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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2021

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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report ☒

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

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 $378,802,944.

The number of shares of Registrant's Common Stock outstanding as of March 9, 2022, was 19,453,941.

Portions of the Registrant’s Definitive Proxy Statement relating to the Annual Meeting of Shareholders, scheduled to be held on May 18, 2022, 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:

- *the COVID-19 pandemic and the impact of actions to mitigate any continuing effects from the COVID-19 pandemic;*
- *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;*
- *the transition away from the London Interbank Offering Rate ("LIBOR") and uncertainty regarding potential alternative reference rates, including the Secured Overnight Financing Rate ("SOFR");*
- *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;*

- *climate change, including any enhanced regulatory, compliance, credit and reputational risks and costs;*
- *cybersecurity threats and the cost of defending against them;*
- *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 December 31, 2022;*
- *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 may sell to other banks. In 2018, with the acquisition of First American International Bank ("FAIB") we became a FNMA originator and servicer. 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 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. ("PGBH") 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 $217.9 million in total assets, $191.7 million in total deposits, and three branches in Chicago, Illinois.

In March 2021, we issued $120.0 million subordinated debt for growth and liquidity purposes.

In July 2021, we entered into an agreement, and in September 2021 we received regulatory approval in September, to purchase the Honolulu, Hawaii branch of the Bank of the Orient. The transaction was completed on January 14, 2022. The Company received a payment of $71.0 million to acquire all the premises and equipment at the Branch, all deposits totaling $81.7 million and performing loans totaling $7.4 million as of December 31, 2021, reflecting a premium paid by us of approximately $3.0 million.

On December 28, 2021, the Company announced that it entered into a definitive agreement to acquire Gateway Bank, F.S.B. ("Gateway Bank") in a cash transaction valued at approximately $22.9 million, subject to certain terms and conditions, including the receipt of the requisite regulatory approvals. The Company expects the transaction to be accretive to earnings per share in 2022 in the mid-single digit range. The Company also expects to incur tangible book value per share dilution of approximately 1.8% upon closing of the transaction, with a tangible book value dilution payback period of approximately 1.8 years. The earnings per share accretion estimates are based on estimated cost savings of approximately 60% of Gateway Bank's non-interest expense, with the cost savings phased in during 2022. The earnings per share accretion estimates do not include any assumption of revenue synergies. The transaction is expected to close in second quarter of 2022.

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 (zero in both 2021 and 2020, $479,000 in 2019 and $648,000 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. In mid-June, 2021 the Bank was awarded a $1.8 million CDFI grant under the US Treasury’s Rapid Response Program to facilitate a rapid response to the economic impacts of the COVID-19 pandemic in distressed and underserved communities. The award was received in August 2021 after finalization of the contract between the Bank and the US Treasury which included various performance goals and measures that specify the use of the funds to provide affordable housing. The Bank utilized all of such funds to originate two loans that provide affordable housing to underserved communities.

The Bank currently operates 23 branches across two separate regions: the Western region with branches in Los Angeles County, California; Orange County, California; Ventura County, California; Clark County, Nevada; Honolulu, Hawaii; and our Eastern region (sometimes referred to as the New York region) with branches in Manhattan, Brooklyn and Queens, New York; Chicago, Illinois and Edison, New Jersey.

As of December 31, 2021, the Company had total consolidated assets of $4.2 billion, total consolidated held for investment loans of $2.9 billion, total consolidated deposits of $3.4 billion and total consolidated shareholders’ equity of $466.7 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), Nevada and Hawaii, with possible future geographic expansion currently focused on 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 nine branches in Los Angeles County located in downtown Los Angeles, San Gabriel, Torrance, Rowland Heights, Monterey Park, Silver Lake, Arcadia, Cerritos, and Diamond Bar. 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 18th 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 14.7% of the over 10.1 million residents in Los Angeles County as of 2019. We also maintain one branch in Irvine, Orange County, California.

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 7.3% of the 847,263 residents in Ventura County as of 2019.

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 2020 gross domestic product of approximately $119.4 billion, this MSA contains the largest concentration of people in the state (approximately 2.2 million), and is a significant tourist destination, drawing over 19 million international and domestic visitors in 2016. According to the U.S. Census Bureau, Asian Americans account for 10.0% of the 2.3 million residents in Clark County as of 2019.

We operate seven branches in the New York City/New Jersey metropolitan MSA. This MSA is located in the south-eastern part of the state of New York and northern New Jersey, and includes the boroughs of Manhattan, Queens and Brooklyn, plus our branch in Edison, New Jersey. A central part of the MSA is the borough of Manhattan. With a 2020 gross domestic product of approximately $1.8 trillion, this MSA contains the largest concentration of people in the state, and is a significant business and tourist destination. According to the 2019 U.S. Census Bureau, Asian Americans account for 12% of the over 19.2 million residents in metropolitan New York City.

As a result of the PGB acquisition, we operate two branches in the Chinatown area of Chicago (following the closure of one Chicago branch in February 2021) in the metropolitan area of Chicago-Naperville-Elgin MSA. According to the U.S. Census Bureau, as of 2019, Asians account for 90% of Chicago's Chinatown population, and the Asian population is 7% of the over 9.5 million residents in the Chicago metropolitan area.

As of January 18, 2022, we operate one branch in Honolulu, Hawaii. The branch was purchased from the Bank of the Orient. According to the 2020 U.S. Census Bureau, Asian Americans account for 56% of the nearly 1.5 million residents in the state of Hawaii.

Our Competition

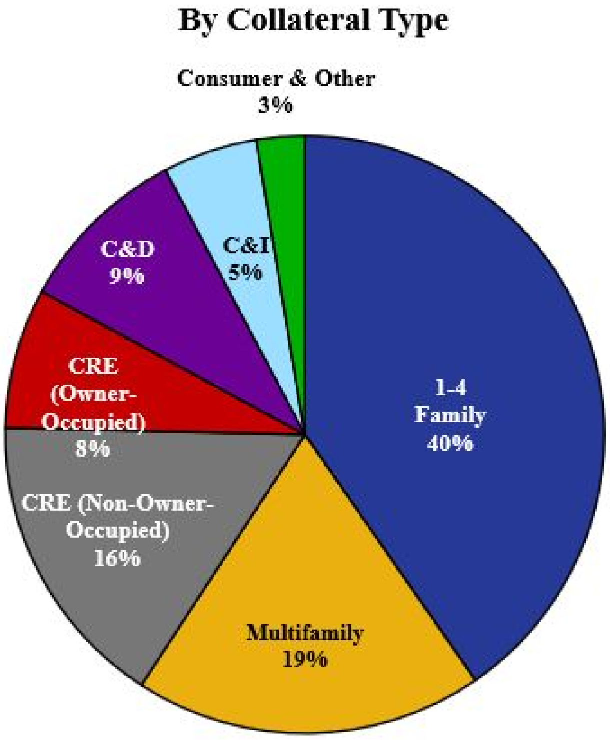
We view the Chinese-American banking market, including the Company, as comprised of 23 banks divided into three overlapping segments: publicly-traded banks (7 banks), locally-owned banks (16 banks), and banks that are subsidiaries of Taiwanese or Chinese banks (7 banks). Fourteen of the locally-owned banks are based in California. We are currently the fifth-largest bank among this group of 24 banks.

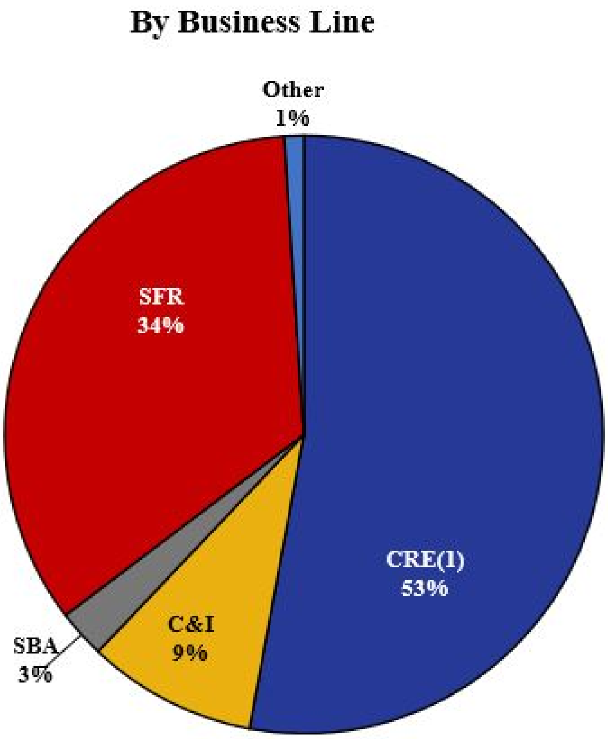
In addition to these Chinese-American banks, we also compete with other banks in the region, particularly with Korean-American banks in our SFR and SBA lending areas. Although we were founded by and market primarily to Chinese Americans, we are broadening our marketing efforts to include all categories 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, 2021, 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.





(1) Includes construction and land development loans

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, 2021, we had outstanding commercial and industrial loans of $268.7 million, or 9.2% of our total loan portfolio. We had $3.7 million non-accrual commercial and industrial loans as of December 31, 2021 compared to $1.7 million non-accrual commercial and industrial loans as of December 31, 2020.

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 $1.2 billion at December 31, 2021 of which $222.8 million was secured by owner occupied properties. The multi-family residential loan portfolio totaled $545.9 million as of December 31, 2021. The single-family residential loan portfolio originated for a business purpose totaled $65.6 million as of December 31, 2021. Our non-accrual commercial real estate loans as of December 31, 2021 were $4.7 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, 2021, our real estate construction loan portfolio was divided among the foregoing categories: $211.9 million, or 69.9%, of residential construction; $71.9 million, or 23.7%, of commercial construction; and $19.4 million, or 6.4%, 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. In 2021, we originated $60.3 million in SBA loans, of which $22.5 million were PPP loans, $26.2 million were SBA 7A originations and $11.6 million were SBA 504 originations. Of SBA loan originations, $43.9 million, or 72.8%, were produced by branch staff and loan officers. The remaining $16.4 million, or 27.2%, was referred to us through SBA brokers.

As of December 31, 2021 our SBA portfolio totaled $76.1 million of which $17.9 million is guaranteed by the SBA and $58.2 million is unguaranteed, of which $56.6 million is secured by real estate and $1.6 million is unsecured or secured by business assets. There are $22.5 million SBA loans originated under the Paycheck Protection Program ("PPP") in 2021. We monitor the unguaranteed portfolio by type of real estate collateral. As of December 31, 2021, $25.4 million or 43.6% is secured by hotel/motels; $5.0 million or 8.6% by gas stations; and $27.9 million or 47.8% in other real estate types. We further analyze the unguaranteed portfolio by location. As of December 31, 2021, $27.8 million or 47.7% is located in California; $6.0 million or 10.3% is located in Washington state; $5.1 million or 8.7% is located in Nevada; $5.0 million or 8.5% is located in Texas; $3.4 million or 5.8% is located in New York; and $11.0 million or 19.0% is located in other states. Our non-performing SBA loans as of December 31, 2021 amounted to $6.3 million of which $1.1 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 seven-year hybrid adjustable mortgage with a current start rate of 3.875% plus 0%-1% in points, which re-prices after five or seven years to the one-year CMT plus 3.00%. We also offer qualified mortgage program as a correspondent to major banking financial institutions. As of December 31, 2021, we had $1.0 billion of SFR mortgage loans, representing 34.3% of our total loan portfolio, excluding available for sale SFR loans. We had 13 non-accrual single-family residential real estate loans as of December 31, 2021 totaling $4.2 million compared to 12 loans totaling $7.7 million at December 31, 2020.

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 2021, we originated $410.0 million of such loans through our retail channel, and $62.1 million through our correspondent and wholesale channel. During 2020, we originated $287.3 million of such loans through our retail channel, and $131.8 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.

Our intention is to continue selling SFR mortgage loans to these investors. However, our correspondents have moved away from the non-qualified mortgage product to the standard FNMA product. Therefore, we expect we will have lower non-qualified mortgage sales and higher FNMA sales. In addition, the current low start rate makes it unprofitable to currently sell non-qualified mortgage loans to institutional investors.

In our Eastern region, we originate 15-year and 30-year conforming mortgages which are sold directly to FNMA. During 2021, we originated $136.2 million of these loans.

Consumer Loans. During 2019, 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. In 2021, we purchased home improvement loans of $29.7 million. As of December 31, 2021, consumer loans amounted to $30.8 million.

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, 2021, $3.0 billion or 87.5% of our relationships are considered adjusted 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, 2021, we had $3.4 billion of total deposits, with an average total interest-bearing deposit cost of 0.46% at December 31, 2021.

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.

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”).

PGBH Trust. In connection with our 2020 acquisition of PGB and its holding company, PGBH, the Company acquired Pacific Global Bank Trust I (“PGB Capital Trust I”), a statutory business trust that was established by PGB in 2004 under the laws of Delaware as a wholly-owned subsidiary.

Each of the foregoing Trusts issued trust preferred securities representing undivided preferred beneficial interests in the assets of the Trusts. The proceeds of these trusts 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. The Company guarantees on a limited basis the payments of distributions on the capital securities of the Trusts and payments on redemption of the capital securities of the Trusts. The Company is the owner of all the beneficial interests represented by the common securities of the Trusts.

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.

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.

Human Capital Resources

We believe in the value of teamwork and the power of diversity. We expect and encourage participation and collaboration, and understand that we need each other to be successful. We value accountability because it is essential to our success, and we accept our responsibility to hold ourselves and others accountable for meeting shareholder commitments and achieving exceptional standards of performance.

Staffing Model. The majority of our staff are regular full-time employees. We also employ regular part-time associates and some seasonal/temporary associates. As of December 31, 2021, we had 362 full-time employees and 3 part-time employees, totaling 365 full-time equivalent staff. We do not outsource job functions or use subcontractors to fill open positions. None of our employees are represented by any collective bargaining unit or are parties to a collective bargaining agreement.

Diversity, Equity and Inclusion. We believe that diversity of thought and experiences results in better outcomes and empowers our employees to make more meaningful contributions within our company and communities. All members of our board of directors are Asian-American, and two members are women. Our executive committee is comprised of seven Asian-Americans and one Caucasian, of which two are women. Our workforce includes 330 Asian-Americans, 20 Latin-Americans, 20 Caucasians and 3 African-Americans.

Health & Safety. We are focused on conducting our business in a safe and efficient manner and in compliance with all local, state and federal safety and health regulations, and special safety concerns.

Benefits. We are committed to offering a competitive total compensation package. We regularly compare compensation and benefits with peer companies and market data, making adjustments as needed to ensure compensation stays competitive. We also offer a wide array of benefits for our associates and their families, including:

- Competitive bonus programs;
- Comprehensive medical, dental and vision benefits;
- 401(k) plan including a competitive company match;
- Flexible work schedules;
- Paid time off (PTO), holidays and bank holidays; and
- Internal training and development.

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 Financial Protection and Innovation ("DFPI"), 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 1280 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 DFPI. Federal Reserve and DFPI 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 DFPI 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 April 2020, 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 CCPA gives consumers more control over the personal information that businesses collect about them and the CCPA regulations provide guidance on how to implement the law. This landmark law secures new privacy rights for California consumers, including: (i) the right to know about the personal information a business collects about them and how it is used and shared; (ii) the right to delete personal information collected from them (with some exceptions); (iii) the right to opt-out of the sale of their personal information; and (iv) the right to non-discrimination for exercising their CCPA rights. 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, New York, New Jersey and Hawaii. While the DFPI 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 DFPI.

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.

In 2020, the California Legislature passed Assembly Bill 1864, which enacts the California Consumer Financial Protection Law ("CCFPL"). Among other items, the CCFPL:

- Establishes UDAAP authority for the new DFPI, adding “abusive” to “unfair or deceptive” acts or practices prohibited by California law, and authorizing remedies similar to those provided in the Dodd-Frank Act;
- Authorizes the DFPI to impose penalties of $2,500 for “each act or omission” in violation of the law without a showing that the violation was willful, which, arguably, represents an enhancement of DFPI’s existing enforcement powers in contrast to Dodd-Frank and existing California law, enhanced penalties for “reckless” violations of up to $25,000 per day or $10,000 per violation, and for “knowing” violations, the penalty may be up to $1,000,000 per day or 1% of the violator’s net worth (whichever is less) or $25,000 per violation;
- Exempts from the DFPI’s new UDAAP authority, banks, credit unions, federal savings and loan associations, and similar entities, as well as current licensees of the DFPI and licensees of other California agencies, “to the extent that licensee or employee is acting under the authority of” the license;
- Creates a “registration” requirement (subject to the DFPI’s implementing regulations) that greatly expands the reach of the DFPI to oversee entities that are not currently subject to licensure/registration;
- Provides DFPI with broad discretion to determine what constitutes a “financial product or service” within the law’s coverage, including by a regulation finding that the financial product or service is either: “(A) Entered into or conducted as a subterfuge or with a purpose to evade any consumer financial law,” or “(B) Permissible for a bank … to offer or provide … [but] has, or likely will have, a material impact on consumers,” with certain enumerated exclusions; and
- Provides that administration of the law will be funded through the fees generated by the new registration process and other funds generated from fines, penalties, settlements, or judgments.

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 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 Federal Reserve’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 2017, 2018, 2019 and 2020, respectively.

As fully phased-in on January 1, 2019, Basel III subjects bank holding companies and 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”, or 7.0%;
- 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.

To be considered “well capitalized,” a bank holding company or bank must have the following minimum ratios: (i) a Tier 1 leverage ratio of 5.0%, (ii) a common equity Tier 1 risk-based capital ratio of 6.5%, (iii) a Tier 1 risk-based capital ratio of 8.0%, and (iv) a total risk-based capital ratio of 10.0%.

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 $187.5 million as of December 31, 2021. Of this amount, $14.5 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 $173.0 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.

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. As a result of the EGRRCPA, Bancorp was not subject to the more stringent Basel III minimum capital requirements until Bancorp's total consolidated assets equaled or exceeded $3 billion. However, as of December 31, 2021, Bancorp had total consolidated assets of $4.2 billion and, consequently, the more stringent Basel III minimum capital requirements became applicable. 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, 2021, the Bank’s capital ratios exceeded the minimum capital adequacy guideline percentage requirements of the federal banking agencies for “well capitalized” institutions under the Basel III capital rules on a fully phased-in basis.

With respect to the Bank, the Basel III Capital Rules also revise the 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 (the "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, 2021, 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 DFPI. 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 DFPI, 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 DFPI to fund its operations. The amount of the assessment paid by a California bank to the DFPI is calculated on the basis of the institution's total assets, including consolidated subsidiaries, as reported to the DFPI. During the years ended December 31, 2021 and 2020, the Bank paid supervisory assessments to the DFPI totaling $201,000 and $164,000, respectively.

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 DFPI 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 DFPI, 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 DFPI 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, 2021.

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, 2021, the Bank's regulatory limit on aggregate secured loans-to-one-borrower was $150.8 million and unsecured loans-to-one borrower was $90.5 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 DFPI 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. In April 2018, the U.S. Department of Treasury issued a memorandum to the federal banking regulators recommending changes to the CRA's regulations to reduce their complexity and associated burden on banks, and in December 2019, the FDIC and the Office of the Comptroller of the Currency ("OCC") proposed for public comment rules to modernize the agencies' regulations under the CRA. In September 2020, the Board of Governors of the Federal Reserve System released for public comment its proposed rules to modernize CRA regulations. We will continue to evaluate the impact of any changes to the CRA regulations. The Bank received a "satisfactory" rating on its most recent CRA examination, which was conducted in April 2020.

Anti-Money Laundering and OFAC Regulation. The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (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 including California 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. Examples include but are not limited to the CCPA and the CCFPL described above. 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 DFPI 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.

Revisions to the Volcker Rule in 2019, that become effective in 2020, simplifies and streamlines the compliance requirements for banks that do not have significant trading activities. In 2020, the OCC, Federal Reserve, FDIC, SEC and Commodity Futures Trading Commission finalized further amendments to the Volcker Rule. The amendments include new exclusions from the Volcker Rule's general prohibitions on banking entities investing in and sponsoring private equity funds, hedge funds, and certain other investment vehicles (collectively "covered funds"). The amendments in the final rule, which became effective on October 1, 2020, clarify and expand permissible banking activities and relationships under the Volcker Rule.

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 FDIA 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 DFPI 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 DFPI 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 FDIA, 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 are required to assess the effectiveness of the Bancorp's internal control over financial reporting. 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 FDIA 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. The federal banking agencies have 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 2021, 2020 and 2019, the Company was subject to a maximum federal income tax rate of 21.00% and California state income tax rate of 8.84%. For 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.

However, under the Biden administration and the Democrat controlled Congress, tax laws and banking regulations are subject to change.

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, New Jersey, Hawaii 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. 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.

Risks Related to Our Loans

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

At December 31, 2021, approximately 87.2% 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, 2021, we had $1.8 billion of commercial loans, consisting of $1.2 billion of CRE loans and $268.7 million of C&I loans for which real estate is not the primary source of collateral, and $303.1 million of C&D loans. C&I loans represented 9.2% of our total loan portfolio at December 31, 2021. Commercial loans are often larger and involve greater risks than other types of lending. Because payments on such loans are often dependent on the successful operation or development of the property or business involved, repayment of such loans is often more sensitive than other types of loans to adverse conditions in the real estate market or the general business climate and economy. 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, 2021, our CRE loans represented 217% of our total risk-based capital, as compared to 205% and 166% as of December 31, 2020 and 2019, 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, 2021, our SFR mortgage loan portfolio amounted to $1.0 billion or 34.3% of our held for investment loan portfolio. As of that date, 92.3% 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 $291.3 million for the year ended December 31, 2021 and $55.7 million for the year ended December 31, 2020 of non-qualified SFR mortgage loans. We originated qualified SFR mortgage loans of $180.8 million for the year ended December 31, 2021 of and $53.8 million for the year ended December 31, 2020. As of December 31, 2021, our non-qualified SFR mortgage loans had an average loan-to-value of 56.24% and an average FICO score of 760. As of December 31, 2021, 5.5% 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 $63.1 million of our non-qualified mortgage loans for the year ended December 31, 2021, and we realized $1.6 million gains on the sale of non-qualified SFR mortgage loans for the year ended December 31, 2021. 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 $37.8 million of SBA loans (excluding PPP loans) for the year ended December 31, 2021. We sold $20.9 million for the year ended December 31, 2021, of the guaranteed portion of our SBA loans. Consequently, as of December 31, 2021, we held $76.1 million of SBA loans on our balance sheet, $58.2 million of which consisted of the non-guaranteed portion of SBA loans and $17.9 million or 23.5% consisted of the guaranteed portion of SBA loans which are intended to be sold later in 2021. 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.

We may be adversely impacted by the transition from LIBOR as a reference rate.

In 2017, the Financial Conduct Authority announced that after 2021 it will no longer compel banks to submit the rates required to calculate LIBOR. In November 2020, the administrator of LIBOR announced it will consult on its intention to extend the retirement date of certain offered rates whereby the publication of the one week and two month LIBOR offered rates will cease after December 31, 2021; but, the publication of the remaining LIBOR offered rates will continue until June 30, 2023. Given consumer protection, litigation, and reputation risks, the bank regulatory agencies have indicated that entering into new contracts that use LIBOR as a reference rate after December 31, 2021 would create safety and soundness risks and that they will examine bank practices accordingly. Therefore, the agencies encouraged banks to cease entering into new contracts that use LIBOR as a reference rate as soon as practicable and in any event by December 31, 2021.

There is uncertainty as to what rate or rates may become accepted alternatives to LIBOR, or what effect of any such changes in views or alternatives may be on the markets for LIBOR-indexed financial instruments. In response, the Alternative Reference Rates Committee ("ARRC") was convened in the U.S. to explore alternative reference rates and supporting processes. The ARRC identified a potential successor rate to LIBOR in the SOFR and crafted the Paced Transition Plan to facilitate the transition. However, there are conceptual and technical differences between LIBOR and SOFR that remain unresolved at this time.

We have a significant number of loans, some securities and borrowings, and some deposit products with attributes that are either directly or indirectly dependent on LIBOR. We have not yet determined the optimal reference rate(s) that we will ultimately use for our financial instruments going forward. We have organized a multidisciplinary project team to identify operational and contractual best practices, assess our risks, identify the detailed list of all financial instruments impacted, manage the transaction, facilitate communication with our customers and counterparties, and monitor the impacts. We have drafted and begun including fallback language in our loan agreements.

The transition from LIBOR could create considerable costs and additional risk. The uncertainty as to the nature and effect of the discontinuance of LIBOR may adversely affect the value of, the return on or the expenses associated with our financial assets and liabilities that are based on or are linked to LIBOR, may require extensive changes to the contracts that govern these LIBOR-based products as well as our systems and processes, and could impact our pricing and interest rate risk models, our loan product structures, our funding costs, our valuation tools and result in increased compliance and operational costs. In addition, the market may transition away from LIBOR to an alternative reference rate could prompt inquires or other actions from regulators in respect of our preparation and readiness for the replacement of LIBOR with an alternative reference rate, and result in disputes, litigation or other actions with counterparties regarding the interpretation and enforceability of certain fallback language in LIBOR-based financial instruments. Furthermore, failure to adequately manage this transition process with our customers could adversely impact our reputation.

There are also operational issues which may create a delay in the transition to SOFR or other substitute indices, leading to uncertainty across the industry. The implementation of a substitute index or indices for the calculation of interest rates under our loan agreements with our borrowers may incur significant expenses in effecting the transition, may result in reduced loan balances if borrowers do not accept the substitute index or indices, and may result in disputes or litigation with customers over the appropriateness or comparability to LIBOR of the substitute index or indices, which could have an adverse effect on our results of operations. These reforms may cause LIBOR to cease to exist, new methods of calculating LIBOR to be established or the establishment of multiple alternative reference rate(s). These consequences cannot be entirely predicted and could have an adverse impact on the market value for or value of LIBOR-linked securities, loans, and other financial obligations or extensions of credit held by or due to us.

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 10.3% of our total loan portfolio as of December 31, 2021, and such lending involves additional risks because funds are advanced upon the security of the project, which is of uncertain value prior to its completion, and costs may exceed realizable values in declining real estate markets. Because of the uncertainties inherent in estimating construction costs and the realizable market value of the completed project and the effects of governmental regulation of real property, it is relatively difficult to evaluate accurately the total funds required to complete a project and the related 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, 2021, our nonperforming loans (which consist of nonaccrual loans and loans modified under troubled debt restructurings) totaled \$20.7 million, or 0.71%, of our held for investment (HFI) loan portfolio, and our nonperforming assets (which include nonperforming loans plus OREO) totaled \$21.0 million, or 0.50%, of total assets. In addition, we had \$17.6 million in accruing loans that were 30-89 days delinquent as of December 31, 2021.

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.

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, Hawaii, Illinois, New York, New Jersey, and Nevada. 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, 2021, 154 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 $1.6 billion or approximately 47.3% of the Bank's total deposits as of December 31, 2021. In addition, our ten largest depositor relationships accounted for approximately 26.1% of our deposits at December 31, 2021. Our largest depositor relationship accounted for approximately 14.7% of our deposits at December 31, 2021. These deposits can and do fluctuate substantially. As of December 31, 2021, one trust company depositor is maintaining demand deposit balances in the range of $400 to $600 million with the Bank. 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.

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, 2021, our ALLL as a percentage of total loans was 1.12% and as a percentage of total nonperforming loans was 158.8%. 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 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 on December 31, 2022 (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 became effective as of April 1, 2019, to determine if the phase-in option will be elected. The Company will adopt CECL on December 31, 2022.

