the October 2018 FAIC acquisition. The 2019 expense includes $104,000 with respect to the PGB acquisition which closed in January 2020.

Other noninterest expenses. Other expenses decreased by $42,000 from 2018, primarily due to the off-balance sheet liability provision expense of $137,000 in 2019 compared to $406,000 in 2018. The off-balance sheet liabilities are comprised of loans, letters of credit and other commitments to lend. The provision for off-balance sheet liabilities is a function of the volume of undisbursed loans and other loan commitments multiplied by a risk factor. Other expense increases included a $204,000 increase in loan expenses and $249,000 decrease in director's fees and expenses.

Income Tax Expense

Income tax expense was $16.1 million in 2019 compared to $10.1 million in 2018, an increase of $6.0 million or 59.5%. The effective tax rate for 2019 was 29.2% and 21.8% for 2018. Income tax expense for 2019 included a $78,000 benefit for stock options exercised and $3.9 million benefit for 2018.

The Company estimates that its effective tax rate for 2020 will be in the range of 30% and 32%. The estimated annual effective tax rate will vary depending upon tax-advantaged income, stock option exercises, and available tax credits.

Net Income

Net income increased $3.1 million to $39.2 million in 2019, compared to $36.1 million in 2018. The increase is primarily due to an increase in net interest income of $18.4 million due to the growth in earning assets as a result of the FAIC acquisition in late 2018, organic loan growth, an increase in non-interest income of $5.5 million and a $2.1 million decrease in the credit loss provision partially offset by a $16.8 million increase in non-interest expense.

Results of Operations—Comparison of Results of Operations for the Years Ended December 31, 2018 to December 31, 2017

Net Interest Income/Average Balance Sheet

In 2018, we generated net interest income of $78.5 million, an increase of $18.3 million, or 30.4%, from the net interest income produced in 2017. This increase was largely due to a 31.9% increase in the average balance of interest-earning assets, plus a 23 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 growth in loans (both held for investment and held for sale) and securities during 2018. The increase in the average yield on interest-earning assets was primarily due to the increase in accretion income associated with purchase accounting discounts established on loans acquired in the FAIC acquisition. For the years ended December 31, 2018 and 2017 our reported net interest margin was 4.12% and 4.16%, respectively. Our net interest margin benefits from discount accretion on our purchased loan portfolios. The impact of accretion income on our net interest margin for the years ended December 31, 2018 and 2017 was to increase our reported net interest margin by 0.13%, and 0.37%, respectively.

Interest Income. Total interest income was $102.1 million in 2018 compared to $74.1 million in 2017. The $28.0 million, or 37.8%, increase in total interest income was mainly due to increases in average loan balances of $304.5 million, creating $16.8 million in interest income; average mortgage loans held for sale increase of $203.5 million, creating $9.3 million in interest income; and increases in rates creating $3.4 million. These increases were offset by lower Federal funds balances resulting in $2.4 million in interest income.

Interest and fees on loans was $97.5 million in 2018 compared to $70.3 million in 2017. The $27.2 million, or 38.7%, increase in interest income on loans was primarily due to a 40.9% increase in the average balance of held for investment and held for sale loans outstanding partially offset by a 9 basis point decrease in the average yield on loans. The increase in the average balance of loans outstanding was primarily due to the FAIC acquisition plus organic growth in C&I, and SFR mortgage loans during 2018. The yield on the loan portfolio benefited from accretion income associated with purchase accounting discounts established on loans acquired in the FAIC and TomatoBank acquisitions. For the years ended December 31, 2018 and 2017, the reported yield on total loans was 5.78% and 5.74%, respectively. The impact of accretion income on our yield on total loans for the years ended December 31, 2018 and 2017 was to increase our reported yield on total loans by 0.13% and 0.37%, respectively. A substantial portion of our acquired loan portfolio that is subject to discount accretion consists of CRE loans and SFR mortgages. The table on page 61 illustrates by loan type the accretion income for December 31, 2018, and 2017.

Interest income from our securities portfolio increased $945,000, or 67.2%, to $2.4 million in 2018. The increase in interest income on securities was primarily due to an increased average balance of $31.5 million, or 60.4%, and by an 11 basis point increase in the average yield on securities.

Interest income on our federal funds sold, cash equivalents and other investments decreased $125,000, or 5.1%, to $2.3 million in 2018. The decrease in interest income on these earning assets was primarily due to a decrease in the average balance of $78.6 million partially offset by a 151 basis point increase in average yield of cash equivalents. The decrease in the average balance reflected utilization of these funds to higher yielding loans and securities.

Interest Expense. Interest expense on interest-bearing liabilities increased $9.7 million, or 69.7%, to $23.6 million in 2018 due to increases in interest expense on both deposits and borrowings.

Interest expense on deposits increased to $17.0 million in 2018. The $6.7 million, or 65.1%, increase in interest expense on deposits was primarily due to the average balance of deposits increasing 21.7% in addition to a 29 basis point increase in the average rate paid. The increase in the average balance of deposits resulted primarily from the FAIC acquisition and organic growth.

Interest expense on borrowings increased from $3.7 million in 2017 to $6.7 million or 82.5% in 2018. This increase reflected increased interest expense on subordinated notes, subordinated debentures, and other borrowed funds consisting of FHLB short-term advances of less than 90-days. The increase in interest expense on long-term debt and subordinated notes of $454,000 was due to the issuance of $55.0 million of subordinated notes on November 29, 2018. The increase in interest expense on FHLB borrowings (other borrowed funds) of $2.6 million, from $36,000 in 2017 to $2.6 million in 2018 was due to a $120.4 million increase in average FHLB borrowings (other borrowed funds) plus a 130 basis point increase in the average rate. These funds were utilized to fund SFR mortgage loans that were originated and held for sale during the year.

Provision for Credit Losses

The provision for credit loss expense in 2018 was $4.5 million compared to a $1.1 million recapture of credit loss expense in 2018. The 2018 provision expense was primarily attributable to the growth in average loans during the year, both from the FAIC acquisition and organic loan growth. The 2017 recapture reflects both the receipt of a guaranteed payment on a SBA 7A guaranteed loan of $629,000 in May 2017 that was previously charged-off and the receipt of $3.6 million in July 2017 pursuant to a SBA loan guaranty that we previously fully reserved for in the ALLL.

Noninterest Income

Noninterest income decreased $359,000, or 2.7%, to $12.8 million in 2018 from $13.2 million in 2017. The table on page 65 sets forth the major components of noninterest income for the years ended December 31, 2018 and 2017.

Service charges, fees and others. The increase in noninterest income from service charges, fees and other income was primarily from service charges on the additional transactional deposit accounts acquired in the FAIC acquisition.

Gain on sale of loans. The gain on sales of loans decreased $2.2 million due primarily to a decreased amount of SBA loans sold, decreases in premiums on SBA loans and decreases in premiums on mortgage loans sold. The lower premiums on SBA loans sold is a result of higher pre-payments on SBA loans. The lower premiums on mortgage loans is due to increased 10-year Treasury rates in the third quarter of 2018 and changes in market conditions. The amounts of loans sold and gains on loans sold during 2018 and 2017 are set forth in the table on page 66. The decline in SBA loans sold in 2018 reflected lower SBA originations and lower premiums, causing us to defer selling some loans.

Loan servicing income, net of amortization. Servicing income increased due to an increase in the volume of loans we are servicing. SBA loan servicing income decreased due to the pre-payment of SBA loans sold. The increase in the respective servicing portfolios reflects the growth in SFR loans in 2018. The table on page 67 presents the servicing income and amount of loans serviced.

Recoveries on loans acquired in business combinations. Recoveries on loans acquired in business combinations increased by $1.3 million to $1.4 million in 2018 compared to $84,000 in 2017. The increase was from the recovery on one loan.

Cash surrender value income of bank owned life insurance. Cash surrender value income of bank owned life insurance ("BOLI") decreased $27,000 due to slightly lower rates. In 2017, the Company purchased $10.8 million in BOLI.

Gain on sales of securities, net. Gain on sales of securities, net was $5,000 during 2018. The Company sold $44.6 million in securities mainly from the FAIC investment portfolio, which were sold immediately after the purchase of FAIC to limit any gains or losses. During 2017, we sold no securities.

Gain on Sale of OREO. Gain on Sale of OREO was zero in 2018 and $142,000 in 2017. In 2017, the Company sold $540,000 in OREO property.

Noninterest Expense

Noninterest expense increased $13.0 million, or 47.1%, to $40.6 million in 2018 from $27.6 million in 2017. The table on page 67 sets forth the major components of our noninterest expense for the years ended December 31, 2018 and 2017.

Salaries and employee benefits. Salaries and employee benefits expense increased $6.4 million. The number of full-time equivalent employees averaged 256 during 2018 compared to 186 in 2017. This increase was primarily due to $1.4 million of additional expenses from the FAIC acquisition, plus annual salary increases and increased benefit costs of $5.0 million.

Occupancy and equipment. Occupancy and equipment expense increased $1.6 million. These expenses were $629,000 higher in 2018 as a result of the FAIC acquisition, including the depreciation, real estate taxes, utilities, ongoing maintenance and lease obligations associated with the branch and office facilities we added as a result. The acquisition of FAIC added eight branch locations and two administrative offices. During 2018, we recognized additional rent of $280,000 due to building out our new headquarters location. On October 15, 2018, we opened a new branch in Irvine, California.

Data processing. Data processing expense increased $701,000 in 2018. This increase was primarily due to upgrading our infrastructure and also reflected the impact of increased processing costs incurred subsequent to the 2018 FAIC acquisition of approximately $350,000. Conversion expense associated with the FAIC acquisition is in the "other expenses" line item.

Legal and professional. Legal and professional expense increased $1.4 million in 2018. This increase followed the increased legal and professional fees associated with the acquisition of FAIC, audit and consulting fees associated with upgrading our internal control testing, which were required once a bank exceeds $1 billion in assets, implementing Public Company Accounting Oversight Board standards, and commencing in 2017, the additional legal, audit and professional expenses resulting from the Company becoming a public company.

Office expenses. Office expenses are comprised of communications, postage, armored car, and office supplies and increased $211,000 in 2018, of which $64,000 resulted from the FAIC acquisition. The remaining increase in such expense was primarily due to normal business activity.

Marketing and business promotion. Marketing and business promotion expense increased $306,000, primarily due to our increase in CRA activities, including increased donations to qualifying non-profit organizations, plus beginning stages of promoting the Company's presence in the New York City metropolitan area following the FAIC acquisition.

Insurance and regulatory assessments. Insurance and regulatory assessments expense increased $152,000 in 2018 compared to 2017. The increase was due primarily to the FAIC acquisition. FAIC contributed $42,000 of such increase in 2018. Our FDIC insurance assessment was $561,000 for 2018 and $461,000 in 2017, an increase of $100,000. Our DBO regulatory assessment was $131,000 for 2018 and $126,000 for 2017, an increase of $5,000. Our corporate insurance expenses (including directors and officers insurance and fidelity bond), was $258,000 for 2018 compared to $210,000 for 2017.

Amortization of intangibles. Amortization of intangibles totaled $575,000 in 2018 as compared to $355,000 for 2017. The increase was due to the additional core deposit intangible asset of $6.7 million from the FAIC acquisition plus continued amortization of the core deposit intangible asset associated with the acquisitions of FAIC and TomatoBank.

OREO expenses. OREO expenses were $24,000 in 2018 and $28,000 in 2017.

Merger expenses. Merger expenses were $1.7 million in 2018 compared to $37,000 in 2017, due to the FAIC acquisition.

Other noninterest expenses. Other expenses increased $728,000 from 2017, primarily due to the off-balance sheet liability provision expense of $406,000 in 2018 compared to a recapture of $322,000 in 2017. The off-balance sheet liabilities are comprised of loans, letters of credit and other commitments to lend. The provision for off-balance sheet liabilities is a function of the volume of undisbursed loans and other loan commitments multiplied by a risk factor.

Income Tax Expense

Income tax expense was $10.1 million in 2018 compared to $21.3 million in 2017, a decrease of $11.2 million or 52.5%. The effective tax rate for the twelve months ended December 31, 2018 was 21.9% and 45.4% for the twelve months ended December 31, 2017. Income tax expense for 2018 included the $3.9 million benefit for stock options exercised.

On December 22, 2017, "H.R.1", formerly known as the "Tax Cuts and Jobs Act", was signed into law. Among other items, H.R.1 reduces the federal corporate tax rate to 21% effective January 1, 2018. As a result, the Company concluded that the reduction in the federal corporate tax rate required the revaluation of the Company's net deferred tax assets. The Company's net deferred tax assets represents net operating loss carryforwards that will be used to reduce corporate taxes expected to be paid in the future as well as differences between the carrying amounts and tax bases of assets and liabilities carried on the Company's balance sheet. The Company performed an analysis and determined that the value of the deferred tax assets had declined by $2.6 million. To reflect the decline in the value of the deferred tax assets, the Company recorded additional tax expense of $2.6 million during the fourth quarter of 2017.

Net Income

Net income increased $10.6 million to $36.1 million in 2018, compared to $25.5 million in 2017. The increase is primarily due to an increase in net interest income of $18.3 million due to the growth in earning assets as a result of the FAIC acquisition, organic loan growth, and the $11.2 million decrease in income tax expense, partially offset by a $5.5 million increase in the credit loss provision, a $359,000 decrease in non-interest income and a $13.0 million increase in noninterest expense.

ANALYSIS OF FINANCIAL CONDITION

Assets

Total assets were $2.8 billion as of December 31, 2019 and $3.0 billion as of December 31, 2018. We increased our loans held for investment by $54.9 million, primarily due to normal loan growth. Organic loan growth increased mainly in CRE loans and SFR mortgages, partially offset by decreases in C&I, SBA and CRE loans. The decrease in SBA loans is primarily due to the Company selling more SBA loans than it was originating. Our mortgage loans held for sale decreased by $326.3 million in 2019. The increase in assets was funded by an increase in deposits of $105.0 million, and a $32.9 million increase in equity (primarily resulting from $39.2 million in net income, and $2.8 million in stock options exercised, less $3.2 million in repurchase of common stock and $3.2 million in dividends paid).

Investment Securities. We manage our securities portfolio and cash to maintain adequate liquidity and to ensure the safety and preservation of invested principal, with a secondary focus on yield and returns. Specific goals of our investment portfolio are as follows:

- provide a ready source of balance sheet liquidity, ensuring adequate availability of funds to meet fluctuations in loan demand, deposit balances and other changes in balance sheet volumes and composition;
- serve as a means for diversification of our assets with respect to credit quality, maturity and other attributes; and
- serve as a tool for modifying our interest rate risk profile pursuant to our established policies.

Our investment portfolio is comprised primarily of U.S. government agency securities, corporate note securities, mortgage-backed securities backed by government-sponsored entities and taxable and tax exempt municipal securities.

Our investment policy is reviewed annually by our board of directors. Overall investment goals are established by our board, CEO, CFO and members of our Asset Liability Committee (“ALCO”) of our board of directors. Our board of directors has delegated the responsibility of monitoring our investment activities to our ALCO. Day-to-day activities pertaining to the securities portfolio are conducted under the supervision of our CEO and CFO. We actively monitor our investments on an ongoing basis to identify any material changes in the securities. We also review our securities for potential other-than-temporary impairment at least quarterly.

The following table sets forth the book value and percentage of each category of securities at December 31, 2019, 2018 and 2017. The book value for securities classified as available for sale is equal to fair market value and the book value for securities classified as held to maturity is equal to amortized cost.

	December 31, 2019		December 31, 2018		December 31, 2017	
(dollars in thousands)	**Amount**	**% of Total**	**Amount**	**% of Total**	**Amount**	**% of Total**
Securities, available for sale, at fair value						
U.S. government agency securities	$ 1,572	1.2%	$ 1,815	2.2%	$ 1,999	2.7%
SBA agency securities	4,691	3.5%	5,169	6.2%	5,817	7.8%
Mortgage-backed securities						
Government sponsored agencies	19,171	14.3%	22,541	26.9%	26,212	35.0%
Collateralized mortgage obligations	11,654	8.7%	12,066	14.4%	13,003	17.3%
Commercial paper	69,899	52.0%	14,918	17.8%	14,918	19.9%
Corporate debt securities (1)	19,082	14.1%	17,253	20.6%	3,008	4.0%
Total securities, available for sale, at fair value	$ 126,069	93.8%	$ 73,762	88.1%	$ 64,957	86.7%
Securities, held to maturity, at amortized cost						
Taxable municipal securities	$ 3,505	2.6%	$ 4,290	5.1%	$ 4,295	5.7%
Tax-exempt municipal securities	4,827	3.6%	5,671	6.8%	5,714	7.6%
Total securities, held to maturity, at amortized cost	8,332	6.2%	9,961	11.9%	10,009	13.3%
Total securities	$ 134,401	100.0%	$ 83,723	100.0%	$ 74,966	100.0%

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

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

(dollars in thousands) December 31, 2019	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available for sale				
U.S government agency securities	$ 1,591	$ —	$ (19)	$ 1,572
SBA securities	4,671	42	(22)	4,691
Mortgage-backed securities				
Government sponsored agencies	19,126	74	(29)	19,171
Collateralized mortgage obligations	11,641	38	(25)	11,654
Commercial paper	69,899	—	—	69,899
Corporate debt securities	18,801	281	—	19,082
	$ 125,729	$ 435	$ (95)	$ 126,069
Held to maturity				
Municipal taxable securities	3,505	$ 147	$ —	$ 3,652
Municipal securities	4,827	153	—	4,980
	$ 8,332	$ 300	$ —	$ 8,632.00
December 31, 2018				
Available for sale				
U.S. government agency securities	$ 1,873	$ —	$ (58)	$ 1,815
Mortgage-backed securities	5,354	—	(185)	5,169
Government sponsored agencies				
Collateralized mortgage obligations	23,125	—	(584)	22,541
SBA securities	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 yield on the total investment portfolio at December 31, 2019 was 2.31% with a weighted-average life of 3.0 years. This compares to a weighted-average yield of 2.84% at December 31, 2018 with a weighted-average life of 5.2 years. 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.

