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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2020 or

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

For the transition period from ______ to ______

Commission File Number: 001-38149

RBB BANCORP
(Exact name of registrant as specified in its charter)

California **(State or other jurisdiction of Incorporation or organization)**	**27-2776416** **(I.R.S. Employer Identification No.)**
1055 Wilshire Blvd., Suite 1200, Los Angeles, California **(Address of principal executive offices)**	**90017** **(Zip Code)**

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

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

Title of each class	Trading Symbol(s)	Name of exchange on which registered
Common Stock, No Par Value	RBB	NASDAQ Global Select Market

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

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

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

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

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

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

Number of shares of common stock of the registrant: 19,739,280 outstanding as of August 7, 2020.

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION (UNAUDITED)

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

RBB BANCORP AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
JUNE 30, 2020 (UNAUDITED) AND DECEMBER 31, 2019 (AUDITED)
(In thousands, except share amounts)

	June 30, 2020	December 31, 2019
Assets		
Cash and due from banks	$ 94,844	$ 114,763
Federal funds sold and other cash equivalents	57,000	67,000
Cash and cash equivalents	151,844	181,763
Interest-earning deposits in other financial institutions	600	600
Securities:		
Available for sale	185,756	126,069
Held to maturity (fair value of $8,024 and $8,632 at June 30, 2020 and December 31, 2019, respectively)	7,615	8,332
Mortgage loans held for sale	15,479	108,194
Loans held for investment:		
Real estate	2,226,029	1,852,206
Commercial and other	374,112	349,391
Total loans	2,600,141	2,201,597
Unaccreted discount on acquired loans	(4,076)	(5,067)
Deferred loan (fees) costs, net	(1,445)	404
Total loans, net of deferred loan fees	2,594,620	2,196,934
Allowance for loan losses	(22,820)	(18,816)
Net loans	2,571,800	2,178,118
Premises and equipment	23,965	16,813
Federal Home Loan Bank (FHLB) stock	15,641	15,000
Net deferred tax assets	—	2,326
Other real estate owned (OREO)	293	293
Cash surrender value of life insurance (BOLI)	34,736	34,353
Goodwill	69,209	58,563
Servicing assets	15,595	17,083
Core deposit intangibles	5,876	6,100
Accrued interest and other assets	37,772	34,928
Total assets	$ 3,136,181	$ 2,788,535

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

RBB BANCORP AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
JUNE 30, 2020 (UNAUDITED) AND DECEMBER 31, 2019 (AUDITED) (CONTINUED)
(In thousands, except share amounts)

	June 30, 2020	December 31, 2019
Liabilities and Shareholders' Equity		
Deposits:		
Noninterest-bearing demand	$ 574,553	$ 458,763
Savings, NOW and money market accounts	601,941	537,490
Time deposits under $100,000	205,913	257,362
Time deposits $100,000 and over	1,054,113	995,323
Total deposits	2,436,520	2,248,938
Reserve for unfunded commitments	1,030	826
Net deferred tax liabilities	656	—
FHLB advances	150,000	—
Long-term debt, net of debt issuance costs	104,220	104,049
Subordinated debentures	14,174	9,673
Accrued interest and other liabilities	15,556	17,359
Total liabilities	2,722,156	2,380,845
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; 19,739,280 shares issued and outstanding at June 30, 2020 and 20,030,866 shares issued and outstanding at December 31, 2019	286,350	290,395
Additional paid-in capital	4,999	4,938
Retained earnings	121,478	112,046
Non-controlling interest	72	72
Accumulated other comprehensive income, net	1,126	239
Total shareholders' equity	414,025	407,690
Total liabilities and shareholders' equity	$ 3,136,181	$ 2,788,535

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

RBB BANCORP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME – (UNAUDITED)
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2020 AND 2019
(In thousands, except per share amounts)