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 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, 2021, our goodwill totaled $69.3 million. We evaluated our goodwill and intangibles in the first, second and fourth quarters of 2020, and the fourth quarter of 2021. The impairment evaluation did not identify an impairment of goodwill or the core deposit intangible in those quarters of 2020 and 2021. However, there were write-downs of mortgage servicing rights of $50,000 in the third quarter of 2020 and $366,000 in the second quarter of 2020. The Company recorded an impairment writedown reversal of $416,000 on servicing assets in 2021. 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 $4.2 billion as of December 31, 2021, and our deposits from $236.4 million as of December 31, 2010 to $3.4 billion as of December 31, 2021. 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, 2021 and 2020 was 5.12% and 5.18%, respectively, and the yield generated using only the expected coupon would have been 5.08% and 5.09%, 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, New Jersey 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 and Honolulu, Hawaii, including operating a branch office, and are currently looking for additional branch expansion opportunities in the San Francisco Bay area and Houston and, secondarily, San Diego and Riverside counties in southern California, 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.

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, 2021, total loans held for investment were 73.5% of our earning assets and exhibited a positive 8% 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, 2021, the fair value of our securities portfolio was approximately $374.8 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.

Other Risks Related to Our Business

We are exposed to risks related to fraud and cyber-attacks.

The Company is continuously enhancing and expanding our digital products and services to meet client and business needs with desired outcomes. These digital products and services often include storing, transmitting, and processing confidential client, employee, monetary, and business information. Due to the nature of this information, and the value it has for internal and external threat actors, we, and our third-party service providers, continue to be subject to cyber-attacks and fraud activity that attempts to gain unauthorized access, misuse information and information systems, steal information, disrupt or degrade information systems, spread malicious software, and other illegal activities.

We believe we have robust preventive, detective, and administrative safeguards and security controls to minimize the probability and magnitude of a material event. However, because the tactics and techniques used by threat actors to bypass safeguards and security controls change frequently, and often are not recognized until after an event has occurred, we may be unable to anticipate future tactics and techniques, or to implement adequate and timely protective measures.

Cybersecurity, and the continued development and enhancement of controls, processes, and practices designed to protect client information, systems, computers, software, data, and networks from attack, damage, or unauthorized access remain a priority for the Company. As cybersecurity threats continue to evolve, we may be required to expend additional resources to continue to enhance, modify, and refine our protective measures against these evolving threats.

To date, we have no knowledge of a successful cyber-attack or other material information security breach affecting our systems. However, our risk and exposure to these matters remains heightened because of, among other things, the evolving nature of these threats, the continuation of a remote work environment for our employees and service providers and our plans to continue to implement and expand digital banking services, expand operations, and use third-party information systems that includes cloud-based infrastructure, platforms, and software. Recent instances of attacks specifically targeting financial services businesses indicate that the risk to our systems remains significant. If we or a critical third party vendor were to experience a cyber-attack or information security breach, we could suffer damage to our reputation, productivity losses, response costs associated with investigation and resumption of services, and incur substantial additional expenses, including remediation expenses costs associated with client notification and credit monitoring services, increased insurance premiums, regulatory penalties and fines, and costs associated civil litigation, any of which could have a materially adverse effect on our business, financial condition, and results of operations.

In addition, the Company's clients and vendors rely on technology and systems unmanaged by the Company, such as networking devices, server infrastructure, personal computers, smartphones, tablets, and other mobile devices, to contact and conduct business with the Company. If the devices of the Company's clients or vendors become the target of a cyber-attack, or information security breach, it could result in unauthorized access to, misuse of, or loss of confidential client, employee, monetary, or business information. Threat actors using improperly obtained personal or financial information of consumers can attempt to obtain loans, lines of credit, or other financial products from the Company, or attempt to fraudulently persuade the Company's employees, clients, or other users of the Company's systems to disclose confidential information in order to gain improper access to the Company's information and information systems.

We also face additional costs when our customers become the victims of cyber-attacks. For example, various retailers have reported that they have been the victims of a cyber-attack in which large amounts of their clients' data, including debit and credit card information, is obtained. Our clients may be the victims of phishing scams, providing cyber criminals access to their accounts, or credit or debit card information. In these situations, we incur costs to replace compromised cards and address fraudulent transaction activity affecting our clients.

Both internal and external fraud and theft are risks. If confidential client, employee, monetary, or business information were to be mishandled or misused, we could suffer significant regulatory consequences, reputational damage, and financial loss. Such mishandling or misuse could include, for example, if such information were erroneously provided to parties who are not permitted to have the information, either by fault of our systems, employees, or counterparties, or if such information were to be intercepted or otherwise inappropriately taken by third parties, or if our own employees abused their access to financial systems to commit fraud against our clients and the Company. These activities can occur in connection with the origination of loans and lines of credit, ACH transactions, wire transactions, ATM transactions, and checking transactions, and result in financial losses as well as reputational damage.

Operational errors can include information system misconfiguration, clerical or record-keeping errors, or disruptions from faulty or disabled computer or telecommunications systems. Because the nature of the financial services business involves a high volume of transactions, certain errors may be repeated or compounded before they are discovered and successfully rectified. Because of the Company's large transaction volume and its necessary dependence upon automated systems to record and process these transactions, there is a risk that technical flaws, tampering, or manipulation of those automated systems, arising from events wholly or partially beyond its control, may give rise to disruption of service to customers and to financial loss or liability. We are exposed to the risk that our business continuity and data security systems prove to be inadequate.

The occurrence of any of these risks could result in a diminished ability for us to operate our business, additional costs to correct defects, potential liability to clients, reputational intervention, any of which could adversely affect our business, financial condition and results of operations.

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 or recurring energy shortage in our geographic markets, especially in California, could harm our business.

We are based in California and at December 31, 2021, approximately 44.1% of the aggregate outstanding principal of our mortgage 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.

Climate change could have a material negative impact on the Company and clients.

The Company's business, as well as the operations and activities of our clients, could be negatively impacted by climate change. Climate change presents both immediate and long-term risks to the Company and its clients, and these risks are expected to increase over time. Climate change presents multi-faceted risks, including: operational risk from the physical effects of climate events on the Company and its clients' facilities and other assets; credit risk from borrowers with significant exposure to climate risk; transition risks associated with the transition to a less carbon- dependent economy; and reputational risk from stakeholder concerns about our practices related to climate change, the Company's carbon footprint, and the Company's business relationships with clients who operate in carbon-intensive industries.

Federal and state banking regulators and supervisory authorities, investors, and other stakeholders have increasingly viewed financial institutions as important in helping to address the risks related to climate change both directly and with respect to their clients, which may result in financial institutions coming under increased pressure regarding the disclosure and management of their climate risks and related lending and investment activities. Given that climate change could impose systemic risks upon the financial sector, either via disruptions in economic activity resulting from the physical impacts of climate change or changes in policies as the economy transitions to a less carbon-intensive environment, the Company may face regulatory risk of increasing focus on the Company's resilience to climate-related risks, including in the context of stress testing for various climate stress scenarios. Ongoing legislative or regulatory uncertainties and changes regarding climate risk management and practices may result in higher regulatory, compliance, credit, and reputational risks and costs.

With the increased importance and focus on climate change, we are making efforts to enhance our governance of climate change-related risks and integrate climate considerations into our risk governance framework. Nonetheless, the risks associated with climate change are rapidly changing and evolving in an escalating fashion, making them difficult to assess due to limited data and other uncertainties. We could experience increased expenses resulting from strategic planning, litigation, and technology and market changes, and reputational harm as a result of negative public sentiment, regulatory scrutiny, and reduced investor and stakeholder confidence due to our response to climate change and our climate change strategy, which, in turn, could have a material negative impact on our business, results of operations, and financial condition.

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.

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.

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 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.

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.

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, in 2019 we paid $0.40 per share, in 2020 we paid $0.33 per share, and in 2021 we paid $0.51 per share. 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 943,918 shares of our common stock as of December 31, 2021 that may be exercised and sold (assuming all vesting requirements are met), and we have the ability to issue options exercisable for up to an additional 981,853 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.

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.

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. Since Bancorp's IPO, it has been the Company's intention to take advantage of certain temporary exemptions from various reporting requirements and we are taking advantage of additional transitional relief available to emerging growth companies, which for Bancorp will be available through the end of 2022. We may take advantage of these provisions for up to five years (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.

Other Risks

The continuing COVID-19 pandemic could adversely affect our business and our customers, counterparties, employees, and third-party service providers.

The spread of COVID-19 has created a global public-health crisis that has impacted household, business, economic, and market conditions.

Governments have taken unprecedented financial and monetary steps in response to the pandemic. For example, in late March 2020, the CARES Act was enacted to inject more than $2 trillion of financial assistance into the U.S. economy, followed by additional COVID relief legislation of approximately $900 million in December 2020. In March 2021, the American Rescue Plan Act ("American Rescue Plan"), also called the COVID-19 Stimulus Package or American Rescue Plan, Pub L. No. 117-2, was enacted to inject an additional $1.9 trillion in financial relief and economic stimulus. The Federal Reserve has taken decisive and sweeping actions as well. Since March 15, 2020, their actions have included a reduction in the target range for the federal funds rate to 0 to 25 basis points, a program to purchase an indeterminate amount of Treasury securities and agency mortgage-backed securities, corporate bonds and other investments, and numerous facilities to support the flow of credit to households and businesses.

The full extent of the impact of the COVID-19 pandemic on our capital, liquidity, and other financial positions and on our business, results of operations, and prospects is still uncertain, and will depend on a number of evolving factors, including:

- The duration, extent, and severity of the pandemic. COVID-19 has not yet been contained; continuing spread and rise of new variants could affect significantly more households and businesses, or cause additional limitations on commercial activity, increased unemployment, increased property vacancy rates and general economic and financial instability. The continuation of the pandemic may also negatively impact regional economic conditions for a period of time, resulting in declines in loan demand and collateral values. The duration and severity of the pandemic continues to be impossible to predict, as is the potential for a seasonal or other resurgence. We also believe we will continue to see the economic effects of the pandemic even after the COVID-19 outbreak has subsided, which is expected to continue to affect our business, financial position, results of operations and prospects.
- The response of governmental authorities. To date, many of the actions of governmental authorities, including eviction forbearance, occupancy restrictions and vaccine mandates, have been directed toward curtailing household and business activity to contain COVID-19 while simultaneously deploying fiscal and monetary policy measures to partially mitigate the adverse effects on individual households and businesses. The ultimate success or impact of these actions and their effect on our customers and the economy generally is still unclear. Further, some measures, such as a suspension of mortgage and other loan payments and foreclosures, may have a negative impact on our business.
- The effect on our customers, counterparties, employees, and third-party service providers. COVID-19 and its associated consequences and uncertainties are affecting individuals, households, and businesses differently and unevenly. Negative impacts on our customers could result in increased risk of delinquencies, defaults, foreclosures and losses on our loans.
- The effect on economies and markets. Whether the actions of governmental and nongovernmental authorities will be successful in mitigating the adverse effects of COVID-19 is unclear. National, regional, and local economies and markets could suffer disruptions that are lasting. Governmental actions are meaningfully influencing the interest-rate environment and financial-market activity and could have lasting effects on taxes and other economic factors, which could adversely affect our results of operations and financial condition.

Our participation in the SBA's PPP Loan Program exposes us to risks.

Our participation in the SBA PPP loan program exposes us to risks related to noncompliance with the PPP, as well as litigation risk related to our administration of the PPP loan program, which could have a material adverse impact on our business, financial condition and results of operations. As of December 31, 2021, our PPP loans were approximately $11.8 million.

The Company participated in the PPP, a loan program administered through the SBA, that was created to help eligible businesses, organizations and self-employed persons fund their operational costs during the COVID-19 pandemic. Under this program, the SBA guarantees 100% of the amounts loaned under the PPP. The PPP opened on April 3, 2020; however, because of the short window between the passing of the CARES Act and the opening of the PPP, there is some ambiguity in the laws, rules and guidance regarding the operation of the PPP, which exposes the Company to risks relating to noncompliance with the PPP. For instance, other financial institutions have experienced litigation related to their process and procedures used in processing applications for the PPP. Any financial liability, litigation costs or reputational damage caused by PPP related litigation could have a material adverse impact on our business, financial condition and results of operations. In addition, the Company may be exposed to credit risk on PPP loans if a determination is made by the SBA that there is a deficiency in the manner in which the loan was originated, funded, or serviced. If a deficiency is identified, the SBA may deny its liability under the guaranty, reduce the amount of the guaranty, or, if it has already paid under the guaranty, seek recovery of any loss related to the deficiency from the Company.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

We are headquartered in Los Angeles County, California. We currently have nine branches in Los Angeles County located in downtown Los Angeles, San Gabriel, Torrance, Rowland Heights, Monterey Park, Silver Lake, Arcadia, Cerritos, and Diamond Bar. 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").

The Company has six branches in the New York City metropolitan area located in Manhattan, Brooklyn, and 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.

In November 2020, we opened a new branch in Edison, New Jersey. We operate one branch in the Las Vegas-Paradise, Nevada MSA. In January 2020, we acquired PGB and its three branches in Chicago, Illinois, located in the neighborhoods of Chinatown and Bridgeport. We closed one Chinatown branch in February 2021. In January 2022 we acquired the Honolulu, Hawaii branch of the Bank of the Orient.

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, California branch, our Buena Park, California 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.

We own a three story walk up on 86th Avenue in Brooklyn, New York. We are presently renovating the property to become a branch, planned to open prior to June 30, 2022.

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, 2021, the Company does not have any litigation reserves.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

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

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 9, 2022, the Company had approximately 177 common stock shareholders of record, and the closing price of the Company's common stock was $24.11 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

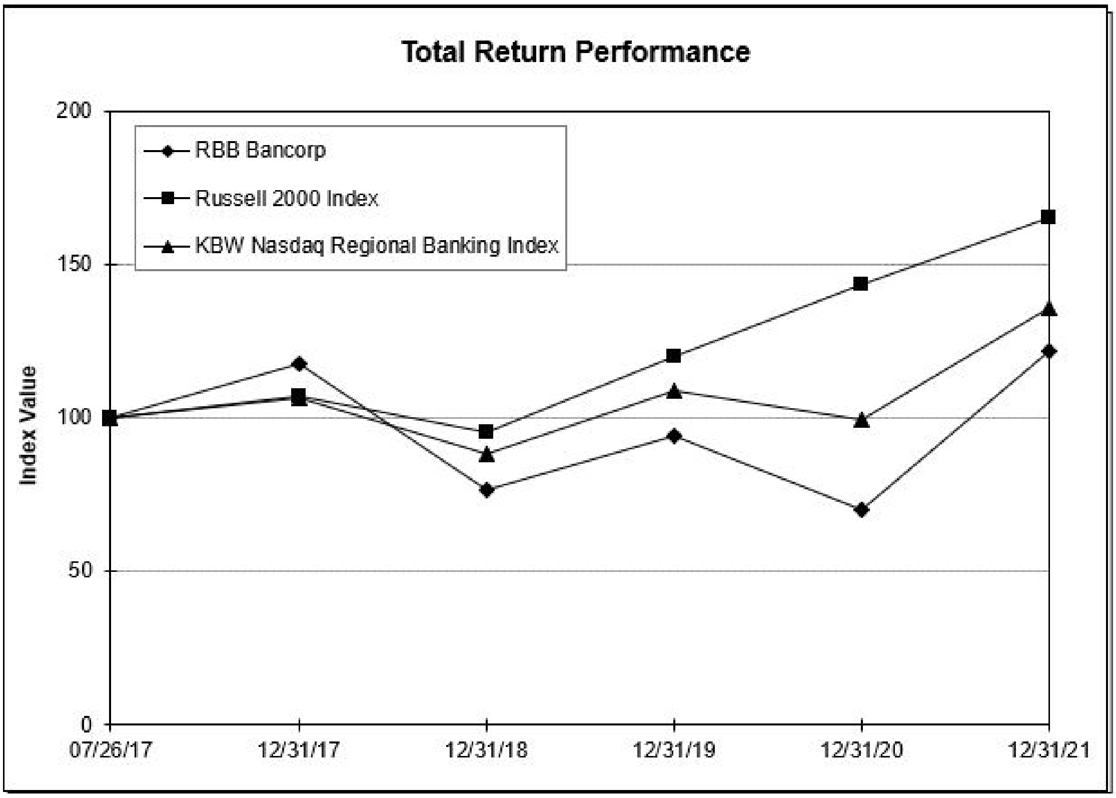
It has been our policy to pay quarterly dividends to holders of our common stock, and we intend to generally maintain our current dividend levels. Our dividend policy and practice may change in the future, however, and our board of directors may change or eliminate the payment of future dividends at 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, November 2018 and March 2021, 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".

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, 2021. 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, 2021. 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.



	Period Ending					
Index	**07/26/17**	**12/31/17**	**12/31/18**	**12/31/19**	**12/31/20**	**12/31/21**
RBB Bancorp	100.00	117.60	76.45	94.02	69.86	121.82
Russell 2000 Index	100.00	107.12	95.32	119.65	143.53	164.80
KBW Nasdaq Regional Banking Index	100.00	106.56	87.92	108.85	99.37	135.78

Source: S&P Global Market Intelligence
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Unregistered Sales and Issuer Purchases of Equity Securities

On April 22, 2021, the Board of Directors approved a stock repurchase program to buy back up to an aggregate of 500,000 shares of our common stock. As of December 31, 2021, the Company may repurchase up to 335,650 shares under the repurchase program. The Company has repurchased 75,849 shares of its outstanding common stock during the fourth quarter of 2021.

	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**
October 1, 2021 to October 31, 2021	—	$ —	—	411,499
November 1, 2021 to November 30, 2021	—	$ —	—	411,499
December 1, 2021 to December 31, 2021	75,849	$ 24.53	75,849	335,650
Total	75,849	$ 24.53	75,849	335,650

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, 2021. 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)	**2021**	**2020**	**2019**	**2018**	**2017**
Balance sheet data:					
Total assets	$ 4,228,194	$ 3,350,072	$ 2,788,535	$ 2,974,002	$ 1,691,059
Total loans, held for investment, net of unaccreted discount and deferred costs and fees	2,931,350	2,706,766	2,196,934	2,142,015	1,249,074
Allowance for loan losses	(32,912)	(29,337)	(18,816)	(17,577)	(13,773)
Mortgage loans held for sale	5,957	49,963	108,194	434,522	125,847
Securities	374,512	218,041	134,401	83,723	74,966
Goodwill	69,243	69,243	58,563	58,383	29,940
Total deposits	3,385,532	2,635,128	2,248,938	2,144,041	1,337,281
FHLB Advances	150,000	150,000	—	319,500	25,000
Long-term debt	173,007	104,391	104,049	103,708	49,528
Subordinated debentures	14,502	14,283	9,673	9,506	3,424
Total shareholders' equity	466,683	428,488	407,690	374,621	265,176
Tangible common equity	393,365	354,049	343,027	308,637	233,798
Income statement data:					
Total interest income	$ 147,063	$ 139,120	$ 141,725	$ 102,115	$ 74,104
Total interest expense	22,720	34,365	44,861	23,645	13,938
Net interest income	124,343	104,755	96,864	78,470	60,166
Provision (recapture) for loan losses	3,959	11,823	2,390	4,469	(1,053)
Noninterest income	18,745	14,040	18,320	12,842	13,201
Noninterest expense	58,192	59,513	57,473	40,637	27,623
Income before income taxes	80,937	47,459	55,321	46,206	46,797
Income tax expense	24,031	14,531	16,112	10,101	21,269
Net income	56,906	32,928	39,209	36,105	25,528
Revenue (13)	165,808	153,160	160,045	114,957	87,305
Non-interest income / revenue	11.31%	9.17%	11.45%	11.17%	15.12%
Per share data (common stock):					
Earnings:					
Basic (1)	$ 2.92	$ 1.66	$ 1.96	$ 2.11	$ 1.81
Diluted (1)	2.86	1.65	1.92	2.01	1.68
Dividends declared	0.51	0.33	0.40	0.35	0.38
Book value (2)	23.99	21.90	20.35	18.73	16.67
Tangible book value (3)	20.22	18.10	17.12	15.43	14.70
Weighted average shares outstanding:					
Basic	19,423,549	19,763,422	20,017,306	17,151,222	14,078,281
Diluted	19,834,306	19,921,859	20,393,424	17,967,653	15,238,365
Shares outstanding at period end	19,455,544	19,565,921	20,030,866	20,000,022	15,908,893
Performance metrics					
Return on average assets	1.48%	1.03%	1.38%	1.78%	1.66%
Return on average shareholders' equity	12.71%	7.88%	9.95%	12.16%	11.67%
Return on average tangible common equity (3)	15.22%	9.62%	11.93%	13.66%	13.64%
Yield on average earning assets	4.09%	4.67%	5.31%	5.36%	5.13%
Cost of average interest-bearing liabilities	0.94%	1.57%	2.24%	1.69%	1.28%
Net interest spread	3.15%	3.10%	3.07%	3.67%	3.85%
Net interest margin (4)	3.46%	3.52%	3.63%	4.12%	4.16%
Efficiency ratio	40.67%	50.10%	49.90%	44.50%	37.65%
Common stock dividend payout ratio (5)	17.47%	19.88%	20.41%	16.59%	20.99%
Loan to deposit ratio(6)	86.58%	102.72%	97.69%	99.41%	93.40%
Core deposits / total deposits (7)	82.91%	77.31%	73.44%	77.92%	74.09%
Adjusted core deposits / total deposits (8)	87.48%	87.72%	86.47%	91.19%	75.16%
Net non-core funding dependence ratio (9)	-6.50%	9.11%	13.17%	22.32%	13.72%
Adjusted net non-core funding dependence ratio (10)	-10.38%	0.38%	1.84%	12.19%	12.18%

(Dollars in thousands, except per share data)	As of and for the Year Ended December 31, 2021	2020	2019	2018	2017
Credit quality Data:					
Loans 30-89 days past due	$ 21,080	$ 9,612	$ 5,277	$ 4,677	$ 3,636
Loans 30-89 days past due to total loans	0.72%	0.36%	0.24%	0.22%	0.29%
Nonperforming loans (11)	$ 20,725	$ 19,554	$ 13,218	$ 3,282	$ 2,575
Nonperforming loans to total loans (11)	0.71%	0.72%	0.60%	0.15%	0.21%
Nonperforming assets (12)	$ 21,018	$ 19,847	$ 13,511	$ 4,383	$ 2,868
Nonperforming assets to total assets (12)	0.50%	0.59%	0.48%	0.15%	0.16%
Allowance for loan losses to total loans	1.12%	1.08%	0.86%	0.82%	1.10%
Allowance for loan losses to nonperforming loans (11)	158.80%	150.03%	142.35%	535.55%	534.87%
Net charge-offs (recoveries) to average loans	-0.01%	0.05%	0.05%	0.05%	-0.06%
Regulatory and other capital ratios—Company					
Tangible common equity to tangible assets (3)	9.47%	10.81%	12.59%	10.61%	14.09%
Tier 1 leverage ratio	10.21%	11.32%	12.89%	11.80%	14.35%
Tier 1 common capital to risk-weighted assets	14.86%	14.62%	17.16%	15.28%	17.54%
Tier 1 capital to risk-weighted assets	15.40%	15.21%	17.65%	15.74%	17.80%
Total capital to risk-weighted assets	23.15%	20.77%	23.82%	21.71%	22.55%
Regulatory capital ratios—Bank only					
Tier 1 leverage ratio	12.45%	14.11%	15.23%	13.66%	14.50%
Tier 1 common capital to risk-weighted assets	18.80%	18.94%	20.87%	18.17%	17.42%
Tier 1 capital to risk-weighted assets	18.80%	18.94%	20.87%	18.17%	17.42%
Total capital to risk-weighted assets	20.05%	20.19%	21.86%	19.07%	18.47%

(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 0.03%, 0.08%, 0.11%, 0.12%, and 0.37%, for the twelve-month periods ended December 31, 2021, 2020, 2019, 2018 and 2017, 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 year ended December 31, 2016 represents the dividends declared and paid by the Company during 2016 based on the Company's earnings for the 12 months ended December 31, 2016.

(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 purchase credit impaired ("PCI") loans acquired in prior acquisitions. Nonperforming loans include a SBA guaranteed loan at December 31, 2016 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, 2021 were $17.9 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
- 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 2021 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 2021, we reported net earnings of $56.9 million, compared with $32.9 million for the year 2020. This represented an increase of $24.0 million, or 72.8%, over the prior year. The increase in net earnings reflected a $19.6 million increase in net interest income, a $4.7 million increase in non-interest income, $7.9 million decrease in the provision for loan losses and a $1.3 million decrease in non-interest expenses, which was partially offset by a $9.5 million increase in income tax expense.

At December 31, 2021, total assets were $4.2 billion, an increase of $878.1 million, or 26.2%, from total assets of $3.4 billion at December 31, 2020. Interest-earning assets were $4.0 billion as of December 31, 2021, an increase of $831.3 million, or 26.3%, compared to $3.2 billion at December 31, 2020. The increase in interest-earning assets was primarily due to net HFI loan growth of $224.6 million and investment securities growth of $156.5 million, partially offset by a decrease of $44.0 million in mortgage loans available for sale.

At December 31, 2021, available for sale ("AFS") investment securities totaled $368.3 million inclusive of a pre-tax net unrealized loss of $2.4 million, compared to $210.9 million inclusive of a pre-tax net unrealized gain of $1.6 million at December 31, 2020. At December 31, 2021, held to maturity ("HTM") investment securities totaled $6.3 million, compared to $7.2 million as of December 31, 2020.

Net loans and leases (held for investment, net of deferred fees, discounts, and the allowance for loan losses) were $2.9 billion at December 31, 2021, compared to $2.7 billion at December 31, 2020. Net loans and leases increased $221.0 million, or 8.3%, from December 31, 2020. The increase in net loans was due to organic growth. The increase in net loans included approximately $244.4 million in CRE loans, $116.4 million in construction loans and $26.7 million in other loans, partially offset by a $119.8 million decrease in SFR mortgage loans, $21.4 million in C&I loans and $21.7 million in SBA loans.

Total deposits were $3.4 billion at December 31, 2021, an increase of $750.4 million, or 28.5%, compared to $2.6 billion at December 31, 2020. The increase is due to an increase of $870.8 million in non-maturity deposits, partially offset by a net decrease of $120.4 million from time deposits, and the remainder from organic growth.

Noninterest-bearing deposits were $1.3 billion at December 31, 2021, an increase of $674.3 million, or 109.2%, from $617.2 million at December 31, 2020. At December 31, 2021, noninterest-bearing deposits were 38.1% of total deposits, compared to 23.4% at December 31, 2020.

Our average cost of total deposits was 0.40% for the year 2021, compared to 1.01% for 2020. The decrease is due to a 73 basis point decrease in the average rate paid on interest bearing deposits. Borrowings, consisting of FHLB long-term advances, long-term debt and subordinated debt, increased $68.8 million to $337.5 million as of December 31, 2021 compared to $268.7 million as of December 31, 2020. The Company had no short-term FHLB advances, and $150.0 million in long-term advances at December 31, 2021 and at December 31, 2020.

The allowance for loan losses was $32.9 million at December 31, 2021, an increase of $3.6 million or 12.2%, from $29.3 million at December 31, 2020. During 2021, there was a $4.0 million provision for loan losses compared to $11.8 million for 2020. The ALLL to HFI loans and leases outstanding was 1.12% and 1.08% as of December 31, 2021 and December 31, 2020, respectively.