Approximately 18.9% of the securities in the total investment portfolio, at December 31, 2019, are issued by the U.S. government or U.S. government-sponsored agencies and enterprises, which have the implied guarantee of payment of principal and interest. As of December 31, 2019, no U.S. government agency bonds are callable.

The table below shows the Company's investment securities' amortized cost and fair value by maturity in the following maturity groupings as of December 31, 2019.

	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
December 31, 2019										
Government agency securities	$ —	$ —	$ 1,591	$ 1,572	$ —	$ —	$ —	$ —	$ 1,591	$ 1,572
SBA securities	—	—	714	725	3,957	3,966	—	—	4,671	4,691
Mortgage-backed securities										
Government sponsored agencies	3,663	3,679	13,027	13,059	2,436	2,433	—	—	19,126	19,171
Collateralized mortgage obligations	—	—	9,288	9,265	2,353	2,389	—	—	11,641	11,654
Corporate debt securities	70,914	70,919	2,002	2,008	11,772	12,024	4,012	4,030	88,700	88,981
Total available for sale	$ 74,577	$ 74,598	$ 26,622	$ 26,629	$ 20,518	$ 20,812	$ 4,012	$ 4,030	$ 125,729	$ 126,069
Municipal taxable securities	$ 285	$ 289	$ 2,716	$ 2,784	$ 504	$ 579	$ —	$ —	$ 3,505	$ 3,652
Municipal securities	—	—	40	40	366	379	4,421	4,561	4,827	4,980
Total held to maturity	$ 285	$ 289	$ 2,756	$ 2,824	$ 870	$ 958	$ 4,421	$ 4,561	$ 8,332	$ 8,632

The tables below show the Company's investment securities' gross unrealized losses and fair value by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 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 interest rates have fluctuated. However, we have the ability and the intention to hold these securities until their fair values recover to cost or maturity. As such, management does not deem these securities to be other-than-temporarily-impaired A summary of our analysis of these securities and the unrealized losses is described more fully in Note 4 — *Investment Securities* in the notes to the 2019 consolidated financial statements included in the Form 10-K. 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
December 31, 2019									
Government agency securities	$ (19)	$ 1,572	2	$ —	$ —	—	$ (19)	$ 1,572	2
SBA securities	(22)	1,469	2	—	—	—	(22)	1,469	2
Mortgage-backed securities									
Government sponsored agencies	(5)	2,631	4	(24)	3,912	6	(29)	6,543	10
Collateralized mortgage obligations	(10)	5,738	3	(15)	953	2	(25)	6,691	5
Corporate debt securities	—	—		—	—	—	—	—	—
Total available for sale	$ (56)	$ 11,410	11	$ (39)	$ 4,865	8	$ (95)	$ 16,275	19
Municipal securities	$ —	$ —	—	$ —	$ —	—	$ —	$ —	—
Total held to maturity	$ —	$ —	—	$ —	$ —	—	$ —	$ —	—
December 31, 2018									
Government agency securities	$ —	$ —	—	$ (58)	$ 1,815	2	$ (58)	$ 1,815	2
SBA securities	—	—	—	(185)	5,169	4	(185)	5,169	4
Mortgage-backed securities									
Government sponsored agencies	(11)	3,484	2	(573)	23,928	25	(584)	27,412	27
Collateralized mortgage obligations	—	—	—	(631)	12,065	8	(631)	12,065	8
Corporate debt securities	(61)	4,600	4	(488)	6,548	4	(549)	11,148	8
Total available for sale	$ (72)	$ 8,084	6	$ (1,935)	$ 49,525	43	$ (2,007)	$ 57,609	49
Municipal securities	$ (104)	$ 2,468	6	$ (61)	$ 2,174	4	$ (165)	$ 4,642	10
Total held to maturity	$ (104)	$ 2,468	6	$ (61)	$ 2,174	4	$ (165)	$ 4,642	10

The Company did not record any charges for other-than-temporary impairment losses for the twelve months ended December 31, 2019 and 2018.

The Company has no individual investment security amounting to 10% or more of shareholders' equity.

Following the FAIC merger in 2018, the Company sold $30.2 million in investment securities to rebalance the portfolio for asset/liability management purposes.

Loans

The loan portfolio is the largest category of our earning assets. At December 31, 2019, total loans, net of ALLL, totaled $2.2 billion.

The following table presents the balance and associated percentage of each major category in our loan portfolio at December 31 for the past five years:

	As of December 31,									
	2019		2018		2017		2016		2015	
(dollars in thousands)	**$**	**Mix %**	**$**	**Mix %**	**$**	**Mix %**	**$**	**Mix %**	**$**	**Mix %**
Loans:										
Commercial and industrial	$ 274,586	12.5	$ 304,084	14.2	$ 280,766	22.5	$ 203,843	18.4	$ 160,479	20.3
SBA	74,985	3.4	84,500	3.9	131,421	10.5	158,968	14.3	108,761	13.7
Construction and land development	96,020	4.4	113,235	5.3	91,908	7.4	89,409	8.1	67,593	8.5
Commercial real estate (1)	793,268	36.1	758,721	35.4	496,039	39.7	501,798	45.1	343,434	43.3
Mortgage loans held for investment	957,254	43.6	881,249	41.1	248,940	19.9	156,428	14.1	112,095	14.1
Other loans	821	—	226	0.1	—	—	—	—	—	—
Total loans (2)	2,196,934	100.0	2,142,015	100.0	1,249,074	100.0	1,110,446	100.0	792,362	100.0
Allowance for loan losses	(18,816)		(17,577)		(13,773)		(14,162)		(10,023)	
Total loans, net	$ 2,178,118		$ 2,124,438		$ 1,235,301		$ 1,096,284		$ 782,339	

(1) Includes non-farm and non-residential real estate loans, multifamily residential and 1-4 family SFR loans originated for a business purpose
(2) Net of discounts and deferred fees and costs

Net loans held for investment increased $54.9 million, or 2.56%, to $2.2 billion at December 31, 2019 as compared to $2.1 billion at December 31, 2018. The increase in net loans primarily resulted from organic growth of $76.0 million in SFR mortgages and $34.5 million in CRE loans, which were partially offset by decreases in commercial and industrial loans of $29.5 million, construction and land development loans of $17.2 million and SBA loans of $9.5 million.

C&I loans. We provide a mix of variable and fixed rate C&I 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. C&I loans include lines of credit with a maturity of one year or less, C&I 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 C&I loans are collateralized by business assets or by real estate.

We originate commercial and industrial lines of credit, term loans, mortgage warehouse lines and international trade discounts which totaled $274.6 million as of December 31, 2019 and $304.1 million at December 31, 2018. The interest rate on these loans are generally Wall Street Journal Prime or Prime rate based.

We purchase shared national credits for the purpose of deploying our excess capital. These loans consist of large syndicated loans to companies with stable credit ratings. We limit these type of loans to 10% of our total loans. These loans are floating rate loans based on LIBOR. The shared national credit portfolio totaled $53.8 million as of December 31, 2019 and $84.7 million as of December 31, 2018.

In prior years, we have originated purchase receivables as a cash management tool. These loans are to large companies with investment grade bond and commercial paper ratings and the purchased receivables are managed through our investment policy. We limit purchased receivables to 45% of our securities portfolio and 45% of our Tier 1 capital. We had no purchased receivables at December 31, 2019 and December 31, 2018.

We also purchase subordinated debentures in our securities portfolio. We decide whether to treat the debenture as a loan or a security based on the liquidity of the asset. We determine liquidity by the size of the offering and by whether the security can be held in electronic form. We purchase subordinated debentures of other community banks in limited amounts not to exceed $1.0 million by individual issuer and not more than $10.0 million in total. Most of these loans have a fixed rate for five years then float to LIBOR. The total community bank subordinated debenture portfolio amounted to $4.5 million at December 31, 2019 and $3.5 million at December 31, 2018, which are classified as loans as of December 31, 2019 and 2018. We started this program after we started issuing our long-term debt in March 2016 in order to offset a portion of the interest rate risk on the long-term debt that we issued.

Our trade finance unit supplies financial needs to many of our core customers including trade financing needs for many of our commercial and industrial loan customers. The unit provides international letters of credit, SWIFT, export advice, trade finance discounts and foreign exchange. Our trade finance area has a correspondent relationship with many of the largest banks in China, Taiwan, Vietnam, Hong Kong and Singapore. All of our international letters of credit, SWIFT, export advice and trade finance discounts are denominated in U.S. currency, and all foreign exchange is issued through a major bank that is also denominated in U.S. currency. As a result, we and our clients are not subject to foreign currency fluctuations, and, therefore, we do not have a need to engage in transactions designed to hedge against foreign currency fluctuations and risk.

C&I loans decreased $29.5 million, or 9.7%, to $274.6 million as of December 31, 2019 compared to $304.1 million at December 31, 2018. This decrease resulted primarily from a decrease in shared national credits of $30.7 million, a decrease in mortgage warehouse lines, and a decrease in purchased receivables.

CRE loans. CRE loans include owner-occupied and non-occupied commercial real estate, multi-family residential and SFR 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 loans originated for a business purpose which may have a maturity of one year. At December 31, 2019, approximately 21.72% of the CRE portfolio consisted of fixed-rate loans. Our policy maximum loan-to-value, or LTV is 75% for CRE loans. The total CRE portfolio totaled $793.3 million at December 31, 2019 and $758.7 million as of December 31, 2018, of which $177.3 million and $178.2 million, respectively, are secured by owner occupied properties. The multi-family residential loan portfolio totaled $235.8 million as of December 31, 2019 and $215.1 million as of December 31, 2018. The SFR loan portfolio originated for a business purpose totaled $19.2 million as of December 31, 2019 and $35.7 million as of December 31, 2018.

C&D loans. Our construction and land development loans are comprised of residential construction, commercial construction and land acquisition and development construction. Interest reserves are generally established on real estate construction loans. These loans are typically Prime based and have maturities of less than 18 months. Our loan-to-value policy limits are 75% for construction and land development loans. C&D loans decreased $17.2 million or 15.2%, to $96.0 million at December 31, 2019 as compared to $113.2 million at December 31, 2018. This decrease was primarily due to loan repayments exceeding loan originations. As of December 31, 2019 and 2018, our real estate construction loan portfolio was divided among the foregoing categories as shown in the table below.

	As of December 31, 2019		As of December 31, 2018		Increase (Decrease)	
(dollars in thousands)	**$**	**Mix %**	**$**	**Mix %**	**$**	**%**
Residential construction	$ 60,749	63.3	$ 73,152	64.6	$ (12,403)	-17.0
Commercial construction	29,871	31.1	34,209	30.2	(4,338)	-12.7
Land development	5,400	5.6	5,874	5.2	(474)	-8.1
Total C&D loans	$ 96,020	100.0	$ 113,235	100.0	$ (17,215)	-15.2

SBA 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.

We originate SBA loans through our branch staff, loan officers and through SBA brokers. For 2019, $10.7 million or 38.5% of SBA loan originations were produced by branch staff and loan officers. The remaining $17.1 million was referred to us through SBA brokers.

As of December 31, 2019 our SBA portfolio totaled $75.0 million of which $14.5 million is guaranteed by the SBA and $60.5 million is unguaranteed, of which $57.6 million is secured by real estate and $2.9 million is unsecured or secured by business assets. We monitor the unguaranteed portfolio by type of real estate collateral. As of December 31, 2018, $29.2 million or 48.3% is secured by hotel/motels; $8.9 million or 14.7% by gas stations; and $22.4 million or 37.0% in other real estate types. We further analyze the unguaranteed portfolio by location. As of December 31, 2019, $22.8 million or 37.6% is located in California; $4.9 million or 8.0% is located in Nevada; $6.6 million or 10.9% is located in Texas; $9.6 million or 15.8% is located in Washington; $3.2 million or 5.2% is located in New York; and $13.5 million or 22.5% is located in other states.

SBA loans decreased $9.5 million, or 11.3%, to $75.0 million at December 31, 2019 compared to $84.5 million at December 31, 2018. This decrease was primarily due to loan sales of $28.8 million, offset by $14.8 million in originations in 2019. In 2017, we began selling SBA loans quarterly, whereas previously, we primarily sold SBA loans annually in November of each year.

SFR real estate loans. We originate mainly non-qualified, alternative documentation SFR mortgage loans through correspondent relationships or through our branch network or retail channel. The loan product is a five- or seven-year hybrid adjustable mortgage which re-prices between five or seven years to the one-year CMT plus 2.50%. The start rate for the five-year hybrid in the Eastern region is 5.50%-5.875% plus 0%-1% in points. In the Western region we offer a seven-year hybrid and the start rate is 5.50%. As of December 31, 2019, the average loan-to-value of the portfolio was 57.3%, the average FICO score was 760 and the average duration of the portfolio was approximately 4.0 years. We also offer qualified SFR mortgage loans as a correspondent to a national financial institution.

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 relationships with us. During 2019, we originated $250.8 million of such loans through our retail channel, and $109.9 million through our wholesale and correspondent channel. We sell many of these non-qualified SFR mortgage loans to other Asian-American banks, FNMA and private investors. Our loan sales to date have been primarily to three banks and to FNMA, we are expanding our network of banks who will purchase our SFR loan product.

Except for SFR loans sold to FNMA (which are discussed below), the loans are sold with no representation or warranties and with a replacement feature for the first 90-days if the loan pays off early. As a condition of the sale, the buyer must have the loans audited for underwriting and compliance standards.

During 2019, we originated $360.7 million of SFR mortgage loans and sold $281.4 million to other banks in our market. SFR real estate loans include home equity loans acquired both in the LANB and FAIC acquisitions. As of December 31, 2019, we had a total of $6.9 million of home equity loans. Total SFR mortgages increased $76.0 million, or 8.6%, to $957.3 million as of December 31, 2019 as compared to $881.2 million at December 31, 2018.

In addition, our SFR mortgage lending unit originates mortgage warehouse lines to our correspondents. These loans are managed in our commercial and industrial lending unit and totaled $46.7 million as of December 31, 2019 and $19.7 million as of December 31, 2018.

In our Eastern region, we originate 15-year and 30-year conforming mortgages, which are sold directly to FNMA within 7 days of funding.

SFR real estate loans held for investment, which include $6.9 million of home equity loans, increased $68.7 million, or 7.7%, to $957.3 million as of December 31, 2019 as compared to $881.2 million as of December 31, 2018. In addition, loans held for sale decreased $326.3 million or 75.1% to $108.2 million as of December 31, 2019 compared to $434.5 million December 31, 2018. During 2020, management plans to maintain a portfolio of mortgage loans held for sale in a range of $120-150 million. The portfolio of loans held for sale will fluctuate month-to-month as the portfolio increases and is sold.

The loan maturities in the table below are based on contractual maturities as of December 31, 2019. As is customary in the banking industry, loans that meet underwriting criteria can be renewed by mutual agreement between us and the borrower. Because we are unable to estimate the extent to which our borrowers will renew their loans, the table is based on contractual maturities. As a result, the data shown below should not be viewed as an indication of future cash flows.

(dollars in thousands)	Within One Year	One to Three Years	Three to Five Years	Over Five Years	Total
Construction & Land Development					
Fixed Rate	$ —	$ —	$ —	$ —	$ —
Floating Rate	90,531	5,489	—	—	96,020
Commercial & Industrial					
Fixed Rate	15,586	958	1,988	1,199	19,731
Floating Rate	154,676	29,584	50,183	20,412	254,855
Commercial Real Estate					
Fixed Rate	5,752	82,167	78,678	5,701	172,298
Floating Rate	63,735	104,378	71,486	381,371	620,970
SBA					
Fixed Rate	3	—	—	1,313	1,316
Floating Rate	2	122	91	73,454	73,669
SFR Mortgage					
Fixed Rate	459	—	4,434	945,215	950,108
Floating Rate	(178)	—	496	6,828	7,146
Other					
Fixed Rate	75	144	602	—	821
Floating Rate	—	—	—	—	—
Total Loans	$ 330,641	$ 222,842	$ 207,958	$ 1,435,493	$ 2,196,934
Fixed Rate	$ 21,875	$ 83,269	$ 85,702	$ 953,428	$ 1,144,274
Floating Rate	308,766	139,573	122,256	482,065	1,052,660
Total Loans	$ 330,641	$ 222,842	$ 207,958	$ 1,435,493	$ 2,196,934
Allowance for loan losses					(18,816)
Net Loans					$ 2,178,118
Mortgage loans held for sale					$ 108,194

Mortgage loans are 5/1 or 7/1 hybrids and will float after the initial fixed rate period.

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 ALLL, our purchase discounts on acquired loans provide additional protections against credit losses.

Discounts on Purchased Loans. At acquisition we hire a third-party to determine the fair value of loans acquired. In many of the cases 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 Accounting Standards Codification (ASC) 310-20.

None of the loans we acquired after 2011 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.

With our acquisitions of FAB and VCBB, we acquired $16.7 million contractual amount due with a fair value of $9.7 million of PCI loans. There were no outstanding balance and carrying amount of PCI loans as of December 31, 2019 and December 31, 2018, respectively. For these PCI loans, the Company did not record an ALLL for 2019 or 2018 as there were no significant reductions in the expected cash flows.

Analysis of the ALLL. The following table allocates the ALLL, or the allowance, by category:

	As of December 31,									
	2019		2018		2017		2016		2015	
(dollars in thousands)	$	% (1)	$	% (1)	$	% (1)	$	% (1)	$	% (1)
Loans:										
C&I	$ 2,736	1.00	$ 3,112	1.02	$ 3,014	1.07	$ 2,581	1.27	$ 2,483	1.55
SBA	852	1.14	1,027	1.22	1,030	0.78	3,345	2.10	1,616	1.49
C&D	1,268	1.32	1,500	1.32	1,214	1.32	1,206	1.35	835	1.24
CRE (2)	7,668	0.97	6,449	0.85	4,925	0.99	5,952	1.19	3,672	1.07
SFR mortgages	6,182	0.65	5,489	0.62	3,170	1.27	1,078	0.69	1,417	1.26
Other	9	1.10	—	—	—	—	—	—	—	—
Unallocated	101	—	—	—	420	—	—	—	—	—
Allowance for loan losses	$ 18,816	0.86	$ 17,577	0.82	$ 13,773	1.10	$ 14,162	1.28	$ 10,023	1.26

(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 SFR loans originated for a business purpose.