	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
Interest and dividend income:				
Interest and fees on loans	$ 32,633	$ 34,240	$ 64,909	$ 70,079
Interest on interest-earning deposits	74	515	525	983
Interest on investment securities	887	685	1,708	1,273
Dividend income on FHLB stock	187	379	189	577
Interest on federal funds sold and other	322	124	800	237
Total interest income	34,103	35,943	68,131	73,149
Interest expense:				
Interest on savings deposits, now and money market accounts	782	1,238	2,025	2,532
Interest on time deposits	5,933	7,797	13,019	13,750
Interest on subordinated debentures and long-term debt	1,915	1,929	3,871	3,862
Interest on other borrowed funds	439	662	589	2,776
Total interest expense	9,069	11,626	19,504	22,920
Net interest income	25,034	24,317	48,627	50,229
Provision for loan losses	3,009	357	4,954	907
Net interest income after provision for loan losses	22,025	23,960	43,673	49,322
Noninterest income:				
Service charges, fees and other	1,065	1,222	2,144	2,042
Gain on sale of loans	81	3,120	2,792	5,318
Loan servicing fees, net of amortization	708	899	1,300	1,739
Recoveries on loans acquired in business combinations	5	55	47	61
Unrealized gain on equity investments	—	—	—	147
Increase in cash surrender value of life insurance	191	194	382	385
Gain on sale of securities	158	—	158	—
Gain on Sale of fixed assets	—	6	—	6
	2,208	5,496	6,823	9,698
Noninterest expense:				
Salaries and employee benefits	8,103	8,169	17,608	17,287
Occupancy and equipment expenses	2,527	2,674	4,931	4,926
Data processing	882	1,219	2,024	2,228
Legal and professional	670	656	1,274	1,081
Office expenses	337	294	660	630
Marketing and business promotion	111	316	325	678
Insurance and regulatory assessments	234	284	411	582
Core deposit premium	357	385	714	773
OREO expenses	14	81	28	162
Merger and conversion expenses	276	15	679	86
Other expenses	1,308	806	2,428	1,791
	14,819	14,899	31,082	30,224
Income before income taxes	9,414	14,557	19,414	28,796
Income tax expense	2,901	4,415	6,153	8,274
Net income	$ 6,513	$ 10,142	$ 13,261	$ 20,522
Net income per share				
Basic	$ 0.33	$ 0.51	$ 0.67	$ 1.02
Diluted	0.33	0.50	0.66	1.00
Cash dividends declared per common share	0.06	0.10	0.12	0.20

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

RBB BANCORP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME – (UNAUDITED)
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2020 AND 2019
(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	**2019**	**2020**	**2019**
Net income	$ 6,513	$ 10,142	$ 13,261	$ 20,522
Other comprehensive income:				
Unrealized gains on securities available for sale:				
Change in unrealized gains	919	928	1,417	1,886
Reclassification of gains recognized in net income	(158)	—	(158)	—
	761	928	1,259	1,886
Related income tax effect:				
Change in unrealized gains	(271)	(274)	(419)	(558)
Reclassification of gains recognized in net income	47	—	47	—
	(224)	(274)	(372)	(558)
Total other comprehensive income	537	654	887	1,328
Total comprehensive income	$ 7,050	$ 10,796	$ 14,148	$ 21,850

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

RBB BANCORP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY – (UNAUDITED)
FOR THREE AND SIX MONTHS ENDED JUNE 30, 2020 AND 2019
(In thousands, except share amounts)

	Common Stock						
	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Non-Controlling Interest	Accumulated Other Comprehensive Income (Loss)	Total
Balance at April 1, 2020	19,739,280	$ 286,350	$ 4,833	$ 116,149	$ 72	$ 589	$ 407,993
Net income	—	—	—	6,513	—	—	6,513
Stock-based compensation	—	—	166	—	—	—	166
Cash dividend	—	—	—	(1,184)	—	—	(1,184)
Stock options exercised, net of expense recognized	—	—	—	—	—	—	—
Repurchase of common stock	—	—	—	—	—	—	—
Other comprehensive income, net of taxes	—	—	—	—	—	537	537
Balance at June 30, 2020	19,739,280	$ 286,350	$ 4,999	$ 121,478	$ 72	$ 1,126	$ 414,025
Balance at April 1, 2019	20,073,991	$ 289,514	$ 5,890	$ 89,991	$ 72	$ (664)	$ 384,803
Net income	—	—	—	10,142	—	—	10,142
Stock-based compensation	—	—	165	—	—	—	165
Cash dividend	—	—	—	(2,007)	—	—	(2,007)
Stock options exercised, net of expense recognized	3,533	63	—	—	—	—	63
Other comprehensive income, net of taxes	—	—	—	—	—	654	654
Balance at June 30, 2019	20,077,524	$ 289,577	$ 6,055	$ 98,126	$ 72	$ (10)	$ 393,820