Shareholders' equity increased $38.2 million, or 8.9%, to $466.7 million as of December 31, 2021 from $428.5 million at December 31, 2020. The increase during 2021 was primarily due to $56.9 million of net income, less $9.9 million of common dividends paid and $10.5 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, 2021, the Company's Tier 1 leverage capital ratio was 10.21%, common equity Tier 1 ratio was 14.86%, Tier 1 risk-based capital ratio totaled 15.40%, and total risk-based capital ratio was 23.15%.

ANALYSIS OF THE RESULTS OF OPERATIONS

Financial Performance

	Years Ended December 31,		2021 vs. 2020 Variance Increase (Decrease)		Year Ended December 31, 2019	2020 vs. 2019 Variance Increase (Decrease)	
	2021	2020	$ or #	%		$ or #	%
	(Dollars in thousands, except per share amounts)						
Interest income	$ 147,063	$ 139,120	$ 7,943	5.7%	$ 141,725	$ (2,605)	(1.8)%
Interest expense	22,720	34,365	(11,645)	(33.9)%	44,861	(10,496)	(23.4)%
Net interest income	124,343	104,755	19,588	18.7%	96,864	7,891	8.1%
Provision for loan losses	3,959	11,823	(7,864)	(66.5)%	2,390	9,433	394.7%
Net interest income after provision (recapture) for loan losses	120,384	92,932	27,452	29.5%	94,474	(1,542)	(1.6)%
Noninterest income	18,745	14,040	4,705	33.5%	18,320	(4,280)	(23.4)%
Noninterest expense	58,192	59,513	(1,321)	(2.2)%	57,473	2,040	3.5%
Income before income taxes	80,937	47,459	33,478	70.5%	55,321	(7,862)	(14.2)%
Income tax expense	24,031	14,531	9,500	65.4%	16,112	(1,581)	(9.8)%
Net income	$ 56,906	$ 32,928	$ 23,978	72.8%	$ 39,209	$ (6,281)	(16.0)%
Share Data							
Earnings per common share:							
Basic	$ 2.92	$ 1.66	$ 1.26		$ 1.96	$ (0.30)	
Diluted (1)	2.86	1.65	1.21		1.92	(0.27)	
Performance Ratios							
Return on average assets, annualized	1.48%	1.03%	0.45%		1.38%	(0.35)%	
Return on average shareholders' equity, annualized	12.71%	7.88%	4.83%		9.95%	(2.07)%	
Efficiency ratio	40.67%	50.10%	(9.43)%		49.90%	0.20%	
Tangible comon equity to tangible assets (2)	9.47%	10.81%	(1.34)%		12.59%	(1.78)%	
Return on average tangible common equity, annualized (2)	15.22%	9.62%	5.60%		11.93%	(2.31)%	
Tangible book value per share (2)	$ 20.22	$ 18.10	$ 2.12		$ 17.12	$ 0.98	

(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, 2021 to December 31, 2020

Net Interest Income/Average Balance Sheet

In 2021, we generated fully-taxable equivalent net interest income of $124.4 million, an increase of $19.6 million, or 18.7%, from the net interest income produced in 2020. This increase was largely due to a 20.7% increase in the average balance of interest-earning assets, in part due to organic loan growth, partially offset by an 6 basis point decrease in the net interest margin. For the years ended December 31, 2021 and 2020 our reported net interest margin was 3.46% and 3.52%, respectively. Our net interest margin benefits from discount accretion on our purchased loan portfolios.

Interest Income. Total fully-taxable equivalent interest income was $147.1 million in 2021 compared to $139.2 million in 2020. The $8.0 million, or 5.7%, increase in total interest income was mainly due to increases in the average balance of total loans of $180.9 million, average balance of securities of $144.1 million, and average balance of Federal funds sold, cash equivalents and other investments of $292.2 million. This was partially offset by a decrease in the average total loan yield of 6 basis points.

Interest and fees on loans was $141.6 million in 2021 compared to $133.9 million in 2020. The $7.7 million, or 5.7%, increase in interest income on loans was primarily due to a $180.9 million increase in the average balance of total loans outstanding, partially offset by 6 basis point decrease in the average yield on total loans. The increase in the average balance of loans outstanding was primarily due to organic growth in commercial real estate and single-family residential mortgage loans during 2021. The yield on the loan portfolio benefited from accretion income associated with purchase accounting discounts established on loans acquired in prior acquisitions. For the years 2021 and 2020, the reported yield on total loans was 5.12% and 5.18%, respectively. The impact of accretion income on our yield on total loans for the years 2021 and 2020 was to increase our reported yield on total loans by 0.03% and 0.08%, respectively. A substantial portion of our acquired loan portfolio that is subject to discount accretion consists of commercial real estate loans and single family residential mortgages.

The table below illustrates by loan type the accretion income for the years 2021, 2020 and 2019:

(dollars in thousands)	**2021**	**2020**	**2019**
Beginning balance of discount on purchased loans	$ 2,872	$ 5,068	$ 9,228
Additions due to acquisitions:			
Commercial and industrial	—	39	—
Construction and land development	—	—	—
Commercial real estate	—	397	—
Single family residential mortgages	—	449	—
Total additions	$ —	$ 885	$ —
Accretion:			
Commercial and industrial	(9)	—	15
SBA	11	17	18
Construction and land development	—	5	—
Commercial real estate	146	2,345	2,893
Single family residential mortgages	998	714	1,234
Total accretion	$ 1,146	$ 3,081	$ 4,160
Ending balance of discount on purchased loans	$ 1,726	$ 2,872	$ 5,068

Interest income from our securities portfolio increased $454,000, or 15.1%, to $3.5 million in 2021. The increase in interest income on securities was primarily due to an increased average balance of $144.1 million, or 78.8%, partially offset by a 58 basis point decrease in the average yield of securities.

Interest income on our federal funds sold, cash equivalents and other investments decreased $143,000, or 6.3%, to $2.1 million in 2021. The decrease in interest income on these earning assets was primarily due to a 64 basis point decrease in average yield of cash equivalents, partially offset by a $292.2 million increase in the average balance. 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 decreased $11.6 million, or 33.9%, to $22.7 million in 2021 primarily due to a 63 basis point decrease in the average rate on these liabilities plus an increase in average non-interest bearing deposits of $374.6 million, partially offset by a $216.5 million increase in the average balance of interest bearing liabilities.

Interest expense on total deposits decreased to $12.0 million in 2021. The $13.2 million, or 52.6%, decrease in interest expense on total deposits was primarily due to a 73 basis point decrease in the average rate paid on total average interest bearing deposits, partially offset by a $141.9 million increase in the average balance of interest-bearing deposits. The increase in the average balance of deposits resulted primarily from organic growth in 2021.

Interest expense on borrowings increased 17.5% from $9.2 million in 2020 to $10.8 million in 2021. This increase reflected increased average balances in long term debt. In 2021, the average rate on these liabilities was 3.34% compared to 3.70% in 2020.

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 2021, 2020 and 2019. Our net interest income, interest spread, and net interest margin are sensitive to general business and economic conditions. These conditions include short-term and long-term interest rates, inflation, monetary supply, and the strength of the international, national and state economies, in general, and more specifically, the local economies in which we conduct business. Our ability to manage net interest income during changing interest rate environments will have a significant impact on our overall performance. We manage net interest income through affecting changes in the mix of interest-earning assets as well as the mix of interest-bearing liabilities, changes in the level of interest-bearing liabilities in proportion to interest-earning assets, and in the growth and maturity of earning assets. 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 2021, 2020 and 2019. 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,								
	2021			2020			2019		
(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)	$ 504,809	$ 2,115	0.42%	$ 212,594	$ 2,258	1.06%	$ 135,133	$ 3,914	2.90%
Securities: (2)									
Available for sale	320,544	3,217	1.00%	175,307	2,714	1.55%	85,775	2,354	2.74%
Held to maturity	6,543	238	3.64%	7,665	287	3.74%	8,978	334	3.72%
Mortgage loans held for sale	20,817	670	3.22%	41,019	1,779	4.34%	325,039	15,754	4.85%
Loans held for investment: (3)									
Real estate	2,363,846	122,204	5.17%	2,176,695	113,966	5.24%	1,767,923	97,024	5.49%
Commercial	381,646	18,695	4.90%	367,718	18,149	4.94%	345,010	22,381	6.49%
Total loans held for investment	2,745,492	140,899	5.13%	2,544,413	132,115	5.19%	2,112,933	119,405	5.65%
Total earning assets	3,598,205	$ 147,139	4.09%	2,980,998	$ 139,153	4.67%	2,667,858	$ 141,761	5.31%
Noninterest-earning assets	235,267			204,617			167,324		
Total assets	$ 3,833,472			$ 3,185,615			$ 2,835,182		
Interest-bearing liabilities:									
NOW deposits	$ 69,211	$ 184	0.27%	$ 55,795	$ 201	0.36%	$ 24,925	$ 68	0.27%
Money market deposits	637,539	2,468	0.39%	449,110	3,190	0.71%	370,451	4,621	1.25%
Savings deposits	137,534	134	0.10%	123,568	149	0.12%	97,670	197	0.20%
Time deposits, less than $250,000	640,747	4,462	0.70%	715,181	11,466	1.60%	712,535	16,044	2.25%
Time deposits, $250,000 and over	597,770	4,708	0.79%	597,262	10,199	1.71%	566,810	13,303	2.35%
Total interest-bearing deposits	2,082,801	11,956	0.57%	1,940,916	25,205	1.30%	1,772,391	34,233	1.93%
FHLB advances	150,000	1,765	1.18%	129,071	1,483	1.15%	114,388	2,930	2.56%
Long-term debt	157,719	8,404	5.33%	104,210	6,990	6.71%	103,870	6,991	6.73%
Subordinated debentures	14,385	595	4.14%	14,228	687	4.83%	9,586	707	7.38%
Total interest-bearing liabilities	2,404,905	22,720	0.94%	2,188,425	34,365	1.57%	2,000,235	44,861	2.24%
Noninterest-bearing liabilities									
Noninterest-bearing deposits	938,710			564,111			421,174		
Other noninterest-bearing liabilities	42,143			15,164			19,879		
Total noninterest-bearing liabilities	980,853			579,275			441,053		
Shareholders' equity	447,714			417,915			393,895		
Total liabilities and shareholders' equity	$ 3,833,472			$ 3,185,615			$ 2,835,183		
Net interest income / interest rate spreads		$ 124,419	3.15%		$ 104,788	3.10%		$ 96,900	3.07%
Net interest margin			3.46%			3.52%			3.63%

(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.

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.

(tax-equivalent basis, dollars in thousands)	Year Ended December 31, 2021 Compared with Year Ended December 31, 2020			Year Ended December 31, 2020 Compared with Year Ended December 31, 2019		
	Change due to:			Change due to:		
	Volume	Rate	Interest Variance	Volume	Rate	Interest Variance
Interest-earning assets:						
Federal funds sold, cash equivalents & other (1)	$ 1,792	$ (1,935)	$ (143)	$ 1,574	$ (3,230)	$ (1,656)
Securities: (2)						
Available for sale	1,702	(1,199)	503	1,696	(1,336)	360
Held to maturity	(41)	(8)	(49)	(49)	2	(47)
Mortgage loans held for sale	(728)	(381)	(1,109)	(12,474)	(1,501)	(13,975)
Loans held for investment: (3)						
Real estate	9,768	(1,530)	8,238	21,540	(4,598)	16,942
Commercial	692	(146)	546	1,397	(5,629)	(4,232)
Total loans held for investment	10,460	(1,676)	8,784	22,937	(10,227)	12,710
Total	$ 13,185	$ (5,199)	$ 7,986	$ 13,684	$ (16,292)	$ (2,608)
Interest-bearing liabilities						
NOW	$ 41	$ (58)	$ (17)	$ 105	$ 28	$ 133
Money market	1,038	(1,760)	(722)	847	(2,278)	(1,431)
Saving deposits	14	(29.00)	(15)	43	(91)	(48)
Time deposits, less than $250,000	(1,094)	(5,910)	(7,004)	60	(4,638)	(4,578)
Time deposits, $250,000 and over	9	(5,500)	(5,491)	684	(3,788)	(3,104)
Total interest-bearing deposits	8	(13,257)	(13,249)	1,739	(10,767)	(9,028)
FHLB advances	243	39	282	336	(1,783)	(1,447)
Long-term debt	3,063	(1,649)	1,414	21	(22)	(1)
Subordinated debentures	8	(100)	(92)	273	(293)	(20)
Total interest-bearing liabilities	3,322	(14,967)	(11,645)	2,369	(12,865)	(10,496)
Changes in net interest income	$ 9,863	$ 9,768	$ 19,631	$ 11,315	$ (3,427)	$ 7,888

(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.

Provision for Loan Losses

The provision for loan losses in 2021 was $4.0 million compared to $11.8 million in 2020. The decrease in the 2021 provision expense was primarily attributable to a decrease in COVID-19 pandemic related market effects from 2020, partially offset by increases in past due loans, substandard loans and impaired loans. Non-performing loans that increased during the year were individually analyzed, with $30,000 in 2021 and $525,000 in 2020, net addition to the allowance for loan losses.

Noninterest Income

Noninterest income increased $4.7 million, or 33.5%, to $18.7 million in 2021 from $14.0 million in 2020. The following table sets forth the major components of noninterest income for the years ended December 31, 2021, 2020 and 2019:

	Years Ended December 31,			2021 vs. 2020 Increase (Decrease)		2020 vs. 2019 Increase (Decrease)	
(dollars in thousands)	**2021**	**2020**	**2019**	**$**	**%**	**$**	**%**
Noninterest income:							
Service charges, fees and other	$ 7,235	$ 4,852	$ 4,072	$ 2,383	49.1%	$ 780	19.2%
Gain on sale of loans	9,991	5,997	9,893	3,994	66.6%	(3,896)	(39.4)%
Loan servicing income, net of amortization	684	2,052	3,383	(1,368)	(66.7)%	(1,331)	(39.3)%
Recoveries on loans acquired in business combinations	82	84	143	(2)	(2.4)%	(59)	(41.3)%
Unrealized (loss) gain on equity investments	(360)	—	147	(360)	100.0%	(147)	(100.0)%
Gain on derivatives	46	78	—	(32)	(41.0)%	78	100.0%
Increase in cash surrender of life insurance	1,067	767	775	300	39.1%	(8)	(1.0)%
Gain on sale of securities	—	210	7	(210)	(100.0)%	203	2900.0%
Loss on sale of OREO	—	—	(106)	—	—	106	(100.0)%
Gain on sale of fixed assets	—	—	6	—	—	(6)	(100.0)%
Total noninterest income	$ 18,745	$ 14,040	$ 18,320	$ 4,705	33.5%	$ (4,280)	(23.4)%

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 originated organically.

Gain on sale of loans. The gain on sales of loans increased $4.0 million due primarily to the increase in gains of $2.7 million in SFR mortgage loans sold and increase in gains of $1.3 million in SBA loans sold. Increases in gain on sales of loans were due to increases of $7.2 million on SBA loans sold and $92.4 million on mortgage loans held for sale. The increase in the mortgage loan sales is attributable to the favorable change in market conditions in the secondary market.

	Years Ended December 31,			2021 vs. 2020 Increase (Decrease)		2020 vs. 2019 Increase (Decrease)	
(dollars in thousands)	**2021**	**2020**	**2019**	**$**	**%**	**$**	**%**
Loans sold:							
SBA	$ 20,922	$ 13,733	$ 28,803	$ 7,189	52.3%	$ (15,070)	(52.3)%
Single family residential mortgage	276,650	184,220	472,477	92,430	50.2%	(288,257)	(61.0)%
Commercial real estate	—	—	10,422	—	—	(10,422)	(100.0)%
	$ 297,572	$ 197,953	$ 511,702	$ 99,619	50.3%	$ (313,749)	(61.3)%
Gain on loans sold:							
SBA	$ 2,091	$ 754	$ 1,542	$ 1,337	177.3%	$ (788)	(51.1)%
Single family residential mortgage	7,900	5,243	8,199	2,657	50.7%	(2,956)	(36.1)%
Commercial real estate	—	—	152	—	—	(152)	(100.0)%
	$ 9,991	$ 5,997	$ 9,893	$ 3,994	66.6%	$ (3,896)	(39.4)%

Loan servicing income, net of amortization. Servicing income decreased due to increased loan pre-payments in the SFR loans serviced causing a decrease in the volume of mortgage loans we are servicing. SBA loan servicing income decreased due to a decline in SBA pre-payments.

(dollars in thousands)	**Years Ended December 31,**			**2021 vs. 2020 Increase (Decrease)**		**2020 vs. 2019 Increase (Decrease)**	
For the period	**2021**	**2020**	**2019**	**$**	**%**	**$**	**%**
Loan servicing income, net of amortization:							
Single family residential loans serviced	$ 268	$ 1,440	$ 2,981	$ (1,172)	(81.4)%	$ (1,541)	(51.7)%
SBA loans serviced	416	612	402	(196)	(32.0)%	210	52.2%
Total	$ 684	$ 2,052	$ 3,383	$ (1,368)	(66.7)%	$ (1,331)	(39.3)%

	Years Ended December 31,			**2021 vs. 2020 Increase (Decrease)**		**2020 vs. 2019 Increase (Decrease)**	
(dollars in thousands)	**2021**	**2020**	**2019**		**$%**		**$%**
As of year-end, dollars in thousands							
Single family residential loans serviced	$ 1,308,672	$ 1,512,969	$ 1,683,298	$ (204,297)	(13.5)%	$ (170,329)	(10.1)%
SBA loans serviced	138,173	156,222	170,849	(18,049)	(11.6)%	(14,627)	(8.6)%
Total	$ 1,446,845	$ 1,669,191	$ 1,854,147	$ (222,346)	(13.3)%	$ (184,956)	(10.0)%

Recoveries on loans acquired in business combinations. Recoveries on loans acquired in business combinations decreased by $2,000 to $82,000 in 2021 compared to $84,000 in 2020.

Gain on derivatives. Due to the amount of loans that were committed to be delivered to FNMA at year-end, we recorded derivatives which resulted in a gain of $46,000 in 2021 and $78,000 in 2020. In 2021 and 2020, the income from interest rate lock commitments ("IRLCs") was ($41,000) and $182,000, respectively, and was recorded as service charges, fees and other. The income from forward mortgage loan sales commitments ("FMLSCs") was $46,000 and $78,000 in 2021 and 2020, respectively, and is reported in the income statement. There was no IRLC and FMLSC income in 2019.

Cash surrender value income of bank owned life insurance. Cash surrender value income of bank owned life insurance (“BOLI”) increased $300,000 due to additional BOLI investment of $19.9 million in June 2021.

Gain on sales of securities, net. Gain on sales of securities, net was $210,000 in 2020 from the sale of $11.7 million securities. There was no gain on sale of securities in 2021.

Noninterest Expense

Noninterest expense decreased $1.3 million, or 2.2%, to $58.2 million in 2021 from $59.5 million in 2020. The following table sets forth the major components of our noninterest expense for the years ended December 31, 2021, 2020 and 2019:

	Years Ended December 31,			2021 vs. 2020 Increase (Decrease)		2020 vs. 2019 Increase (Decrease)	
(dollars in thousands)	**2021**	**2020**	**2019**	**$**	**%**	**$**	**%**
Noninterest expense:							
Salaries and employee benefits	$ 33,568	$ 33,312	$ 32,909	$ 256	0.8%	$ 403	1.2%
Occupancy and equipment expenses	8,691	9,691	9,750	(1,000)	(10.3)%	(59)	(0.6)%
Data processing	4,474	4,236	3,699	238	5.6%	537	14.5%
Legal and professional	3,773	2,743	1,832	1,030	37.6%	911	49.7%
Office expenses	1,197	1,226	1,257	(29)	(2.4)%	(31)	(2.5)%
Marketing and business promotion	1,157	751	1,308	406	54.1%	(557)	(42.6)%
Insurance and regulatory assessments	1,561	984	900	577	58.6%	84	9.3%
Amortization of core deposit intangible	1,121	1,395	1,501	(274)	(19.6)%	(106)	(7.1)%
OREO expenses	17	35	337	(18)	(51.4)%	(302)	(89.6)%
Merger expenses	137	746	471	(609)	(81.6)%	275	58.4%
Other expenses	2,496	4,394	3,509	(1,898)	(43.2)%	885	25.2%
Total noninterest expense	$ 58,192	$ 59,513	$ 57,473	$ (1,321)	(2.2)%	$ 2,040	3.5%

Salaries and employee benefits. Salaries and employee benefits expense increased $256,000 due to normal salary increases. The number of full-time equivalent employees were 365 at December, 31, 2021, 366 at year-end 2020 and 355 at year-end 2019. None of our employees are represented by a labor union, or governed by any collective bargaining agreements. We consider relations with our employees to be satisfactory. On a periodic basis, the human resources department will advise senior management of the following human capital management metrics: (1) open positions, (2) overtime expense, (3) staff turnover, and (4) employee headcount.

Occupancy and equipment. Occupancy and equipment expense decreased $1.0 million from 2020 to 2021 mainly due to the savings from branch closures in 2020 and in early 2021.

Data processing. Data processing expense increased $238,000 in 2021. This increase was primarily due to upgrading our infrastructure. Effective June 2019, the Company renegotiated its data processing master agreement with its vendor, under which the Company is allowed to offset future monthly data processing expenses up to approximately $2.2 million through January 2026. As of December 31, 2021, this offset benefit amounted to $1.2 million to be recognized through January 2026.

Legal and professional. Legal and professional expense increased $1.0 million in 2021 due to increases in internal control audits, professional expense associated with emerging growth company status and problem loan collections.

Office expenses. Office expenses, comprised of communications, postage, armored car, and office supplies, decreased by $29,000 in 2021.

Marketing and business promotion. Marketing and business promotion expense increased $406,000, due to increased marketing efforts following the COVID-19 pandemic.

Insurance and regulatory assessments. Insurance and regulatory assessments expense increased by $577,000 to $1.6 million in 2021 compared to $984,000 in 2020. The FDIC insurance assessment was $949,000 in 2021 and $455,000 in 2020, an increase of $494,000. The California DFPI regulatory assessment increased by $20,000 from $163,000 for the year 2020 to $183,000 for year 2021. The corporate insurance expenses (including directors and officers insurance and fidelity bond), was $435,000 for 2021 compared to $363,000 for 2020.

Amortization of intangibles. Amortization of intangibles totaled $1.1 million in 2021 as compared to $1.4 million for 2020. The decrease was due to continued amortization of the core deposit intangible asset, following the additional core deposit intangible asset of $491,000 recognized in connection with the 2020 PGBH acquisition.

OREO expenses. OREO expenses were $17,000 in 2021 and $35,000 in 2020. The $18,000 decrease was due to no further ongoing expenses for past OREOs.

Merger expenses. Merger expenses were $137,000 in 2021 compared to $746,000 in 2020. The 2021 expense includes expenses relating to the acquisition of the Hawaii branch. While the 2020 expenses relate to the PGBH acquisition.

Other noninterest expenses. Other expenses decreased by $1.9 million from 2020, primarily due to the provision (benefit) for credit losses associated with unfunded commitments as of the balance sheet date of ($180,000) in 2021 compared to $558,000 in 2020. The off-balance sheet liabilities are 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 $416,000 decrease in mortgage servicing rights impairment due to reversal of write-downs reflecting the decline in market rates of interest.

Income Tax Expense

Income tax expense was $24.0 million in 2021 compared to $14.5 million in 2020, an increase of $9.5 million, or 65.4%. The effective tax rate for 2021 was 29.7% and 30.6% for 2020. Income tax expense for 2021 included a $873,000 benefit for stock options exercised and a $26,000 benefit for 2020.

Net Income

Net income increased $24.0 million to $56.9 million in 2021, compared to $32.9 million in 2020. The increase is primarily due to a increase in net interest income of $19.6 million, an increase in non-interest income of $4.7 million, a $1.3 million decrease in non-interest expense and a $7.9 million decrease in the credit loss provision, partially offset by a $9.5 million increase in tax expense.

Results of Operations—Comparison of Results of Operations for the Years Ended December 31, 2020 to December 31, 2019

Net Interest Income/Average Balance Sheet

In 2020, we generated fully-taxable equivalent net interest income of $104.8 million, an increase of $7.9 million, or 8.1%, from the net interest income produced in 2019. This increase was largely due to a 11.7% increase in the average balance of interest-earning assets, in part due to the PGBH acquisition and organic loan growth, partially offset by an 11 basis point decrease in the net interest margin. For the years ended December 31, 2020 and 2019 our reported net interest margin was 3.52% and 3.63%, respectively. Our net interest margin benefits from discount accretion on our purchased loan portfolios.

Interest Income. Total interest income was $139.1 million in 2020 compared to $141.7 million in 2019. The $2.6 million, or 1.8%, decrease in total interest income was mainly due to a decrease in the average loan yield of 37 basis points. This was partially offset by increases in the average balance of total loans of $147.5 million, average balance of securities of $88.2 million, and average balance of Federal funds sold, cash equivalents and other investments of $77.5 million.

Interest and fees on loans was $133.9 million in 2020 compared to $135.2 million in 2019. The $1.3 million, or 0.94%, decrease in interest income on loans was primarily due to a 46 basis point decrease in the average yield on loans held for investment and 51 basis point decrease in the average yield on loans held for sale, partially offset by a $147.5 million increase in the average balance of held for investment and held for sale loans outstanding. The increase in the average balance of loans outstanding was primarily due to the PGBH acquisition in January 2020 plus organic growth in commercial real estate and single-family residential mortgage loans during 2020. The yield on the loan portfolio benefited from accretion income associated with purchase accounting discounts established on loans acquired in prior acquisitions. For the years 2020 and 2019, the reported yield on total loans was 5.19% and 5.65%, respectively. The impact of accretion income on our yield on total loans for the years 2020 and 2019 was to increase our reported yield on total loans by 0.08% and 0.11%, respectively. A substantial portion of our acquired loan portfolio that is subject to discount accretion consists of commercial real estate loans and single family residential mortgages.

Interest income from our securities portfolio increased $315,000, or 11.7%, to $3.0 million in 2020. The increase in interest income on securities was primarily due to an increased average balance of $88.2 million, or 93.1%, partially offset by a 120 basis point decrease in the average yield of securities.

Interest income on our federal funds sold, cash equivalents and other investments decreased $1.7 million, or 42.3%, to $2.3 million in 2020. The decrease in interest income on these earning assets was primarily due to by a 184 basis point decrease in average yield of cash equivalents, partially offset by a $77.5 million increase in the average balance. 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 decreased $10.5 million, or 23.4%, to $34.4 million in 2020 primarily due to a 67 basis point decrease in the average rate on these liabilities plus an increase in non-interest bearing deposits of $142.9 million, partially offset by a $188.2 million increase in the average balance of interest bearing liabilities.

Interest expense on total deposits decreased to $25.2 million in 2020. The $9.0 million, or 26.4%, decrease in interest expense on total deposits was primarily due to a 63 basis point decrease in the average rate paid on total interest bearing deposits, partially offset by a $168.5 million increase in the average balance of interest-bearing deposits. The increase in the average balance of deposits resulted primarily from the PGBH acquisition in early 2020 and organic growth in 2020.

Interest expense on borrowings decreased from $10.6 million in 2019 to $9.2 million or 13.8% in 2020. This decrease reflected decreased interest expense on subordinated notes, subordinated debentures, and other borrowed funds consisting of FHLB short-term and long-term advances. In 2020, the average rate on these liabilities was 3.70% compared to 4.66% in 2019. A five year FHLB advance was obtained in March 2020 to provide for additional liquidity.

Provision for Loan Losses

The provision for loan losses in 2020 was $11.8 million compared to $2.4 million in 2019. The increase in the 2020 provision expense was primarily attributable to COVID-19 pandemic related market effects of $2.3 million, increases in the size of our overall loan portfolio, and increases in past due loans, substandard loans and impaired loans. Non-performing loans that increased during the year were individually analyzed, with $525,000 in 2020 and none in 2019, net addition to the allowance for loan losses.