The allowance and the balance of accretable credit discounts represent our estimate of probable and reasonably estimable credit losses inherent in loans held for investment as of the respective balance sheet date. The accretable credit discount was $5.1 million at December 31, 2019 and $9.2 million at December 31, 2018.

Allowance for loan losses. Our methodology for assessing the appropriateness of the ALLL 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 C&I, SBA, CRE, C&D 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 December 31, 2019 and December 31, 2018. We have recorded additional reserves of $1.3 million due to the credit discounts on the bank acquisitions being less than the analysis for loan losses on those acquisitions as of December 31, 2019.

	As of December 31,	
(dollars in thousands)	**2019**	**2018**
C&I	$ 37	$ 105
SBA	42	50
CRE	1,657	3,369
SFR mortgages	3,573	4,536
Total credit discount on purchased loans	$ 5,309	$ 8,060
Total remaining balance of purchased loans through acquisition	$ 579,329	$ 758,853
Credit-discount to remaining balance of purchased loans	0.92%	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 to average loans were 0.05% and 0.05% for the twelve months ended December 31, 2019 and 2018, respectively.

The ALLL was $18.8 million at December 31, 2019 compared to $17.6 million at December 31, 2018. The $1.2 million increase in 2019 was primarily due to loan growth and a $9.9 million increase in non-performing loans, partially offset by lower qualitative factors as we have decreased our concentration in CRE and SFR mortgage loans.

We analyze the loan portfolio, including delinquencies, concentrations, and risk characteristics, at least quarterly in order to assess the overall level of the allowance and nonaccretable discounts. We also rely on internal and external loan review procedures to further assess individual loans and loan pools, and economic data for overall industry and geographic trends.

In determining the allowance and the related provision for credit losses, we consider three principal elements: (i) valuation allowances based upon probable losses identified during the review of impaired C&I, CRE, C&D loans, (ii) allocations, by loan classes, on loan portfolios based on historical loan loss experience and qualitative factors and (iii) review of the credit discounts in relationship to the valuation allowance calculated for purchased loans. Provisions for credit losses are charged to operations to record changes to the total allowance to a level deemed appropriate by us.

The following table provides an analysis of the ALLL, provision for credit losses and net charge-offs for the years 2015 to 2019:

	Years Ended December 31,				
(dollars in thousands)	2019	2018	2017	2016	2015
Balance, beginning of period	$ 17,577	$ 13,773	$ 14,162	$ 10,023	$ 8,848
Charge-offs:					
C&I	—	—	—	—	—
SBA	(1,093)	—	(83)	(835)	(422)
C&D	—	—	—	—	—
CRE	(166)	(701)	—	—	—
Total charge-offs	(1,259)	(701)	(83)	(835)	(422)
Recoveries:					
C&I	—	36	—	—	—
SBA	108	—	747	—	11
CRE	—	—	—	—	200
Total recoveries	108	36	747	—	211
Net (charge-offs)/recoveries	(1,151)	(665)	664	(835)	(211)
Provision for (recapture of) loan losses	2,390	4,469	(1,053)	4,974	1,386
Balance, end of period	$ 18,816	$ 17,577	$ 13,773	$ 14,162	$ 10,023
Total loans at end of period (1)	$ 2,196,934	$ 2,142,015	$ 1,249,074	$ 1,110,446	$ 792,362
Average loans(2)	2,112,933	1,456,480	1,151,965	1,080,448	755,636
Net charge-offs (recoveries) to average loans	0.05%	0.05%	-0.06%	0.08%	0.03%
Allowance for loan losses to total loans	0.86%	0.82%	1.10%	1.28%	1.26%
Credit-discount on loans purchased through acquisition	$ 5,309	$ 8,060	$ 1,689	$ 5,124	$ 877

(1) Total loans are net of discounts and deferred fees and costs.
(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, and loans modified under troubled debt restructurings. Nonperforming loans exclude PCI loans. The balances of nonperforming loans reflect the net investment in these assets.

	As of December 31,				
(dollars in thousands)	**2019**	**2018**	**2017**	**2016**	**2015**
Troubled debt restructured loans:					
C&I	$ —	$ —	$ —	$ —	$ 80
SBA	45	58	—	—	185
C&D	264	276	289	303	315
CRE	1,472	2,033	2,131	2,253	1,168
SFR mortgages	—	—	—	—	—
Total troubled debt restructured loans	1,781	2,367	2,420	2,556	1,748
Non-accrual loans:					
C&I	—	—	—	—	—
SBA	9,378	914	155	3,577	4,365
C&D	—	—	—	—	—
CRE	725	—	—	—	—
SFR mortgages	1,334	—	—	—	—
Total non-accrual loans	11,437	914	155	3,577	4,365
Loans past due 90 days or more, still accruing:	—	—	—	—	—
Total non-performing loans	13,218	3,281	2,575	6,133	6,113
OREO	293	1,101	293	833	293
Nonperforming assets	$ 13,511	$ 4,382	$ 2,868	$ 6,966	$ 6,406
Nonperforming loans to total loans	0.60%	0.15%	0.21%	0.55%	0.77%
Nonperforming assets to total assets	0.48%	0.15%	0.17%	0.50%	0.63%

The $9.9 million increase in nonperforming loans at December 31, 2019 was primarily due to the addition of three SFR mortgage loans for $1.3 million, two CRE loan for $1.2 million and six SBA loans for $9.4 million, partially offset by the maturity of a $1.0 million commercial real estate TDR loan and a $1.0 million SBA loan transferred to OREO and sold.

Our 30-89 day delinquent loans decreased to $4.4 million as of December 31, 2019, compared to $4.7 million at December 31, 2018.

We did not recognize any interest income on nonaccrual loans during the years ended December 31, 2019 and December 31, 2018 while the loans were in nonaccrual status. We recognized interest income on loans modified under troubled debt restructurings of $128,000 and $260,000 during the years ended December 31, 2019 and December 31, 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 $34.1 million, or 23.1%, to $181.8 million as of December 31, 2019 as compared to $147.7 million at December 31, 2018.

Goodwill and Other Intangible Assets. Goodwill was $58.6 and $58.4 million at December 31, 2019 and 2018, respectively. Goodwill represents the excess of the consideration paid over the fair value of the net assets acquired. The $180,000 increase in 2019 was due to a loan fair value adjustment. Our other intangible assets, which consist of core deposit intangibles, were $6.1 million and $7.6 million at December 31, 2019 and December 31, 2018. These core deposit intangible assets are amortized primarily on an accelerated basis over their estimated useful lives, generally over a period of 3 to 10 years.

On October 15, 2018, we completed the FAIC acquisition. FAIC, and its subsidiary FAIB provided commercial and retail banking services primarily to Asian-Americans through eight branches in the metro New York City area.

We acquired FAIC for $34.8 million in cash and $69.6 million in RBB common stock. The identifiable assets acquired of $850.3 million and liabilities assumed of $774.0 million were recorded at fair value. The identifiable assets acquired included the establishment of a $6.7 million core deposit intangible, which is being amortized on an accelerated basis over 10 years. Based upon the acquisition date fair values of the net assets acquired, we recorded $28.4 million of goodwill in our consolidated balance sheet.

Liabilities. Total liabilities decreased $218.4 million to $2.4 billion, or 8.4%, at December 31, 2019 from $2.6 billion at December 31, 2018, primarily due to a $46.7 million decrease in brokered deposits and a $319.5 million decrease in FHLB advances, partially offset by a $126.7 million increase other time deposits.

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 December 31, 2019, the Bank considers $1.9 billion or 85.5% of our deposits as core relationships. As of December 31, 2019, our top ten deposit relationships totaled $322.9 million, of which two are related to directors and shareholders of the Company for a total of $75.3 million or 23.3% of our top ten deposit relationships. As of

December 31, 2019, our directors and shareholders with deposits over $250,000 totaled $123.9 million or 8.2% of all relationships over $250,000.

The following table summarizes our average deposit balances and weighted average rates at December 31, 2019, 2018 and 2017:

	Year Ended					
	December 31, 2019		December 31, 2018		December 31, 2017	
(dollars in thousands)	Average Balance	Weighted Average Rate (%)	Average Balance	Weighted Average Rate (%)	Average Balance	Weighted Average Rate (%)
Noninterest-bearing demand	$ 421,174	—	$ 310,282	—	$ 221,425	—
Interest-bearing:						
NOW	24,925	0.27	24,591	0.32	19,619	0.23
Savings	97,670	0.20	46,260	0.38	34,939	0.46
Money market	370,451	1.19	376,479	1.10	295,932	0.73
Time, less than $250,000	712,534	2.25	369,416	1.59	312,975	1.16
Time, $250,000 and over	566,810	2.35	400,046	1.67	369,482	1.16
Total interest-bearing	1,772,390	1.93	1,216,792	1.39	1,032,947	0.99
Total deposits	$ 2,193,564	1.56	$ 1,527,074	1.11	$ 1,254,372	0.82

The following table sets forth the maturity of non-core time deposits as of December 31, 2019:

	Maturity Within:				
(dollars in thousands)	Three Months	After Three to Six Months	After Six to 12 Months	After 12 Months	Total
Time, $250,000 and over	$ 152,822	$ 193,020	$ 253,072	$ 6,717	$ 605,631
Wholesale deposits [1]	4,595	4,740	5,226	2,357	16,918
Time, brokered	33,948	30,741	—	2,400	67,089
Total	$ 191,365	$ 228,501	$ 258,298	$ 11,474	$ 689,638

(1) Wholesale deposits are defined as time deposits under $250,000 originated through via internet rate line and/or through other deposit originators, and are considered non-core deposits.

We acquired 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 December 31, 2019 was $93.2 million or 4.1% of total deposits. The balances of such deposits as of December 31, 2018 were $132.2 million.

Total deposits increased $105.0 million to $2.2 billion at December 31, 2019 as compared to $2.1 billion at December 31, 2018, as a result of organic growth. As of December 31, 2019, total deposits were comprised of 20.4% noninterest-bearing demand accounts, 23.9% interest-bearing non-maturity deposit accounts and 55.7% of time deposits.

As of December 31, 2019, $141,000 in deposit overdrafts were reclassified as other loans. As of December 31, 2018, the amount was $366,000.

Short-Term Borrowings. Short-term borrowings, such as federal funds purchased and FHLB advances, are used as a source of funds to meet the daily liquidity needs of our customers and fund growth in earning assets, in addition to deposits. The weighted average interest rate on our short-term borrowings was 2.56% and 2.07% for the years ended December 31, 2019 and December 31, 2018, respectively. The following table sets forth information on our short-term FHLB advances during the periods presented:

	Years Ended December 31, September 30,		
(dollars in thousands)	**2019**	**2018**	**2017**
Outstanding at period-end	$ —	$ 319,500	$ 25,000
Average amount outstanding	$ —	$ 124,990	$ 4,603
Maximum amount outstanding at any month-end	$ 364,500	$ 319,500	$ 25,000
Weighted average interest rate:			
During period	2.56%	2.07%	0.78%
End of period	0.00%	2.56%	0.51%

Long-Term Debt. Long-term debt consists of subordinated notes. As of December 31, 2019 the amount of subordinated notes outstanding was $104.0 million as compared to $103.7 million at December 31, 2018.

In March and April 2016, we issued an aggregate of $50.0 million of subordinated notes for aggregate proceeds of $49.4 million. The subordinated notes have a maturity date of April 1, 2026 at a fixed rate of 6.5% for the first five years and a floating rate based on the three-month London Interbank Offered Rate (LIBOR) plus 516 basis points thereafter. 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.

In November 2018, the Company issued $55.0 million in fixed-to-floating rate subordinated notes due December 1, 2028. The Notes bear a fixed rate of 6.18% for the first five years and will reset quarterly thereafter to the then-current three-month LIBOR rate plus 315 basis points. The Notes were assigned an investment grade rating of BBB by the Kroll Bond Rating Agency, Inc. 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.

The Company used the net proceeds from both subordinated debt offerings for general corporate purposes, including providing capital to the Bank and maintaining adequate liquidity at Bancorp. The subordinated notes qualified as Tier 2 capital for Bancorp for regulatory purposes and the portion that Bancorp contributed to the Bank qualified as Tier 1 capital for the Bank.

In connection with the November 2018 issuance of subordinated notes, Bancorp entered into a registration rights agreement with the purchasers of such notes pursuant to which the Company agreed to take certain actions to provide for the exchange of the notes for subordinated notes that are registered under the Securities Act and that have substantially the same terms as the privately issued notes. The exchange of notes was completed on March 22, 2019.

Subordinated Debentures. In 2016, Bancorp acquired $5.2 million of subordinated debentures as part of the TFC acquisition (TFC Trust) and recorded them at fair value of $3.3 million. The fair value adjustment is being accreted over the remaining life of the securities. These debentures mature on March 15, 2037 and have a variable rate of interest equal to the three-month LIBOR plus 1.65%.

In October 2018, the Company, through the acquisition of FAIC, acquired the FAIC Trust. The FAIC Trust issued thirty-year fixed to floating rate capital securities with an aggregate liquidation amount of $7,000,000 to an independent investor, and all of its common securities, amounting to $217,000, financed by the issuance of $7.2 million of debentures. 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 December 31, 2019 was 4.14%.

As of December 31, 2019 and December 31, 2018, we had $9.7 million and $9.5 million, respectively, of subordinated debentures from both the TFC and FAIC acquisitions

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 preferred 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 $33.1 million, or 8.8%, to $407.7 million during 2019 due to $39.2 million of net income, $2.8 million of additional paid in capital from the exercise of stock options and $1.6 million increase in other comprehensive income, partially offset by $8.0 million of cash dividends declared during the year and $3.2 from the repurchase of shares of the Company's common stock. The increase in accumulated other comprehensive income primarily resulted from increases in unrealized gains on available for sale securities.

In July 2017, we completed our initial public offering of 3,750,000 shares at a price to the public of $23.00 per share and a total gross proceeds of $86,250,000. Bancorp sold 2,857,756 shares and selling shareholders sold 892,244 shares of Bancorp's common stock. The offering resulted in gross proceeds to Bancorp of approximately $65.7 million. The increase to capital net of expenses was approximately $60.2 million.

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-earning 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 December 31, 2019 and December 31, 2018, we had $49.0 million of unsecured federal funds lines, with no amounts advanced against the lines as of such dates. In addition, lines of credit from the Federal Reserve Discount Window at December 31, 2019 and December 31, 2018 were $14.3 million and $14.0 million, respectively. Federal Reserve Discount Window lines were collateralized by a pool of CRE loans totaling $28.7 million and $25.8 million as of December 31, 2019 and December 31, 2018, respectively. We did not have any borrowings outstanding with the Federal Reserve at December 31, 2019 and December 31, 2018 and our borrowing capacity is limited only by eligible collateral.

At December 31, 2019 there were no FHLB advances outstanding and $319.5 at December 31, 2018. Based on the values of loans pledged as collateral, we had $636.5 million and $119.9 million of additional borrowing capacity with the FHLB as of December 31, 2019 and December 31, 2018, respectively. We also maintain relationships in the capital markets with brokers and dealers to issue certificates of deposit.

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

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 December 31, 2018 and December 31, 2017. Bancorp is exempt from minimum risk-based and leverage capital requirements so long as its assets do not exceed $3 billion. The Bank exceeded all regulatory capital requirements under Basel III and was considered to be "well-capitalized" as of the dates reflected in the table below:

	Ratio at December 31, 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	12.89%	11.80%	N/A	N/A	N/A
Bank	15.23%	13.66%	4.00%	4.00%	5.00%
Common Equity Tier 1 Risk-Based Capital Ratio (1)					
Consolidated	17.16%	15.28%	N/A	N/A	N/A
Bank	20.87%	18.17%	4.50%	7.00%	6.50%
Tier 1 Risk-Based Capital Ratio					
Consolidated	17.65%	15.74%	N/A	N/A	N/A
Bank	20.87%	18.17%	6.00%	8.50%	8.00%
Total Risk-Based Capital Ratio					
Consolidated	23.82%	21.71%	N/A	N/A	N/A
Bank	21.86%	19.07%	8.00%	10.50%	10.00%

(1) The common equity tier 1 risk-based ratio, or CET1, is a ratio created by the Basel III regulations beginning January 1, 2015.

Contractual Obligations

The following table contains supplemental information regarding our total contractual obligations at December 31, 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	$ 1,252,685	$ —	$ —	$ —	$ 1,252,685
Time deposits	1,215,913	34,863	1,909	—	1,252,685
Long-term debt	—	—	—	102,301	102,301
Subordinated debentures	—	—	—	12,372	12,372
Leases	5,603	8,826	5,459	8,998	28,886
Total contractual obligations	$ 2,474,201	$ 43,689	$ 7,368	$ 123,671	$ 2,648,929

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 the financial statements.

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

Non-GAAP Financial Measures

Some of the financial measures included in this Annual Report on Form 10-K 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)	**December 31, 2019**	**December 31, 2018**
Tangible common equity:		
Total shareholders' equity	$ 407,690	$ 374,621
Adjustments		
Goodwill	(58,563)	(58,383)
Core deposit intangible	(6,100)	(7,601)
Tangible common equity	$ 343,027	$ 308,637
Tangible assets:		
Total assets-GAAP	$ 2,788,535	$ 2,974,002
Adjustments		
Goodwill	(58,563)	(58,383)
Core deposit intangible	(6,100)	(7,601)
Tangible assets:	$ 2,723,872	$ 2,908,018
Common shares outstanding	20,030,866	20,000,022
Tangible common equity to tangible assets ratio	12.59%	10.61%
Tangible book value per share	$ 17.12	$ 15.43

Regulatory Reporting to Financial Statements

Some of the financial measures included in this Annual Report on Form 10-K differ from those reported on the FRB Y-9C report. These financial measures include "core deposits to total deposits" and "net non-core funding dependency ratio". Our management uses these financial measures in its analysis of our performance.