	Common Stock						
	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Non-Controlling Interest	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2020	20,030,866	$ 290,395	$ 4,938	$ 112,046	$ 72	$ 239	$ 407,690
Net income	—	—	—	13,261	—	—	13,261
Stock-based compensation	—	—	327	—	—	—	327
Cash dividend	—	—	—	(3,598)	—	—	(3,598)
Stock options exercised, net of expense recognized	56,498	978	(266)	—	—	—	712
Repurchase of common stock	(348,084)	(5,023)	—	(231)	—	—	(5,254)
Other comprehensive income, net of taxes	—	—	—	—	—	887	887
Balance at June 30, 2020	19,739,280	$ 286,350	$ 4,999	$ 121,478	$ 72	$ 1,126	$ 414,025
Balance at January 1, 2019	20,000,022	$ 288,610	$ 5,659	$ 81,618	$ 72	$ (1,338)	$ 374,621
Net income	—	—	—	20,522	—	—	20,522
Stock-based compensation	—	—	396	—	—	—	396
Cash dividend	—	—	—	(4,014)	—	—	(4,014)
Stock options exercised	77,502	967	—	—	—	—	967
Other comprehensive income, net of taxes	—	—	—	—	—	1,328	1,328
Balance at June 30, 2019	20,077,524	$ 289,577	$ 6,055	$ 98,126	$ 72	$ (10)	$ 393,820

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

RBB BANCORP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS – (UNAUDITED)
FOR THE SIX MONTHS ENDED JUNE 30, 2020 AND 2019

	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
Operating activities		
Net income	$ 13,261	$ 20,522
Adjustments to reconcile net income to net cash from		
Operating activities:		
Depreciation and amortization of premises, and equipment	1,032	977
Net accretion of securities, loans, deposits, and other	(2,121)	(1,789)
Unrealized gain on equity securities	—	(147)
Amortization of investment in affordable housing tax credits	494	450
Amortization of intangible assets	2,734	2,336
Provision for loan losses	4,954	907
Stock-based compensation	327	396
Deferred tax benefit (expense)	1,503	(233)
Gain on sale of securities	(158)	—
Gain on sale of loans	(2,792)	(5,318)
Gain on sale of fixed assets	—	(6)
Increase in cash surrender value of life insurance	(382)	(385)
Loans originated and purchased for sale	(51,561)	(57,612)
Proceeds from loans sold	111,047	302,018
Other items	(8,237)	(6,905)
Net cash provided by operating activities	70,101	255,211
Investing activities		
Increase in interest-earning deposits	—	(596)
Securities available for sale:		
Purchases	(339,790)	(59,801)
Maturities, prepayments and calls	274,209	63,935
Sales	7,911	—
Securities held to maturity:		
Maturities, prepayments and calls	705	1,205
Redemption of Federal Home Loan Bank stock	—	1,751
Purchase of Federal Home Loan Bank stock and other equity securities, net	(26)	(8,148)
Purchase of investment in qualified affordable housing projects	(2,036)	—
Net increase in loans	(188,693)	(3,519)
Net cash received in connection with acquisition	6,634	—
Proceeds from sale of fixed assets	—	17
Purchases of premises and equipment	(121)	(831)
Net cash used in investing activities	(241,207)	(5,987)
Financing activities		
Net decrease in demand deposits and savings accounts	(8,120)	(119,934)
Net increase in time deposits	7,447	211,215
Net decrease in short-term FHLB advances	—	(279,500)
Advances of long-term FHLB debt	150,000	—
Cash dividends paid	(3,598)	(4,014)
Common stock repurchased, net of repurchased costs	(5,254)	—
Exercise of stock options	712	967
Net cash provided by (used in) financing activities	141,187	(191,266)
Net (decrease) increase in cash and cash equivalents	(29,919)	57,958
Cash and cash equivalents at beginning of period	181,763	147,685
Cash and cash equivalents at end of period	$ 151,844	$ 205,643
Supplemental disclosure of cash flow information		
Cash paid during the period:		
Interest paid	$ 20,294	$ 15,197
Taxes paid	—	9,835
Non-cash investing and financing activities:		
Transfer from loans to other real estate owned	—	974
(Transfer from) transfer to loans held for sale, net	(36,021)	37,861
Loan to facilitate OREO	1,020	410
Net change in unrealized holding gain on securities available for sale	887	1,328
Additions to servicing assets	897	1,780
Acquisition:		
Assets acquired, net of cash received	183,475	—
Liabilities assumed	200,755	—
Cash considerations	32,885	—
Goodwill	10,646	—

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

NOTE 1 - BUSINESS DESCRIPTION

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

At June 30, 2020, the Company had total consolidated assets of $3.1 billion, gross consolidated loans (held for investment and held for sale) of $2.6 billion, total consolidated deposits of $2.4 billion and total consolidated stockholders' equity of $414.0 million. RBB's common stock trades on the Nasdaq Global Select Market under the symbol "RBB".