Noninterest Income

Noninterest income decreased $4.3 million, or 23.4%, to $14.0 million in 2020 from $18.3 million in 2019.

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 originated organically and acquired in the PGBH acquisition in 2020. In 2020, the income from interest rate lock commitments ("IRLCs") was $182,000 and was recorded as service charges, fees and other. The income from forward mortgage loan sales commitments ("FMLSCs") was $78,000 and is reported in the income statement as a gain on derivatives. There was no IRLC and FMLSC income in 2019.

Gain on sale of loans. The gain on sales of loans decreased $3.9 million due primarily to the decrease of $2.9 million in SFR mortgage loans sold and a $788,000 decrease in premiums received on SBA loans sold. Decreases in gain on sales of loans were due to decreases of $15.1 million on SBA loans sold and $288.3 million on mortgage loans held for sale. The decrease in the mortgage loan sales is attributable to the change in market conditions in the secondary market primarily caused by COVID-19.

Loan servicing income, net of amortization. Servicing income decreased due to increased loan pre-payments in the SFR loans serviced causing a decrease in the volume of mortgage loans we are servicing. SBA loan servicing income increased due to a decline in SBA pre-payments.

Recoveries on loans acquired in business combinations. Recoveries on loans acquired in business combinations decreased by $59,000 to $84,000 in 2020 compared to $143,000 in 2019.

Gain on derivatives. Due to the amount of loans that were committed to be delivered to FNMA at year-end, we recorded a derivative which resulted in a gain of $78,000 in 2020.

Cash surrender value income of bank owned life insurance. Cash surrender value income of BOLI decreased $8,000 due to slightly lower rates.

Gain on sales of securities, net. Gain on sales of securities, net was $210,000 in 2020 from the sale of $11.7 million securities.

Loss on Sale of OREO. In 2020, there were no sales of OREO. A $106,000 loss on sale of OREO was recognized in 2019 from the sale of two OREO properties.

Noninterest Expense

Noninterest expense increased $2.0 million, or 3.5%, to $59.5 million in 2020 from $57.5 million in 2019.

Salaries and employee benefits. Salaries and employee benefits expense increased $403,000 due to severance pay to terminated employees in connection with the PGBH merger. The number of full-time equivalent employees were 366 in 2020, 355 in 2019 and 365 in 2018. None of our employees are represented by a labor union, or governed by any collective bargaining agreements. We consider relations with our employees to be satisfactory. On a periodic basis, the human resources department will advise senior management of the following human capital management metrics: (1) open positions, (2) overtime expense, (3) staff turnover, and (4) employee headcount.

Occupancy and equipment. Occupancy and equipment expense decreased $59,000 from 2019 to 2020 mainly due to closing three branches in 2020, partially offset by the addition of three branches in Chicago (one leased and two owned) and opening one branch in Edison, New Jersey.

Data processing. Data processing expense increased $537,000 in 2020. This increase was primarily due to upgrading our infrastructure and also reflected the impact of increased processing costs incurred subsequent to the PGBH acquisition. Effective June 2019, the Company renegotiated its data processing master agreement with its vendor, under which the Company is allowed to offset future monthly data processing expenses up to approximately $2.2 million through January 2026. As of December 31, 2020, this offset benefit amounted to $1.6 million to be recognized through January 2026. Conversion expense associated with the PGBH and FAIC acquisitions is in the “other expenses” line item.

Legal and professional. Legal and professional expense increased $911,000 in 2020 due to increases in problem loan collection expenses, and commission expense recognized in connection with the purchase of a new branch location.

Office expenses. Office expenses comprised of communications, postage, armored car, and office supplies, decreased by $31,000 in 2020. The decrease was primarily due to cost saving implemented in 2020 (following the acquisition of PGBH in January).

Marketing and business promotion. Marketing and business promotion expense decreased $557,000. In 2020, marketing and promotion activity decreased due to COVID-19 pandemic.

Insurance and regulatory assessments. Insurance and regulatory assessments expense increased by $84,000 to $984,000 in 2020 compared to $900,000 in 2019, following the PGBH acquisition in 2020. The FDIC insurance assessment was $455,000 in 2020 and $386,000 in 2019, an increase of $69,000. The DFPI regulatory assessment increased by $14,000 from $149,000 for the year 2019 to $163,000 for year 2020. The corporate insurance expenses (including directors and officers insurance and fidelity bond), were $363,000 for 2020 compared to $360,000 for 2019.

Amortization of intangibles. Amortization of intangibles totaled $1.4 million in 2020 as compared to $1.5 million for 2019. The decrease was due to continued amortization of the core deposit intangible asset, following the additional core deposit intangible asset of $491,000 recognized in connection with the PGBH acquisition.

OREO expenses. OREO expenses were $35,000 in 2020 and $337,000 in 2019. The $302,000 decrease was due to payments made for delinquent property taxes and construction costs during the year ended 2019.

Merger expenses. Merger expenses were $746,000 in 2020 compared to $471,000 in 2019. The 2020 and 2019 expenses are for the PGBH acquisition which closed in January 2020.

Other noninterest expenses. Other expenses increased by $885,000 from 2019, primarily due to the provision for credit losses associated with unfunded commitments as of the balance sheet date of $558,000 in 2020 compared to $137,000 in 2019. The off-balance sheet liabilities are 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 $416,000 increase in mortgage servicing rights impairment due to write-downs reflecting the decline in market rates of interest.

Income Tax Expense

Income tax expense was $14.5 million in 2020 compared to $16.1 million in 2019, a decrease of $1.6 million or 9.8%. The effective tax rate for 2020 was 30.6% and 29.2% for 2019. Income tax expense for 2020 included a $26,000 benefit for stock options exercised and a $78,000 benefit for 2019.

Net Income

Net income decreased $6.3 million to $32.9 million in 2020, compared to $39.2 million in 2019. The decrease was primarily due to a decrease in net interest income of $1.5 million, a decrease in non-interest income of $4.3 million, a $2.0 million increase in non-interest expense and a $9.4 million increase in the loan loss provision, partially offset by a $10.5 million decrease in interest expense.

ANALYSIS OF FINANCIAL CONDITION

Assets

Total assets were $4.2 billion as of December 31, 2021 and $3.4 billion as of December 31, 2020. We increased our net loans held for investment by $221.0 million. This increase was from organic loan growth. Organic loan growth increased mainly in commercial real estate loans and construction loans. Our mortgage loans held for sale decreased by $44.0 million in 2021. The increase in assets was funded by an increase in deposits of $750.4 million, and a $38.2 million increase in equity (primarily resulting from $56.9 million in net income, less $10.5 million in repurchase of common stock and $9.9 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, 2021, 2020 and 2019. 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, 2021		December 31, 2020		December 31, 2019	
(dollars in thousands)	Amount	% of Total	Amount	% of Total	Amount	% of Total
Securities, available for sale, at fair value						
Government agency securities	$ 5,610	1.5%	$ 1,294	0.6%	$ 1,572	1.2%
SBA agency securities	3,469	0.9%	4,394	2.0%	4,691	3.5%
Mortgage-backed securities - Government sponsored agencies	55,025	14.7%	17,677	8.1%	19,171	14.3%
Collateralized mortgage obligations	119,511	31.9%	48,874	22.4%	11,654	8.7%
Commercial paper	129,926	34.7%	102,448	47.0%	69,899	51.9%
Corporate debt securities (1)	42,205	11.3%	34,563	15.9%	19,082	14.2%
Municipal securities	12,514	3.3%	1,617	0.7%	—	0.0%
Total securities, available for sale, at fair value	$ 368,260	98.3%	$ 210,867	96.7%	$ 126,069	93.8%
Securities, held to maturity, at amortized cost						
Taxable municipal securities	$ 1,506	0.4%	$ 2,407	1.1%	$ 3,505	2.6%
Tax-exempt municipal securities	4,746	1.3%	4,767	2.2%	4,827	3.6%
Total securities, held to maturity, at amortized cost	6,252	1.7%	7,174	3.3%	8,332	6.2%
Total securities	$ 374,512	100.0%	$ 218,041	100.0%	$ 134,401	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, 2021**	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
Available for sale				
Government agency securities	$ 5,689	$ 4	$ (83)	$ 5,610
SBA agency securities	3,351	118	—	3,469
Mortgage-backed securities- Government sponsored agencies	55,534	31	(540)	55,025
Collateralized mortgage obligations	121,377	128	(1,994)	119,511
Commercial paper	129,962	—	(36)	129,926
Corporate debt securities	41,999	460	(254)	42,205
Municipal securities	12,701	—	(187)	12,514
	$ 370,613	$ 741	$ (3,094)	$ 368,260
Held to maturity				
Municipal taxable securities	$ 1,506	$ 77	$ —	$ 1,583
Municipal securities	4,746	248	—	4,994
	$ 6,252	$ 325	$ —	$ 6,577
December 31, 2020				
Available for sale				
Government agency securities	$ 1,257	$ 37	$ —	$ 1,294
SBA securities	4,125	269	—	4,394
Mortgage-backed securities- Government sponsored agencies	17,415	270	(8)	17,677
Collateralized mortgage obligations	48,476	491	(93)	48,874
Commercial paper	102,462	—	(14)	102,448
Corporate debt securities	33,907	662	(6)	34,563
Municipal securities	1,621	2	(6)	1,617
	$ 209,263	$ 1,731	$ (127)	$ 210,867
Held to maturity				
Municipal taxable securities	$ 2,407	$ 139	$ —	$ 2,546
Municipal securities	4,767	290	—	5,057
	$ 7,174	$ 429	$ —	$ 7,603

The weighted-average yield on the total investment portfolio at December 31, 2021 was 1.03% with a weighted-average life of 3.8 years. This compares to a weighted-average yield of 1.14% at December 31, 2020 with a weighted-average life of 3.3 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 17.1% of the securities in the total investment portfolio at December 31, 2021, 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, 2021, 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, 2021. The amortized cost and fair value of the investment securities portfolio are shown by expected maturity. 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, 2021										
Government agency securities	$ —	$ —	$ 5,689	$ 5,610	$ —	$ —	$ —	$ —	$ 5,689	$ 5,610
SBA securities	—	—	1,551	1,582	1,800	1,887	—	—	3,351	3,469
Mortgage-backed securities-Government sponsored agencies	5,001	4,998	35,254	35,000	15,279	15,027	—	—	55,534	55,025
Collateralized mortgage obligations	117	117	78,021	76,496	43,239	42,898	—	—	121,377	119,511
Commercial paper	129,962	129,926	—	—	—	—	—	—	129,962	129,926
Corporate debt securities	7,999	8,007	8,389	8,633	22,927	22,931	2,684	2,634	41,999	42,205
Municipal securities	—	—	—	—	—	—	12,701	12,514	12,701	12,514
Total available for sale	$ 143,079	$ 143,048	$ 128,904	$ 127,321	$ 83,245	$ 82,743	$ 15,385	$ 15,148	$ 370,613	$ 368,260
Municipal taxable securities	$ 500	$ 502	$ 1,006	$ 1,081	$ —	$ —	$ —	$ —	$ 1,506	$ 1,583
Municipal securities	—	—	—	—	1,743	1,818	3,003	3,176	4,746	4,994
Total held to maturity	$ 500	$ 502	$ 1,006	$ 1,081	$ 1,743	$ 1,818	$ 3,003	$ 3,176	$ 6,252	$ 6,577

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, 2021 and December 31, 2020. 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 2021 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) **December 31, 2021**	**Unrealized Losses**	**Estimated Fair Value**	**No. of Issuances**	**Unrealized Losses**	**Estimated Fair Value**	**No. of Issuances**	**Unrealized Losses**	**Estimated Fair Value**	**No. of Issuances**
Government sponsored agencies	$ (83)	$ 4,860	1	$ —	$ —	—	$ (83)	$ 4,860	1
Mortgage-backed securities- Government sponsored agencies	(536)	44,009	12	(4)	9,974	2	$ (540)	53,983	14
Collateralized mortgage obligations	(1,916)	79,851	23	(78)	17,782	4	(1,994)	97,633	27
Commercial paper	(36)	129,926	19	—	—	—	(36)	129,926	19
Corporate debt securities	(254)	13,208	12	—	—	—	(254)	13,208	12
Municipal securities	(160)	11,447	9	(27)	1,067	2	(187)	12,514	11
Total available for sale	$ (2,985)	$ 283,301	76	$ (109)	$ 28,823	8	$ (3,094)	$ 312,124	84
December 31, 2020									
Mortgage-backed securities- Government sponsored agencies	$ (8)	$ 12,982	3	$ —	$ —	—	$ (8)	$ 12,982	3
Collateralized mortgage obligations	(93)	28,521	6	—	—	—	(93)	28,521	6
Commercial paper	(14)	16,982	4	—	—	—	(14)	16,982	4
Corporate debt securities	(6)	994	2	—	—	—	(6)	994	2
Municipal securities	(6)	1,092	2	—	—	—	(6)	1,092	2
Total available for sale	$ (127)	$ 60,571	17	$ —	$ —	—	$ (127)	$ 60,571	17

The Company did not record any charges for other-than-temporary impairment losses for the twelve months ended December 31, 2021 and 2020.

Loans

The loan portfolio is the largest category of our earning assets. At December 31, 2021, total loans held for investment, net of ALLL, totaled $2.9 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,									
	2021		2020		2019		2018		2017	
(dollars in thousands)	**$**	**Mix %**	**$**	**Mix %**	**$**	**Mix %**	**$**	**Mix %**	**$**	**Mix %**
Loans:(1)										
Commercial and industrial	$ 268,709	9.2%	$ 290,139	10.7%	$ 274,586	12.5%	$ 304,084	14.2%	$ 280,766	22.5%
SBA	76,136	2.6%	97,821	3.6%	74,985	3.4%	84,500	3.9%	131,421	10.5%
Construction and land development	303,144	10.3%	186,723	6.9%	96,020	4.4%	113,235	5.3%	91,908	7.4%
Commercial real estate (2)	1,247,999	42.6%	1,003,637	37.1%	793,268	36.1%	758,721	35.4%	496,039	39.7%
Single-family residential mortgages	1,004,576	34.3%	1,124,357	41.5%	957,254	43.6%	881,249	41.1%	248,940	19.9%
Other loans	30,786	1.0%	4,089	0.2%	821	0.0%	226	0.1%	—	0.0%
Total loans	2,931,350	100.0%	2,706,766	100%	2,196,934	100.0%	2,142,015	100.0%	1,249,074	100.0%
Allowance for loan losses	(32,912)		(29,337)		(18,816)		(17,577)		(13,773)	
Total loans, net	$ 2,898,438		$ 2,677,429		$ 2,178,118		$ 2,124,438		$ 1,235,301	

(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 $221.0 million, or 8.3%, to $2.9 billion at December 31, 2021 as compared to $2.7 billion at December 31, 2020. The increase in net loans resulted from organic growth.

Commercial and industrial 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 $268.7 million as of December 31, 2021 and $290.1 million at December 31, 2020. The interest rate on these loans are generally Wall Street Journal Prime rate based.

The loan to value and the rate on the underlying loans are based on the policy guidance of the Company.

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.

Commercial and industrial loans decreased $21.4 million, or 7.4%, to $268.7 million as of December 31, 2021 compared to $290.1 million at December 31, 2020. This decrease resulted primarily from a $31.1 million decrease in mortgage warehouse lines, partially offset by a $15.4 million increase in commercial lines of credit.

Commercial real estate loans. CRE loans include owner-occupied and non-occupied commercial real estate, multi-family residential and SFR loans originated for a business purpose. Except for the multi-family residential loan portfolio, 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. The interest rate for multi-family residential loans are based on the 5-year treasury, are 10 year maturity with a five year fixed rate period followed by a five year floating rate period, and have a declining prepayment penalty for the first five years. At December 31, 2021, approximately 14.7% of the CRE portfolio consisted of fixed-rate loans. Our policy maximum loan-to-value ("LTV") is 75% for CRE loans. The total CRE portfolio totaled $1.2 billion at December 31, 2021 and $1.0 billion as of December 31, 2020, of which $222.8 million and $198.8 million, respectively, are secured by owner occupied properties. The multi-family residential loan portfolio totaled $545.9 million as of December 31, 2021 and $346.6 million as of December 31, 2020. The SFR loan portfolio originated for a business purpose totaled $65.6 million as of December 31, 2021 and $24.0 million as of December 31, 2020.

Construction & 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. These loans are typically Prime based and have maturities of less than 18 months. Our LTV policy limits are 75% for construction and land development loans. C&D loans increased $116.4 million or 62.3%, to $303.1 million at December 31, 2021 as compared to $186.7 million at December 31, 2020. This increase was primarily due to increases in residential construction loans. As of December 31, 2021 and 2020, our real estate construction loan portfolio was divided among the foregoing categories as shown in the table below.

	As of December 31, 2021		**As of December 31, 2020**		**Increase (Decrease)**	
(dollars in thousands)	**$**	**Mix %**	**$**	**Mix %**	**$**	**%**
Residential construction	$ 211,850	69.9%	$ 124,255	66.5%	$ 87,595	70.5%
Commercial construction	71,918	23.7%	45,540	24.4%	26,378	57.9%
Land development	19,376	6.4%	16,928	9.1%	2,448	14.5%
Total construction and land development loans	$ 303,144	100.0%	$ 186,723	100.0%	$ 116,421	62.3%

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. In 2021, we originated $60.3 million in SBA loans, of which $22.5 million were PPP loans and $26.2 million were SBA 7A originations and $11.6 million were SBA 504 originations. Of SBA loan originations, $43.9 million or 72.8% were produced by branch staff and loan officers. The remaining $16.4 million or 27.2% was referred to us through SBA brokers.

As of December 31, 2021 our SBA portfolio totaled $76.1 million of which $17.9 million is guaranteed by the SBA and $58.2 million is unguaranteed, of which $56.6 million is secured by real estate and $1.6 million is unsecured or secured by business assets. We monitor the unguaranteed portfolio by type of real estate collateral. As of December 31, 2021, $25.4 million or 43.6% is secured by hotel/motels; $5.0 million or 8.6% by gas stations; and $27.9 million or 47.9% in other real estate types. We further analyze the unguaranteed portfolio by location. As of December 31, 2021, $27.8 million or 47.8% is located in California; $6.0 million or 10.3% is located in Washington state; $5.1 million or 8.7% is located in Nevada; $5.0 million or 8.5% is located in Texas; $3.4 million or 5.8% is located in New York; and $11.0 million or 19.0% is located in other states.

SBA loans decreased $21.7 million, or 22.2%, to $76.1 million at December 31, 2021 compared to $97.8 million at December 31, 2020. This decrease was primarily due to SBA loan sales of $20.9 million, and $50.9 million in mainly PPP loan payments in 2021 less $22.5 million in PPP loan origination, and SBA 7A loans originations of $26.2 million.

SFR real estate loans. We originate qualified SFR mortgage loans and 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 3.00%. The qualified SFR mortgage loans, 15-year and 30-year conforming mortgages, are originated by our branch network and are sold directly to FNMA within seven days of funding.

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 2021, we originated $410.0 million of such loans through our retail channel, and $62.1 million through our wholesale and correspondent channel. We sell many of these non-qualified SFR mortgage loans to other Asian-American banks and private investors.

The loans sold to other banks are sold with no representation or warranties and with a replacement feature for the first 90-days if the loan pays off early. For SFR loans sold to FNMA and to investment funds we provide limited representations and warranties and with a repurchase and premium refund for loans that become delinquent in the first 90-days or a premium refund if paid-off in the first 90-days with respect to all loans sold. As a condition of the sale, the buyer must have the loans audited for underwriting and compliance standards.

During 2021, we originated $472.1 million of SFR mortgage loans and sold $276.7 million to FNMA, investment funds and other banks in our market. SFR real estate loans include home equity loans acquired in the LANB, FAIC and PGBH acquisitions. As of December 31, 2021, we had $3.9 million in home equity loans.

SFR real estate loans held for investment, which include $3.9 million of home equity loans, decreased $119.8 million, or 10.7%, to $1.0 billion as of December 31, 2021 as compared to $1.1 billion as of December 31, 2020. Loans held for sale decreased $44.0 million or 88.1% to $6.0 million as of December 31, 2021 compared to $50.0 million December 31, 2020. In addition, our SFR mortgage lending unit originates mortgage warehouse lines to our correspondents. These loans are included in our commercial and industrial lending unit and totaled $47.2 million as of December 31, 2021 and $78.3 million as of December 31, 2020.

The loan maturities in the table below are based on contractual maturities as of December 31, 2021. 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)	One Year or Less	After One Year to Five Years	After Five Years to Fifteen Years	Over Fifteen Years	Total
Construction & land development					
Fixed rate	$ —	$ 184	$ 11	$ —	$ 195
Floating rate	226,964	75,372	538	75	302,949
Commercial & industrial					
Fixed rate	$ 30,291	$ 2,428	$ 812	$ 3	$ 33,534
Floating rate	134,646	75,075	25,454	—	235,175
Commercial real estate					
Fixed rate	$ 20,070	$ 124,999	$ 38,369	$ —	$ 183,438
Floating rate	185,775	210,812	417,360	250,614	1,064,561
SBA					
Fixed rate	$ 3,605	$ 338	$ 17,659	$ —	$ 21,602
Floating rate	37	2,374	5,028	47,095	54,534
SFR mortgage					
Fixed rate	$ 146	$ 2,271	$ 16,799	$ 980,835	$ 1,000,051
Floating rate	—	606	3,919	—	4,525
Other					
Fixed rate	$ 24,421	$ 2,365	$ 4,000	$ —	$ 30,786
Floating rate	—	—	—	—	—
Total loans	$ 625,955	$ 496,824	$ 529,949	$ 1,278,622	$ 2,931,350
Fixed rate	$ 78,533	$ 132,585	$ 77,650	$ 980,838	$ 1,269,606
Floating rate	547,422	364,239	452,299	297,784	1,661,744
Total loans	$ 625,955	$ 496,824	$ 529,949	$ 1,278,622	$ 2,931,350
Allowance for loan losses					(32,912)
Net loans					$ 2,898,438
Mortgage loans held for sale					$ 5,957

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.

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

	As of December 31, 2021									
	2021		2020		2019		2018		2017	
(dollars in thousands)		**$% (1)**		**$% (1)**		**$% (1)**		**$% (1)**		**$% (1)**
Loans:										
Commercial and industrial	$ 2,813	1.05%	$ 3,690	1.27%	$ 2,736	1.00%	$ 3,112	1.02%	$ 3,014	1.07%
SBA	980	1.29%	927	0.95%	852	1.14%	1,027	1.22%	1,030	0.78%
Construction and land development	4,150	1.37%	2,473	1.32%	1,268	1.32%	1,500	1.32%	1,214	1.32%
Commercial real estate (2)	16,603	1.33%	13,718	1.37%	7,668	0.97%	6,449	0.85%	4,925	0.99%
Single family residential mortgages	7,839	0.78%	8,486	0.75%	6,182	0.65%	5,489	0.62%	3,170	1.27%
Other	527	1.71%	43	1.05%	9	1.10%	—	—	—	—
Unallocated	—	—	—	—	101	—	—	—	420	—
Allowance for loan losses	$ 32,912	1.12%	$ 29,337	1.08%	$ 18,816	0.86%	$ 17,577	0.82%	$ 13,773	1.10%

(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 balance was $3.3 million at December 31, 2021 and $4.8 million at December 31, 2020.

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, 2021 and December 31, 2020. We have recorded additional reserves of $1.6 million at December 31, 2021 and $2.1 million at December 31, 2020 due to the credit discounts on the bank acquisitions being less than the analysis for loan losses on those acquisitions as of December 31, 2021.

(dollars in thousands)	As of December 31, 2021	As of December 31, 2020
Commercial and industrial	$ 38	$ 53
SBA	31	36
Construction and land development	2	6
Commercial real estate	629	1,029
Single-family residential mortgages	2,619	3,653
Total credit discount on purchased loans	$ 3,319	$ 4,777
Total remaining balance of purchased loans through acquisition	$ 418,038	$ 583,605
Credit-discount to remaining balance of purchased loans	0.79%	0.82%

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 0.01% and 0.05% for both the twelve months ended December 31, 2021 and 2020, respectively

The ALLL was $32.9 million at December 31, 2021 compared to $29.3 million at December 31, 2020. The $3.6 million increase in 2021 was primarily due to loan growth and a $1.2 million increase in non-performing loans. The COVID-19 portion of the ALLL equates to a 2.63 basis point reserve on the loan portfolio, excluding impaired and cash secured loans, at December 31, 2021.

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

In determining the allowance and the related provision for loan losses, we consider three principal elements: (i) valuation allowances based upon probable losses identified during the review of impaired 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 loan losses are charged to operations to record changes to the total allowance to a level deemed appropriate by us.

The following table provides an analysis of the ALLL, provision for credit losses and net charge-offs for the years 2017 to 2021:

	Years Ended December 31,				
(dollars in thousands)	**2021**	**2020**	**2019**	**2018**	**2017**
Balance, beginning of period	$ 29,337	$ 18,816	$ 17,577	$ 13,773	$ 14,162
Charge-offs:					—
Commercial and industrial	(500)	(200)	—	—	—
SBA	(1)	(973)	(1,093)	—	(83)
Commercial real estate	(67)	(85)	(166)	(701)	—
Other	(59)	(45)	—	—	—
Total charge-offs	(627)	(1,303)	(1,259)	(701)	(83)
Recoveries:					
Commercial and industrial	1	—	—	36	—
SBA	95	1	108	—	747
Commercial real estate	61	—			
Other	86	—	—	—	—
Total recoveries	243	1	108	36	747
Net (charge-offs)/recoveries	(384)	(1,302)	(1,151)	(665)	664
Provision for loan losses	3,959	11,823	2,390	4,469	(1,053)
Balance, end of period	$ 32,912	$ 29,337	$ 18,816	$ 17,577	$ 13,773
Total HFI loans at end of period	2,931,350	2,706,766	2,196,934	2,142,015	1,249,074
Average HFI loans	2,745,492	2,544,413	2,112,933	1,456,480	1,151,965
Net charge-offs to average HFI loans	0.01%	0.05%	0.05%	0.05%	-0.06%
Allowance for loan losses to total loans	1.12%	1.08%	0.86%	0.82%	1.10%
Credit discount on loans purchased through acquisitions	$ 3,319	$ 4,777	$ 5,309	$ 8,060	$ 1,689

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 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 Company did not have any loans past due 90 days or more but still accruing interest at any of the dates presented. The balances of nonperforming loans reflect the net investment in these assets.

	As of December 31,				
(dollars in thousands)	**2021**	**2020**	**2019**	**2018**	**2017**
Accruing troubled debt restructured loans:					
Commercial and industrial	$ 410	$ 502	$ —	$ —	$ —
SBA	—	34	45	58	—
Construction and land development	—	—	264	276	289
Commercial real estate	1,328	1,434	1,472	2,033	2,131
Total accruing troubled debt restructured loans	1,738	1,970	1,781	2,367	2,420
Non-accrual loans:					
Commercial and industrial	3,712	1,661	—	—	—
SBA	6,263	6,828	9,378	914	155
Construction and land development	149	173	—	—	—
Commercial real estate	4,672	1,193	725	—	—
Single-family residential mortgages	4,191	7,714	1,334	—	—
Other	—	15	—	—	—
Total non-accrual loans	18,987	17,584	11,437	914	155
Total non-performing loans	20,725	19,554	13,218	3,281	2,575
OREO	293	293	293	1,101	293
Nonperforming assets	$ 21,018	$ 19,847	$ 13,511	$ 4,382	$ 2,868
Nonperforming loans to total loans	0.71%	0.72%	0.60%	0.15%	0.21%
Nonperforming assets to total assets	0.50%	0.59%	0.48%	0.15%	0.17%

The $1.2 million increase in nonperforming loans at December 31, 2021 was primarily due to the addition of eight SFR mortgage loans for $3.0 million, four commercial and industrial loans for $3.7 million, two SBA loans for $1.6 million and four commercial real estate loans for $4.2 million, partially offset by four loans removed from non-accrual status in the amount of $5.6 million, net charge offs of six non-accrual loans of $422,000, payoffs of $2.7 million and paydowns of $2.6 million.