Core Deposits to Total Deposits Ratio. 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. The following table reconciles the adjusted core deposit to total deposits.

	As of	
(dollars in thousands)	**December 31, 2019**	**December 31, 2018**
Adjusted core deposit to total deposit ratio:		
Core deposits (1)	$ 1,651,678	$ 1,670,572
Adjustments to core deposits:		
CDs > $250,000 considered core deposits (2)	446,968	468,773
Less brokered deposits considered non-core	(67,089)	(113,832)
Less internet deposits < $250,000 considered non-core (3)	(26,025)	(18,286)
Less other deposits not considered core (4)	(60,719)	(52,002)
Adjusted core deposits	1,944,813	1,955,225
Total deposits	$ 2,249,061	$ 2,144,041
Adjusted core deposits to total deposits ratio	86.47%	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 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" on the prior page 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. The following table reconciles the adjusted net non-core dependency ratio.

	As of	
(dollars in thousands)	**December 31, 2019**	**December 31, 2018**
Non-core deposits (1)	$ 597,382	$ 473,469
Adjustment to Non-core deposits		
CDs > $250,000 considered core deposits (2)	(446,968)	(468,773)
Brokered deposits	67,089	113,832
Internet deposits considered non-core (3)	26,025	18,286
Other deposits not considered core	60,719	52,002
Adjusted non-core deposits	304,247	188,816
Short term borrowings outstanding	—	319,500
Adjusted non-core liabilities (A)	304,247	508,316
Short term assets (4)	71,303	148,285
Adjustment to short term assets:		
Purchased receivables with maturities less than 90-days	—	—
Adjusted short term assets (B)	71,303	148,285
Net non-core funding (A-B)	$ 232,944	$ 360,031
Total earning assets	$ 2,587,093	$ 2,808,803
Adjusted net non-core funding dependency ratio	9.00%	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) Short term assets include cash equivalents and investment with maturities less than one year

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

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

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

Our asset liability committee ("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.

Income Simulation and Economic Value Analysis. 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 (NII at Risk), and Economic Value of Equity (EVE). Under NII at Risk, net interest income is modeled utilizing various assumptions for assets, liabilities, and derivatives. EVE measures the period end market value of assets minus the market value of liabilities and the change in this value as rates change. EVE is a period end measurement.

	Net Interest Income Sensitivity Immediate Change in Rates			
(dollars in thousands)	**-200**	**-100**	**+100**	**+200**
December 31, 2019:				
Dollar change	4,224	5,034	$ 5,568	$ 11,629
Percent change	4.69%	5.59%	6.18%	12.91%
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 December 31, 2019, projects that our earnings are expected to be neutral 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 neutral to slightly asset sensitive.

	Economic Value of Equity Sensitivity (Shock) Immediate Change in Rates			
(dollars in thousands)	**-200**	**-100**	**+100**	**+200**
December 31, 2019:				
Dollar change	$ (73,739)	$ (45,290)	$ 298	$ 485
Percent change	-17.48%	-10.74%	0.07%	0.11%
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 −200, −100, +100 and +200 basis point parallel shifts in market interest rates.

We are within board policy limits for the +100, +200 and -200 basis point scenarios, and slightly over board policy limits in the −100 basis point scenario. The EVE reported at December 31, 2019 projects that as interest rates increase immediately, the EVE position will be expected to stay nearly flat, and if interest rates were to decrease immediately, the EVE position will be expected to decrease. 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. Management has developed a plan to bring the percent change in EVE into compliance with board policy within the next twelve months.

Price Risk. 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 the available for sale SFR mortgage loans and fixed-rate available for sale securities.

Basis Risk. 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 the SFR mortgage loan portfolio, the multifamily loan portfolio and our securities portfolio.

Item 8. Financial Statements and Supplementary Data.

CONTENTS

EideBailly

CPAs & BUSINESS ADVISORS

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
RBB Bancorp and Subsidiaries
Los Angeles, California

Opinion on the Financial Statements and Internal Control Over Financial Reporting

We have audited the accompanying consolidated balance sheet of RBB Bancorp and Subsidiaries (the Company) as of December 31, 2019, and the related consolidated statements of income, comprehensive income, change in shareholders' equity, and cash flows for the year then ended, and the related notes (collectively referred to as the "consolidated financial statements").

We also have audited the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in 2013 Internal Control —Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in 2013 Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Basis for Opinion

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

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

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

Definition and Limitations of Internal Control Over Financial Reporting

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

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

Eide Bailly LLP

We have served as the Company’s auditor since 2019.

Laguna Hills, California
March 16, 2020

VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

VALUE THE difference

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
RBB Bancorp and Subsidiaries
Los Angeles, California

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of RBB Bancorp and Subsidiaries as of December 31, 2018 and the related consolidated statements of income and comprehensive income, changes in shareholders' equity, and cash flows, for the each of the years in the two year period ended December 31, 2018, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of RBB Bancorp and Subsidiaries as of December 31, 2018, and the results of its operations and its cash flows for each of the years in the two year period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the entity's management. Our responsibility is to express an opinion on these financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to RBB Bancorp and Subsidiaries in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risk of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Vavrinek, Trine, Day + Co., LLP

We have served as the Company's auditor since 2008.

Rancho Cucamonga, California
March 27, 2019

RBB BANCORP AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31,
(In thousands, except for share amounts)

	2019	2018
Assets		
Cash and due from banks	$ 114,763	$ 147,685
Federal funds sold and other cash equivalents	67,000	—
Cash and cash equivalents	181,763	147,685
Interest-earning deposits in other financial institutions	600	600
Securities:		
Available for sale	126,069	73,762
Held to maturity (fair value of $8,632 and $9,940 at December 31, 2019 and December 31, 2018, respectively)	8,332	9,961
Mortgage loans held for sale	108,194	434,522
Loans held for investment:		
Real estate	1,852,206	1,762,864
Commercial and other	349,391	387,474
Total loans	2,201,597	2,150,338
Unaccreted discount on acquired loans	(5,067)	(9,229)
Deferred loan costs (fees), net	404	906
Total loans, net of deferred loan fees	2,196,934	2,142,015
Allowance for loan losses	(18,816)	(17,577)
Net loans	2,178,118	2,124,438
Premises and equipment	16,813	17,307
Federal Home Loan Bank (FHLB) stock	15,000	9,707
Net deferred tax assets	2,326	4,642
Other real estate owned (OREO)	293	1,101
Cash surrender value of life insurance (BOLI)	34,353	33,578
Goodwill	58,563	58,383
Servicing assets	17,083	17,370
Core deposit intangibles	6,100	7,601
Accrued interest and other assets	34,928	33,345
Total assets	$ 2,788,535	$ 2,974,002

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

RBB BANCORP AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31,
(In thousands, except for share amounts)

	2019	2018
Liabilities and Shareholders' Equity		
Deposits:		
Noninterest-bearing demand	$ 458,763	$ 438,764
Savings, NOW and money market accounts	537,490	579,247
Time deposits $250,000 and under	655,303	532,395
Time deposits over $250,000	597,382	593,635
Total deposits	2,248,938	2,144,041
Reserve for unfunded commitments	826	688
FHLB advances	—	319,500
Long-term debt, net of debt issuance costs	104,049	103,708
Subordinated debentures	9,673	9,506
Accrued interest and other liabilities	17,359	21,938
Total liabilities	2,380,845	2,599,381
Commitments and contingencies - Note 7 and 13	—	—
Shareholders' equity:		
Preferred Stock - 100,000,000 shares authorized, no par value; none outstanding	—	—
Common Stock - 100,000,000 shares authorized, no par value; 20,030,866 shares issued and outstanding at December 31, 2019 and 20,000,022 shares at December 31, 2018	290,395	288,610
Additional paid-in capital	4,938	5,659
Retained earnings	112,046	81,618
Non-controlling interest	72	72
Accumulated other comprehensive income (loss), net	239	(1,338)
Total shareholders' equity	407,690	374,621
Total liabilities and shareholders' equity	$ 2,788,535	$ 2,974,002

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

RBB BANCORP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31,
(In thousands, except per share amounts)

	2019	2018	2017
Interest and dividend income:			
Interest and fees on loans	$ 135,159	$ 97,480	$ 70,289
Interest on interest-earning deposits	1,785	1,002	940
Interest on investment securities	2,652	2,351	1,406
Dividend income on FHLB stock	1,079	650	472
Interest on federal funds sold and other	1,050	632	997
Total interest income	141,725	102,115	74,104
Interest expense:			
Interest on savings deposits, now and money market accounts	4,886	4,408	2,382
Interest on time deposits	29,347	12,548	7,891
Interest on subordinated debentures and long-term debt	7,698	4,083	3,629
Interest on other borrowed funds	2,930	2,606	36
Total interest expense	44,861	23,645	13,938
Net interest income	96,864	78,470	60,166
Provision (recapture) for credit losses	2,390	4,469	(1,053)
Net interest income after provision (recapture) for credit losses	94,474	74,001	61,219
Noninterest income:			
Service charges, fees and other	4,072	2,679	2,111
Gain on sale of loans	9,893	7,126	9,318
Loan servicing fees, net of amortization	3,383	850	722
Recoveries on loans acquired in business combinations	143	1,385	84
Unrealized gain on equity investments	147	—	—
Increase in cash surrender value of life insurance	775	797	824
Gain on sale of securities	7	5	—
(Loss) gain on sale of OREO	(106)	—	142
Gain on sale of fixed assets	6	—	—
	18,320	12,842	13,201
Noninterest expense:			
Salaries and employee benefits	32,909	23,254	16,821
Occupancy and equipment expenses	9,750	4,554	2,940
Data processing	3,699	2,323	1,622
Legal and professional	1,832	1,714	331
Office expenses	1,257	890	679
Marketing and business promotion	1,308	1,143	837
Insurance and regulatory assessments	900	951	799
Core deposit premium	1,501	575	355
OREO expenses	337	24	28
Merger expenses	471	1,658	37
Other expenses	3,509	3,551	3,174
	57,473	40,637	27,623
Income before income taxes	55,321	46,206	46,797
Income tax expense	16,112	10,101	21,269
Net income	$ 39,209	$ 36,105	$ 25,528
Net income per share			
Basic	$ 1.96	$ 2.11	$ 1.81
Diluted	1.92	2.01	1.68
Cash dividends declared per common share	0.40	0.35	0.38
Weighted-average common shares outstanding			
Basic	20,017,306	17,151,222	14,078,281
Diluted	20,393,424	17,967,653	15,238,365

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

RBB BANCORP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, *(In thousands)*

	2019	2018	2017
Net income	$ 39,209	$ 36,105	$ 25,528
Other comprehensive income (loss):			
Unrealized gains (losses) on securities available for sale:			
Change in unrealized gains (losses)	2,248	(1,266)	(176)
Reclassification of gains recognized in net income	(7)	(5)	—
	2,241	(1,271)	(176)
Related income tax effect:			
Change in unrealized (gains) losses	(666)	376	72
Reclassification of gains recognized in net income	2	—	—
	(664)	376	72
Total other comprehensive income (loss)	1,577	(895)	(104)
Total comprehensive income	$ 40,786	$ 35,210	$ 25,424

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

RBB BANCORP AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017 *(In thousands, except share amounts)*

	Common Stock						
	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Non-Controlling Interest	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2016	12,827,803	$ 142,651	$ 8,417	$ 30,784	$ —	$ (267)	$ 181,585
Net income	—	—	—	25,528	—	—	25,528
Stock-based compensation	—	—	779	—	—	—	779
Cash dividend	—	—	—	(5,118)	—	—	(5,118)
Stock options exercised, net of expense recognized	223,334	3,066	(770)	—	—	—	2,296
Issuance of common stock, net of issuance costs of $5,518	2,857,756	60,210	—	—	—	—	60,210
Other comprehensive loss, net of taxes	—	—	—	—	—	(104)	(104)
Reclassification of stranded tax effects from change in tax rates				72	—	(72)	—
Balance at December 31, 2017	15,908,893	$ 205,927	$ 8,426	$ 51,266	$ —	$ (443)	$ 265,176
Net income	—	—	—	36,105	—	—	36,105
Stock-based compensation	—	—	684	—	—	—	684
Restricted stock awarded	43,425	—	—	—	—	—	—
Cash dividend	—	—	—	(5,753)	—	—	(5,753)
Stock options exercised	1,035,942	13,080	(3,451)	—	—	—	9,629
Issuance of common stock for acquisition	3,011,762	69,603	—	—	—	—	69,603
Non-controlling interest	—	—	—	—	72	—	72
Other comprehensive loss, net of taxes	—	—	—	—	—	(895)	(895)
Balance at December 31, 2018	20,000,022	$ 288,610	$ 5,659	$ 81,618	$ 72	$ (1,338)	$ 374,621
Net income	—	—	—	39,209	—	—	39,209
Stock-based compensation	—	—	689	—	—	—	689
Restricted stock vested	—	425	(425)	—	—	—	—
Cash dividend	—	—	—	(8,033)	—	—	(8,033)
Stock options exercised, net of expense recognized	200,629	3,802	(985)	—	—	—	2,817
Repurchase of common stock	(169,785)	(2,442)	—	(748)	—	—	(3,190)
Other comprehensive income, net of taxes	—	—	—	—	—	1,577	1,577
Balance at December 31, 2019	20,030,866	$ 290,395	$ 4,938	$ 112,046	$ 72	$ 239	$ 407,690

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

RBB BANCORP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017
(In thousands)

	2019	2018	2017
Operating activities			
Net income	$ 39,209	$ 36,105	$ 25,528
Adjustments to reconcile net income to net cash from			
Operating activities:			
Depreciation and amortization of premises, and equipment	1,914	1,833	525
Net accretion of securities, loans, deposits, and other	(2,845)	(1,754)	(4,801)
Unrealized gain on equity securities	(147)	—	—
Amortization of investment in affordable housing tax credits	900	644	316
Amortization of intangible assets	4,856	3,302	1,845
Provision (recapture) for loan losses	2,390	4,469	(1,053)
Stock-based compensation	689	684	779
Deferred tax benefit	1,503	(383)	5,083
Gain on sale of securities	(7)	(5)	—
Gain on sale of loans	(9,893)	(7,126)	(9,318)
Loss (gain) on sale of OREO	106	—	(142)
Gain on sale of fixed assets	(6)	—	—
Increase in cash surrender value of life insurance	(775)	(797)	(824)
Loans originated and purchased for sale, net	(77,514)	(413,450)	(254,629)
Proceeds from loans sold	521,594	301,894	265,497
Other items	(5,506)	(10,064)	(23)
Net cash provided by (used in) operating activities	476,468	(84,648)	28,783
Investing activities			
Securities available for sale:			
Purchases	(197,386)	(74,171)	(29,557)
Maturities, prepayments and calls	141,537	64,008	4,353
Sales	6,143	44,591	—
Securities held to maturity:			
Maturities, prepayments and calls	1,590	—	1,100
Redemption of Federal Home Loan Bank stock	808	—	—
Purchase of Federal Home Loan Bank stock and other equity securities, net	(7,741)	(11,077)	(837)
Net increase of investment in qualified affordable housing projects	(2,598)	(1,911)	(5,000)
Net increase in loans	(161,426)	(366,415)	(218,897)
Proceeds from sales of OREO	1,053	—	257
Purchase of bank owned life insurance	—	—	(10,000)
Net cash paid in connection with acquisition	—	25,073	
Proceeds from sale of fixed assets	17	—	—
Purchases of premises and equipment	(1,350)	(2,488)	(684)
Net cash used in investing activities	(219,353)	(322,390)	(264,446)
Financing activities			
Net (decrease) increase in demand deposits and savings accounts	(21,758)	(9,807)	226,382
Net increase (decrease) in time deposits	126,627	186,588	(41,772)
Net (decrease) increase in FHLB advances	(319,500)	170,000	25,000
Cash dividends paid	(8,033)	(5,753)	(5,118)
Issuance of subordinated debentures, net of issuance costs	—	54,018	—
Issuance of common stock, net of issuance costs	—	—	60,210
Common stock repurchased, net of repurchased costs	(3,190)	—	—
Exercise of stock options	2,817	9,629	2,296
Net cash (used in) provided by financing activities	(223,037)	404,675	266,998
Net increase (decrease) in cash and cash equivalents	34,078	(2,363)	31,335
Cash and cash equivalents at beginning of period	147,685	150,048	118,713
Cash and cash equivalents at end of period	$ 181,763	$ 147,685	$ 150,048
Supplemental disclosure of cash flow information			
Cash paid during the period:			
Interest paid	$ 45,702	$ 19,993	$ 13,848
Taxes paid	$ 14,470	$ 9,335	$ 16,935
Non-cash investing and financing activities:			
Transfer of loan to available for sale securities	$ —	$ —	$ 1,000
Transfer from loans to other real estate owned	$ 974	$ 808	$ —
Transfer of loans to held for sale, net	$ 107,859	$ 186,503	$ 165,651
Loan to facilitate OREO	$ 623	$ 104	$ 425
Net change in unrealized holding (loss) gain on securities available for sale	$ 2,241	$ (1,271)	$ (176)

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

NOTE 1 - BUSINESS DESCRIPTION

RBB Bancorp 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". At December 31, 2019, the Company had total assets of $2.8 billion, gross consolidated loans (held for investment and held for sale) of $2.3 billion, total deposits of $2.2 billion and total stockholders' equity of $407.7 million. On July 31, 2017, the Company completed its initial public offering of 3,750,000 shares at a price to the public of $23.00 per share. The Company's 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 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 predominately 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, 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.

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.

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"), in which the FAIC acquisition 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 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-K 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 financial reporting.

Principles of Consolidation and Nature of Operations

The accompanying consolidated financial statements include the accounts of RBB Bancorp and its wholly-owned subsidiaries Royal Business Bank ("Bank") and RBB Asset Management Company ("RAM"), collectively referred to herein as "the Company". All significant intercompany transactions have been eliminated.

RBB Bancorp was formed in January 2011 as a bank holding company, and in 2018 changed to a financial holding company. RAM was formed in 2012 to hold and manage problem assets acquired in business combinations.