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

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

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

The Company has completed six acquisitions from July 8, 2011 through January 10, 2020, including the acquisition of PGB Holdings Inc. ("PGBH") and its wholly-owned subsidiary, Pacific Global Bank ("PGB"), which closed on January 10, 2020. PGB operated three branches in Chicago. See Note 3 – Acquisition, for more information about the PGBH acquisition transaction. All of the Company's acquisitions have been accounted for using the acquisition method of accounting and, accordingly, the operating results of the acquired entities have been included in the consolidated financial statements from their respective acquisition dates.

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

Basis of Presentation

The accompanying unaudited consolidated financial statements and notes thereto of the Company have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC") for Form 10-Q and conform to practices within the banking industry and include all of the information and disclosures required by accounting principles generally accepted in the United States of America ("GAAP") for interim financial reporting. The accompanying unaudited consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments), which are necessary for a fair presentation of financial results for the interim periods presented. The results of operations for the three months and six months ended June 30, 2020 are not necessarily indicative of the results for the full year. These interim unaudited financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto as of and for the year ended December 31, 2019, included in our Annual Report filed on Form 10-K for the fiscal year ended December 31, 2019 (our "2019 Annual Report").

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. 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. Actual results could differ from those estimates.

Summary of Significant Accounting Policies

The accompanying unaudited consolidated financial statements were compiled in accordance with the accounting policies set forth in Note 2 – Basis of Presentation and Summary of Significant Policies in our Consolidated Financial Statements as of and for the year ended December 31, 2019, included in our 2019 Annual Report. The accompanying consolidated unaudited financial statements reflect all adjustments consisting of normal recurring adjustments that, in the opinion of management, are necessary to reflect a fair statement of our consolidated financial condition, results of operations, and cash flows. The results of operations for acquired companies are included from the dates of acquisition. Operating results for the three months and six months ended June 30, 2020 are not necessarily indicative of the results that may be expected for the year ended December 31, 2020. The Financial Accounting Standards Board ("FASB") issues Accounting Standards Updates ("ASU" or “Update”) and Accounting Standards Codifications (“ASC”), which are the primary source of GAAP.

Recent Accounting Pronouncements

When RBB conducted its initial public offering (“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 (the “Exchange Act”). We anticipate no longer qualifying as an EGC on January 1, 2023. EGCs are entitled to reduced regulatory and reporting requirements under the Securities Act of 1933, as amended (the “Securities Act”), and the Exchange Act.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, including subsequent amending ASUs. The most significant change for lessees is the requirement under the new guidance to recognize right-of-use assets and lease liabilities for all leases not considered short-term leases, which is generally defined as a lease term of less than 12 months. This change will result in lessees recognizing right-of-use assets and lease liabilities for most leases currently accounted for as operating leases under current lease accounting guidance. As amended by ASU 2020-05, this ASU is effective for an EGC for fiscal years beginning after December 15, 2021, and for interim periods within fiscal years beginning after December 15, 2022. The Company has several lease agreements which are currently considered operating leases and are therefore not included on the Company’s Consolidated Balance Sheets. Under the new guidance the Company expects that some of the lease agreements will be recognized on the Consolidated Balance Sheets as a right-of-use asset with a corresponding lease liability. Based upon a preliminary evaluation, the Company expects that the ASU will have an impact on the Company’s Consolidated Balance Sheets. As of this Quarterly Report and the Company’s current leases, we estimate the right-of-use asset and lease liability will be in the range of $20-25 million as of the expected January 1, 2021 adoption date. The effective date for this ASU is for years beginning after December 15, 2020, and for interim periods beginning after December 15, 2021. The Company will continue to evaluate how extensive the impact will be under the ASU on the Company’s consolidated financial statements.