Our 30-89 day delinquent loans, excluding non-accrual loans, increased to $17.6 million as of December 31, 2021, compared to $8.9 million at December 31, 2020. From December 31, 2020 to December 31, 2021, the increase in past due loans (excluding non-accrual loans) resulted from increases of $3.9 million in SFR mortgage loans, $1.7 million in SBA loans, $1.6 million in commercial and industrial loans, and $1.5 million in CRE loans.

We did not recognize any interest income on nonaccrual loans during the years ended December 31, 2021 and December 31, 2020 while the loans were in nonaccrual status. We recognized interest income on loans modified under troubled debt restructurings of $159,000 and $170,000 during the years ended December 31, 2021 and December 31, 2020, 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.

Impact of the COVID-19 Pandemic on the Loan Portfolio

As of December 31, 2021, the Bank had 69 loans totaling $11.8 million, or 0.40% of the Company’s total loan portfolio that had been originated pursuant to the PPP due to the COVID-19 pandemic and were still outstanding as of such date. Presently none of our SBA customers are on a payment deferral plan due to the COVID-19 pandemic.

As of January 15, 2022, the Company had no loans deferred as a result of the COVID-19 pandemic.

The Company does not have any shared national credits or loans, backed by airlines or cruise lines, on deferral as of January 15, 2022.

Cash and Cash Equivalents. Cash and cash equivalents increased $499.7 million, or 256.7%, to $694.4 million as of December 31, 2021 as compared to $194.7 million at December 31, 2020.

Goodwill and Other Intangible Assets. Goodwill was $69.2 million both at December 31, 2021 and 2020. Goodwill represents the excess of the consideration paid over the fair value of the net assets acquired. Our other intangible assets, which consist of core deposit intangibles, were $4.1 million and $5.2 million at December 31, 2021 and December 31, 2020. 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.

Liabilities. Total liabilities increased $839.9 million to $3.8 billion, or 28.7%, at December 31, 2021 from $2.9 billion at December 31, 2020, primarily due to a $750.4 million increase in 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, 2021, the Bank considers $2.96 billion or 87.5% of our deposits as adjusted core relationships. As of December 31, 2021, our top ten deposit relationships totaled $884.7 million, of which two are related to directors and shareholders of the Company for a total of $54.5 million or 1.6% of our top ten deposit relationships. As of December 31, 2021, our directors and shareholders with deposits over $250,000 totaled $56.9 million or 2.3% of all relationships over $250,000.

The following table summarizes our average deposit balances and weighted average rates at December 31, 2021, 2020 and 2019:

(dollars in thousands)	For the year ended December 31, 2021 Average Balance	December 31, 2021 Weighted Average Rate (%)	December 31, 2020 Average Balance	December 31, 2020 Weighted Average Rate (%)	December 31, 2019 Average Balance	December 31, 2019 Weighted Average Rate (%)
Noninterest-bearing demand	$ 938,710	—	$ 564,111	—	$ 421,174	—
Interest-bearing:						
NOW	69,211	0.27%	55,794	0.36%	24,925	0.27%
Money market	637,539	0.39%	449,111	0.71%	370,451	1.19%
Savings	137,534	0.10%	123,568	0.12%	97,670	0.00%
Time, less than $250,000	640,747	0.70%	715,181	1.60%	712,534	2.25%
Time, $250,000 and over	597,770	0.79%	597,262	1.71%	566,810	2.35%
Total interest-bearing	2,082,801	0.57%	1,940,916	1.30%	1,772,390	1.93%
Total deposits	$ 3,021,511	0.40%	$ 2,505,027	1.01%	$ 2,193,564	1.56%

The following table sets forth the maturity of non-core time deposits as of December 31, 2021:

(dollars in thousands)	Maturity Within: Three Months	After Three to Six Months	Six to 12 Months	After 12 Months	Total
Time, $250,000 and over	$ 156,655	$ 175,970	$ 241,438	$ 12,437	$ 586,500
Wholesale deposits (1)	30,490	22,458	7,990	6,156	67,094
Time, brokered	2,398	—	—	—	2,398
Total	$ 189,543	$ 198,428	$ 249,428	$ 18,593	$ 655,992

(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.

The following table sets forth the estimated deposits exceeding the FDIC insurance limit:

(dollars in thousands)	For the year ended December 31, 2021	2020
Uninsured deposits	$ 1,823,410	$ 1,081,383

The estimated aggregate amount of time deposits in excess of the FDIC insurance limit is $475.6 milllion at December 31, 2021. The following table sets forth the maturity distribution of the estimated uninsured time deposits.

(dollars in thousands)	December 31, 2021
3 months or less	$ 93,993
Over 3 months through 6 months	146,149
Over 6 months through 12 months	222,872
Over 12 months	12,550
Total	$ 475,564

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, 2021 was $70.1 million or 2.1% of total deposits. The balance of such deposits as of December 31, 2020 were $93.7 million or 3.6% of total deposits.

Total deposits increased $750.4 million to $3.4 billion at December 31, 2021 as compared to $2.6 billion at December 31, 2020, as a result of organic growth. As of December 31, 2021, total deposits were comprised of 38.1% noninterest-bearing demand accounts, 27.4% interest-bearing non-maturity deposit accounts and 34.5% of time deposits.

As of December 31, 2021, $20,000 in deposit overdrafts were reclassified as other loans. As of December 31, 2020, the amount was $131,000.

FHLB Borrowings. In addition to deposits, we have used long- and short-term borrowings, such as federal funds purchased and FHLB long-and short-term advances, as a source of funds to meet the daily liquidity needs of our customers and fund growth in earning assets. We had no FHLB short-term advances at December 31, 2021 and at December 31, 2020. In the first quarter of 2020, the Company obtained $150.0 million in long-term FHLB advances. The term is five years, maturing by March 2025. The average fixed interest rate is 1.18%. The Company secured this funding in case there was a liquidity issue caused by the COVID-19 pandemic and to obtain an attractive interest rate. The following table sets forth information on our total FHLB advances during the periods presented:

	Years Ended December 31,		
(dollars in thousands)	**2021**	**2020**	**2019**
Outstanding at period-end	$ 150,000	$ 150,000	$ —
Average amount outstanding	150,000	129,071	114,388
Maximum amount outstanding at any month-end	150,000	190,000	364,500
Weighted average interest rate:			
During period	1.18%	1.15%	2.56%
End of period	1.18%	1.18%	0.00%

Long-Term Debt. Long-term debt consists of subordinated notes. As of December 31, 2021 the amount of subordinated notes outstanding was $173.0 million as compared to $104.4 million at December 31, 2020.

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 LIBOR plus 516 basis points thereafter. The Company redeemed these subordinated debentures on March 31, 2021. The redemption price for the subordinated debentures was equal to 100% of principal amount of the Notes redeemed, plus any accrued and unpaid interest to, but excluding, the redemption date of March 31, 2021.

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.

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 exchanged the notes for subordinated notes that were registered under the Securities Act and that have substantially the same terms as the privately issued notes. The exchange of notes was completed in March 2019.

In March 2021, the Company issued $120 million of 4.00% fixed to floating rate subordinated debentures, due April 1, 2031. The interest rate is fixed through April 1, 2026 and floats at three month SOFR plus 329 basis points thereafter. The Company can redeem these subordinated debentures beginning April 1, 2026. The subordinated debentures are considered Tier 2 capital at the Company.

The Company used the net proceeds from these 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.

Subordinated Debentures. Subordinated debentures consist of subordinated notes. As of December 31, 2021 and December 31, 2020, the amount outstanding was $14.5 million and $14.3 million, respectively. Under the terms of our subordinated notes issued in connection with the issuance of trust preferred securities, we are not permitted to declare or pay any dividends on our capital stock if an event of default occurs under the terms of the long term debt. These subordinated notes consist of the following:

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%. The rate at December 31, 2021 was 1.85% and 1.87% at December 31, 2020.

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, 2021 was 2.45% and 2.47% at December 31, 2020.

In January 2020, the Company, through the acquisition of PGBH, acquired PGBH Trust, a Delaware statutory trust formed in December 2004. PGBH Trust issued 5,000 fixed-to-floating rate capital securities with an aggregate liquidation amount of $5.0 million and 155 common securities with an aggregate liquidation amount of $155,000. There was a $763,000 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 2.10% through final maturity on December 15, 2034. The rate at December 31, 2021 was 2.30% and 2.32% at December 31, 2020.

In July 2017, British banking regulators announced plans to eliminate the LIBOR rate by June 3023, 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. At this time, SOFR is the alternative reference rate we plan to adopt as the index rate for U.S. dollar LIBOR.

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 $38.2 million, or 8.9%, to $466.7 million during 2021 due to $56.9 million of net income, $3.5 million of additional paid in capital from the exercise of stock options and $1.1 million from stock based compensation, partially offset by $9.9 million of cash dividends declared during the year, $10.5 million from the repurchase of shares of the Company's common stock and a $2.8 million decrease in other comprehensive income. The decrease in accumulated other comprehensive income primarily resulted from decreases in unrealized gains on available for sale securities.

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

Our liquidity position is supported by management of liquid assets and liabilities and access to alternative sources of funds. Liquid assets include cash, interest-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, 2021 and December 31, 2020, we had $92.0 million for both years, respectively, 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, 2021 and December 31, 2020 were $22.3 million and $9.8 million, respectively. Federal Reserve Discount Window lines were collateralized by a pool of CRE loans totaling $33.2 million and $20.1 million as of December 31, 2021 and December 31, 2020, respectively. We did not have any borrowings outstanding with the Federal Reserve at December 31, 2021 and December 31, 2020 and our borrowing capacity is limited only by eligible collateral.

At December 31, 2021 and 2020 there were $150.0 million in FHLB long-term advances outstanding. Based on the values of loans pledged as collateral, we had $833.6 million and $915.2 million of additional borrowing capacity with the FHLB as of December 31, 2021 and December 31, 2020, 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, 2021 and December 31, 2020. 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, 2021	Ratio at December 31, 2020	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	10.21%	11.32%	4.00%	4.00%	5.00%
Bank	12.45%	14.11%	4.00%	4.00%	5.00%
Common Equity Tier 1 Risk-Based Capital Ratio (1)					
Consolidated	14.86%	14.62%	4.50%	7.00%	6.50%
Bank	18.80%	18.94%	4.50%	7.00%	6.50%
Tier 1 Risk-Based Capital Ratio					
Consolidated	15.40%	15.21%	6.00%	8.50%	8.00%
Bank	18.80%	18.94%	6.00%	8.50%	8.00%
Total Risk-Based Capital Ratio					
Consolidated	23.15%	20.77%	8.00%	10.50%	10.00%
Bank	20.05%	20.19%	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, 2021:

	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	$ 2,219,093	$ —	$ —	$ —	$ 2,219,093
Time deposits	1,119,404	44,612	2,423	—	1,166,439
FHLB advances	—	—	150,000	—	150,000
Long-term debt	—	—	—	173,007	173,007
Subordinated debentures	—	—	—	14,502	14,502
Leases	4,490	6,803	5,428	6,875	23,596
Total contractual obligations	$ 3,342,987	$ 51,415	$ 157,851	$ 194,384	$ 3,746,637

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, 2021**	**December 31, 2020**
Tangible common equity:		
Total shareholders' equity	$ 466,683	$ 428,488
Adjustments		
Goodwill	(69,243)	(69,243)
Core deposit intangible	(4,075)	(5,196)
Tangible common equity	$ 393,365	$ 354,049
Tangible assets:		
Total assets-GAAP	$ 4,228,194	$ 3,350,072
Adjustments		
Goodwill	(69,243)	(69,243)
Core deposit intangible	(4,075)	(5,196)
Tangible assets:	$ 4,154,876	$ 3,275,633
Common shares outstanding	19,455,544	19,565,921
Tangible common equity to tangible assets ratio	9.47%	10.81%
Tangible book value per share	$ 20.22	$ 18.10

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

	For the year-ended		
(dollars in thousands)	**2021**	**2020**	**2019**
Net income available to common shareholders	$ 56,906	$ 32,928	$ 39,209
Average shareholders equity	447,714	417,915	393,895
Adjustments:			
Goodwill	(69,243)	(69,863)	(58,446)
Core deposit intangible	(4,657)	(5,806)	(6,873)
Adjusted average tangible common equity	$ 373,814	$ 342,246	$ 328,576
Return on average tangible common equity	15.22%	9.62%	11.93%

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 and Non-core Funding Dependency. 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 and the adjusted net non-core dependency ratio.

	As of	
(dollars in thousands)	**December 31, 2021**	**December 31, 2020**
Adjusted core deposit to total deposit ratio:		
Core deposits: demand and savings deposits of any amount plus time deposits less than $250,000	$ 2,807,033	$ 2,037,164
Adjustments:		
CDs > $250,000 considered core deposits (1)	317,501	448,159
Less brokered deposits considered non-core	(2,398)	(17,374)
Less internet and outside deposit originated time deposits < $250,000 considered non-core	(70,303)	(76,356)
Less other deposits not considered core (2)	(90,116)	(80,016)
Total adjustments	154,684	274,413
Adjusted core deposits	2,961,717	2,311,577
Total deposits	$ 3,385,532	$ 2,635,128
Adjusted core deposits to total deposits ratio	87.48%	87.72%
Non-core deposits: Time deposits greater than $250,000	$ 578,499	597,963
Less total adjustments	(154,684)	(274,413)
Total adjusted non-core deposits	423,815	323,550
Short term borrowing outstanding	—	—
Adjusted non-core liabilities (A)	423,815	323,550
Short term assets(3)	837,941	311,598
Adjustment to short term assets:		
Purchased receivables with maturities less than 90-days	—	—
Adjusted short term assets (B)	837,941	311,598
Net non-core funding (A-B)	$ (414,126)	$ 11,952
Total earning assets	3,988,715	3,141,819
Net non-core funding dependency ratio	-6.50%	9.11%
Adjusted net non-core funding dependency ratio	-10.38%	0.38%

(1) Comprised of time deposits to core customers over $250,000 as defined in the lead-in to the table above.

(2) 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.

(3) 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 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, 2021				
Dollar change	$ (685)	$ 135	$ 13,590	$ 27,947
Percent change	(0.53)%	0.10%	10.44%	21.46%
December 31, 2020				
Dollar change	$ (1,212)	$ (408)	$ 5,361	$ 12,590
Percent change	(1.05)%	(0.35)%	4.63%	10.87%

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 all rate scenarios. The NII at Risk reported at December 31, 2021, projects that our earnings are expected to be asset sensitive to changes in interest rates over the next year. In recent periods, the amount of floating rate assets increased resulting in a position shift from neutral to asset sensitive.

	Economic Value of Equity Sensitivity (Shock) Immediate Change in Rates			
(dollars in thousands)	**-200**	**-100**	**+100**	**+200**
December 31, 2021				
Dollar change	(140,235)	(97,523)	31,226	56,888
Percent change	(24.61)%	(17.12)%	5.48%	9.98%
December 31, 2020				
Dollar change	36,247	6,141	(7,720)	(12,098)
Percent change	8.86%	1.50%	(1.89)%	(2.96)%

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 and -200 basis point scenarios, but not the +100 and +200 basis point scenarios. The EVE reported at December 31, 2021 projects that as interest rates increase immediately, the EVE position will be expected to increase, 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. The out-of-compliance situation in the negative scenario is believed to be a result of rates not being able to move below zeroManagement 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

Report of Independent Registered Public Accounting Firm

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

Opinion on the Consolidated Financial Statements and Internal Control Over Financial Reporting
We have audited the accompanying consolidated balance sheets of RBB Bancorp and Subsidiaries (the Company) as of December 31, 2021 and 2020, the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the years in the three year period ended December 31, 2021, and the related notes (collectively referred to as the "financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2021, 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 financial statements present fairly, in all material respects, the consolidated financial position of RBB Bancorp and Subsidiaries as of December 31, 2021 and 2020, and the results of their operations and its cash flows for each of the three year period ended December 31, 2021, 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, 2021, based on criteria established in 2013 Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Change in Accounting Principle
As discussed in Note 2 and Note 14 to the financial statements, the Company has adopted the provisions of FASB Accounting Standards Codification Topic 842, Leases, as of January 1, 2021 using the modified retrospective approach with an adjustment at the beginning of the adoption period. Our opinion is not modified with respect to this matter.

Basis for Opinion
The Company's management is responsible for these 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 Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's financial statements and an opinion on the entity's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the 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 audits 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 responds 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. 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 audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting
An entity'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 accounting principles generally accepted in the United States of America. An entity'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 entity; (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 entity are being made only in accordance with authorizations of management and directors of the entity; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the entity'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.

Eide Bailly LLP

We have served as the Company's auditor since 2019. Vavrinek, Trine, Day & Co., LLP, who joined Eide Bailly LLP in 2019, had served as the Company's auditor since 2008.

Laguna Hills, California
March 11, 2022

RBB BANCORP AND SUBSIDIARIES

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

	2021	2020
Assets		
Cash and due from banks	$ 501,372	$ 137,654
Federal funds sold and other cash equivalents	193,000	57,000
Cash and cash equivalents	694,372	194,654
Interest-earning deposits in other financial institutions	600	600
Securities:		
Available for sale	368,260	210,867
Held to maturity (fair value of $6,577 and $7,603 at December 31, 2021 and December 31, 2020, respectively)	6,252	7,174
Mortgage loans held for sale	5,957	49,963
Loans held for investment:		
Real estate	2,560,465	2,320,216
Commercial and other	375,684	392,066
Total loans	2,936,149	2,712,282
Unaccreted discount on acquired loans	(1,727)	(2,872)
Deferred loan fees, net	(3,072)	(2,644)
Total loans, net of deferred loan fees and unaccreted discounts on acquired loans	2,931,350	2,706,766
Allowance for loan losses	(32,912)	(29,337)
Net loans	2,898,438	2,677,429
Premises and equipment	27,199	27,103
Federal Home Loan Bank (FHLB) stock	15,000	15,641
Net deferred tax assets	4,855	2,547
Income tax receivable	477	—
Other real estate owned (OREO)	293	293
Cash surrender value of life insurance (BOLI)	55,988	35,121
Goodwill	69,243	69,243
Servicing assets	11,517	13,965
Core deposit intangibles	4,075	5,196
Right-of-use assets- operating leases	22,454	—
Accrued interest and other assets	43,214	40,276
Total assets	$ 4,228,194	$ 3,350,072

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)

	2021	2020
Liabilities and Shareholders' Equity		
Deposits:		
Noninterest-bearing demand	$ 1,291,484	$ 617,206
Savings, NOW and money market accounts	927,609	731,084
Time deposits $250,000 and under	587,940	688,875
Time deposits over $250,000	578,499	597,963
Total deposits	3,385,532	2,635,128
Reserve for unfunded commitments	1,203	1,383
FHLB advances	150,000	150,000
Long-term debt, net of debt issuance costs	173,007	104,391
Subordinated debentures	14,502	14,283
Lease liabilities - operating leases	23,282	—
Accrued interest and other liabilities	13,985	16,399
Total liabilities	3,761,511	2,921,584
Commitments and contingencies - Note 13	—	—
Shareholders' equity:		
Preferred Stock - 100,000,000 shares authorized, no par value; none outstanding	—	—
Common Stock - 100,000,000 shares authorized, no par value; 19,455,544 shares issued and outstanding at December 31, 2021 and 19,565,921 shares issues and outstanding at December 31, 2020	282,335	284,261
Additional paid-in capital	4,603	4,932
Retained earnings	181,329	138,094
Non-controlling interest	72	72
Accumulated other comprehensive (loss) income, net	(1,656)	1,129
Total shareholders' equity	466,683	428,488
Total liabilities and shareholders' equity	$ 4,228,194	$ 3,350,072

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 share amounts)

	2021	2020	2019
Interest and dividend income:			
Interest and fees on loans	$ 141,569	$ 133,894	$ 135,159
Interest on interest-earning deposits	552	641	1,785
Interest on investment securities	3,379	2,968	2,652
Dividend income on FHLB stock	869	572	1,079
Interest on federal funds sold and other	694	1,045	1,050
Total interest income	147,063	139,120	141,725
Interest expense:			
Interest on savings deposits, now and money market accounts	2,786	3,540	4,886
Interest on time deposits	9,170	21,665	29,347
Interest on subordinated debentures and long-term debt	8,999	7,677	7,698
Interest on other borrowed funds	1,765	1,483	2,930
Total interest expense	22,720	34,365	44,861
Net interest income	124,343	104,755	96,864
Provision for loan losses	3,959	11,823	2,390
Net interest income after provision for loan losses	120,384	92,932	94,474
Noninterest income:			
Service charges, fees and other	7,235	4,852	4,072
Gain on sale of loans	9,991	5,997	9,893
Loan servicing fees, net of amortization	684	2,052	3,383
Recoveries on loans acquired in business combinations	82	84	143
Unrealized (loss) gain on equity investments	(360)	—	147
Gain on derivatives	46	78	—
Increase in cash surrender value of life insurance	1,067	767	775
Gain on sale of securities	—	210	7
Loss on sale of OREO	—	—	(106)
Gain on sale of fixed assets	—	—	6
	18,745	14,040	18,320
Noninterest expense:			
Salaries and employee benefits	33,568	33,312	32,909
Occupancy and equipment expenses	8,691	9,691	9,750
Data processing	4,474	4,236	3,699
Legal and professional	3,773	2,743	1,832
Office expenses	1,197	1,226	1,257
Marketing and business promotion	1,157	751	1,308
Insurance and regulatory assessments	1,561	984	900
Core deposit premium	1,121	1,395	1,501
OREO expenses	17	35	337
Merger expenses	137	746	471
Other expenses	2,496	4,394	3,509
	58,192	59,513	57,473
Income before income taxes	80,937	47,459	55,321
Income tax expense	24,031	14,531	16,112
Net income	$ 56,906	$ 32,928	$ 39,209
Net income per share			
Basic	$ 2.92	$ 1.66	$ 1.96
Diluted	2.86	1.65	1.92
Cash dividends declared per common share	0.51	0.33	0.40
Weighted-average common shares outstanding			
Basic	19,423,549	19,763,422	20,017,306
Diluted	19,834,306	19,921,859	20,393,424

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)*

	2021	2020	2019
Net income	$ 56,906	$ 32,928	$ 39,209
Other comprehensive income (loss):			
Unrealized (losses) gains on securities available for sale:			
Change in unrealized (losses) gains	(3,957)	1,474	2,248
Reclassification of gains recognized in net income	—	(210)	(7)
	(3,957)	1,264	2,241
Related income tax effect:			
Change in unrealized (gains) losses	1,172	(436)	(666)
Reclassification of gains recognized in net income	—	62	2
	1,172	(374)	(664)
Total other comprehensive income (loss)	(2,785)	890	1,577
Total comprehensive income	$ 54,121	$ 33,818	$ 40,786

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, 2021, 2020 AND 2019 ***(In thousands, except share amounts)***

	Common Stock					Accumulated	
	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Non-Controlling Interest	Other Comprehensive Income (Loss)	Total
Balance at 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
Net income	—	—	—	32,928	—	—	32,928
Stock-based compensation	—	—	686	—	—	—	686
Restricted stock vested	—	425	(425)	—	—	—	—
Cash dividend	—	—	—	(6,567)	—	—	(6,567)
Stock options exercised, net of expense recognized	56,498	979	(267)	—	—	—	712
Repurchase of common stock	(521,443)	(7,538)	—	(313)	—	—	(7,851)
Other comprehensive income, net of taxes	—	—	—	—	—	890	890
Balance at December 31, 2020	19,565,921	$ 284,261	$ 4,932	$ 138,094	$ 72	$ 1,129	$ 428,488
Net income	—	—	—	56,906	—	—	56,906
Stock-based compensation	—	—	1,086	—	—	—	1,086
Restricted stock granted	60,000	—	—	—	—	—	—
Restricted stock vested	—	425	(425)	—	—	—	—
Cash dividend	—	—	—	(9,947)	—	—	(9,947)
Stock options exercised, net of expense recognized	302,745	4,465	(990)	—	—	—	3,475
Repurchase of common stock	(473,122)	(6,816)	—	(3,724)	—	—	(10,540)
Other comprehensive loss, net of taxes	—	—	—	—	—	(2,785)	(2,785)
Balance at December 31, 2021	19,455,544	$ 282,335	$ 4,603	$ 181,329	$ 72	$ (1,656)	$ 466,683

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, 2021, 2020 AND 2019
(In thousands)

	2021	2020	2019
Operating activities			
Net income	$ 56,906	$ 32,928	$ 39,209
Adjustments to reconcile net income to net cash from Operating activities:			
Depreciation and amortization of premises and equipment	1,943	2,009	1,914
Net accretion of securities, loans, deposits, and other	(191)	(3,328)	(2,845)
Unrealized loss (gain) on equity securities	360	—	(147)
Amortization of investment in affordable housing tax credits	1,037	979	900
Amortization of intangible assets	6,347	5,812	4,856
(Reversal of) Impairment loss on mortgage servicing rights	(417)	417	—
Amortization of right-of-use asset	5,245	—	—
Change in operating lease liabilities	(5,058)	—	—
Provision for loan losses	3,959	11,823	2,390
Stock-based compensation	1,086	686	689
Deferred tax (benefit) expense	(1,093)	(2,998)	1,503
Gain on sale of securities	—	(210)	(7)
Gain on sale of loans	(9,991)	(5,997)	(9,893)
Loss on sale of OREO	—	—	106
Gain on sale of fixed assets	—	—	(6)
Increase in cash surrender value of life insurance	(1,067)	(767)	(775)
Loans originated and purchased for sale, net	(161,972)	(115,146)	(77,514)
Proceeds from loans sold	305,337	203,799	521,594
Other items	(256)	(5,493)	(5,506)
Net cash provided by operating activities	202,175	124,514	476,468
Investing activities			
Securities available for sale:			
Purchases	(603,836)	(548,846)	(197,386)
Maturities, prepayments and calls	442,056	454,597	141,537
Sales	—	11,661	6,143
Securities held to maturity:			
Maturities, prepayments and calls	900	1,135	1,590
Redemption of Federal Home Loan Bank stock	641	—	—
Purchase of Federal Home Loan Bank stock and other equity securities, net	(5,839)	(3,135)	(6,933)
Net increase of investment in qualified affordable housing projects	(763)	(2,594)	(2,598)
Net increase in loans	(315,551)	(361,252)	(161,426)
Proceeds from sales of OREO	—	—	1,053
Purchase of bank owned life insurance	(19,800)	—	—
Net cash received in connection with acquisition	—	6,634	—
Proceeds from sale of fixed assets	—	—	17
Purchases of premises and equipment	(1,989)	(4,206)	(1,350)
Net cash used in investing activities	(504,181)	(446,006)	(219,353)
Financing activities			
Net increase (decrease) in demand deposits and savings accounts	870,803	163,674	(21,758)
Net (decrease) decrease in time deposits	(120,178)	34,415	126,627
Net decrease in short-term FHLB advances	—	—	(319,500)
Advances on long-term FHLB advances	—	150,000	—
Cash dividends paid	(9,947)	(6,567)	(8,033)
Redemption of subordinated debentures	(50,000)	—	—
Issuance of subordinated debentures, net of issuance costs	118,111	—	—
Common stock repurchased, net of repurchased costs	(10,540)	(7,851)	(3,190)
Exercise of stock options	3,475	712	2,817
Net cash provided by (used in) financing activities	801,724	334,383	(223,037)
Net increase in cash and cash equivalents	499,718	12,891	34,078
Cash and cash equivalents at beginning of period	194,654	181,763	147,685
Cash and cash equivalents at end of period	$ 694,372	$ 194,654	$ 181,763
Supplemental disclosure of cash flow information			
Cash paid during the period:			
Interest paid	$ 22,507	$ 36,186	$ 45,702
Taxes paid	25,786	13,475	14,470
Non-cash investing and financing activities:			
Transfer from loans to other real estate owned	—	—	974
Loans transfer to held for sale, net	89,368	24,425	107,859
Loan to facilitate OREO	—	1,008	623
Additions to servicing assets	2,361	1,715	3,068
Net change in unrealized holding (loss) gain on securities available for sale	(3,957)	1,264	2,241
Recognition of operating lease right-of-use assets	(27,699)	—	—

Recognition of operating lease liabilities	27,699	—	—
Acquisition:			
Assets acquired, net of cash received	—	182,895	—
Liabilities assumed	—	200,209	—
Cash considerations	—	32,885	—
Goodwill	—	10,680	—

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, 2021, the Company had total assets of $4.2 billion, gross consolidated loans (held for investment and held for sale) of $2.9 billion, total deposits of $3.4 billion and total stockholders' equity of $466.7 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 the Las Vegas, New York City metropolitan area, Chicago and Edison (New Jersey). Specific services include 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, and Westlake Village, California; Las Vegas, Nevada; Manhattan, Brooklyn, Flushing and Elmhurst, New York; the Chinatown and Bridgeport neighborhoods of Chicago, Illinois; Edison, New Jersey; and Honolulu, Hawaii. 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 six bank acquisitions from July 8, 2011 through January 10, 2020, including the acquisition of Pacific Global Bank Holdings, Inc. ("PGBH") and its wholly-owned subsidiary, Pacific Global Bank ("PGB"), in which the PGBH acquisition closed on January 10, 2020. PGB operated three branches in the Chicago neighborhoods of Chinatown and Bridgeport. 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 three statutory business trusts: TFC Statutory Trust in 2016, FAIC Statutory Trust in 2018 and PGB Capital Trust I in 2020. 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 23.