In connection with the 2018 acquisition of FAIC, the Company acquired a real estate investment trust ("REIT") as a subsidiary of the Bank and is a New York State corporation. In addition to the REIT, the Company acquired four inactive subsidiaries: FAIC Insurance Services (a New York corporation formed in 2006), P4G8, LLC, FAIB Reacquisitions I, LLC and FAIB REO Acquisition II, LLC. FAIC Insurance services was dissolved in January 2020; the other three were dissolved in 2019.

We acquired two statutory business trusts: TFC Statutory Trust in 2016 and FAIC Statutory Trust in 2018. These trusts issued trust preferred securities representing undivided preferred beneficial interests in the assets of the Trusts. The proceeds of these trust preferred securities were invested in certain securities issued by us, with similar terms to the relevant series of securities issued by the Trusts, which we refer to as subordinated debentures.

RBB Bancorp has no significant business activity other than its investments in Royal Business Bank and RAM. Parent only condensed financial information on RBB Bancorp is provided in Note 22.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. It is reasonably possible our estimate of the allowance for loan losses and the fair value of mortgage servicing rights could change as actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash and due from banks, term federal funds sold and interest-bearing deposits in other financial institutions with original maturities of less than 90 days. Net cash flows are reported for customer loan and deposit transactions and interest-bearing deposits in other financial institutions.

Cash and Due from Banks

Banking regulations require that banks maintain a percentage of their deposits as reserves in cash or on deposit with the Federal Reserve Bank. The reserves required to be held as of December 31, 2019 and 2018 were $29.5 million and $24.5 million, respectively. The Company maintains amounts in due from bank accounts, which may exceed federally insured limits. The Company has not experienced any losses in such accounts.

Interest-Bearing Deposits in Other Financial Institutions

Interest-bearing deposits in other financial institutions not included in cash and cash equivalents are carried at cost and generally mature in one year or less.

Investment Securities

Investment securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Debt securities not classified as held to maturity are classified as available for sale. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income, net of tax.

Interest income includes amortization of purchase premiums or discounts. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

Management evaluates debt securities for other-than-temporary impairment ("OTTI") on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows; OTTI related to credit loss, which must be recognized in the income statement and; OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

Loans Held For Sale

Mortgage loans originated or acquired and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings. Loans held for sale consist primarily of first trust deed mortgages on single-family residential properties located in California.

Mortgage loans held for sale are generally sold with servicing rights retained. The carrying value of mortgage loans sold is determined by reducing the amount allocated to the servicing right, when applicable. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loans sold.

Loans

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances reduced by any charge-offs or specific valuation accounts and net of any deferred fees or costs on originated loans, or unamortized premiums or discounts on purchased loans. Loan origination fees and certain direct origination costs are deferred and recognized in interest income using the level-yield method without anticipating prepayments.

Premiums and discounts on loans purchased are grouped by type and certain common risk characteristics and amortized or accreted as an adjustment of yield over the weighted-average remaining contractual lives of each group of loans, adjusted for prepayments when applicable, using methodologies which approximate the interest method.

Loans on which the accrual of interest has been discontinued are designated as nonaccrual loans. The accrual of interest on loans is discontinued when principal or interest is past due 90 days or when, in the opinion of management, there is reasonable doubt as to collectability based on contractual terms of the loan. 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. Interest accruals are resumed on such loans only when they are brought current with respect to interest and principal and when, in the judgment of management, the loans are estimated to be fully collectible as to all principal and interest.

Allowance for Loan Losses

The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off. Amounts are charged-off when available information confirms that specific loans or portions thereof, are uncollectible. This methodology for determining charge-offs is consistently applied to each segment.

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

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

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

General reserves cover non-impaired loans and are based on historical loss rates of peer institutions for each portfolio segment, adjusted for the effects of qualitative or environmental factors that are likely to cause estimated credit losses as of the evaluation date to differ from the portfolio segment's historical loss experience. Qualitative factors include consideration of the following: changes in lending policies and procedures; changes in economic conditions, changes in the nature and volume of the portfolio; changes in the experience, ability and depth of lending management and other relevant staff; changes in the volume and severity of past due, nonaccrual and other adversely graded loans; changes in the loan review system; changes in the value of the underlying collateral for collateral-dependent loans; concentrations of credit and the effect of other external factors such as competition and legal and regulatory requirements.

Portfolio segments identified by the Company include real estate, commercial and other loans. Relevant risk characteristics for these portfolio segments generally include debt service coverage, loan-to-value ratios, and financial performance.

Certain Acquired Loans

As part of business acquisitions, the Company acquires certain loans that have shown evidence of credit deterioration since origination. These acquired loans are recorded at the allocated fair value, such that there is no carryover of the seller's allowance for loan losses. Such acquired loans are accounted for individually. The Company estimates the amount and timing of expected cash flows for each purchased loan, and the expected cash flows in excess of the allocated fair value is recorded as interest income over the remaining life of the loan (accretable yield). The excess of the loan's contractual principal and interest over expected cash flows is not recorded (non-accretable difference). Over the life of the loan, expected cash flows continue to be estimated. If the present value of expected cash flows is less than the carrying amount, a loss is recorded through the allowance for loan losses. If the present value of expected cash flows is greater than the carrying amount, it is recognized as part of future interest income.

Servicing Rights

When mortgage and Small Business Administration ("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, which is reported on the income statement as loan servicing fees, net of amortization, 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.

Transfers of Financial Assets

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

Gains on sales of mortgage, SBA and CRE loans totaled $9.9 million, $7.1 million, and $9.3 million in 2019, 2018, and 2017, respectively. Gains on sale of mortgage loans totaled $8.2 million, $4.3 million, and $3.7 million, and gains on sale of SBA loans totaled $1.5 million, $2.8 million, and $5.6 million in 2019, 2018, and 2017 respectively. Gains on sale of CRE totaled $152,000 in 2019 and none in 2018 and 2017.

Premises and Equipment

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

Other Real Estate Owned

Real estate acquired by foreclosure or deed in lieu of foreclosure is recorded at fair value at the date of foreclosure, establishing a new cost basis by a charge to the allowance for loan losses, if necessary. Other real estate owned is carried at the lower of the Company's carrying value of the property or its fair value, less estimated carrying costs and costs of disposition. Fair value is based on current appraisals less estimated selling costs. Any subsequent write-downs are charged against operating expenses and recognized as a valuation allowance. Operating expenses and related income of such properties and gains and losses on their disposition are included in other operating income and expenses.

Goodwill and Other Intangible Assets

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 31 as the date to perform the annual impairment test. Goodwill amounted to $58.6 million and $58.4 million as of December 31, 2019 and 2018, respectively, and is the only intangible asset with an indefinite life on the balance sheet. No impairment was recognized on goodwill during 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. CDI was recognized in the 2013 acquisition of Los Angeles National Bank and in the 2016 acquisition of TFC Holding Company and in the 2018 acquisition of FAIC. The unamortized balance as of December 31, 2019 and 2018 was $6.1 million and $7.6 million, respectively. Accumulated amortization as of December 31, 2019 and 2018 was $3.1 million and $1.6 million, respectively. CDI amortization expense was $1.5 million, $575,000, and $355,000 in 2019, 2018 and 2017, respectively.

Estimated CDI amortization expense for the next 5 years is as follows (dollars in thousands):

(dollars in thousands)	
Year ending December 31:	
2020	$ 1,285
2021	1,056
2022	879
2023	749
2024	638
Thereafter	1,493
Total	$ 6,100

Bank Owned Life Insurance

The Company has purchased life insurance policies on a select group of employees and directors. Bank owned life insurance (“BOLI”) is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement. Increases of the cash value of these policies, as well as insurance proceeds received, are recorded in the other noninterest income and are not subject to income tax for as long as they are held for the life of the covered employee and director.

FHLB Stock and Other Equity Securities

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

The Company also owns equity investment in banker's bank stock. The Company adopted ASU 2016-01 on January 1, 2019, and elected the measurement alternative for measuring equity securities without readily determinable fair values at cost less impairment, plus or minus observable price changes in orderly transactions. As of December 31, 2019, the carrying amount of equity securities without readily determinable fair values were $324,000 for PCBB and $100,000 for ACBB. An estimated gain of $107,000 from PCBB and $40,000 from ACBB based on observable activity in these securities was recorded in the first quarter of 2019.

As of December 31, 2019 the Company had several CRA equity investments without readily determinable fair values in the amount of $11.8 million, and $10.0 million at December 31, 2018.

Stock-Based Compensation

Stock option compensation expense is calculated based on the fair value of the award at the grant date for those options expected to vest and is recognized as an expense over the vesting period of the grant using the straight-line method. The Company uses the Black-Scholes option pricing model to estimate the value of granted options. This model takes into account the option exercise price, the expected life, the current price of the underlying stock, the expected volatility of the Company's stock, expected dividends on the stock and a risk-free interest rate. The Company estimates the expected volatility based on the Company's historical stock prices for the period corresponding to the expected life of the stock options. Restricted stock units are valued at the closing price of the Company's stock on the date of the grant. Compensation cost is recognized for stock options and restricted stock awards issued to employees and directors, based on the fair value of these awards. This cost is recognized over the period which an employee is required to provide services in exchange for the award, generally defined as the vesting period. When the options are exercised, the Company's policy is to issue new shares of stock. The Company's accounting policy is to recognize forfeitures as they occur.

Income Taxes

The Company files its income taxes on a consolidated basis with its subsidiaries. The allocation of income tax expense represents each entity's proportionate share of the consolidated provision for income taxes. Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized. Tax effects from an uncertain tax position are recognized in the financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. Interest and penalties related to uncertain tax positions are recorded as part of income tax expense.

Retirement Plans

The Company established a 401(k) plan in 2010. The Company contributed $570,000, $341,000, and $272,000 in 2019, 2018 and 2017, respectively.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available for sale.

Financial Instruments

In the ordinary course of business, the Company has entered into off-balance sheet financial instruments consisting of commitments to extend credit, commercial letters of credit, and standby letters of credit as described in Note 13. Such financial instruments are recorded in the financial statements when they are funded.

Earnings Per Share ("EPS")

Basic and diluted EPS are calculated using the two-class method since the Company has issued share-based payment awards considered participating securities because they entitle holders the rights to dividends during the vesting term. The two-class method is an earnings allocation formula that determines net income per share for each class of common stock and participating security according to dividends declared and participation rights in undistributed earnings. Basic EPS excludes dilution and is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity.

Fair Value Measurement

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

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect the Company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

See Note 17 and Note 18 for more information and disclosures relating to the Company's fair value measurements.

Operating Segments

Management has determined that since generally all of the banking products and services offered by the Company are available in each branch of the Bank, all branches are located within the same economic environment and management does not allocate resources based on the performance of different lending or transaction activities, it is appropriate to aggregate the Bank branches and report them as a single operating segment.

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 Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU" or “Update”) 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 emerging growth company, the Company adopted ASU 2014-09 as of January 1, 2019, utilizing the modified prospective approach. For the year ended December 31, 2019, the Company estimates approximately 21% of non-interest income (primarily fees on deposit accounts, other fees and other income) is within the scope of this ASU, with approximately 79% out-of-scope (primarily gains on loan sales, BOLI income, net loan servicing income and letter of credit commissions). Refer to Note 20 - *Revenue from Contracts with Customers*.

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. Based upon an evaluation of the guidance in ASU 2016-01 the Company determined the ASU will not have a material impact on the Company's consolidated financial statements as the accounting for other financial instruments, such as loans, investments in debt securities, and financial liabilities is largely unchanged. The Company adopted this ASU as of January 1, 2019.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. 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. The amendments in this Update are effective for annual periods beginning after December 15, 2020 and for interim periods beginning after December 15, 2021, for an emerging growth company as the effective date was deferred by the FASB. 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 have to be recognized on the Consolidated Balance Sheets as a right-of-use asset with a corresponding lease liability. Based upon a preliminary evaluation the Company expects that the ASU will have an impact on the Company's Consolidated Balance Sheets. The Company will continue to evaluate how extensive the impact will be under the ASU on the Company's consolidated financial statements. As of this Annual Report and with 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, 2023 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)*. 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 effective for interim and annual reporting periods for an emerging growth company beginning after December 15, 2020. Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (i.e., modified retrospective approach). The Company has begun its evaluation of the impact of the implementation of ASU 2016-13. The implementation of the provisions of ASU 2016-13 will most likely impact the Company's consolidated financial statements as to the level of reserves that will be required for credit losses. The Company will continue to assess the potential impact that this Update will have on the Company's consolidated financial statements. In October 2019, the FASB announced the delay in the effective date to January 1, 2023 for an EGC. The Company anticipates adopting this ASU 2016-13 on that date.

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

In 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 non-employees. An entity should apply the requirements of Topic 718 to non-employee 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 emerging growth companies, 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 the Company's non-employees. This ASU will not have a material impact on the Company's consolidated financial statements.

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

In August 2018, the FASB issued ASU 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. This Update provides additional guidance to ASU 2015-05, "Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement" (CCA), on the accounting for implementation, setup, and other upfront costs (collectively referred to as implementation costs) apply to entities that are a customer in a hosting arrangement. This Update applies to entities that are a customer in a hosting arrangement, which 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 emerging growth company 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 could be material should RBB incur implementation costs for a CCA that is a service contract.

In November 2019, the FASB issued ASU 2019-08, *Compensation—Stock Compensation (Topic 718) and Revenue from Contracts with Customers (Topic 606), Codification Improvements—Share-Based Consideration Payable to a Customer*. This ASU will affect companies that issue share-based payments (e.g., options or warrants) to their customers. In June 2018, the FASB issued ASU 2018-07 that expanded the scope of Topic 718, Compensation—Stock Compensation, to include share-based payments to non-employees in exchange for goods and services. That ASU substantially aligned the accounting for share-based payments to non-employees and employees. However, it required share-based payments to nonemployee customers to be accounted for under Topic 606, Revenue from Contracts with Customers, as a reduction of revenue, similar to other sales incentives (such as coupons and rebates). While that ASU provided guidance on the income statement classification of payments to customers (as a reduction of revenue), that ASU did not specify when to measure such awards or how to classify awards on the balance sheet (for example as a liability or as equity). To address diversity in these areas, the new guidance requires companies to measure and classify (on the balance sheet) share-based payments to customers by applying the guidance in Topic 718. As a result, the amount recorded as a reduction in revenue would be measured based on the grant-date fair value of the share-based payment. ASU 2019-08 is effective for entities that have not yet adopted the amendments in ASU 2018-07, the amendments in ASU 2019-08 are effective for an emerging growth company in fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Similar to ASU 2018-07, this ASU will not have a material impact on the Company's financial statements as the Company has not issued share-based payments to non-employees, except for non-employee members of the board of directors.

In November 2019, the FASB issued ASU 2019-10, *Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), Effective Dates*. In July 2017, British banking regulators announced plans to eliminate the LIBOR rate by the end of 2021. The purpose of the ASU is to facilitate the effects of reference rate reform on financial reporting. It provides temporary, optional expedients and exceptions related to applying U.S. GAAP to contract modifications, hedging relationships, fair value hedges, and other transactions affected by reference rate reform. The ASU applies only to contracts or hedging relationships that reference LIBOR or another reference rate expected to be discontinued due to reference rate reform. Regulators have established an Alternative Reference Rate Committee to assist with this change. The Company has loans, long-term debt and subordinated debt that have interest rates that reference LIBOR. Of the Company's $2.3 billion in total gross loans as of December 31, 2019, approximately 25% have a LIBOR based reference rate. The Company has several LIBOR based debt issues, refer to Notes 9 and 10 of the consolidated financial statements. The Company will continue to assess the potential impact that this ASU will have on the Company's consolidated financial statements.

NOTE 3 – ACQUISITIONS

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 stocks, which was valued at $69.6 million in the aggregate on the date of acquisition. FAIC operated nine 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

PGB Holdings Inc. and Pacific Global Bank Acquisition:

On January 10, 2020, we acquired PGB Holdings Inc. and its wholly-owned subsidiary, Pacific Global Bank ("PGB"), in an all-cash transaction for $32.9 million. At the time of acquisition, PGB had approximately $217.6 million in total assets, $192.3 million in total deposits, and three branches in Chicago, Illinois.

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

(dollars in thousands) December 31, 2019	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale				
Government agency securities	$ 1,591	$ —	$ (19)	$ 1,572
SBA agency securities	4,671	42	(22)	4,691
Mortgage-backed securities- Government sponsored agencies	19,126	74	(29)	19,171
Collateralized mortgage obligations	11,641	38	(25)	11,654
Corporate debt securities	88,700	281	—	88,981
Total	$ 125,729	$ 435	$ (95)	$ 126,069
Held to maturity				
Municipal taxable securities	$ 3,505	$ 147	$ —	$ 3,652
Municipal securities	4,827	153	—	4,980
Total	$ 8,332	$ 300	$ —	$ 8,632
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

During 2019 and 2018 the Company sold $6.1 million and $44.6 million of securities, recognizing gross gains of $7,000 and $5,000, respectively. The Company did not sell any securities in 2017.

One security with a fair value of $627,000 and $697,000 was pledged to secure a local agency deposit at December 31, 2019 and December 31, 2018, respectively.