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

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." ASU 2017-04 is effective for annual and any interim impairment tests performed in periods beginning after December 15, 2022 for an EGC. Adoption of ASU 2017-04 is not expected to have a significant impact on the Company's consolidated financial statements.

In March 2017, the FASB issued ASU 2017-08, *Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities*, which is intended to enhance "the accounting for the amortization of premiums for purchased callable debt securities." This Update shortens the amortization period for certain callable debt securities purchased at a premium by requiring that the premium be amortized to the earliest call date. Under current GAAP, entities generally amortize the premium as an adjustment of yield over the contractual life of the instrument. The amendments in this Update affects all entities that hold investments in callable debt securities that have an amortized cost basis in excess of the amount that is repayable by the issuer at the earliest call date (that is, at a premium). The amendment does not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The ASU's amendments are effective for EGC's for interim periods after December 15, 2020 and annual periods beginning after December 15, 2019. An entity should apply the amendments in this Update on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. Additionally, in the period of adoption, an entity should provide disclosures about a change in accounting principle. The implementation of the provisions of ASU 2017-08 will most likely not have a material impact the Company's consolidated financial statements. The Company will continue to assess the potential impact that this ASU will have on the Company's consolidated financial statements.

In June 2018, the FASB issued ASU 2018-07, *Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting*. The amendments in this Update expand the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. An entity should apply the requirements of Topic 718 to nonemployee awards except for specific guidance on inputs to an option pricing model and the attribution of cost (that is, the period of time over which share-based payment awards vest and the pattern of cost recognition over that period). The amendments specify that Topic 718 applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in a grantor's own operations by issuing share-based payment awards. The amendments also clarify that Topic 718 does not apply to share-based payments used to effectively provide (1) financing to the issuer or (2) awards granted in conjunction with selling goods or services to customers as part of a contract accounted for under Topic 606, Revenue from Contracts with Customers. For EGCs, the amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. This Update has the potential to only impact share-based payments to members of the Company's non-employees. The Company 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 EGCs 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. 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 that is a service contract. Costs for implementation activities in the application development stage are capitalized depending on the nature of the costs, while costs incurred during the preliminary project and post-implementation stages are expensed as the activities are performed. This Update also requires the customer to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. This Update is effective for an EGC for annual reporting periods beginning after December 15, 2020, and interim periods within annual periods beginning after December 15, 2021. Early adoption of the amendments in this Update is permitted, including adoption in any interim period, for all entities. The amendments in this Update should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. This Update will most likely not have a material impact unless RBB incurs implementation costs for a CCA that is a service contract.

In 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. RBB 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 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. RBB 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, RBB will implement CECL on January 1, 2023.

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 are applicable for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years beginning after December 15, 2020. The amendment related to Issue 3 is a conforming amendment that affects the guidance in the amendments in ASU 2019-04. We are currently evaluating this guidance to determine the financial impact on the Company’s consolidated financial statements.

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. Of the Company’s $2.6 billion in total gross loans as of June 30, 2020, approximately 17% 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-Q. 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. RBB has already implemented topic 606 and will implement topic 842 on January 1, 2022.

NOTE 3 – ACQUISITION

PGB Holdings, Inc. Acquisition:

On January 10, 2020, the Company acquired all the assets and assumed all the liabilities of PGB Holdings, Inc. (“PGBH” or “PGB”) 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 $10.6 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 in 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	—	1,687
Total assets acquired	$ 217,933	$ 5,061	$ 222,994
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	1,497	2,513
Other liabilities	1,211	—	1,211
Total liabilities assumed	199,052	1,703	200,755
Excess of assets acquired over liabilities assumed	18,881	3,358	22,239
	$ 217,933	$ 5,061	
Cash paid			32,885
Goodwill recognized			$ 10,646

The fair values are estimates and are subject to adjustment for up to one year after the merger date.