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. There were no reserves required to be held as of December 31, 2021 and 2020. 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-Earning 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. Premiums are amoritized to the earlier of maturity or call date. 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 and New York.

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 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 $10.0 million, $6.0 million, and $9.9 million in 2021, 2020 and 2019, respectively. Gains on sale of mortgage loans totaled $7.9 million, $5.2 million, and $8.2 million, and gains on sale of SBA loans totaled $2.1 million, $754,000, and $1.5 million in 2021, 2020, and 2019, respectively. Gains on sale of CRE totaled none in 2021 and 2020 and $152,000 in 2019.

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.

Operating Lease ROU Assets and Lease Liabilities

Operating lease ROU assets and lease liabilities are included in other assets and other liabilities, respectively, on the Company's consolidated balance sheet. The Company uses its incremental borrowing rate, factoring in the lease term, to determine the lease liability, which is measured at the present value of future lease payments. The ROU asset, at adoption of this ASU, was recorded at the amount of the lease liability plus any prepaid rent and initial direct costs, less any lease incentives and accrued rent. The lease terms include periods covered by options to extend or terminate the lease depending on whether the Company is reasonably certain to exercise such options.

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 $69.2 million and $69.2 million as of December 31, 2021 and 2020, respectively, and is the only intangible asset with an indefinite life on the balance sheet. No impairment was recognized on goodwill during 2021 and 2020.

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, in the 2016 acquisition of TFC Holding Company, in the 2018 acquisition of FAIC and in the 2020 acquisition of PGBH. The unamortized balance as of December 31, 2021 and 2020 was $4.1 million and $5.2 million, respectively. Accumulated amortization as of December 31, 2021 and 2020 was $5.7 million and $4.5 million, respectively. CDI amortization expense was $1.1 million, $1.4 million, and $1.5 million in 2021, 2020 and 2019, respectively.

Estimated CDI amortization expense for the next 5 years is as follows:

(dollars in thousands)

Year ending December 31:		
2022	$	936
2023		800
2024		683
2025		589
2026		432
Thereafter		635
Total	$	4,075

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, 2021 the Company had several CRA equity investments without readily determinable fair values in the amount of $20.0 million, and $14.9 million at December 31, 2020.

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 $532,000, $424,000, and $570,000 in 2021, 2020 and 2019, 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.

Derivatives

Interest Rate Lock Commitments (IRLCs) are agreements under which the Company agrees to extend credit to a borrower under certain specified terms and conditions in which the interest rate and the maximum amount of the loan are set prior to funding. Under the agreement, the Company commits to lend funds to a potential borrower (subject to the Company’s approval of the loan) on a fixed or adjustable rate basis, regardless of whether interest rates change in the market, or on a floating rate basis. As such, outstanding IRLCs are subject to interest rate risk and related price risk during the period from the date of issuance through the date of loan funding, cancelling or expiration. Loan commitments generally range between 30 and 90 days; however, the borrower is not obligated to obtain the loan. The Company is subject to fallout risk related to IRLCs , which is realized if approved borrowers choose not to close on the loans within the terms of the IRLCs. The Company uses best efforts commitments to substantially eliminate these risks. Historical commitment-to-closing ratios are considered to estimate the quantity of mortgage loans that will fund within the terms of the IRLCs.

The FASB Accounting Standards Codification (“FASB ASC”) provides that IRLCs on mortgage loans that will be held for resale are derivatives and must be accounted for at fair value on the balance sheet (if material). FASB ASC Topic 820 – Fair Value Measurements and Disclosures specifies how these derivatives are to be valued. Commitments to originate mortgage loans to be held for investment and other types of loans are generally not derivatives. Consequently, the Company has elected to account for these obligations at fair value.

Forward Mortgage Loan Sale Contracts (FMLSC) were utilized to avoid interest rate risk at the time an interest rate lock commitment is made to the buyer. The Company is subject to interest rate and price risk on its mortgage loans held for sale from the loan funding date until the date the loan is sold. Best efforts commitments which fix the forward sales price that will be realized in the secondary market are used to eliminate the interest rate and price risk to the Company. The buyer can enter into mortgage loan sales commitments on a “mandatory” or “best efforts” basis. Mandatory commitments provide that the loan must be delivered or the commitment be “paired off”. In general, best efforts commitments provide that the loan be delivered if and when it closes. Mandatory delivery commitments, also known as forward loan sales commitments, are considered to be derivatives under FASB ASC Topic 815 (Derivatives and Hedging) because they meet all of the following criteria:

- They have a specified underlying (the contractually specified price for the loans)
- They have a notional amount (the committed loan principal amount)
- They require little or no initial net investment
- They require or permit net settlement as the institution via a pair-off transaction or the payment of a pair-off fee.

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 18 and Note 19 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 will no longer qualify as an EGC on December 31, 2022. 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. Refer to Note 20 - *Revenue from Contracts with Customers*.

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 EGC as the effective date was deferred by the FASB. The Company early adopted this ASU on January 1, 2021 and recorded the right-of-use asset and lease liability of $26.8 million.

In June 2016, the FASB issued ASU 2016-13, Measurement of Credit Losses on Financial Instrument (Topic 326), including subsequent amending ASUs. This ASU significantly changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The standard will replace today's "incurred loss" approach with an "expected loss" model. The new model, referred to as the current expected credit loss ("CECL") model, will apply to: (1) financial assets subject to credit losses and measured at amortized cost, and (2) certain off-balance sheet credit exposures. This includes, but is not limited to, loans, leases, held to maturity securities, loan commitments, and financial guarantees. For available for sale ("AFS") debt securities with unrealized losses, entities will measure credit losses in a manner similar to what they do today, except that the losses will be recognized as allowances rather than reductions in the amortized cost of the securities. ASU 2016-13 also expands the disclosure requirements regarding an entity's assumptions, models, and methods for estimating the allowance for loan and lease losses. In addition, public business entities will need to disclose the amortized cost balance for each class of financial asset by credit quality indicator, disaggregated by the year of origination. ASU 2016-13 was originally proposed to be effective for interim and annual reporting periods for an emerging growth company beginning after December 15, 2020. 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. The Company will adopt CECL (ASU 2016-13) on December 31, 2022.

In February 2019, the U.S. federal bank regulatory agencies approved a final rule modifying their regulatory capital rules and providing an option to phase in over a three year period the day-one adverse regulatory capital effects of ASU 2016-13. Additionally, in March 2020, the U.S. federal bank regulatory agencies issued an interim final rule that provides banking organizations an option to delay the estimated CECL impact on regulatory capital for an additional two years for a total transition period of up to five years to provide regulatory relief to banking organizations to better focus on supporting lending to creditworthy households and businesses in light of recent strains on the U.S. economy as a result of the novel coronavirus disease 2019 ("COVID-19") pandemic. As a result, entities will have the option to gradually phase in the full effect of CECL on regulatory capital over a five-year transition period.

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." The Company will adopt this ASU on December 31, 2022. 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. The Company adopted this ASU on January 1, 2020 and this ASU did 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 and it did not have a material impact on the Company's consolidated financial statements.

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 EGC for annual reporting periods beginning after December 15, 2020, and interim periods within annual periods beginning after December 15, 2021. Early adoption of the amendments in this Update is permitted, including adoption in any interim period, for all entities. The amendments in this Update should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. This Update 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 EGC in fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. The Company adopted the ASU as of December 31, 2019 and this ASU did 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 $2.9 billion in total gross loans as of December 31, 2021, approximately 8% 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. At this point in time, SOFR is the alternative reference rate we plan to adopt as the replacing index rate for USD LIBOR. The Company will continue to assess the potential impact that this ASU will have on the Company's consolidated financial statements.

In January 2020, the FASB issued ASU 2020-01, "Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815)." This ASU is for equity securities accounted for by the equity method. The amendment clarifies that an entity should consider observable transactions that require it to either apply or discontinue the equity method of accounting for the purposes of applying the measurement alternative in accordance with Topic 321 immediately before applying or upon discontinuing the equity method. The Company has equity securities on our balance sheet but are not material to be considered for the equity method. For an EGC, this ASU is effective for fiscal years beginning after December 15, 2021, and interim periods within those fiscal years.

In February 2020, the FASB issued ASU 2020-02, "Financial Instruments—Credit Losses (Topic 326) and Leases (Topic 842)—Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 119 and Update to SEC Section on Effective Date Related to Accounting Standards Update No. 2016-02, Leases (Topic 842) (SEC Update)". This is an amendment to add the SEC Staff guidance on CECL) to the FASB codification. It contains guidance on what the SEC would expect the Company to perform and document when measuring and recording its allowance for credit losses for financial assets recorded at amortized cost. As an EGC, the Company will implement CECL on December 31, 2022.

In March 2020, the FASB issued ASU 2020-03, "Codification Improvements to Financial Instruments". The ASU clarifies the accounting and disclosure guidance in various codification topics for financial instruments. In particular, the amendments (1) clarify certain disclosure requirements, including fair value option disclosures, (2) add cross-references in U.S. GAAP to clarify certain guidance, (3) make clear the applicability of the portfolio exception in ASC 820, Fair Value Measurement, to nonfinancial items, (4) clarify the determination of the contractual life of a net investment in leases in estimating expected credit losses under ASC 326, Financial Instruments – Credit Losses, and (5) explain the interaction between the guidance in ASC 860-20, Transfers and Servicing: Sales of Financial Assets, and ASC 326. For RBB as an EGC, issues 1, 2, 4 and 5 were adopted January 1, 2020. The amendment related to Issue 3 is a conforming amendment that affects the guidance in the amendments in ASU 2019-04. We determined the financial impact on the Company's consolidated financial statements was not material.

In March 2020, the FASB issued ASU 2020-04, *"Reference Rate Reform (Topic 848), Facilitation of the Effects of Reference Rate Reform on Financial Reporting,"* which provides temporary optional expedients to ease the financial reporting burdens of the expected market transition from London Interbank Offered Rate ("LIBOR") to an alternative reference rate such as Secured Overnight Financing Rate ("SOFR"). This pronouncement is applicable to all companies with contracts or hedging relationships that reference an interest rate that is expected to be discontinued. The ASU provides companies with optional guidance to ease the potential accounting burden associated with transitioning away from reference rates that are expected to be discontinued. Companies can apply the ASU immediately. However, the guidance will only be available for a limited time (generally through December 31, 2022). For contract modifications, companies can account for the modification as a continuation of the existing contract without additional analysis. For held-to-maturity ("HTM") debt securities, one-time sale and/or transfer to available-for-sale or trading may be made for HTM debt securities that both reference an eligible reference rate and were classified as HTM before January 1, 2020. Regarding the effective date and transition: (1) companies can apply the ASU as of the beginning of the interim period that includes March 12, 2020 (e.g. January 1, 2020 for calendar year-end companies) or any date thereafter, (2) the ASU applies prospectively to contract modifications and hedging relationships, and (3) the one-time election to sell and/or transfer debt securities classified as HTM may be made at any time after March 12, 2020. The optional relief generally does not apply to contract modifications made, sales and transfers of HTM debt securities, and hedging relationships entered into or evaluated after December 31, 2022. The guidance was effective upon issuance and generally can be applied through December 31, 2022. The LIBOR termination deadline (except for the 1-week and 2-month indexes) is June 30, 2023. No LIBOR indexed loans are being originated. The Company's current plan is to convert LIBOR to SOFR for all loans indexed under LIBOR by June 30, 2023. Of the Company's $2.9 billion in total gross loans as of December 31, 2021, approximately 8% have a LIBOR based reference rate. The Company has several issuances of LIBOR based long-term debt and subordinated debentures. Refer to Notes 9 and 10 of the Company's consolidated financial statements included in this Form 10-K. We are currently evaluating this guidance to determine the financial impact on the Company's consolidated financial statements.

In June 2020, the FASB issued ASU 2020-05, "Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities". This ASU allows for the deferral of the effective dates of ASC 606 and ASC 842 (including amendments issued after the issuance of the original Update) to provide immediate, near-term relief for certain entities for whom these Updates are either currently effective or imminently effective. The Company has already implemented Topic 606 and Topic 842 on January 1, 2021.

The FASB issued ASU 2021-08, "Accounting for Contract Assets and Contract Liabilities" in October 2021, to require an acquirer to recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with revenue recognition guidance as if the acquirer had originated the contract. That is, such acquired contracts will **not** be measured at fair value. The ASU is potentially material to RBB, depending on the materiality of an acquired contract asset or liability. The Update is effective for public companies in fiscal years starting after December 15, 2022. Early adoption is permitted. This ASU will be effective for RBB on January 1, 2023.

The FASB issued ASU2021-10 "Disclosures by Business Entities about Government Assistance" in November 2021. The amendments in this Update require the annual disclosures about transactions with a government that are accounted for by applying a grant or contribution accounting model by analogy. This Update is applicable to RBB and will be adopted January 1, 2022.

NOTE 3 – ACQUISITIONS

Completion of Acquisition of Certain Assets and Liabilities of the Honolulu, Hawaii Branch Office of Bank of the Orient

On January 14, 2022, the Company completed the acquisition of the Honolulu, Hawaii branch office the Bank of the Orient on January 14, 2022. Royal Business Bank acquired all the premises and equipment at the Branch, all deposits totaling approximately $81.7 million, selected performing loans totaling approximately $7.4 million, an estimated premium of approximately $3.0 million, for a total consideration of approximately $71.0 million. The transaction acquired all necessary regulatory approvals.

Agreement to Acquire Gateway Bank, F.S.B.

On December 28, 2021, RBB Bancorp announced that it entered into a definitive agreement to acquire Gateway Bank, F.S.B. ("Gateway Bank") in a cash transaction valued at approximately $22.9 million, subject to certain terms and conditions, including customary holdbacks if certain contingencies are not met, and other possible adjustments as contained in the definitive agreement.

Gateway Bank, a commercial bank based in Oakland, California, had total assets of $172.4 million, total gross loans of $123.1 million, total deposits of $147.5 million, and total tangible equity of $15.5 million as of September 30, 2021. Principally serving the Asian-American communities in the San Francisco Bay Area, Gateway Bank has one branch located in Oakland's Chinatown neighborhood, offering consumer and business banking and loan products and services.

All regulatory applications have been filed, and we are waiting for the regulatory agencies to make a decision.

PGB Holdings, Inc. Acquisition:

On January 10, 2020, the Company acquired all the assets and assumed all the liabilities of PGBH and its wholly owned bank subsidiary, in exchange for cash of $32.9 million. PGBH operated three branches in the Chicago, Illinois metropolitan area. The Company acquired PGBH to strategically establish a presence in the Chicago area. Goodwill in the amount of $10.7 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 PGBH as of January 10, 2020 and the fair value adjustments and amounts recorded by the Company through 2020 under the acquisition method of accounting:

(dollars in thousands)	PGBH Book Value	Fair Value Adjustments	Fair Value
Assets acquired			
Cash and cash equivalents	$ 17,033	$ —	$ 17,033
Fed funds sold	8,300	—	8,300
Interest-bearing deposits in other financial Institutions	14,186	—	14,186
Loans, gross	172,443	666	173,109
Allowance for loan losses	(2,265)	2,265	—
Bank premises and equipment	6,394	1,639	8,033
Core deposit premium	—	491	491
Investment in trust	155	—	155
Other assets	1,687	(580)	1,107
Total assets acquired	$ 217,933	$ 4,481	$ 222,414
Liabilities assumed			
Deposits	$ 187,393	$ 969	$ 188,362
Escrow Payable	4,277	—	4,277
Subordinated debentures	5,155	(763)	4,392
Deferred income taxes	1,016	1,335	2,351
Other liabilities	1,211	(384)	827
Total liabilities assumed	199,052	1,157	200,209
Excess of assets acquired over liabilities assumed	18,881	3,324	22,205
	$ 217,933	$ 4,481	
Cash paid			32,885
Goodwill recognized			$ 10,680

The Company accounted for this transaction under the acquisition method of accounting in accordance with ASC 805, Business Combinations, which requires purchased assets and liabilities assumed to be recorded at their respective fair values at the date of acquisition.

The loan portfolio of PGBH was recorded at fair value at the date of acquisition with the assistance of a third-party valuation. A valuation of PGBH's loan portfolio was performed as of the acquisition date to assess the fair value of the loan portfolio. The loan portfolio was segmented into two groups; loans with credit deterioration, of which there were none, and loans without credit deterioration, and then split further by loan type. The fair value was calculated on an individual loan basis using a discounted cash flow analysis. The discount rate utilized was based on a weighted average cost of capital, considering the cost of equity and cost of debt. Also factored into the fair value estimates were loss rates, recovery period and prepayment rates based on industry standards.

The Company also determined the fair value of the core deposit intangible, securities and deposits with the assistance of third-party valuations.

The core deposit intangible on non-maturing deposits was determined by evaluating the underlying characteristics of the deposit relationships, including customer attrition, deposit interest rates, service charge income, overhead expense and costs of alternative funding. Since the fair value of intangible assets are calculated as if they were stand-alone assets, the presumption is that a hypothetical buyer of the intangible asset would be able to take advantage of potential tax benefits resulting from the asset purchase. The value of the benefit is the present value over the period of the tax benefit, using the discount rate applicable to the asset.

In determining the fair value of certificates of deposit, a discounted cash flow analysis was used, which involved present valuing the contractual payments over the remaining life of the certificates of deposit at market-based interest rates.

For loans acquired from PGBH, the contractual amounts due, expected cash flows to be collected, interest component and fair value as of the respective acquisition dates were as follows (dollars in thousands):

(dollars in thousands)	**PGBH Acquired Loans**
Contractual amounts due	$ 195,227
Cash flows not expected to be collected	5,176
Expected cash flows	190,051
Interest component of expected cash flows	16,942
Fair value of acquired loans	$ 173,109

The operating results of the Company for the year ended December 31, 2020 include the operating results of PGBH since its acquisition date. The following table presents the net interest and other income, net income and earnings per share as if the acquisition of PGBH was effective as of January 1, 2020. There were no material, nonrecurring adjustments to the pro forma net interest and other income, net income and earnings per share presented below:

	Twelve months ended	
(dollars in thousands)	**December 31, 2021**	**December 31, 2020**
Net interest and other income	$ 143,088	$ 119,029
Net income	56,906	31,762
Basic earnings per share	2.92	1.61
Diluted earnings per share	2.86	1.59

Third-party acquisition related expenses are recognized as incurred and continue until the acquired system is converted and operational functions become fully integrated. The Company incurred third-party acquisition related expenses in the consolidated statements of income for the periods indicated in the Statements of Income in the expense item “Merger and conversion expenses”.

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, 2021 and 2020, and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income:

(dollars in thousands) **December 31, 2021**	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Available for sale				
Government agency securities	$ 5,689	$ 4	$ (83)	$ 5,610
SBA agency securities	3,351	118	—	3,469
Mortgage-backed securities- Government sponsored agencies	55,534	31	(540)	55,025
Collateralized mortgage obligations	121,377	128	(1,994)	119,511
Commercial paper	129,962	—	(36)	129,926
Corporate debt securities	41,999	460	(254)	42,205
Municipal securities	12,701	—	(187)	12,514
Total	$ 370,613	$ 741	$ (3,094)	$ 368,260
Held to maturity				
Municipal taxable securities	$ 1,506	$ 77	$ —	$ 1,583
Municipal securities	4,746	248	—	4,994
Total	$ 6,252	$ 325	$ —	$ 6,577

(dollars in thousands) **December 31, 2020**	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Available for sale				
Government agency securities	$ 1,257	$ 37	$ —	$ 1,294
SBA agency securities	4,125	269	—	4,394
Mortgage-backed securities- Government sponsored agencies	17,415	270	(8)	17,677
Collateralized mortgage obligations	48,476	491	(93)	48,874
Commercial paper	102,462	—	(14)	102,448
Corporate debt securities	33,907	662	(6)	34,563
Municipal securities	1,621	2	(6)	1,617
Total	$ 209,263	$ 1,731	$ (127)	$ 210,867
Held to maturity				
Municipal taxable securities	$ 2,407	$ 139	$ —	$ 2,546
Municipal securities	4,767	290	—	5,057
Total	$ 7,174	$ 429	$ —	$ 7,603

There was no sale of investment securities during the twelve months ended December 31, 2021. Proceeds of $11.7 million and $6.1 million were received from the sale of investment securities during the twelve months ended December 31, 2020 and 2019, respectively. There were no gain nor loss recorded for sales of investement securities during year ended December 31, 2021. During years ended December 31, 2020 and 2019, there were gains realized on sales of investment securities of $210,000 and $7,000, respectively.

One security with a fair value of $117,000 and $320,000 was pledged to secure a local agency deposit at December 31, 2021 and 2020, respectively.

The amortized cost and fair value of the investment securities portfolio as of December 31, 2021 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, 2021										
Government agency securities	$ —	$ —	$ 5,689	$ 5,610	$ —	$ —	$ —	$ —	$ 5,689	$ 5,610
SBA securities	—	—	1,551	1,582	1,800	1,887	—	—	3,351	3,469
Mortgage-backed securities- Government sponsored agencies	5,001	4,998	35,254	35,000	15,279	15,027	—	—	55,534	55,025
Collateralized mortgage obligations	117	117	78,021	76,496	43,239	42,898	—	—	121,377	119,511
Commercial paper	129,962	129,926	—	—	—	—	—	—	129,962	129,926
Corporate debt securities	7,999	8,007	8,389	8,633	22,927	22,931	2,684	2,634	41,999	42,205
Municipal securities	—	—	—	—	—	—	12,701	12,514	12,701	12,514
Total available for sale	$ 143,079	$ 143,048	$ 128,904	$ 127,321	$ 83,245	$ 82,743	$ 15,385	$ 15,148	$ 370,613	$ 368,260
Municipal taxable securities	$ 500	$ 502	$ 1,006	$ 1,081	$ —	$ —	$ —	$ —	$ 1,506	$ 1,583
Municipal securities	—	—	—	—	1,743	1,818	3,003	3,176	4,746	4,994
Total held to maturity	$ 500	$ 502	$ 1,006	$ 1,081	$ 1,743	$ 1,818	$ 3,003	$ 3,176	$ 6,252	$ 6,577
(dollars in thousands)										
December 31, 2020										
Government agency securities	$ —	$ —	$ 1,257	$ 1,294	$ —	$ —	$ —	$ —	$ 1,257	$ 1,294
SBA securities	—	—	595	625	3,530	3,769	—	—	4,125	4,394
Mortgage-backed securities- Government sponsored agencies	7,992	7,987	9,423	9,690	—	—	—	—	17,415	17,677
Collateralized mortgage obligations	—	—	11,911	12,258	36,565	36,616	—	—	48,476	48,874
Commercial paper	102,462	102,448	—	—	—	—	—	—	102,462	102,448
Corporate debt securities	4,991	5,029	11,683	11,740	13,233	13,743	4,000	4,051	33,907	34,563
Municipal securities	—	—	—	—	—	—	1,621	1,617	1,621	1,617
Total available for sale	$ 115,445	$ 115,464	$ 34,869	$ 35,607	$ 53,328	$ 54,128	$ 5,621	$ 5,668	$ 209,263	$ 210,867
Municipal taxable securities	$ 899	$ 910	$ 1,508	$ 1,636	$ —	$ —	$ —	$ —	$ 2,407	$ 2,546
Municipal securities	—	—	—	—	874	925	3,893	4,132	4,767	5,057
Total held to maturity	$ 899	$ 910	$ 1,508	$ 1,636	$ 874	$ 925	$ 3,893	$ 4,132	$ 7,174	$ 7,603

The following table summarizes investment securities with unrealized losses at December 31, 2021 and December 31, 2020, 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, 2021									
Government agency securities	$ (83)	$ 4,860	1	$ —	$ —	—	$ (83)	$ 4,860	1
Mortgage-backed securities- Government sponsored agencies	(536)	44,009	12	(4)	9,974	2	(540)	53,983	14
Collateralized mortgage obligations	(1,916)	79,851	23	(78)	17,782	4	(1,994)	97,633	27
Commercial paper	(36)	129,926	19	—	—	—	(36)	129,926	19
Corporate debt securities	(254)	13,208	12	—	—	—	(254)	13,208	12
Municipal securities	(160)	11,447	9	(27)	1,067	2	(187)	12,514	11
Total available for sale	$ (2,985)	$ 283,301	76	$ (109)	$ 28,823	8	$ (3,094)	$ 312,124	84

	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, 2020									
Mortgage-backed securities- Government sponsored agencies	$ (8)	$ 12,982	3	$ —	$ —	—	$ (8)	$ 12,982	3
Collateralized mortgage obligations	(93)	28,521	6	—	—	—	(93)	28,521	6
Commercial paper	(14)	16,982	4	—	—	—	(14)	16,982	4
Corporate debt securities	(6)	994	2	—	—	—	(6)	994	2
Municipal securities	(6)	1,092	2	—	—	—	(6)	1,092	2
Total available for sale	$ (127)	$ 60,571	17	$ —	$ —	—	$ (127)	$ 60,571	17

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, Chicago, Illinois 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)	**2021**	**2020**	**2019**
Allowance for loan losses:			
Beginning balance	$ 29,337	$ 18,816	$ 17,577
Additions to the allowance charged to expense	3,959	11,823	2,390
Recoveries on loans charged-off	243	1	108
Less loans charged-off	(627)	(1,303)	(1,259)
Ending balance	$ 32,912	$ 29,337	$ 18,816

The following table presents the recorded investment in loans and impairment method as of December 31, 2021, 2020 and 2019 and the activity in the allowance for loan losses for the years then ended, by portfolio segment:

(dollars in thousands) **December 31, 2021**	**Real Estate**	**Commercial**	**Other**	**Total**
Allowance for loan losses:				
Beginning of year	$ 24,677	$ 4,617	$ 43	$ 29,337
Provisions	3,982	(480)	457	3,959
Charge-offs	(67)	(501)	(59)	(627)
Recoveries	—	157	86	243
	$ 28,592	$ 3,793	$ 527	$ 32,912
Reserves:				
Specific	$ —	$ 30	$ —	$ 30
General	28,592	3,763	527	32,882
Total allowance for loan losses	$ 28,592	$ 3,793	$ 527	$ 32,912
Loans evaluated for impairment:				
Individually	$ 10,340	$ 10,385	$ —	$ 20,725
Collectively	2,545,379	334,460	30,786	2,910,625
Total loans, net of deferred loan fees and unaccreted discount on acquired loans	$ 2,555,719	$ 344,845	$ 30,786	$ 2,931,350

December 31, 2020	Real Estate	Commercial	Other	Unallocated	Total
Allowance for loan losses:					
Beginning of year	$ 15,118	$ 3,588	$ 9	$ 101	$ 18,816
Provisions	9,559	2,286	79	(101)	11,823
Charge-offs	—	(1,258)	(45)	—	(1,303)
Recoveries	—	1	—	—	1
	$ 24,677	$ 4,617	$ 43	$ —	$ 29,337
Reserves:					
Specific	$ —	$ 525	$ —	$ —	$ 525
General	24,677	4,092	43	—	28,812
Total allowance for loan losses	$ 24,677	$ 4,617	$ 43	$ —	$ 29,337
Loans evaluated for impairment:					
Individually	$ 10,514	$ 9,025	$ 15	$ —	$ 19,554
Collectively	2,304,203	378,935	4,074	—	2,687,212
Total loans, net of deferred loan fees and unaccreted discount on acquired loans	$ 2,314,717	$ 387,960	$ 4,089	$ —	$ 2,706,766

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
Total allowance for loan losses	$ 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
Total loans, net of deferred loan fees and unaccreted discount on acquired loans	$ 1,846,542	$ 349,571	$ 821	$ —	$ 2,196,934

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, 2021 and 2020:

(dollars in thousands) **December 31, 2021**	**Pass**	**Special Mention**	**Substandard**	**Impaired**	**Total**
Real estate:					
Construction and land development	$ 299,333	$ 3,662	$ —	$ 149	$ 303,144
Commercial real estate	1,184,889	2,006	55,104	6,000	1,247,999
Single-family residential mortgages	1,000,385	—	—	4,191	1,004,576
Commercial:					
Commercial and industrial	255,439	—	9,148	4,122	268,709
SBA	62,300	1,303	6,270	6,263	76,136
Other:	30,786	—	—	—	30,786
	$ 2,833,132	$ 6,971	$ 70,522	$ 20,725	$ 2,931,350

(dollars in thousands) **December 31, 2020**	**Pass**	**Special Mention**	**Substandard**	**Impaired**	**Total**
Real estate:					
Construction and land development	$ 186,550	$ —	$ —	$ 173	$ 186,723
Commercial real estate	947,643	756	52,611	2,627	1,003,637
Single-family residential mortgages	1,113,814	2,436	393	7,714	1,124,357
Commercial:					
Commercial and industrial	278,357	999	8,620	2,163	290,139
SBA	86,573	186	4,200	6,862	97,821
Other:	4,074	—	—	15	4,089
	$ 2,617,011	$ 4,377	$ 65,824	$ 19,554	$ 2,706,766

The following table presents the aging of the recorded investment in past-due loans as of December 31, 2021 and 2020 by class of loans. Past due loans presented in table below also includes non-accrual loans.