The amortized cost and fair value of the investment securities portfolio as of December 31, 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
December 31, 2019										
Government agency securities	$ —	$ —	$ 1,591	$ 1,572	$ —	$ —	$ —	$ —	$ 1,591	$ 1,572
SBA securities	—	—	714	725	3,957	3,966	—	—	4,671	4,691
Mortgage-backed securities- Government sponsored agencies	3,663	3,679	13,027	13,059	2,436	2,433	—	—	19,126	19,171
Collateralized mortgage obligations	—	—	9,288	9,265	2,353	2,389	—	—	11,641	11,654
Corporate debt securities	70,914	70,919	2,002	2,008	11,772	12,024	4,012	4,030	88,700	88,981
Total available for sale	$ 74,577	$ 74,598	$ 26,622	$ 26,629	$ 20,518	$ 20,812	$ 4,012	$ 4,030	$ 125,729	$ 126,069
Municipal taxable securities	$ 285	$ 289	$ 2,716	$ 2,784	$ 504	$ 579	$ —	$ —	$ 3,505	$ 3,652
Municipal securities	—	—	40	40	366	379	4,421	4,561	4,827	4,980
Total held to maturity	$ 285	$ 289	$ 2,756	$ 2,824	$ 870	$ 958	$ 4,421	$ 4,561	$ 8,332	$ 8,632

The following table summarizes investment securities with unrealized losses at December 31, 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
December 31, 2019									
Government agency securities	$ (19)	$ 1,572	2	$ —	$ —	—	$ (19)	$ 1,572	2
SBA securities	(22)	1,469	2	—	—	—	(22)	1,469	2
Mortgage-backed securities- Government sponsored agencies	(5)	2,631	4	(24)	3,912	6	(29)	6,543	10
Collateralized mortgage obligations	(10)	5,738	3	(15)	953	2	(25)	6,691	5
Corporate debt securities	—	—	—	—	—	—	—	—	—
Total available for sale	$ (56)	$ 11,410	11	$ (39)	$ 4,865	8	$ (95)	$ 16,275	19
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	(12)	1,640	1	(572)	20,901	23	(584)	22,541	24
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	$ (73)	$ 6,240	5	$ (1,934)	$ 46,498	41	$ (2,007)	$ 52,738	46
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

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.

A summary of the changes in the allowance for loan losses as of December 31 follows:

(dollars in thousands)	2019	2018	2017
Allowance for loan losses:			
Beginning balance	$ 17,577	$ 13,773	$ 14,162
Additions (reductions) to the allowance charged to expense	2,390	4,469	(1,053)
Recoveries on loans charged-off	108	36	747
Less loans charged-off	(1,259)	(701)	(83)
Ending balance	$ 18,816	$ 17,577	$ 13,773

The following table presents the recorded investment in loans and impairment method as of December 31, 2019, 2018 and 2017 and the activity in the allowance for loan losses for the years then ended, by portfolio segment:

(dollars in thousands) December 31, 2019	Real Estate	Commercial	Other	Unallocated	Total
Allowance for loan losses:					
Beginning of year	$ 13,437	$ 4,140	$ —	$ —	$ 17,577
Provisions	1,847	433	9	101	2,390
Charge-offs	(166)	(1,093)	—	—	(1,259)
Recoveries	—	108	—	—	108
	$ 15,118	$ 3,588	$ 9	$ 101	$ 18,816
Reserves:					
Specific	$ —	$ —	$ —	$ —	$ —
General	15,118	3,588	9	101	18,816
	$ 15,118	$ 3,588	$ 9	$ 101	$ 18,816
Loans evaluated for impairment:					
Individually	$ 3,795	$ 9,423	$ —	$ —	$ 13,218
Collectively	1,842,747	340,148	821	—	2,183,716
	$ 1,846,542	$ 349,571	$ 821	$ —	$ 2,196,934

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	—	—	—	—
	$ 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
Loans acquired with deteriorated credit quality	—	—	—	—
	$ 1,753,205	$ 388,810	$ —	$ 2,142,015

December 31, 2017	Real Estate	Commercial	Unallocated	Total
Allowance for loan losses:				
Beginning of year	$ 8,111	$ 6,051	$ —	$ 14,162
Provisions	1,198	(2,671)	420	(1,053)
Charge-offs	—	(83)	—	(83)
Recoveries	—	747	—	747
	$ 9,309	$ 4,044	$ 420	$ 13,773
Reserves:				
Specific	$ —	$ —	$ —	$ —
General	9,309	4,044	420	13,773
Loans acquired with deteriorated credit quality	—	—	—	—
	$ 9,309	$ 4,044	$ 420	$ 13,773
Loans evaluated for impairment:				
Individually	$ 2,420	$ 155	$ —	$ 2,575
Collectively	834,152	412,032	—	1,246,184
Loans acquired with deteriorated credit quality	315	—	—	315
	$ 836,887	$ 412,187	$ —	$ 1,249,074

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 as of December 31, 2019 and 2018:

(dollars in thousands) **December 31, 2019**	**Pass**	**Special Mention**	**Substandard**	**Impaired**	**Total**
Real estate:					
Construction and land development	$ 95,756	$ —	$ —	$ 264	$ 96,020
Commercial real estate	767,603	5,353	18,115	2,197	793,268
Single-family residential mortgages	955,327	—	593	1,334	957,254
Commercial:					
Commercial and industrial	265,178	4,078	5,330	—	274,586
SBA	61,496	189	3,877	9,423	74,985
Other:	821	—	—	—	821
	$ 2,146,181	$ 9,620	$ 27,915	$ 13,218	$ 2,196,934
December 31, 2018					
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:					
Commercial and industrial	295,226	6,286	2,798	—	304,310
SBA	79,057	—	4,471	972	84,500
	$ 2,111,225	$ 13,355	$ 14,154	$ 3,281	$ 2,142,015

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

(dollars in thousands) December 31, 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	$ —	$ —	$ —	$ —	$ 96,020	$ 96,020	$ —
Commercial real estate	—	—	725	725	792,543	793,268	725
Single-family residential mortgages	1,454	1,560	450	3,464	953,790	957,254	1,334
Commercial:							
Commercial and industrial	—	—	—	—	274,586	274,586	—
SBA	2,263	—	9,378	11,641	63,344	74,985	9,378
Other:	—	—	—	—	821	821	—
	$ 3,717	$ 1,560	$ 10,553	$ 15,830	$ 2,181,104	$ 2,196,934	$ 11,437
Real estate:							
Single-family residential mortgages held for sale	$ —	$ —	$ —	$ —	$ 108,194	$ 108,194	$ —
December 31, 2018							
Real estate:							
Construction and land development	$ —	$ —	$ —	$ —	$ 113,235	$ 113,235	$ —
Commercial real estate	—	678	—	678	758,043	758,721	—
Single-family residential mortgages	1,548	950	—	2,498	878,751	881,249	—
Commercial:							
Commercial and industrial	—	—	—	—	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 as of December 31, 2019, 2018 and 2017:

(dollars in thousands) December 31, 2019	Unpaid Principal Balance	Recorded Investment	Average Balance	Interest Income	Related Allowance
With no related allowance recorded					
Construction and land development	$ 264	$ 264	$ 271	$ 24	$ —
Commercial real estate	2,198	2,197	2,384	100	—
Residential mortgage loans	1,349	1,334	1,351	—	—
Commercial - SBA	9,423	9,423	10,791	4	—
With related allowance recorded					
Commercial-SBA	—	—	—	—	—
Total	$ 13,234	$ 13,218	$ 14,797	$ 128	$ —
December 31, 2018					
With no related allowance recorded					
Construction and land development	$ 276	$ 276	$ 283	$ 23	$ —
Commercial real estate	2,033	2,033	2,126	134	—
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
December 31, 2017					
With no related allowance recorded					
Construction and land development	$ 289	$ 289	$ 296	$ 16	$ —
Commercial real estate	2,131	2,131	2,192	297	—
Commercial - SBA	155	155	78	15	—
Total	$ 2,575	$ 2,575	$ 2,566	$ 328	$ —

No interest income was recognized on a cash basis as of December 31, 2019, 2018 and 2017. We did not recognize any interest income on nonaccrual loans during the years ended December 31, 2019 and December 31, 2018 while the loans were in nonaccrual status. We recognized interest income on loans modified under troubled debt restructurings ("TDR's") of $128,000 and $177,000 during the years ended December 31, 2019 and December 31, 2018, respectively.

The Company had four loans identified as troubled debt restructurings at December 31, 2019 and 2018, respectively. There were no specific reserves allocated to the loans as of December 31, 2019 and 2018. There were no commitments to lend additional amounts as of December 31, 2019 and 2018, respectively, to customers with outstanding loans that are classified as TDR's.

During the year ended December 31, 2019, the terms of certain loans were modified as TDR's. The modification of the terms generally included loans where a moratorium on loan payments was granted. Such moratoriums ranged from three months to six months on the loans restructured in 2019.

The following table presents loans by class modified as TDR's that occurred during the year ended December 31, 2019:

(dollars in thousands) December 31, 2019	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
Commercial real estate	1	$ 476	$ 476

There were no defaults of TDR’s in 2019 and 2018 where the loan was modified within the prior twelve months.

In the past the Company has purchased loans as part of its whole bank acquisitions, for which there was at acquisition, evidence of deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected. The purchased credit-impaired loan fully paid off in September 2018. There were no balances as of December 31, 2019 and 2018.

Below is a summary of activity in the accretable yield on purchased credit-impaired loans for 2019, 2018 and 2017:

(dollars in thousands)	2019	2018	2017
Beginning balance	$ —	$ 7	$ 142
Disposals	—	—	—
Restructuring as TDR	—	—	—
Accretion of income	—	(7)	(135)
Ending balance	$ —	$ —	$ 7

NOTE 6 - LOAN SERVICING

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

(dollars in thousands)	2019	2018
Loans serviced for others:		
Mortgage loans	$ 1,683,298	$ 1,586,499
SBA loans	170,849	184,664
Commercial real estate loans	4,216	2,838

Activity for servicing assets follows:

	2019		2018		2017	
(dollars in thousands)	Mortgage Loans	SBA Loans	Mortgage Loans	SBA Loans	Mortgage Loans	SBA Loans
Servicing assets:						
Beginning of period	$ 12,858	$ 4,512	$ 1,540	$ 4,417	$ 1,002	$ 2,702
Acquisitions	—	—	10,651	—	—	—
Additions	2,088	980	1,562	1,932	1,115	2,628
Disposals	(128)	(708)	(197)	(1,177)	(172)	(367)
Amortized to expense	(1,821)	(698)	(698)	(660)	(405)	(546)
End of period	$ 12,997	$ 4,086	$ 12,858	$ 4,512	$ 1,540	$ 4,417

The fair value of servicing assets for mortgage loans was $15.1 million and $15.3 million as of December 31, 2019 and 2018, respectively. Fair value at December 31, 2019 was determined using a discount rate of 10.82%, prepayment speeds ranging from 7.27% to 20.15%, depending on the stratification of the specific right, and a weighted-average default rate of 0.11%. Fair value at December 31, 2018 was determined using a discount rate of 10.59%, prepayment speeds ranging from 8.26% to 16.82%, depending on the stratification of the specific right, and a weighted-average default rate of 0.20%.

The fair value of servicing assets for SBA loans was $5.6 million and $6.1 million as of December 31, 2019 and 2018, respectively. Fair value at December 31, 2019 was determined using a discount rate of 8.50%, prepayment speeds ranging from 12.50% to 14.66%, depending on the stratification of the specific right, and a weighted-average default rate of 0.43%. Fair value at December 31, 2018 was determined using a discount rate of 8.50% and prepayment speeds ranging from 11.43% to 12.11%, depending on the stratification of the specific right and a weighted-average default rate of 0.52%.

Servicing fees net of servicing asset amortization totaled $3.4 million, $850,000, and $722,000 for the years ended December 31, 2019, 2018, and 2017, respectively.

NOTE 7 - PREMISES AND EQUIPMENT

A summary of premises and equipment as of December 31 follows:

(dollars in thousands)	2019	2018
Land	$ 5,020	$ 5,020
Building and improvements	7,822	7,823
Furniture, fixtures, and equipment	6,252	4,833
Leasehold improvements	5,590	4,845
	24,684	22,521
Less accumulated depreciation and amortization	(8,102)	(6,312)
Construction in progress	231	1,098
	$ 16,813	$ 17,307

Depreciation and leasehold amortization expense was $1.8 million, $989,000, and $686,000 for 2019, 2018, and 2017, respectively.

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 as of December 31, 2019:

(dollars in thousands)	
Year ending December 31:	
2020	$ 5,603
2021	4,634
2022	4,192
2023	3,250
2024	2,209
Thereafter	8,998
	$ 28,886

The minimum rent payments shown above are given for the existing lease obligations and are not a forecast of future rental expense. Total rental expense, recognized on a straight-line basis, was $6.1 million, $2.7 million, and $1.5 million for 2019, 2018, and 2017, respectively.

The lease for the Company’s downtown headquarters expired in May 2018. In October 2018 the Company signed a lease for a new headquarters office at 1055 Wilshire Boulevard, Suite 1220, Los Angeles, California 90017, which the Company occupied in November 2018. In February 2018 the Company signed a lease for a new office in Irvine, California which the Company occupied in October 2018. In September 2017 the Company signed a lease to occupy a new location in Oxnard, California which the Company occupied in March 2018. In October 2018 the Company signed a lease to occupy a new location in Flushing, New York which the Company occupied in February 2019. In January 2020, the Company signed a lease to for a new branch in Edison, New Jersey, which the Company expects to occupy in June 2020. In March 2020, the Company signed a new lease to its Diamond Bar, California branch to a new location. The future payments for all of the new leases are included in the schedule above. The Company recorded $197,000 in sub-lease income in 2019.

NOTE 8 - DEPOSITS

At December 31, 2019 the scheduled maturities of time deposits are as follows:

(dollars in thousands)	
One year	$ 1,215,913
Two to three years	34,863
Over three years	1,909
Total	$ 1,252,685

Brokered time deposits were $67.1 million at December 31, 2019 and $113.8 million at December 31, 2018.

NOTE 9 - LONG-TERM DEBT

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

(dollars in thousands)	2019	2018
Principal	$ 105,000	$ 105,000
Unamortized debt issuance costs	$ 951	$ 1,292

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 sub-debt is considered Tier-two capital at the Company. The Company allocated $35 million to the Bank as Tier-one 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 sub-debt is considered Tier-two capital at the Company. The Company allocated $25 million to the Bank as Tier-one capital.

The following table presents interest and amortization expense the Company incurred for the year ended December 31, 2019 and 2018:

	For the Year Ended December 31,	
(dollars in thousands)	2019	2018
Interest Expense:		
Interest	$ 6,649	$ 3,552
Amortization	342	162

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 3.54% as of December 31, 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 million 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 debenture 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 December 31, 2019, was 4.14% and 5.04% at December 31, 2018.

The Company paid interest expenses of $540,000 in 2019, $263,000 in 2018 and $144,000 in 2017. The amount of aggregate amortization expense recognized in 2019 was $167,000, in 2018 was $106,000 and $90,000 in 2017.

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. As of December 31, 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. As of December 31, 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 $14.3 million at December 31, 2019 is collateralized by loans pledged with a carrying value of $28.7 million.

FHLB Secured Line of Credit. The secured borrowing capacity with the FHLB of $636.5 million at December 31, 2019 is collateralized by loans pledged with a carrying value of $727.8 million.

At December 31, 2019, the Company had no 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 December 31, 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.

Income tax expense consists of the following:

(dollars in thousands)	2019	2018	2017
Current:			
Federal	$ 8,074	$ 6,616	$ 12,097
State	5,614	3,451	3,773
	13,688	10,067	15,870
Deferred	1,503	(131)	2,492
Deferred tax adjustment for change in tax rate	21	(479)	2,591
Amortization of investment in affordable housing tax credits	900	644	316
	$ 16,112	$ 10,101	$ 21,269

A comparison of the federal statutory income tax rates to the Company's effective income tax rates as of December 31 follows:

(dollars in thousands)	2019 Amount	2019 Rate	2018 Amount	2018 Rate	2017 Amount	2017 Rate
Statutory federal tax	$ 11,617	21.0%	$ 9,703	21.0%	$ 16,379	35.0%
State franchise tax, net of federal benefit	5,322	9.6%	3,488	7.5%	3,135	6.7%
Tax-exempt income	(25)	0.0%	(27)	-0.1%	(297)	-0.6%
Tax impact from change in tax rate	17	0.0%	(479)	-1.0%	2,591	5.5%
Stock-based compensation	(27)	0.0%	(2,643)	-5.7%	—	0.0%
Other items, net	(792)	-1.4%	59	0.1%	(539)	-1.2%
Actual tax expense	$ 16,112	29.2%	$ 10,101	21.8%	$ 21,269	45.4%

Deferred taxes are a result of differences between income tax accounting and generally accepted accounting principles with respect to income and expense recognition. The following is a summary of the components of the net deferred tax asset accounts recognized in the accompanying balance sheets as of December 31:

(dollars in thousands)	2019	2018
Deferred tax assets:		
Pre-opening expenses	$ 122	$ 154
Allowance for loan losses	5,883	5,545
Stock-based compensation	1,346	1,419
Off balance sheet reserve	258	217
Operating loss carryforwards	1,253	1,688
Other real estate owned	37	10
Unrealized loss on AFS securities	—	600
Mark to market on held for sale mortgage loans	359	2,451
Other	1,594	1,220
	10,852	13,304
Deferred tax liabilities:		
Depreciation	(282)	(521)
Unrealized gain on AFS securities	(106)	—
Acquisition accounting fair value adjustments	(2,671)	(2,067)
Mortgage servicing rights	(3,745)	(3,586)
Other	(1,722)	(2,488)
	(8,526)	(8,662)
Net deferred tax assets	$ 2,326	$ 4,642

At December 31, 2019, the Company has net operating loss carryforwards from acquisitions of approximately $32,000 for federal, zero for California, $9.6 million for New York State and $8.8 million for New York City income tax purposes. Net operating loss carry forwards, to the extent not used will begin to expire in 2028. Net operating loss carryforwards available from acquisitions are substantially limited by Section 382 of the Internal Revenue Code and benefits not expected to be realized due to the limitation have been excluded from the deferred tax asset and net operating loss carryforward amounts noted above. The Company acquired operating loss carryforwards in its acquisitions that were subject to limitations under Section 382 of the Internal Revenue Code. The amount of net operating loss carry forwards subject to the 382 limitations amounts to $3.8 million, $11.4 million, $12.3 million and $9.3 million for federal, California, New York State and New York City income tax purposes, respectively.

The Company is subject to federal income tax and franchise tax of the state of California and New York. Income tax returns for the years ended after December 31, 2015 are open to audit by the federal and New York authorities and for the years ended after December 31, 2014 are open to audit by California state authorities.

There were no recorded interest or penalties related to uncertain tax positions as part of income tax for the years ended December 31, 2019, 2018, and 2017, respectively. The Company has determined that as of December 31, 2019 all tax positions taken to date are highly certain and, accordingly, no accounting adjustment has been made to the consolidated financial statements.