The Company accounted for these transactions 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 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:

	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	16,893
Fair value of acquired loans	$ 173,158

The operating results of the Company for the six months ended June 30, 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:

	Three Months Ended		Six Months Ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Net interest and other income	$ 27,242	$ 31,916	$ 55,684	$ 64,141
Net income	6,513	10,944	12,095	21,901
Basic earnings per share	0.33	0.55	0.61	1.09
Diluted earnings per share	0.33	0.54	0.60	1.07

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 June 30, 2020 and December 31, 2019, and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income:

(dollars in thousands) June 30, 2020	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale				
Government agency securities	$ 1,409	$ 35	$ —	$ 1,444
SBA agency securities	4,377	238	—	4,615
Mortgage-backed securities- Government sponsored agencies	14,946	407	—	15,353
Collateralized mortgage obligations	14,083	488	—	14,571
Commercial paper	114,920	—	—	114,920
Corporate debt securities	34,422	507	(76)	34,853
Total	$ 184,157	$ 1,675	$ (76)	$ 185,756
Held to maturity				
Municipal taxable securities	$ 2,798	$ 155	$ —	$ 2,953
Municipal securities	4,817	254	—	5,071
Total	$ 7,615	$ 409	$ —	$ 8,024
December 31, 2019				
Available for sale				
Government agency securities	$ 1,591	$ —	$ (19)	$ 1,572
SBA agency securities	4,671	42	(22)	4,691
Mortgage-backed securities- Government sponsored agencies	19,126	74	(29)	19,171
Collateralized mortgage obligations	11,641	38	(25)	11,654
Corporate debt securities	88,700	281	—	88,981
Total	$ 125,729	$ 435	$ (95)	$ 126,069
Held to maturity				
Municipal taxable securities	$ 3,505	$ 147	$ —	$ 3,652
Municipal securities	4,827	153	—	4,980
Total	$ 8,332	$ 300	$ —	$ 8,632

One security with a fair value of $539,000 and $627,000 at June 30, 2020 and December 31, 2019, respectively, was pledged to secure a local agency deposit.

Proceeds of $7.9 million were received from the sale of investment securities during the three and six months of June 30, 2020, and no sales of investments occurred during the three and six months ended June, 30 2019. There were $158,000 of gains realized on sales of investment securities during the three and six months ended June 30, 2020, compared to no gains realized during the three and six months ended June 30, 2019.

The amortized cost and fair value of the investment securities portfolio at June 30, 2020 and December 31, 2019 are shown by expected maturity below. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

	Less than One Year		More than One Year to Five Years		More than Five Years to Ten Years		More than Ten Years		Total	
(dollars in thousands)	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
June 30, 2020										
Government agency securities	$ —	$ —	$ 1,409	$ 1,444	$ —	$ —	$ —	$ —	$ 1,409	$ 1,444
SBA securities	—	—	655	688	3,722	3,927	—	—	4,377	4,615
Mortgage-backed securities- Government sponsored agencies	3,038	3,059	11,908	12,294	—	—	—	—	14,946	15,353
Collateralized mortgage obligations	—	—	11,992	12,393	2,091	2,178	—	—	14,083	14,571
Commercial paper	114,920	114,920	—	—	—	—	—	—	114,920	114,920
Corporate debt securities	1,002	1,003	16,664	16,743	12,253	12,635	4,503	4,472	34,422	34,853
Total available for sale	$ 118,960	$ 118,982	$ 42,628	$ 43,562	$ 18,066	$ 18,740	$ 4,503	$ 4,472	$ 184,157	$ 185,756
Municipal taxable securities	$ 582	$ 593	$ 2,216	$ 2,360	$ —	$ —	$ —	$ —	$ 2,798	$ 2,953
Municipal securities	—	—	40	40	875	921	3,902	4,110	4,817	5,071
Total held to maturity	$ 582	$ 593	$ 2,256	$ 2,400	$ 875	$ 921	$ 3,902	$ 4,110	$ 7,615	$ 8,024
December 31, 2019										
Government agency securities	$ —	$ —	$ 1,591	$ 1,572	$ —	$ —	$ —	$ —	$ 1,591	$ 1,572
SBA securities	—	—	714	725	3,957	3,966	—	—	4,671	4,691
Mortgage-backed securities- Government sponsored agencies	3,663	3,679	13,027	13,059	2,436	2,433	—	—	19,126	19,171
Collateralized mortgage obligations	—	—	9,288	9,265	2,353	2,389	—	—	11,641	11,654
Corporate debt securities	70,914	70,919	2,002	2,008	11,772	12,024	4,012	4,030	88,700	88,981
Total available for sale	$ 74,577	$ 74,598	$ 26,622	$ 26,629	$ 20,518	$ 20,812	$ 4,012	$ 4,030	$ 125,729	$ 126,069
Municipal taxable securities	$ 285	$ 289	$ 2,716	$ 2,784	$ 504	$ 579	$ —	$ —	$ 3,505	$ 3,652
Municipal securities	—	—	40	40	366	379	4,421	4,561	4,827	4,980
Total held to maturity	$ 285	$ 289	$ 2,756	$ 2,824	$ 870	$ 958	$ 4,421	$ 4,561	$ 8,332	$ 8,632