(dollars in thousands) December 31, 2021	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	$ —	$ —	$ 149	$ 149	$ 302,995	$ 303,144	$ 149
Commercial real estate	1,914	3,002	667	5,583	1,242,416	1,247,999	4,672
Single-family residential mortgages	10,554	2,238	2,680	15,472	989,104	1,004,576	4,191
Commercial:							
Commercial and industrial	1,575	—	3,689	5,264	263,445	268,709	3,712
SBA	—	1,733	4,839	6,572	69,564	76,136	6,263
Other:	57	7	—	64	30,722	30,786	—
	$ 14,100	$ 6,980	$ 12,024	$ 33,104	$ 2,898,246	$ 2,931,350	$ 18,987
Real estate:							
Single-family residential mortgages held for sale	$ —	$ —	$ —	$ —	$ 5,957	$ 5,957	$ —

(1) Included in total loans

(dollars in thousands) December 31, 2020	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	$ —	$ —	$ 173	$ 173	$ 186,550	$ 186,723	$ 173
Commercial real estate	449	10	1,136	1,595	1,002,042	1,003,637	1,193
Single-family residential mortgages	4,219	4,859	6,008	15,086	1,109,271	1,124,357	7,714
Commercial:							
Commercial and industrial	—	—	987	987	289,152	290,139	1,661
SBA	—	33	6,828	6,861	90,960	97,821	6,828
Other	42	—	15	57	4,032	4,089	15
	$ 4,710	$ 4,902	$ 15,147	$ 24,759	$ 2,682,007	$ 2,706,766	$ 17,584
Real estate:							
Single-family residential mortgages held for sale	$ —	$ —	$ —	$ —	$ 49,963	$ 49,963	$ —

(1) Included in total loans

The Company has no loans that are 90 days or more past due and still accruing at December 31, 2021 and December 31, 2020.

Information relating to individually impaired loans presented by class of loans was as follows as of December 31, 2021, 2020 and 2019:

(dollars in thousands) **December 31, 2021**	**Unpaid Principal Balance**	**Recorded Investment**	**Average Balance**	**Interest Income**	**Related Allowance**
With no related allowance recorded					
Construction and land development	$ 173	$ 149	$ 292	$ —	$ —
Commercial and industrial	4,096	4,096	4,390	27	—
Commercial real estate	6,059	6,000	6,163	132	—
Single-family residential mortgage loans	4,365	4,191	4,486	—	—
Commercial - SBA	6,274	6,245	11,589	—	—
With related allowance recorded					
Commercial and industrial	27	26	34	—	27
Commercial-SBA	18	18	26	—	3
Total	$ 21,012	$ 20,725	$ 26,980	$ 159	$ 30

(dollars in thousands) **December 31, 2020**	**Unpaid Principal Balance**	**Recorded Investment**	**Average Balance**	**Interest Income**	**Related Allowance**
With no related allowance recorded					
Construction and land development	$ 173	$ 173	$ 173	$ —	$ —
Commercial and industrial	1,710	1,662	1,819	31	
Commercial real estate	2,633	2,627	2,724	136	—
Residential mortgage loans	7,839	7,714	7,934	—	—
Commercial - SBA	6,828	6,829	9,928	—	—
Other	15	15	15	—	—
With related allowance recorded					
Commercial and industrial	520	501	563	—	520
Commercial-SBA	33	33	40	3	5
Total	$ 19,751	$ 19,554	$ 23,196	$ 170	$ 525

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 real estate	—	—	—	—	—
Commercial-SBA	—	—	—	—	—
Total	$ 13,234	$ 13,218	$ 14,797	$ 128	$ —

No interest income was recognized on a cash basis as of December 31, 2021 and 2020. We did not recognize any interest income on nonaccrual loans during the years ended December 31, 2021 and December 31, 2020 while the loans were in nonaccrual status. We recognized interest income on loans modified under troubled debt restructurings ("TDR's") of $159,000 and $170,000 during the years ended December 31, 2021 and 2020, respectively.

The Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), signed into law on March 27, 2020, permits financial institutions to suspend requirements under GAAP for loan modifications to borrowers affected by COVID-19 that would otherwise be characterized as troubled debt restructurings ("TDRs") and suspend any determination related thereto if (i) the loan modification is made between March 1, 2020 and the earlier of December 31, 2020 or 60 days after the end of the coronavirus emergency declaration and (ii) the applicable loan was not more than 30 days past due as of December 31, 2019. In addition, federal bank regulatory authorities have issued guidance to encourage financial institutions to make loan modifications for borrowers affected by COVID-19 and have assured financial institutions that they will neither receive supervisory criticism for such prudent loan modifications, nor be required by examiners to automatically categorize COVID-19-related loan modifications as TDRs. The Company is applying this guidance to qualifying loan modifications.

The Company identified nine loans as TDRs at December 31, 2021 and six loans at December 31, 2020, respectively, with aggregate balances of $3.4 million and $3.1 million, respectively. Non-accrual TDRs were $1.7 million at December 31, 2021, and $1.1 million at December 31, 2020. There were $3,000 specific reserves allocated to the loans as of December 31, 2021 and $435,000 at December 31, 2020. There are no commitments to lend additional amounts at December 31, 2021 and 2020 to customers with outstanding loans that are classified as TDRs. There were no non-accrual loans that were modified as TDRs during the past twelve months that had payment defaults during the periods.

During the year ended December 31, 2021, 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 six months to nine months on the loans restructured in 2021 and 2020.

The following table presents loans by class modified as TDR's that occurred during the years ended December 31, 2021, 2020 and 2019:

	December 31,								
	2021			2020			2019		
(dollars in thousands)	**Number of Loans**	**Pre-Modification Recorded Investment**	**Post-Modification Recorded Investment**	**Number of Loans**	**Pre-Modification Recorded Investment**	**Post-Modification Recorded Investment**	**Number of Loans**	**Pre-Modification Recorded Investment**	**Post-Modification Recorded Investment**
SBA	1	$ 1,090	$ 1,090	—	$ —	$ —	—	$ —	$ —
Commercial real estate	2	284	284	3	1,719	1,719	1	476	476
Construction and land development	1	165	165	—	—	—	—	—	—
SFR	1	156	156	—	—	—	—	—	—
Total	5	$ 1,695	$ 1,695	3	$ 1,719	$ 1,719	1	$ 476	$ 476

There were five and three non-accrual loans defaults of TDR’s in 2021 and 2020, respectively, 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.

NOTE 6 - LOAN SERVICING

Mortgage and SBA loans serviced for others are not reported as assets. The principal balances as of December 31, 2021 and 2020 are as follows:

(dollars in thousands)	**December 31, 2021**	**December 31, 2020**
Loans serviced for others:		
Mortgage loans	$ 1,308,672	$ 1,512,969
SBA loans	138,173	156,222
Commercial real estate loans	4,070	4,145

Estimates of the loan servicing asset fair value are derived through a discounted cash flow analysis. Portfolio characteristics include loan delinquency rates, age of loans, note rate and geography. The assumptions embedded in the valuation are obtained from a range of metrics utilized by active buyers in the market place. The analysis accounts for recent transactions, and supply and demand within the market.

Servicing fees net of servicing asset amortization totaled $684,000, $2.1 million and $3.4 million for the twelve months ended December 31, 2021, 2020 and 2019, respectively. Custodial balances maintained in connection with the foregoing loan servicing (including in non-interest bearing deposits) totaled $14.3 million and $16.6 million as of December 31, 2021 and 2020, respectively.

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

Servicing rights are evaluated for impairment based upon the fair value of the rights as compared to carrying amount. Impairment is recognized through a valuation allowance for an individual grouping, to the extent that fair value is less than the carrying amount. If the Company later determines that all or a portion of the impairment no longer exists for a particular grouping, a reduction of the allowance may be recorded as an increase to income. During the twelve months ended December 31, 2021, the Company reversed an impairment write-down of $416,000 on mortgage servicing rights.

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

	2021		2020		2019	
(dollars in thousands)	Mortgage Loans	SBA Loans	Mortgage Loans	SBA Loans	Mortgage Loans	SBA Loans
Servicing assets:						
Beginning of period	$ 10,529	$ 3,436	$ 12,997	$ 4,086	$ 12,858	$ 4,512
Additions	1,920	441	1,422	293	2,088	980
Disposals	(2,129)	(646)	(1,513)	(401)	(128)	(708)
Amortized to expense	(1,988)	(462)	(1,960)	(542)	(1,821)	(698)
Impairment	416	—	(417)	—	—	—
End of period	$ 8,748	$ 2,769	$ 10,529	$ 3,436	$ 12,997	$ 4,086

The fair value of servicing assets for mortgage loans was $15.4 million and $10.7 million as of December 31, 2021 and 2020, respectively. Fair value at December 31, 2021 was determined using a discount rate of 10.86%, average prepayment speed of 14.04%, depending on the stratification of the specific right, and a weighted-average default rate of 0.10%. Fair value at December 31, 2020 was determined using a discount rate of 11.04%, average prepayment speed of 15.50%, depending on the stratification of the specific right, and a weighted-average default rate of 0.10%.

The fair value of servicing assets for SBA loans was $4.1 million and $5.0 million as of December 31, 2021 and 2020, respectively. Fair value at December 31, 2021 was determined using a discount rate of 8.5%, average prepayment speed of 15.87%, depending on the stratification of the specific right, and a weighted-average default rate of 0.61%. Fair value at December 31, 2020 was determined using a discount rate of 8.5% and average prepayment speed of 13.8%, depending on the stratification of the specific right and a weighted-average default rate of 0.84%.

NOTE 7 - PREMISES AND EQUIPMENT

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

(dollars in thousands)	2021	2020
Land	$ 9,066	$ 9,066
Building and improvements	15,265	15,040
Furniture, fixtures, and equipment	7,575	6,772
Leasehold improvements	6,455	5,315
	38,361	36,193
Less accumulated depreciation and amortization	(11,629)	(9,773)
Construction in progress	467	683
	$ 27,199	$ 27,103

Depreciation and leasehold amortization expense was $1.9 million, $2.0 million, and $1.9 million for 2021, 2020, and 2019, respectively.

The Company leases several of its operating facilities under various noncancellable operating leases expiring at various dates through 2036. The Company is also responsible for common area maintenance, taxes and insurance at various branch locations.

Future minimum rent payments on the Company's leases were as follows as of December 31, 2021:

(dollars in thousands)		
As of December 31, 2021:		
2022	$	4,490
2023		3,931
2024		2,872
2025		2,724
2026		2,704
Thereafter		6,875
Total	$	23,596

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 $5.3 million, $5.7 million, and $6.1 million for 2021, 2020, and 2019, respectively.

In July 2020, the Company signed a lease, commencing on August 1, 2020, on Canal Street in New York City for our NY Bowery branch relocation, and the Canal Street branch opened by December 24, 2021. In January 2020, the Company signed a lease to for a new branch in Edison, New Jersey, which the Company occupied in November 2020. In March 2019, the Company signed a new lease to move its Diamond Bar, California branch to a new location, which opened in January 2021. The future payments for all of the new leases are included in the schedule above. The Company recorded $479,000 and $395,000 in sub-lease income in 2021 and 2020, respectively.

NOTE 8 - DEPOSITS

At December 31, 2021 the scheduled maturities of time deposits are as follows:

(dollars in thousands)		**December 31, 2021**
One year	$	1,119,404
Two to three years		44,612
Over three years		2,422
Total	$	1,166,439

Brokered time deposits were $2.4 million at December 31, 2021 and $17.4 million at December 31, 2020.

NOTE 9 - LONG-TERM DEBT

In March 2016, the Company issued $50 million of 6.5% fixed to floating rate subordinated debentures, due March 31, 2026. The interest rate is fixed through March 31, 2021 and floats at 3 month LIBOR plus 516 basis points thereafter. The Company redeemed these subordinated debentures on March 31, 2021. The redemption price for the subordinated debentures was equal to 100% of principal amount of the note redeemed, plus any accrued and unpaid interest up to, but excluding, redemption date of March 31, 2021.

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 2 capital at the Company. The Company allocated $25 million to the Bank as Tier-one capital.

In March 2021, the Company issued $120 million of 4.00% fixed to floating rate subordinated debentures, due April 1, 2031. The interest rate is fixed through April 1, 2026 and floats at three month SOFR plus 329 basis points thereafter. The Company can redeem these subordinated debentures beginning April 1, 2026. The subordinated debentures are considered Tier 2 capital at the Company.

At December 31, 2021 and 2020, respectively, long-term debt was as follows:

(dollars in thousands)		**December 31, 2021**		**December 31, 2020**
Principal	$	175,000	$	105,000
Unamortized debt issuance costs	$	1,993	$	609

The following table presents interest and amortization expense the Company incurred for the year ended December 31, 2021 and 2020:

	For the Year Ended December 31,	
(dollars in thousands)	2021	2020
Interest Expense:		
Interest	$ 7,878	$ 6,649
Amortization	525	342

The British banking regulators have announced plans to eliminate the LIBOR rate before this long-term debt and subordinated debentures mature. For these subordinated debentures, there are provisions for amendments to establish a new interest rate benchmark. At this point in time, SOFR is the alternative reference rate we plan to adopt as the replacing index rate for USD LIBOR.

NOTE 10 - SUBORDINATED DEBENTURES

The Company, through the acquisition of TFC Bancorp in 2016, acquired TFC Statutory Trust (the "Trust"). The Trust contained a pooled private offering of 5,000 trust preferred securities with a liquidation amount of $1,000 per security. TFC Bancorp issued $5 million of subordinated debentures to the Trust in exchange for ownership of all of the common security of the Trust and the proceeds of the preferred securities sold by the trust. The Company is not considered the primary beneficiary of this trust (variable interest entity), therefore the Trust is not consolidated in the Company's financial statements, but rather the subordinated debentures are shown as a liability at market value as of the close of the acquisition which was $3.3 million. There was a $1.9 million valuation reserve recorded to arrive at market value, which is treated as a yield adjustment and is amortized over the life of the security. The Company also purchased an investment in the common stock of the trust for $155,000, which is included in other assets. The Company may redeem the subordinated debentures, subject to prior approval by the Board of Governors of the Federal Reserve System on or after March 15, 2012, at 100% of the principal amount, plus accrued and unpaid interest. The subordinated debentures mature on March 15, 2037. The Company has the option to defer interest payments on the subordinated debentures from time to time for a period not to exceed five consecutive years. The Company has been paying interest on a quarterly basis. The subordinated debentures may be included in Tier I capital (with certain limitations applicable) under current regulatory guidelines and interpretations. The subordinated debentures have a variable rate of interest equal to the three month LIBOR plus 1.65%, which was 1.85% as of December 31, 2021 and 1.87% at December 31, 2020.

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, 2021, was 2.45% and 2.47% at December 31, 2020.

In January 2020, the Company, through the acquisition of PGBH, acquired PGB Capital Trust I ("PGBH Trust"), a Delaware statutory trust formed in December 2004. PGBH Trust issued 5,000 units of fixed to floating rate capital securities with an aggregate liquidation amount of $5,000,000 and 155 common securities with an aggregate liquidation amount of $155,000. PGBH issued $5.2 million of subordinated debentures to PGBH Trust in exchange for ownership of all the common securities of PGBH Trust. There was a $763,000 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 2.10% through final maturity on December 15, 2034. The rate at December 31, 2021 was 2.30% and 2.32% at December 31, 2020.

The Company paid interest expenses of $377,000 in 2021, $468,000 in 2020 and $540,000 in 2019. The amount of aggregate amortization expense recognized in 2021 was $218,000, $218,000 in 2020, and $167,000 in 2019.

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 Bank*s. As of December 31, 2021 the Company may borrow on an unsecured basis, up to $20.0 million, $10.0 million, $12.0 million and $50.0 million overnight from Zions Bank, Wells Fargo Bank, First Horizon Bank, and Pacific Coast Bankers' Bank, respectively.

Letter of Credit Arrangements. As of December 31, 2021 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 $22.3 million at December 31, 2021 is collateralized by loans pledged with a carrying value of $33.2 million.

FHLB Secured Line of Credit. The secured borrowing capacity with the FHLB of $833.6 million at December 31, 2021 is collateralized by loans pledged with a carrying value of $1.1 billion.

FHLB Advances. At December 31, 2021, the Company had $150.0 million at a weighted average rate of 1.18% in long-term (five year) advances with the FHLB. These advances were collateralized by $1.1 billion in residential and commercial loans. There were no overnight or long-term advances at December 31, 2021. The Company paid interest expenses of $1.8 million, $1.5 million and $2.9 million on such FHLB advances for the twelve months ended December 31, 2021, 2020 and 2019. There were no amounts outstanding under any of the other borrowing arrangements above as of December 31, 2021 except FHLB advances maturing in 2025.

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)	**2021**	**2020**	**2019**
Current:			
Federal	$ 15,000	$ 9,948	$ 8,074
State	9,087	6,602	5,614
	24,087	16,550	13,688
Deferred	(1,093)	(2,998)	1,503
Deferred tax adjustment for change in tax rate	—	—	21
Amortization of investment in affordable housing tax credits	1,037	979	900
	$ 24,031	$ 14,531	$ 16,112

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

	2021		2020		2019	
(dollars in thousands)	Amount	Rate	Amount	Rate	Amount	Rate
Statutory federal tax	$ 16,997	21.0%	$ 9,966	21.0%	$ 11,617	21.0%
State franchise tax, net of federal benefit	7,182	8.9%	4,024	8.5%	5,322	9.6%
Tax-exempt income	(285)	-0.4%	(192)	-0.4%	(25)	0.0%
Tax impact from change in tax rate	(59)	-0.1%	68	0.1%	17	0.0%
Stock-based compensation	(404)	-0.5%	123	0.3%	(27)	0.0%
Other items, net	600	0.7%	542	1.1%	(792)	-1.4%
Actual tax expense	$ 24,031	29.6%	$ 14,531	30.6%	$ 16,112	29.2%

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)	2021	2020
Deferred tax assets:		
Pre-opening expenses	$ 64	$ 242
Allowance for loan losses	9,735	8,575
Stock-based compensation	781	1,074
Off balance sheet reserve	367	425
Operating loss carryforwards	606	1,196
Unrealized loss on AFS securities	718	—
Lease liability	7,106	—
Mark to market on held for sale mortgage loans	74	486
State tax	1,967	1,473
Other	797	403
	22,215	13,874
Deferred tax liabilities:		
Depreciation	(1,441)	(1,212)
Deferred loan costs	(2,598)	(2,482)
Unrealized gain on AFS securities	—	(497)
Acquisition accounting fair value adjustments	(3,348)	(3,584)
Mortgage servicing rights	(2,667)	(3,204)
Right of use asset	(6,853)	—
Other	(453)	(348)
	(17,360)	(11,327)
Net deferred tax assets	$ 4,855	$ 2,547

At December 31, 2021, the Company has usable net operating loss carryforwards from acquisitions of approximately $26,000 for federal, $409,000 for California, $3.9 million for New York State, $3.1 million for New York City and $0 for Illinois income tax purposes. Net operating loss carry forwards, to the extent not used will begin to expire in 2028. The net operating loss carryforwards were generated through acquisitions, and as a result, are substantially limited by Section 382 of the Internal Revenue Code. 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.

On March 27, 2020, the CARES Act was enacted in response to the COVID-19 pandemic. The CARES Act, among other things, permits net operating loss carryovers and carrybacks to offset 100% of taxable income for taxable years beginning before 2021. In addition, the CARES Act allows net operating losses incurred in 2018, 2019, and 2020 to be carried back to each of the five preceding taxable years to generate a refund of previously paid income taxes. On December 27, 2020, the Consolidated Appropriations Act, 2021 was signed into law and extends several provisions of the CARES Act. As of December 31, 2021, the Company has determined that neither this Act nor changes to income tax laws or regulations in other jurisdictions have a significant impact on our effective tax rate. The Company's net operating losses were not generated during the 2018-2020 period.

The Company is subject to federal income tax and state tax laws of California, New York and Illinois. Income tax returns for the years ended after December 31, 2017 are open to audit by the federal, New York and Illinois authorities and for the years ended after December 31, 2016 are open to audit by California state authorities. The Company expanded operations to the state of New Jersey starting December 1, 2020. The 2020 tax returns are open to audit by New Jersey state authorities at December 31, 2021.

There were no recorded interest or penalties related to uncertain tax positions as part of income tax for the years ended December 31, 2021, 2020 and 2019, respectively. The Company has determined that as of December 31, 2021 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, 2021 and 2020, the Company had the following financial commitments whose contractual amount represents credit risk:

	2021		2020	
(dollars in thousands)	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Commitments to make loans	$ 1,474	$ 200,814	$ 7	$ 281,489
Unused lines of credit	22,777	229,154	57,437	211,192
Commercial and similar letters of credit	1,214	—	8,284	—
Standby letters of credit	2,042	2,686	1,455	2,576
Total	$ 27,507	$ 432,654	$ 67,183	$ 495,257

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 - LEASES

On January 1, 2021, the Company adopted ASU 2016-02, Leases (Topic 842) and elected the package of practical expedients that permits the Company to not reassess its prior conclusions about lease identification, lease classification and initial direct costs. The Company also elected all of the new standard's available transition practical expedients, including the short-term lease recognition exemption that includes not recognizing Right-of-Use ("ROU") assets or lease liabilities for existing short-term leases, and the practical expedient to not separate lease and non-lease components for all of the Company's leases.

The Company determines if a contract arrangement is a lease at inception and primarily enters into operating lease contracts for its branch locations, office space, and certain equipment. As part of its property lease agreements, the Company may seek to include options to extend or terminate at lease when it is reasonably certain that the Company will exercise those options. The Company's measurement of the ROU assets and operating lease liabilities does not include payments associated with the option to extend or terminate the lease. The ROU lease asset also includes any lease payments made and lease incentives. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The Company did not possess any leases that have variable lease payments or residual value guarantees as of December 31, 2021.

The ROU assets and lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. The Company uses its incremental borrowing rate to determine the present value of its lease liabilities.

The Company leases several of its operating facilities under various non-cancellable operating leases expiring at various dates through 2036. The Company is also responsible for common area maintenance, taxes, and insurance at the various branch locations.

Future minimum rent payments on the Company's leases were as follows at December 31, 2021:

(dollars in thousands)		
As of December 31, 2021:		
2022	$	4,490
2023		3,931
2024		2,872
2025		2,724
2026		2,704
Thereafter		6,875
Total	$	23,596
Less amount of payment representing interest		(314)
Total present value of lease payments	$	23,282

The minimum rent payments shown above are given for the existing lease obligation and are not a forecast of future rental expense. Total rental expense, recognized on a straight-line basis, was $5.3 million and $5.7 million for the twelve months ended December 31, 2021 and 2020, respectively. The Company received rental income of $479,000 and $395,000 for the twelve months ended December 31, 2021 and 2020, respectively.

The following table presents the operating lease related assets and liabilities recorded on the Consolidated Balance Sheet, and the weighted-average remaining lease terms and discount rates as of December 31, 2021 and January 1, 2021*:*

(dollars in thousands)		**December 31, 2021**		**January 1, 2021**
Operating Leases				
ROU assets	$	22,454	$	26,770
Lease liabilities		23,282		27,412
Weighted-average remaining lease term (in years)		6.84		7.38
Weighted-average discount rate		1.01%		0.94%

NOTE 15 - RELATED PARTY TRANSACTIONS

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

(dollars in thousands)		**December 31, 2021**		**December 31, 2020**
Beginning balance	$	1,243	$	4,000
New loans and advances		10,292		11,498
Repayments		(3,094)	$	(14,255)
Ending balance	$	8,441	$	1,243

Outstanding loan commitments to executive officers, directors and their related interests with whom they are associated were $0 and $2 million as of December 31, 2021 and 2020.

Deposits from principal officers, directors, and their affiliates at December 31, 2021 and 2020 were $57.6 million and $50.0 million.