NOTE 13 - COMMITMENTS

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.

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

	2019		2018	
(dollars in thousands)	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Commitments to make loans	$ —	$ 167,496	$ 5,211	$ 125,610
Unused lines of credit	55,789	102,841	61,191	75,908
Commercial and similar letters of credit	—	358	1,042	—
Standby letters of credit	2,485	1,230	2,701	673
	$ 58,274	$ 271,925	$ 70,145	$ 202,191

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)	2019	2018
Beginning balance	$ 3,600	$ 2,300
New loans and advances	16,180	7,400
Repayments	(15,780)	$ (6,100)
Ending balance	$ 4,000	$ 3,600

There were no loan commitments outstanding to executive officers, directors and their related interests with whom they are associated as of December 31, 2019 and $800,000 as of December 31, 2018.

Deposits from principal officers, directors, and their affiliates at year-end 2019 and 2018 were $84.6 million and $52.1 million.

NOTE 15- STOCK OPTION PLAN

Under the terms of the Company's 2017 Omnibus Stock Incentive Plan, officers and key employees may be granted both nonqualified and incentive stock options and directors and organizers, who are not also an officer or employee, may only be granted nonqualified stock options. The Plan provides for options to purchase up to 30 percent of the outstanding common stock at a price not less than 100 percent of the fair market value of the stock on the date of the grant. Stock options expire no later than ten years from the date of the grant and generally vest over three years.

At December 31, 2019, 1,254,045 shares were available under the 2017 Omnibus Stock Incentive Plan for future grants.

The Company recognized stock-based compensation expense of $689,000, $684,000, and $779,000 in 2019, 2018, and 2017 and recognized income tax benefits on that expense of $161,000, $202,000, and $246,000, respectively.

The Company did not grant restricted stock awards in 2019. The Company granted restricted stock awards for 43,425 shares at a closing price of $29.38 in 2018. There were no restricted stock grants in prior years. These restricted stock units are scheduled to vest over a three year period from the August 15, 2018 grant date. During the year ended 2019, 14,475 restricted stock units vested. As of December 31, 2019, there were 28,950 remaining unvested restricted stock units. As of December 31, 2019 there was $691,000 of total unamortized restricted stock compensation and weighted average grant price was $29.38. The intrinsic value of vested restricted was $262,000 as of December 31, 2019.

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions presented below for 2019 and 2016. There were no stock options granted in 2018 and 2017.

	2019	2016
Expected volatility	35.0%	35.0%
Expected term	6.0 years	6.0 years
Expected dividends	1.90%	None
Risk free rate	2.66%	1.93%
Grant date fair value	$ 6.32	$ 6.76

Since the Company had a limited amount of historical stock activity, the expected volatility was based on the historical volatility of similar banks that had a longer trading history. The expected term represents the estimated average period of time that the options remain outstanding. The expected term of options granted is based on historical data and represents the period of time that options granted are expected to be outstanding. The risk free rate of return reflects the grant date interest rate offered for zero coupon U.S. Treasury bonds over the expected term of the options.

A summary of the status of the Company's stock option plan as of December 31, 2019 and changes during the year then ended is presented below:

(dollars in thousands, except for share amounts)	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at beginning of year	1,215,097	$ 12.83		
Granted	76,500	18.38		
Exercised	(200,629)	13.43		
Outstanding at end of year	1,090,968	$ 13.11	4.07 years	$ 8,790
Options exercisable	1,014,468	$ 12.72	3.69 years	$ 8,577

As of December 31, 2019 there was approximately $332,000 of total unrecognized compensation cost related to outstanding stock options that will be recognized over a weighted-average period of 2 years. The intrinsic value of options exercised was $1.2 million, $13.6 million, and $2.8 million in 2019, 2018, and 2017, respectively.

The total fair value of the shares vested was $460,000, $734,000, and $930,000 in 2019, 2018, and 2017, respectively. The number of unvested stock options were 76,500, 62,008 and 163,996 with a weighted average grant date fair value of $6.32, $6.48 and $6.53 as of December 31, 2019, 2018 and 2017.

Cash received from the exercise of 200,629 share options was $2.8 million for the period ended December 31, 2019.

NOTE 16 - REGULATORY MATTERS

Holding companies (with assets over $3 billion at the beginning of the year) and banks are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements.

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

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

The capital conservation buffer is being phased in for 0.0% for 2015 to 2.50% by 2019. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes, as of December 31, 2019 and 2018, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2019 and 2018, the most recent notification from the FDIC categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action (there are no conditions or events since that notification that management believes have changed the Bank's category). To be categorized as well-capitalized, the Bank must maintain minimum ratios as set forth in the table below.

The following table sets forth RBB Bancorp's consolidated and the Bank's actual capital amounts and ratios and related regulatory requirements for the Bank as of December 31, 2019:

(dollars in thousands)	Actual		Amount of Capital Required			
			Minimum Required for Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2019:						
Tier 1 Leverage Ratio						
Consolidated	$ 353,572	12.89%	NA	NA	NA	NA
Bank	417,036	15.23%	$ 108,150	4.0%	$ 135,187	5.0%
Common Equity Tier 1 Risk-Based Capital Ratio						
Consolidated	$ 343,899	17.16%	NA	NA	NA	NA
Bank	417,036	20.87%	89,127	4.5%	128,739	6.5%
Tier 1 Risk-Based Capital Ratio						
Consolidated	$ 353,572	17.65%	NA	NA	NA	NA
Bank	417,036	20.87%	118,836	6.0%	158,448	8.0%
Total Risk-Based Capital Ratio						
Consolidated	$ 477,262	23.82%	NA	NA	NA	NA
Bank	436,677	21.86%	158,448	8.0%	198,061	10.0%

The following table sets forth RBB Bancorp's consolidated and the Bank's actual capital amounts and ratios and related regulatory requirements for the Bank as of December 31, 2018:

(dollars in thousands)	Actual		Amount of Capital Required			
			Minimum Required for Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
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 Federal Reserve Bank has issued guidance which requires that they be consulted before payment of a dividend if a bank 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 December 31, 2019.

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

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

(dollars in thousands) December 31, 2019	Fair Value Measurements Using: Level 1	Level 2	Level 3	Total
Assets measured at fair value:				
On a recurring basis:				
Securities available for sale				
Government agency securities	$ —	$ 1,572	$ —	$ 1,572
SBA agency securities	—	4,691	—	4,691
Mortgage-backed securities	—	19,171	—	19,171
Collateralized mortgage obligations	—	11,654	—	11,654
Commercial paper	—	69,898		69,898
Corporate debt securities	—	19,083	—	19,083
	$ —	$ 126,069	$ —	$ 126,069
On a non-recurring basis:				
Other real estate owned	—	—	293	293
	$ —	$ —	$ 293	$ 293

December 31, 2018	Level 1	Level 2	Level 3	Total
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
Commercial paper	—	14,918		14,918
Corporate debt securities	—	17,253	—	17,253
	$ —	$ 73,762	$ —	$ 73,762
On a non-recurring basis:				
Commercial real estate - collateral dependent impaired loans	$ —	—	$ 123	$ 123
Other real estate owned	—	—	$ 1,101	$ 1,101
	$ —	$ —	$ 1,224	$ 1,224

No write-downs to OREO were recorded in 2019 or 2018.

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

(dollars in thousands) December 31, 2019	Fair Value Amount	Valuation Technique	Unobservable Input	Adjustment Range	Weighted-Average Adjustment
Other real estate owned	$ 293	Third Party Appraisals	Management Adjustments to Reflect Current Conditions and Selling Costs	29%	29%
December 31, 2018					
Other real estate owned	$ 1,101	Third Party Appraisals	Management Adjustments to Reflect Current Conditions and Selling Costs	16%	16%

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.

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 December 31, 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.

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.

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

FHLB Advances

The carrying amounts of short-term debt with maturities of less than ninety days, such as FHLB Advances, approximate their fair values.

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 December 31, 2019 and 2018 are summarized as follows:

(dollars in thousands)	Fair Value Hierarchy	2019 Carrying Value	2019 Fair Value	2018 Carrying Value	2018 Fair Value
Financial Assets:					
Cash and due from banks	Level 1	$ 114,763	$ 114,763	$ 147,685	$ 147,685
Federal funds sold and other cash equivalents	Level 1	67,000	67,000	—	—
Interest-earning deposits in other financial institutions	Level 1	600	600	600	600
Investment securities - AFS	Level 2	126,069	126,069	73,762	73,762
Investment securities - HTM	Level 2	8,332	8,632	9,961	9,940
Mortgage loans held for sale	Level 1	108,194	109,385	434,522	438,948
Loans, net	Level 3	2,178,118	2,158,970	2,124,438	2,114,341
Equity securities	Level 3	11,826	11,826	10,039	10,039
Mortgage servicing rights	Level 2	17,083	20,752	17,370	21,361
Financial Liabilities:					
Deposits	Level 2	$ 2,248,938	$ 2,236,329	$ 2,144,041	$ 2,143,196
FHLB advances	Level 2	—	—	319,500	319,500
Long-term debt	Level 2	104,049	109,877	103,708	79,756
Subordinated debentures	Level 3	9,673	11,709	9,506	10,356

NOTE 19 - EARNINGS PER SHARE ("EPS")

The following is a reconciliation of net income and shares outstanding to the income and number of shares used to compute EPS:

(dollars in thousands except per share amounts)	2019 Income	2019 Shares	2018 Income	2018 Shares	2017 Income	2017 Shares
Net income as reported	$ 39,209		$ 36,105		$ 25,528	
Less: Earnings allocated to Participating Securities	(74)		—		—	
Shares outstanding		20,030,866		20,000,022		15,908,893
Impact of weighting shares		(13,560)		(2,848,800)		(1,830,612)
Used in basic EPS	39,135	20,017,306	36,105	17,151,222	25,528	14,078,281
Dilutive effect of outstanding						
Stock options		376,118		816,431		1,160,084
Used in dilutive EPS	$ 39,135	20,393,424	$ 36,105	17,967,653	$ 25,528	15,238,365
Basic earnings per common share	$ 1.96		$ 2.11		$ 1.81	
Diluted earnings per common share	1.92		2.01		1.68	

Stock options for 76,500 shares and 399,000 shares of common stock were not considered in computing diluted earnings per common share for Dec 31, 2019 and 2018, respectively because they were anti-dilutive. There were no anti-dilutive stock options in December 31, 2017.

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)	For the Year Ended December 31, 2019	2018	2017
Non-interest income, in scope (1)			
Fees and service charges on deposit accounts	$ 1,366	$ 1,115	$ 1,164
Other fees (2)	1,118	723	145
Other income (3)	1,429	709	501
(Loss) gain on sale of OREO and fixed assets	(100)	—	142
Total in-scope non-interest income	3,813	2,547	1,952
Non-interest income, not in scope (4)	14,507	10,295	11,249
Total non-interest income	$ 18,320	$ 12,842	$ 13,201

(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. Periodic service charges are generally collected monthly directly from the customer's deposit account, and at the end of a statement cycle, while transaction based service charges are typically collected at the time of or soon after the service is performed. 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 commission fees the Company earns are variable and are generally received monthly. The Company recognizes revenue for the services performed at quarter-end based on actual transaction details received from the broker dealer the Company engages.

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

Gain on Sales of Other Real Estate Owned and Fixed Assets

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

NOTE 21 – QUALIFIED AFFORDABLE HOUSING PROJECT INVESTMENTS

The Company began investing in qualified affordable housing projects in 2016. At December 31, 2019 and December 31, 2018, the balance of the investment for qualified affordable housing projects was $8.6 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 affordable housing projects totaled $4.2 million and $6.8 million at December 31, 2019 and December 31, 2018. The Company expects to fulfill these commitments between 2020 and 2027.

During the years ending December 31, 2019, 2018 and 2017, the Company recognized amortization expense of $900,000, $644,000 and $316,000, respectively, which was included within income tax expense on the consolidated statements of income.

During the years ended December 31, 2019, 2018 and 2017, the Company recognized tax credits from its investment in affordable housing tax credits of $1.1 million, $573,000 and $275,000, respectively. The Company had no impairment losses during the years ended December 31, 2019, 2018 and 2017

NOTE 22 - PARENT ONLY CONDENSED FINANCIAL INFORMATION

The parent company only condensed statements of financial condition as of December 31, 2019 and 2018, and the related condensed statements of income and condensed statements of cash flows for the years ended December 31, 2019, 2018, and 2017 are presented below:

Condensed Statements of Financial Condition

(Dollars in Thousands)	**2019**	**2018**
ASSETS		
Cash and cash equivalents	$ 29,985	$ 45,540
Investment in Bank	480,703	433,023
Investment in RAM	6,870	6,796
Other assets	4,202	2,820
Total assets	$ 521,760	$ 488,179
LIABILITIES AND SHAREHOLDERS' EQUITY		
Long term debt	104,049	103,708
Subordinated debentures	9,673	9,506
Other liabilities	348	344
Total liabilities	114,070	113,558
Shareholders' equity:		
Common stock	290,395	288,610
Additional paid-in capital	4,938	5,659
Retained earnings	112,046	81,618
Non-controlling interest	72	72
Accumulated other comprehensive income (loss)	239	(1,338)
Total shareholders' equity	407,690	374,621
Total liabilities and shareholders' equity	$ 521,760	$ 488,179

Condensed Statements of Income

(Dollars in Thousands)	2019	2018	2017
Interest income	$ —	$ 15	$ —
Interest expense	7,697	4,083	3,629
Noninterest expense	1,300	1,255	642
Loss before equity in undistributed income of subsidiaries	(8,997)	(5,323)	(4,271)
Equity in undistributed income of:			
Bank	45,324	39,198	27,620
RAM	74	528	143
Income before income taxes	36,401	34,403	23,492
Income tax benefit	2,808	1,702	2,036
Net income	39,209	36,105	25,528
Other comprehensive income (loss)	1,577	(895)	(104)
Total comprehensive income	$ 40,786	$ 35,210	$ 25,424

Condensed Statements of Cash Flows

(Dollars in Thousands)	2019	2018	2017
Cash flows from operating activities:			
Net income	$ 39,209	$ 36,105	$ 25,528
Net amortization of other	508	268	235
Provision for deferred income taxes	513	(1,905)	1,807
Undistributed income of subsidiaries	(45,398)	(39,726)	(27,763)
Change in other assets and liabilities	(1,981)	3,492	(3,923)
	(7,149)	(1,766)	(4,116)
Cash flows from investment activities:			
Net cash acquired (outlay) in connection with acquisition	—	(41,358)	—
Investment in subsidiaries	—	(15,000)	(25,000)
	—	(56,358)	(25,000)
Cash flows from financing activities:			
Issuance of subordinated debentures, net of issuance costs	—	54,018	—
Issuance of common stock, net of issuance costs	—	—	60,210
Dividends paid	(8,033)	(5,753)	(5,118)
Common stock repurchased, net of repurchased costs	(3,190)		
Stock options exercised	2,817	9,630	2,296
	(8,406)	57,895	57,388
Increase in cash and cash equivalents	(15,555)	(229)	28,272
Cash and cash equivalents beginning of year	45,540	45,769	17,497
Cash and cash equivalents end of year	$ 29,985	$ 45,540	$ 45,769

NOTE 23 – SUBSEQUENT EVENTS

On January 10, 2020, we acquired PGB Holdings Inc. and its wholly-owned subsidiary, Pacific Global Bank (“PGB”) in an all-cash transaction for $32.9 million. At the time of acquisition, PGB had approximately $217.6 million in total assets, $192.3 million in total deposits, and three branches in Chicago, Illinois. The fair value accounting process has not been completed for this acquisition.

NOTE 24 – QUARTERLY INCOME STATEMENTS (Unaudited)

The following table presents the unaudited quarterly condensed income statements for the years 2019 and 2018.

	2019				2018			
(dollars in thousands)	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
Interest income	$ 33,907	$ 34,669	$ 35,943	$ 37,206	$ 35,181	$ 24,473	$ 22,284	$ 20,177
Interest expense	10,784	11,157	11,626	11,294	9,599	5,857	4,457	3,732
Net interest income	23,123	23,512	24,317	25,912	25,582	18,616	17,827	16,445
Provision for credit losses	659	824	357	550	1,890	1,695	700	184
Net interest income after provision for credit losses	22,464	22,688	23,960	25,362	23,692	16,921	17,127	16,261
Noninterest income:	5,823	2,799	5,496	4,202	5,489	2,105	2,793	2,455
Noninterest expense:	13,463	13,786	14,899	15,325	15,503	8,654	8,191	8,289
Income before income taxes	14,824	11,701	14,557	14,239	13,678	10,372	11,729	10,427
Income tax expense	4,149	3,689	4,415	3,859	4,188	2,041	2,292	1,580
Net income	$ 10,675	$ 8,012	$ 10,142	$ 10,380	$ 9,490	$ 8,331	$ 9,437	$ 8,847
Net income per share								
Basic	$ 0.53	$ 0.40	$ 0.51	$ 0.52	$ 0.48	$ 0.50	$ 0.58	$ 0.55
Diluted	0.52	0.39	0.50	0.51	0.47	0.48	0.54	0.52

NOTE 25 – REPURCHASE OF COMMON STOCK

During 2019 the board of directors approved the Company to repurchase up to 1,000,000 million shares of stock. As of December 31, 2019 the Company had repurchased 169,785 shares of stock at an average per share price of $18.79.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Evaluation of disclosure controls and procedures. The Company’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 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 as of that date to provide reasonable assurance that the information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is accumulated and communicated to the Company’s management, including its President and Chief Executive Officer and its Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

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.

Management’s Report on Internal Control over Financial Reporting

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in Rule 13a-15(f) under the Exchange Act. The Company’s internal control over financial reporting is a process designed under the supervision of the Company’s Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company’s financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

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

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

As of December 31, 2019, under the supervision and with the participation of the Company’s management, including the Company’s principal executive officer and principal financial officer, the Company assessed the effectiveness of its internal control over financial reporting based on the criteria for effective internal control over financial reporting established in “Internal Control — Integrated Framework (2013),” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management determined that the Company maintained effective internal control over financial reporting as of December 31, 2019.