Several directors and their affiliates own $8.1 million of RBB subordinated debentures as of December 31, 2021.

NOTE 16 - 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, 2021, 981,853 shares were available under the 2017 Omnibus Stock Incentive Plan for future grants.

The Company recognized total stock-based compensation expense of $1.1 million, $686,000, and $689,000 in 2021, 2020 and 2019.

The recorded compensation expense for stock option was $485,000, $260,000, and $152,000 and the Company recognized income tax benefit of $873,000, $26,000, and $78,000 for the twelve months ended December 31, 2021, 2020, and 2019, respectively. Unrecognized stock-based compensation expense related to options was $635,000, $476,000, and $332,000 as of December 31, 2021, 2020, and 2019, respectively. Unrecognized stock-based compensation expense will be recognized over a weighted-average period of 1.4 years as of December 31, 2021.

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 2021, 2020 and 2019.

	July 2021	January 2021	July 2020	January 2020	January 2019
Expected volatility	31.6%	30.8%	31.8%	28.5%	35.0%
Expected term (years)	6.0 years	6.0 years	6.0 years	6.0 years	6.0 years
Expected dividends	1.98%	1.86%	2.48%	1.99%	1.90%
Risk free rate	0.48%	0.26%	0.29%	1.31%	2.66%
Grant date fair value	$ 5.69	$ 4.14	$ 2.97	$ 4.61	$ 6.32

The expected volatility was based on the historical volatility of the Company stock trading history. The expected term represents the estimated average period of time that the options remain outstanding. 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, 2021 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 in years	Aggregate Intrinsic Value
Outstanding at beginning of year	1,097,470	$ 13.30		
Granted	150,000	18.34		
Exercised	(302,744)	11.48		
Forfeited/cancelled	(808)	11.15		
Outstanding at end of period	943,918	$ 14.66	4.04	$ 10,895
Options exercisable	706,418	$ 13.59	2.46	$ 8,909

The Company granted restricted stock for 60,000 shares at a closing price of $17.74 in 2021. There were no restricted stock awards in 2020 and 2019. These restricted stock awards are scheduled to vest over a three year period from the January 21, 2021 grant date. As of December 31, 2021, there were 60,000 remaining unvested restricted stock awards.

The recorded compensation expense for restricted stock was $602,000, $425,000, and $425,000 for the twelve months ended December 31, 2021, 2020, and 2019, respectively. Unrecognized stock-based compensation expense related to restricted stock was $729,000, $266,000, $691,000 as of December 31, 2021, 2020, and 2019, respectively. As of December 31, 2021, unrecognized stock-based compensation expense related to restricted stock are expected to be recognized over the next 2.1 years.

The following table presents restricted stock activity during the twelve months ended December 31, 2021.

(dollars in thousands, except for share amounts)	Shares	Weighted-Average Grant Date Fair Value
Outstanding at beginning of year	14,475	$ 29.38
Granted	60,000	17.74
Vested	(14,475)	(29.38)
Outstanding at end of period	60,000	$ 17.74

The total fair value of the shares vested was $1.2 million, $300,000, and $460,000 in 2021, 2020, and 2019, respectively. The number of unvested stock options were 237,500, 147,500, and 76,500 with a weighted average grant date fair value of $4.28, $4.43, and $6.32 as of December 31, 2021, 2020 and 2019.

Cash received from the exercise of 302,744 share options was $3.5 million for the period ended December 31, 2021. Cash received from the exercise of 56,498 share options was $712,000 for the period ended December 31, 2020. Cash received from the exercise of 200,629 share options was $2.8 million for the period ended December 31, 2019. The intrinsic value of options exercised was $3.8 million, $278,000, and $1.2 million in 2021, 2020, and 2019.

NOTE 17 - 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 was phased in over a four-year period (increasing by that amount on each subsequent January 1, until it reached 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, 2021 and December 31, 2020, that the Bank satisfied all capital adequacy requirements to which it is subject.

As of December 31, 2021 and 2020, 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, 2021:

	Actual		Amount of Capital Required			
			Minimum Required for Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Provisions	
(dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2021:						
Tier 1 Leverage Ratio						
Consolidated	$ 410,134	10.21%	$ 160,642	4.0%	$ 200,803	5.0%
Bank	499,325	12.45%	160,418	4.0%	200,523	5.0%
Common Equity Tier 1 Risk-Based Capital Ratio						
Consolidated	$ 395,632	14.86%	$ 119,841	4.5%	$ 173,104	6.5%
Bank	499,325	18.80%	119,550	4.5%	172,684	6.5%
Tier 1 Risk-Based Capital Ratio						
Consolidated	$ 410,134	15.40%	$ 159,788	6.0%	$ 213,051	8.0%
Bank	499,325	18.80%	159,401	6.0%	212,534	8.0%
Total Risk-Based Capital Ratio						
Consolidated	$ 616,440	23.15%	$ 213,051	8.0%	$ 266,314	10.0%
Bank	532,544	20.05%	212,534	8.0%	265,668	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, 2020:

	Actual		Amount of Capital Required			
			Minimum Required for Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Provisions	
(dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2020:						
Tier 1 Leverage Ratio						
Consolidated	$ 368,413	11.32%	$ 130,219	4.0%	$ 162,774	5.0%
Bank	458,614	14.11%	129,989	4.0%	162,487	5.0%
Common Equity Tier 1 Risk Based Capital Ratio						
Consolidated	$ 354,130	14.62%	$ 109,021	4.5%	$ 157,474	6.5%
Bank	458,614	18.94%	108,966	4.5%	157,395	6.5%
Tier 1 Risk-Based Capital Ratio						
Consolidated	$ 368,413	15.21%	$ 145,361	6.0%	$ 193,814	8.0%
Bank	458,614	18.94%	145,288	6.0%	193,717	8.0%
Total Risk-Based Capital Ratio						
Consolidated	$ 503,093	20.77%	$ 193,814	8.0%	$ 242,268	10.0%
Bank	488,888	20.19%	193,717	8.0%	242,146	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 18 - 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, 2021.

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.

Off-Balance-Sheet Financial Instruments: The fair value of commitments to extend credit, standby letters of credit, interest rate lock commitments, forward mortgage loan sales contracts and financial guarantees written were estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counter parties. The fair value of guarantees and letters of credit was based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counter parties at the reporting date. Off-balance-sheet financial instruments were valued based on the assumptions that a market participant would use, a Level 3 measurement.

Fair value was estimated in accordance with ASC Topic 825. Fair value estimates were made at specific points in time, based on relevant market information and information about the financial instrument. Because no market exists for a significant portion of the Bank’s financial instruments, fair value estimates were based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates were subjective in nature and involved uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The following table provides the hierarchy and fair value for each major category of assets and liabilities measured at fair value at December 31, 2021 and 2020:

(dollars in thousands) December 31, 2021	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	$ —	$ 5,610	$ —	$ 5,610
SBA agency securities	—	3,469	—	3,469
Mortgage-backed securities	—	55,025	—	55,025
Collateralized mortgage obligations	—	119,511	—	119,511
Commercial paper	—	129,926	—	129,926
Corporate debt securities	—	42,205	—	42,205
Municipal securities	—	12,514	—	12,514
Interest Rate Lock Contracts	—	—	141	141
Forward Mortgage Loan Sale Contracts	—	—	124	124
	$ —	$ 368,260	$ 265	$ 368,525
On a non-recurring basis:				
Other real estate owned	$ —	$ —	$ 293	$ 293

December 31, 2020	Level 1	Level 2	Level 3	Total
Assets measured at fair value:				
On a recurring basis:				
Securities available for sale				
Government agency securities	$ —	$ 1,294	$ —	$ 1,294
SBA agency securities	—	4,394	—	4,394
Mortgage-backed securities	—	17,677	—	17,677
Collateralized mortgage obligations	—	48,874	—	48,874
Commercial paper	—	102,448	—	102,448
Corporate debt securities	—	34,563	—	34,563
Municipal securities	—	1,617	—	1,617
Interest Rate Lock Contracts	—	—	45	45
Forward Mortgage Loan Sale Contracts	—	—	214	214
	$ —	$ 210,867	$ 259	$ 211,126
On a non-recurring basis:				
Other real estate owned	$ —	$ —	$ 293	$ 293

Quantitative information about the Company's recurring Level 3 fair value measurements as of December 31, 2021 and 2020 is as follows:

At December 31, 2020, fair value for IRLCs and FMLSCs totaled $259,000. All IRLCs and FMLSCs at December 31, 2020, were funded and sold to Fannie Mae in the first six months of 2021 except one FMLSC with fair value less than a thousand dollars. Changes in fair value were $6,000 in 2021. Fair value for IRLCs and FMLSCs totaled $265,000 at December 31, 2021.

The fair value measurement of IRLCs and FMLSCs were primarily based on the buy price from borrowers ranging from 96 to 100, the sale price to Fannie Mae ranging from 99 to 104, and the significant unobservable inputs using margin cost rate from 1.50% to 2.00%.

Quantitative information about the Company's non-recurring Level 3 fair value measurements as of December 31, 2021 and 2020 is as follows:

OREO consists of one single-family residence with a fair value of $293,000 as of December 31, 2021 and December 31, 2020. OREO was evaluated by third party appraisals with unobservable input of management adjustment in the range of 5%-6% to reflect current conditions and selling costs.

No write-downs to OREO were recorded in 2021 or 2020.

Quantitative information about the Company's recurring Level 3 fair value measurements as of December 31, 2021 and 2020 is as follows:

Interest Rate Lock Commitments ("IRLCs"): Agreements under which the Company agrees to extend credit to a borrower under certain specified terms and conditions in which the interest rate and the maximum amount of the loan are set prior to funding. Under the agreement, the Company commits to lend funds to a potential borrower (subject to the Company’s approval of the loan) on a fixed or adjustable rate basis, regardless of whether interest rates change in the market, or on a floating rate basis. As such, outstanding IRLCs are subject to interest rate risk and related price risk during the period from the date of issuance through the date of loan funding, cancelling or expiration. Loan commitments generally range between 30 and 90 days; however, the borrower is not obligated to obtain the loan. The Company is subject to fallout risk related to IRLCs, which is realized if approved borrowers choose not to close on the loans within the terms of the IRLCs. The Company uses best efforts commitments to substantially eliminate these risks. Historical commitment-to-closing ratios are considered to estimate the quantity of mortgage loans that will fund within the terms of the IRLCs.

The FASB Accounting Standards Codification (“FASB ASC”) provides that IRLCs on mortgage loans that will be held for resale are derivatives and must be accounted for at fair value on the balance sheet (if material). FASB ASC Topic 820 – Fair Value Measurements and Disclosures specifies how these derivatives are to be valued. Commitments to originate mortgage loans to be held for investment and other types of loans are generally not derivatives. Consequently, the Company has elected to account for these obligations at fair value.

Forward Mortgage Loan Sale Contracts ("FMLSCs"): The Company is subject to interest rate and price risk on its mortgage loans held for sale from the loan funding date until the date the loan is sold. Best efforts commitments which fix the forward sales price that will be realized in the secondary market are used to eliminate the interest rate and price risk to the Company. To avoid interest rate risk, the Company will enter into FMLSCs at the time they make an interest rate lock commitment to the buyer. They can enter into mortgage loan sales commitments on a “mandatory” or “best efforts” basis. Mandatory commitments provide that the loan must be delivered or the commitment be “paired off”. In general, best efforts commitments provide that the loan be delivered if and when it closes.

Mandatory delivery commitments, also known as forward loan sales commitments, are considered to be derivatives under FASB ASC Topic 815 (Derivatives and Hedging) because they meet all of the following criteria:

- They have a specified underlying (the contractually specified price for the loans)
- They have a notional amount (the committed loan principal amount)
- They require little or no initial net investment
- They require or permit net settlement as the institution via a pair-off transaction or the payment of a pair-off fee.

NOTE 19 - 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.

In accordance with accounting guidance, the Company groups its financial assets and financial liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, prepayment speeds, volatilities, etc.) or model-based valuation techniques where all significant assumptions are observable, either directly or indirectly, in the market.

Level 3 - Valuation is generated from model-based techniques where one or more significant inputs are not observable, either directly or indirectly, in the market. These unobservable assumptions reflect the Company’s own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques may include use of matrix pricing, discounted cash flow models, and similar techniques.

Because no market exists for a significant portion of the Company’s financial instruments, fair value estimates are based on judgments regarding current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature, and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the fair values presented. Management uses its best judgment in estimating the fair value of the Company’s financial instruments; however, there are inherent limitations in any estimation technique.

A financial instrument’s level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Management maximizes the use of observable inputs and attempts to minimize the use of unobservable inputs when determining fair value measurements. Estimated fair values are disclosed for financial instruments for which it is practicable to estimate fair value. These estimates are made at a specific point in time based on relevant market data and information about the financial instruments. These estimates do not reflect any premium or discount that could result from offering the Company’s entire holdings of a particular financial instrument for sale at one time, nor do they attempt to estimate the value of anticipated future business related to the instruments. In addition, the tax ramifications related to the realization of unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of these estimates.

The following methods and assumptions were used to estimate the fair value of significant financial instruments not previously presented:

Cash and Due From Banks -- 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, 2021 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.

Equity Securities -- The fair values of the Company’s equity securities are estimated using discounted cash flow analyses resulting in a Level 2 classification.

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. The fair values of the Company’s long-term FHLB Advances 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.

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 2 classification.

Servicing Rights -- Mortgage and SBA servicing rights are calculated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates that reflect the credit and interest rate risk inherent in the loan, a Level *2* measurement

Off-Balance Sheet Financial Instruments -- The fair value of commitments to extend credit and standby letters of credit, interest rate lock commitments and forward mortgage loan sales contracts is estimated using the fees currently charged to enter into similar agreements. Unobservable inputs that reflect the Company's own assumptions about the assumptions that market participants would use in pricing an asset or liability. 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, 2021 and 2020 are summarized as follows:

		December 31, 2021		December 31, 2020	
(dollars in thousands)	**Fair Value Hierarchy**	**Carrying Value**	**Fair Value**	**Carrying Value**	**Fair Value**
Financial Assets:					
Cash and due from banks	Level 1	$ 501,372	$ 501,372	$ 137,654	$ 137,654
Federal funds sold and other cash equivalents	Level 1	193,000	193,000	57,000	57,000
Interest-earning deposits in other financial institutions	Level 1	600	600	600	600
Investment securities - AFS	Level 2	368,260	368,260	210,867	210,867
Investment securities - HTM	Level 2	6,252	6,577	7,174	7,603
Mortgage loans held for sale	Level 1	5,957	6,055	49,963	50,716
Loans, net	Level 3	2,898,438	2,908,742	2,677,429	2,687,751
Equity securities	Level 3	19,992	19,992	14,894	14,894
Servicing assets:	Level 2	11,517	19,442	13,965	15,617
Derivative assets:		**Notional Value**	**Fair Value**	**Notional Value**	**Fair Value**
Interest Rate Lock Contracts	Level 3	$ 8,099	$ 141	$ 27,665	$ 45
Forward Mortgage Loan Sale Contracts	Level 3	14,296	124	55,089	214
Financial Liabilities:		**Carrying Value**	**Fair Value**	**Carrying Value**	**Fair Value**
Deposits	Level 2	$ 3,385,532	$ 3,388,008	$ 2,635,128	$ 2,632,933
FHLB advances	Level 3	150,000	143,237	150,000	149,964
Long-term debt	Level 3	173,007	175,773	104,391	137,930
Subordinated debentures	Level 3	14,502	13,991	14,283	14,654

NOTE 20 - 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:

	2021		2020		2019	
(dollars in thousands except per share amounts)	**Income**	**Shares**	**Income**	**Shares**	**Income**	**Shares**
Net income as reported	$ 56,906		$ 32,928		$ 39,209	
Less: Earnings allocated to participating securities	(192)		(37)		(74)	
Shares outstanding		19,455,544		19,565,921		20,030,866
Impact of weighting shares		(31,995)		197,501		(13,560)
Used in basic EPS	56,715	19,423,549	32,891	19,763,422	39,135	20,017,306
Dilutive effect of outstanding						
Stock options		410,756		158,437		376,118
Used in dilutive EPS	$ 56,715	19,834,306	$ 32,891	19,921,859	$ 39,135	$ 20,393,424
Basic earnings per common share	$ 2.92		$ 1.66		$ 1.96	
Diluted earnings per common share	2.86		1.65		1.92	

Stock options for zero, 301,500 and 76,500 shares of common stock were not considered in computing diluted earnings per common share for December 31, 2021, 2020 and 2019, respectively because they were anti-dilutive.

NOTE 21 – REVENUE FROM CONTRACTS WITH CUSTOMERS

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

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

	For the Year Ended December 31,		
(dollars in thousands)	**2021**	**2020**	**2019**
Non-interest income, in scope (1)			
Fees and service charges on deposit accounts	$ 2,367	$ 1,636	$ 1,366
Other fees (2)	2,543	832	1,118
Other income (3)	2,157	2,013	1,429
(Loss) on sale of OREO and fixed assets	—	—	(100)
Total in-scope non-interest income	7,067	4,481	3,813
Non-interest income, not in scope (4)	11,678	9,559	14,507
Total non-interest income	$ 18,745	$ 14,040	$ 18,320

(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 ASC 606: 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, cashier's check fees, 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 (loss) 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 22 – QUALIFIED AFFORDABLE HOUSING PROJECT INVESTMENTS

The Company began investing in qualified affordable housing projects in 2016. At December 31, 2021 and December 31, 2020, the balance of the investment for qualified affordable housing projects was $6.6 million and $7.6 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 $826,000 and $1.6 million at December 31, 2021 and December 31, 2020. The Company expects to fulfill these commitments between 2022 and 2029.

During the years ending December 31, 2021, 2020 and 2019, the Company recognized amortization expense of $1.0 million, $979,000, and $900,000, respectively, which was included within income tax expense on the consolidated statements of income.

During the years ended December 31, 2021, 2020 and 2019, the Company recognized tax credits from its investment in affordable housing tax credits of $1.0 million, $891,000 and $1.1 million, respectively. The Company had no impairment losses during the years ended December 31, 2021, 2020 and 2019.

NOTE 23 - PARENT ONLY CONDENSED FINANCIAL INFORMATION

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

Condensed Statements of Financial Condition

(Dollars in Thousands)	**2021**	**2020**
ASSETS		
Cash and cash equivalents	$ 77,578	$ 7,089
Investment in Bank	570,610	532,972
Investment in RAM	2,992	2,933
Other assets	4,624	5,782
Total assets	$ 655,804	$ 548,776
LIABILITIES AND SHAREHOLDERS' EQUITY		
Long term debt	173,007	104,391
Subordinated debentures	14,502	14,283
Other liabilities	1,612	1,614
Total liabilities	189,121	120,288
Shareholders' equity:		
Common stock	282,335	284,261
Additional paid-in capital	4,603	4,932
Retained earnings	181,329	138,094
Non-controlling interest	72	72
Accumulated other comprehensive income	(1,656)	1,129
Total shareholders' equity	466,683	428,488
Total liabilities and shareholders' equity	$ 655,804	$ 548,776

Condensed Statements of Income

(Dollars in Thousands)	2021	2020	2019
Dividend from subsidiaries	$ 25,000	$ 29,000	$ —
Interest expense	8,999	7,677	7,697
Noninterest expense	1,452	1,292	1,300
Income (loss) before equity in undistributed income of subsidiaries	14,549	20,031	(8,997)
Equity in undistributed income of:			
Bank	39,109	14,053	45,324
RAM	59	(3,936)	74
Income before income taxes	53,717	30,148	36,401
Income tax benefit	3,189	2,780	2,808
Net income	56,906	32,928	39,209
Other comprehensive income (loss)	(2,785)	890	1,577
Total comprehensive income	$ 54,121	$ 33,818	$ 40,786

Condensed Statements of Cash Flows

(Dollars in Thousands)	2021	2020	2019
Cash flows from operating activities:			
Net income	$ 56,906	$ 32,928	$ 39,209
Net amortization of other	724	560	508
Provision for deferred income taxes	(337)	441	513
Undistributed income of subsidiaries	(39,168)	(10,116)	(45,398)
Change in other assets and liabilities	1,645	(742)	(1,981)
	19,770	23,071	(7,149)
Cash flows from investment activities:			
Net cash acquired in connection with acquisition	—	6,634	—
Purchase of other equity securities, net	(380)	—	—
Investment in subsidiaries	—	(38,895)	—
	(380)	(32,261)	—
Cash flows from financing activities:			
Issuance of subordinated debentures, net of issuance costs	118,111	—	—
Redemptions of subordinated debentures	(50,000)	—	—
Dividends paid	(9,947)	(6,567)	(8,033)
Common stock repurchased, net of repurchased costs	(10,540)	(7,851)	(3,190)
Stock options exercised	3,475	712	2,817
	51,099	(13,706)	(8,406)
Increase (decrease) in cash and cash equivalents	70,489	(22,896)	(15,555)
Cash and cash equivalents beginning of year	7,089	29,985	45,540
Cash and cash equivalents end of year	$ 77,578	$ 7,089	$ 29,985

NOTE 24 – SUBSEQUENT EVENTS

On January 19, 2022, the board of directors of RBB Bancorp approved an amendment and restatement of the RBB 2017 Omnibus Stock Incentive Plan.

On January 20, 2022, RBB announced a cash dividend of $0.14 per share for the fourth quarter of 2021. The dividend is payable on February 1, 2022 to common shareholders of record as of January 31, 2022.

On January 21, 2022, RBB Bancorp announced that it had completed the acquisition of the Bank of the Orient Hawaii branch on January 14, 2022.

On February 22, 2022, RBB Bancorp announced that President and Chief Executive Officer Alan Thian will take a leave of absence, effective immediately, pending an internal investigation being conducted by a special committee of the RBB Board of Directors. The RBB Board of Directors has appointed David Morris, Executive Vice President and Chief Financial Officer, as Interim President and Chief Executive Officer. Mr. Morris will continue in his role as CFO.

NOTE 25 – QUARTERLY INCOME STATEMENTS (Unaudited)

The following table presents the unaudited quarterly condensed income statements for the years 2021 and 2020.

	2021				2020			
(dollars in thousands)	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
Interest income	$ 38,444	$ 37,108	$ 35,971	$ 35,540	$ 35,864	$ 35,125	$ 34,103	$ 34,028
Interest expense	5,219	5,532	5,914	6,055	6,987	7,874	9,069	10,435
Net interest income	33,225	31,576	30,057	29,485	28,877	27,251	25,034	23,593
Provision for credit losses	635	1,196	628	1,500	3,008	3,861	3,009	1,945
Net interest income after provision for credit losses	32,590	30,380	29,429	27,985	25,869	23,390	22,025	21,648
Noninterest income:	3,156	5,524	4,171	5,894	4,490	2,727	2,208	4,615
Noninterest expense:	13,300	14,420	14,680	15,792	14,453	13,978	14,819	16,263
Income before income taxes	22,446	21,484	18,920	18,087	15,906	12,139	9,414	10,000
Income tax expense	6,740	6,120	5,540	5,631	4,759	3,619	2,901	3,252
Net income	$ 15,706	$ 15,364	$ 13,380	$ 12,456	$ 11,147	$ 8,520	$ 6,513	$ 6,748
Net income per share								
Basic	$ 0.81	$ 0.79	$ 0.69	$ 0.64	$ 0.57	$ 0.43	$ 0.33	$ 0.34
Diluted	0.79	0.77	0.67	0.63	0.56	0.43	0.33	0.33

NOTE 26 – REPURCHASE OF COMMON STOCK

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. On April 22, 2021, the Board of Directors approved a stock repurchase program to buy back up to an aggregate of 500,000 shares of our common stock. As of December 31, 2021, the Company may repurchase up to 335,650 shares under the repurchase program. As of December 31, 2021 the Company had repurchased 1,164,350 shares of stock at an average per share price of $18.53.

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, 2021, 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, 2021.

Eide Bailly, 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 in Item 8.

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 2021 that have materially affected, or are reasonably likely to materially effect, the Company's internal control over financial reporting.

Item 9B. Other Information.

None

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections.

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 2022 annual meeting of shareholders to be filed within 120 days after December 31, 2021, 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 2022 annual meeting of shareholders to be filed within 120 days after December 31, 2021, 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 2022 annual meeting of shareholders to be filed within 120 days after December 31, 2021, which is incorporated herein by reference.

Equity Compensation Plan Information

The following table provides information as of December 31, 2021 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	943,918	$ 14.66	981,853
Equity compensation plans not approved by security holders	—	—	—
Total	943,918	$ 14.66	981,853

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 2022 annual meeting of shareholders to be filed within 120 days after December 31, 2021, 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 2022 annual meeting of shareholders to be filed within 120 days after December 31, 2021, 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, 2021 and 2020.

Consolidated Statements of Income for the Years Ended December 31, 2021, 2020 and 2019.

Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2021, 2020 and 2019.

Consolidated Statements of Changes in Shareholders' Equity for the Years Ended December 31, 2021, 2020 and 2019.

Consolidated Statements of Cash Flows for the Years Ended December 31, 2021, 2020 and 2019.

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 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 (incorporated by reference to Exhibit 4.1 to our Form 10-K filed on December 31, 2019)
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
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	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	The cover page of RBB Bancorp's Annual Report on Form 10-K for the year ended December 31, 2021, formatted in Inline XBRL (contained in Exhibit 101)

(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 11, 2022.

RBB BANCORP

By:	/s/ David R. Morris
Name:	David R. Morris
Title:	*Interim 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/ David R. Morris David R. Morris	Interim Chief Executive Officer and President (principal executive officer)	March 11, 2022
/s/ David R. Morris David Morris	Executive Vice President; Chief Financial Officer (principal financial and accounting officer)	March 11, 2022
/s/ Peter M. Chang Peter M. Chang	Director	March 11, 2022
/s/ Wendell Chen Wendell Chen	Director	March 11, 2022
/s/ Christina Kao Christina Kao	Director	March 11, 2022
/s/ James W. Kao James W. Kao	Director	March 11, 2022
/s/ Chie-Min (Christopher) Koo Chie-Min (Christopher) Koo	Director	March 11, 2022
/s/ Alfonso Lau Alfonso Lau	Director	March 11, 2022
/s/ Christopher Lin Christopher Lin	Director	March 11, 2022
/s/ Ko-Yen Lin Ko-Yen Lin	Director	March 11, 2022
/s/ Paul Lin Paul Lin	Director	March 11, 2022
/s/ Feng (Richard) Lin Feng (Richard) Lin	Director	March 11, 2022
/s/ Fui Ming (Catherine) Thian Fui Ming (Catherine) Thian	Director	March 11, 2022
/s/ Raymond Yu Raymond Yu	Director	March 11, 2022

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 11, 2022 relating to our audit of the consolidated financial statements and the effectiveness of internal control over financial reporting appearing in this annual report on Form 10-K for the year ended December 31, 2021.

/s/ Eide Bailly LLP

Laguna Hills, California
March 11, 2022

Exhibit 31.1

CERTIFICATION

I, David Morris, certify that:

1. I have reviewed this Form 10-K to the 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 11, 2022

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

Exhibit 31.2

CERTIFICATION

I, David Morris, certify that:

1. I have reviewed this Form 10-K to the 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 11, 2022

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 Form 10-K to the Annual Report of RBB Bancorp (the "Company") on Form 10-K for the period ended December 31, 2021, as filed with the Securities and Exchange Commission on March 11, 2022 (the "Report"), I, David Morris, Interim 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 11, 2022

By: /s/ David R. Morris
David R. Morris
Interim 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 Form 10-K to the Annual Report of RBB Bancorp (the “Company”) on Form 10-K for the period ended December 31, 2021, as filed with the Securities and Exchange Commission March 11, 2022 (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 11, 2022

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