On October 15, 2018, we completed our acquisition of First American International Corp. (FAIC). We are in the process of evaluating the existing controls and procedures of FAIC and integrating FAIC into our internal control over financial reporting. In accordance with SEC Staff guidance permitting a company to exclude an acquired business from management’s assessment of the effectiveness of internal control over financial reporting for the year in which the acquisition is completed, we have excluded the business that we acquired in the FAIC combination from our assessment of the effectiveness of internal control over financial reporting as of December 31, 2018. The business that we acquired in the FAIC combination represented 27% of the Company’s total assets as of December 31, 2018, and 8% of the Company’s revenues and 11% of the Company’s net income for the year ended December 31, 2018. The scope of management’s assessment of the effectiveness of the design and operation of the Company’s disclosure controls and procedures as of December 31, 2018 includes all of the Company’s consolidated operations except for those disclosure controls and procedures of FAIC that are subsumed by internal control over financial reporting.

EideBailly, LLP, the independent registered public accounting firm that audited the Company's consolidated financial statements included in this report, has issued an attestation report on the effectiveness of the Company's internal control over financial reporting, a copy of which appears on the following page.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of RBB Bancorp

Opinion on Internal Control over Financial Reporting

We have audited RBB Bancorp's (the Company) internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.*

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements of the Company and our report dated March 16, 2020 expressed an unqualified opinion.

Basis for Opinion

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

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

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

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

As indicated in the accompanying Management's Report on Internal Controls over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of the business that the company acquired in the acquisition of First American International Corp. ("FAIC Acquisition"), which is included in the 2018 consolidated financial statements of RBB Bancorp and constituted 27% of total assets as of December 31, 2018, 8% of revenues and 11% of net income for the year then ended. Our audit of internal control over financial reporting of RBB Bancorp also did not include an evaluation of the internal control over financial reporting of the FAIC Acquisition.

/s/Eide Bailly, LLP

Laguna Hills, CA
March 16, 2020

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, that occurred during the fourth fiscal quarter of 2019 that have materially affected, or are reasonably likely to materially effect, the Company's internal control over financial reporting.

Item 9B. Other Information.

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

This information can be found in the sections titled “Proposal 1 – Election of Directors,” “Section 16(a) Beneficial Ownership Reporting Compliance,” and “Corporate Governance and the Board of Directors” appearing in the Company’s Proxy Statement for the 2020 annual meeting of shareholders to be filed within 120 days after December 31, 2019, which is incorporated herein by reference.

Item 11. Executive Compensation.

This information can be found in the sections titled “Executive Compensation” and “Corporate Governance and the Board of Directors” appearing in the Company’s Proxy Statement for the 2020 annual meeting of shareholders to be filed within 120 days after December 31, 2019, which is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

This information can be found in the sections titled “Security Ownership of Certain Beneficial Owners and Management,” appearing in the Company’s Proxy Statement for the 2020 annual meeting of shareholders to be filed within 120 days after December 31, 2019, which is incorporated herein by reference.

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

This information can be found in the sections titled “Certain Relationships and Related Party Transactions” and “Corporate Governance and the Board of Directors” appearing in the Company’s Proxy Statement for the 2020 annual meeting of shareholders to be filed within 120 days after December 31, 2019, which is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services.

This information can be found in the section titled “Independent Registered Public Accounting Firm” appearing in the Company’s Proxy Statement for the 2020 annual meeting of shareholders to be filed within 120 days after December 31, 2019, which is incorporated herein by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

(a) Documents filed as part of this report.

(1) The following financial statements are incorporated by reference from Item 8 hereof:

Report of Independent Registered Public Accounting Firm.

Consolidated Balance Sheets as of December 31, 2019 and 2018.

Consolidated Statements of Income for the Years Ended December 31, 2019, 2018 and 2017.

Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2019, 2018 and 2017.

Consolidated Statements of Changes in Shareholders' Equity for the Years Ended December 31, 2019, 2018 and 2017.

Consolidated Statements of Cash Flows for the Years Ended December 31, 2019, 2018 and 2017.

Notes to Consolidated Financial Statements.

(2) All schedules for which provision is made in the applicable accounting regulation of the SEC are omitted because they are not applicable or the required information is included in the consolidated financial statements or related notes thereto.

(b) The following exhibits are filed with or incorporated by reference in this report, and this list includes the Exhibit Index.

EXHIBIT INDEX

Exhibit Number	Description
2.1	Agreement and Plan of Merger dated November 10, 2015 between TFC Holding Company, TomatoBank, RBB Bancorp and Royal Business Bank (incorporated herein by reference to Exhibit 2.1 to our Form S-1 Registration Statement (Registration No. 333-219018) filed on June 28, 2017)
2.2	Agreement and Plan of Merger dated April 23, 2018 between First American International Corp. and RBB Bancorp (incorporated herein by reference to Exhibit 2.1 to our Form 8-K filed on April 23, 2018)
2.3	Agreement and Plan of Merger By and Among RBB Bancorp, Royal Business Bank, PGH Holdings, Inc. and Pacific Global Bank, effective as of September 5, 2019 (incorporated herein by reference to Exhibit 2.1 to our Form 10-Q filed on November 12, 2019)
3.1	Articles of Incorporation of RBB Bancorp (1)
3.2	Bylaws of RBB Bancorp (2)
3.3	Amendment to Bylaws of RBB Bancorp (4)
4.1	Specimen Common Stock Certificate of RBB Bancorp (3)
	Instruments defining the rights of holders of the long-term debt securities of the Company and its subsidiaries are omitted pursuant to section (b)(4)(iii)(A) of Item 601 of Regulation S-K. The Company hereby agrees to furnish copies of these instruments to the SEC upon request.
4.2	Description of Registrant's Securities
10.1	Employment Agreement dated April 12, 2017 between RBB Bancorp, Royal Business Bank and Alan Thian (incorporated herein by reference to Exhibit 10.1 to our Form S-1 Registration Statement (Registration No. 333-219018) filed on June 28, 2017)*
10.2	Employment Agreement dated April 12, 2017 between RBB Bancorp, Royal Business Bank and David Morris (incorporated herein by reference to Exhibit 10.2 to our Form S-1 Registration Statement (Registration No. 333-219018) filed on June 28, 2017)*
10.3	Employment Agreement dated April 12, 2017 between RBB Bancorp, Royal Business Bank and Simon Pang (incorporated herein by reference to Exhibit 10.3 to our Form S-1 Registration Statement (Registration No. 333-219018) filed on June 28, 2017)*
10.4	RBB Bancorp 2010 Stock Option Plan (incorporated herein by reference to Exhibit 10.4 to our Form S-1 Registration Statement (Registration No. 333-219018) filed on June 28, 2017)*
10.5	Form of Stock Option Award under the RBB Bancorp 2010 Stock Option Plan (incorporated herein by reference to Exhibit 10.5 to our Form S-1 Registration Statement (Registration No. 333-219018) filed on June 28, 2017)*
10.6	RBB Bancorp 2017 Omnibus Stock Incentive Plan (incorporated herein by reference to Exhibit 10.6 to our Form S-1 Registration Statement (Registration No. 333-219018) filed on June 28, 2017)*
10.7	Form of Stock Option Award Terms under the RBB Bancorp 2017 Omnibus Stock Incentive Plan (incorporated herein by reference to Exhibit 10.7 to our Form S-1 Registration Statement (Registration No. 333-219018) filed on June 28, 2017)*
10.8	Form of Stock Appreciation Rights Award under the RBB Bancorp 2017 Omnibus Stock Incentive Plan (incorporated herein by reference to Exhibit 10.8 to our Form S-1 Registration Statement (Registration No. 333-219018) filed on June 28, 2017)*
10.9	Form of Deferred Stock Award Agreement under the RBB Bancorp 2017 Omnibus Stock Incentive Plan (incorporated herein by reference to Exhibit 10.9 to our Form S-1 Registration Statement (Registration No. 333-219018) filed on June 28, 2017)*
10.10	Form of Restricted Stock Award Agreement under the RBB Bancorp 2017 Omnibus Stock Incentive Plan (incorporated herein by reference to Exhibit 10.10 to our Form S-1 Registration Statement (Registration No. 333-219018) filed on June 28, 2017)*

10.11	Form of Performance Award Agreement under the RBB Bancorp 2017 Omnibus Stock Incentive Plan (incorporated herein by reference to Exhibit 10.11 to our Form S-1 Registration Statement (Registration No. 333-219018) filed on June 28, 2017)*
10.12	Form of Indemnification Agreements entered into with all of the directors and executive officers of RBB Bancorp (incorporated herein by reference to Exhibit 10.12 to our Form S-1 Registration Statement (Registration No. 333-219018) filed on June 28, 2017)*
10.13	Form of Indemnification Agreement entered into with all of the former directors and executive officers of TFC Holding Company (incorporated herein by reference to Exhibit 10.13 to our Form S-1 Registration Statement (Registration No. 333-219018) filed on June 28, 2017)*
21.1	Subsidiaries of RBB Bancorp (Reference is made to "Item 1. Business" for the required information.)
23.1	Consent of Eide Bailly LLP
23.2	Consent of Vavrinek, Trine, Day & Co., LLP
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Finance 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

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

* Indicates a management contract or compensatory plan.

Item 16. Form 10-K Summary

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Los Angeles, State of California, on March 16, 2020.

RBB BANCORP

By:	/s/ Yee Phong (Alan) Thian
Name:	Yee Phong (Alan) Thian
Title:	*Chairman, Chief Executive Officer and President*

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Yee Phong (Alan) Thian Yee Phong (Alan) Thian	Director (Chairman); Chief Executive Officer and President (principal executive officer)	March 16, 2020
/s/ David Morris David Morris	Executive Vice President; Chief Financial Officer (principal financial and accounting officer)	March 16, 2020
/s/ Peter M. Chang Peter M. Chang	Director	March 16, 2020
/s/ Wendell Chen Wendell Chen	Director	March 16, 2020
/s/ Christina Kao Christina Kao	Director	March 16, 2020
/s/ James W. Kao James W. Kao	Director	March 16, 2020
/s/ Chie-Min (Christopher) Koo Chie-Min (Christopher) Koo	Director	March 16, 2020
/s/ Alfonso Lau Alfonso Lau	Director	March 16, 2020
/s/ Christopher Lin Christopher Lin	Director	March 16, 2020
/s/ Ko-Yen Lin Ko-Yen Lin	Director	March 16, 2020
/s/ Paul Lin Paul Lin	Director	March 16, 2020
/s/ Feng (Richard) Lin Feng (Richard) Lin	Director	March 16, 2020
/s/ Fui Ming (Catherine) Thian Fui Ming (Catherine) Thian	Director	March 16, 2020
/s/ Raymond Yu Raymond Yu	Director	March 16, 2020

Exhibit 4.2

DESCRIPTION OF REGISTRANT'S SECURITIES

As of December 31, 2019, RBB Bancorp (the "Company," "we," or "our") had one class of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"): our common stock, no par value per share ("common stock").

DESCRIPTION OF CAPITAL STOCK

General

The following description of the current terms of our capital stock is a summary and is not meant to be complete. It is qualified in its entirety by reference to the California General Corporation Law ("CGCL"), federal law, the Company's Articles of Incorporation ("Articles") and the Company's Bylaws, as amended ("Bylaws").

Authorized Capital Stock

Our Articles authorize the issuance of up to 100,000,000 shares of common stock, no par value per share, and up to 100,000,000 shares of preferred stock.

Voting Rights

The holders of our common stock are entitled to one vote per share on any matter to be voted on by the shareholders. The holders of our common stock are entitled to cumulative voting rights with respect to the election of directors. A plurality of the shares voted shall elect all of the directors then standing for election at a meeting of shareholders at which a quorum is present.

No Preemptive or Similar Rights

The holders of our common stock have no preemptive or other subscription rights and there are no redemption, sinking fund or conversion privileges applicable to our common stock.

Dividend Rights

The holders of our common stock are entitled to share equally in any dividends that our Board of Directors ("Board") may declare from time to time out of funds legally available for dividends, subject to limitations under the CGCL and any preferential rights of holders of our then outstanding preferred stock.

Anti-Takeover Considerations and Special Provisions of Our Articles, Bylaws and California Law

California law and certain provisions of our Articles and Bylaws could have the effect of delaying or deferring the removal of incumbent directors or delaying, deferring or discouraging another party from acquiring control of us, even if such removal or acquisition would be viewed by our shareholders to be in their best interests. These provisions, summarized below, are intended to encourage persons seeking to acquire control of us to first negotiate with our board of directors. These provisions also serve to discourage hostile takeover practices and inadequate takeover bids. We believe that these provisions are beneficial because the negotiation they encourage could result in improved terms of any unsolicited proposal.

Limitation on Right to Call a Special Meeting of Shareholders

Our Bylaws provide that special meetings of shareholders may only be called by our Board or our president or by the holders of not less than 10% of our outstanding shares of capital stock entitled to vote for the purpose or purposes for which the meeting is being called.

Advance Notice Provisions

Additionally, our Bylaws provide that nominations for directors must be made in accordance with the provisions of our Bylaws, which generally require, among other things, that such nominations be provided in writing to our corporate secretary, not less than 21 days prior to the meeting or 7 days after the date of mailing of the notice of meeting to shareholders, and that the notice to our corporate secretary contain certain information about the shareholder and the director nominee.

Filling of Board Vacancies; Removals

Any vacancies on our Board and any directorships resulting from any increase in the number of directors may be filled by a majority of the remaining directors, or if the number of directors then in office is less than a quorum, by (i) unanimous written consent of the directors then in office, (ii) the affirmative vote of a majority of the directors then in office at a meeting held pursuant to notice or waivers of notice, or (iii) a sole remaining director. However, a vacancy created by the removal of a director by the vote or written consent of the shareholders or by court order may be filled only by the affirmative vote of a majority of the shares represented and voting at a duly held meeting at which a quorum is present, or by the unanimous written consent of all shares entitled to vote thereon.

New or Amendment of the Bylaws

New bylaws may be adopted or our Bylaws may be amended or repealed by the vote or written consent of holders of a majority of the outstanding shares entitled to vote. Our Bylaws also provide that except for changing the range of directors which is currently set at 7 to 13, our Bylaws may be altered, amended or repealed by our Board without prior notice to or approval by our shareholders. Accordingly, our Board could take action to amend our Bylaws in a manner that could have the effect of delaying, deferring or discouraging another party from acquiring control of us.

Voting Provisions

Our Articles do not provide for certain heightened voting thresholds needed to consummate a change in control transaction, such as a merger, the sale of substantially all of our assets or other similar transaction. Accordingly, we will not be able to consummate a change in control transaction or sell all or substantially all of our assets without obtaining the affirmative vote of the holders of shares of our capital stock having at least a majority of the voting power of all outstanding capital stock entitled to vote thereon.

Elimination of Liability and Indemnification

Our Articles and Royal Business Bank's ("Bank") articles of incorporation provide that a director of the Company or the Bank will not incur any personal liability to us, the Bank or our shareholders for monetary damages for certain breaches of fiduciary duty as a director. A director's liability, however, is not eliminated with respect to (i) any breach of the duty of loyalty, (ii) acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) paying a dividend or approving a stock repurchase which is illegal under certain provisions of state law, or, (iv) any transaction from which the director derived an improper personal benefit. Our Articles and Bylaws and the Bank's articles of incorporation and bylaws also provide, among other things, for the indemnification of our or the Bank's directors, officers and agents, and authorize our and/or the Bank's board of directors to pay expenses incurred by, or to satisfy a judgment or fine rendered or levied against, such agents in connection with any personal legal liability incurred by the individual while acting for us and/or the Bank within the scope of his or her employment (subject to certain limitations). It is the policy of our and the Bank's board of directors that our and the Bank's directors, officers and agents shall be indemnified to the maximum extent permitted under applicable law and our and the Bank's articles of incorporation and bylaws, and we have obtained director and officer liability insurance covering all of our and the Bank's officers and directors.

Restrictions on Ownership of Company Common Stock

The ability of a third party to acquire our stock is also limited under applicable U.S. banking laws, including regulatory approval requirements. The Bank Holding Company Act of 1956 (the "BHCA") requires any "bank holding company," as defined in that BHCA, to obtain the approval of the Board of Governors of the Federal Reserve System (the "Federal Reserve") prior to acquiring more than 5% of our outstanding common stock. Any corporation or other company that becomes a holder of 25% or more of our outstanding common stock, or 5% or more of our common stock under certain circumstances, would be subject to regulation as a bank holding company under the BHCA. In addition, any person other than a bank holding company may be required to obtain prior approval of the Federal Reserve to acquire 10% or more of our outstanding common stock under the Change in Bank Control Act of 1978.

Stock Exchange Listing

Our common stock is listed on the NASDAQ Global Select Market under the symbol "RBB."

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is Issuer Direct, 500 Perimeter Park Drive, Suite D, Morrisville, North Carolina 27560, (919) 481-4000.

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We hereby consent to the incorporation by reference in the registration statement (No. 333-219626) on Form S-8 of RBB Bancorp and Subsidiaries of our report dated March 16, 2020 relating to our audit of the consolidated financial statements appearing in this annual report on Form 10-K for the year ended December 31, 2019.

/s/ Eide Bailly LLP

Laguna Hills, California
March 16, 2020

Exhibit 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in registration statement (No. 333-219626) on Form S-8 of RBB Bancorp and Subsidiaries of our report dated March 27, 2019 relating to our audit of the consolidated financial statements appearing in this Annual Report on Form 10-K for the year ended December 31, 2018.

Vavrinek, Trine, Day & Co., LLP

Laguna Hills, California
March 16, 2020

Exhibit 31.1

CERTIFICATION

I, Alan Thian, certify that:

1. I have reviewed this annual report on Form 10-K 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: March 16, 2020

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 annual report on Form 10-K 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: March 16, 2020

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 Annual Report of RBB Bancorp (the "Company") on Form 10-K for the period ended December 31, 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: March 16, 2020

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 Annual Report of RBB Bancorp (the “Company”) on Form 10-K for the period ended December 31, 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: March 16, 2020

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