The following table summarizes investment securities with unrealized losses at June 30, 2020 and December 31, 2019, aggregated by major security type and length of time in a continuous unrealized loss position:

	Less than Twelve Months			Twelve Months or More			Total		
(dollars in thousands)	Unrealized Losses	Estimated Fair Value	No. of Issuances	Unrealized Losses	Estimated Fair Value	No. of Issuances	Unrealized Losses	Estimated Fair Value	No. of Issuances
June 30, 2020									
Corporate debt securities	$ (76)	$ 8,419	5	$ —	$ —	—	$ (76)	$ 8,419	5
Total available for sale	$ (76)	$ 8,419	5	$ —	$ —	—	$ (76)	$ 8,419	5
Municipal securities	$ —	$ —	—	$ —	$ —	—	$ —	$ —	—
Total held to maturity	$ —	$ —	—	$ —	$ —	—	$ —	$ —	—
December 31, 2019									
Government agency securities	$ (19)	$ 1,572	2	$ —	$ —	—	$ (19)	$ 1,572	2
SBA securities	(22)	1,469	2	—	—	—	(22)	1,469	2
Mortgage-backed securities- Government sponsored agencies	(5)	2,631	4	(24)	3,912	6	(29)	6,543	10
Collateralized mortgage obligations	(10)	5,738	3	(15)	953	2	(25)	6,691	5
Total available for sale	$ (56)	$ 11,410	11	$ (39)	$ 4,865	8	$ (95)	$ 16,275	19
Municipal securities	$ —	$ —	—	$ —	$ —	—	$ —	$ —	—
Total held to maturity	$ —	$ —	—	$ —	$ —	—	$ —	$ —	—

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.

Equity Securities - The Company recognized no net gain or loss for the three and six months ended June 30, 2020, respectively, due to the increase or decrease in the fair value of equity investments without readily determinable fair values. For the three and six months ended June 30, 2019, respectively, there was no net gain and a gain of $147,000 due to the increase in the fair value of equity investments without readily determinable fair values. Equity securities were $11.8 million as of June 30, 2020 and $11.8 million as of December 31, 2019.

NOTE 5 - LOANS AND ALLOWANCE FOR LOAN LOSSES

The Company's loan portfolio consists primarily of loans to borrowers within the Southern California metropolitan area, the New York City metropolitan area, the 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.

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

	Three Months Ended June 30,								
	2020					2019			
(dollars in thousands)	Real Estate	Commercial	Other	Unallocated	Total	Real Estate	Commercial	Other	Total
Allowance for loan losses:									
Beginning balance	$ 16,391	$ 3,692	$ 16	$ 31	$ 20,130	$ 14,389	$ 3,844	$ 3	$ 18,236
Additions (reductions) to the allowance charged to expense	2,594	440	6	(31)	3,009	193	164	—	357
Charge-offs on loans	—	(319)	—	—	(319)	—	(32)	—	(32)
Recoveries on loans	—	—	—	—	—	—	—	—	—
Ending balance	$ 18,985	$ 3,813	$ 22	$ —	$ 22,820	$ 14,582	$ 3,976	$ 3	$ 18,561

	Six Months Ended June 30,								
	2020					2019			
(dollars in thousands)	Real Estate	Commercial	Other	Unallocated	Total	Real Estate	Commercial	Unallocated	Total
Allowance for loan losses:									
Beginning of year	$ 15,118	$ 3,588	$ 9	$ 101	$ 18,816	$ 13,437	$ 4,140	$ —	$ 17,577
Additions (reductions) to the allowance charged to expense	3,867	1,175	13	(101)	4,954	1,145	(241)	3	907
Charge-offs on loans	—	(950)	—	—	(950)	—	(32)	—	(32)
Recoveries on loans	—	—	—	—	—	—	109	—	109
Ending balance	$ 18,985	$ 3,813	$ 22	$ —	$ 22,820	$ 14,582	$ 3,976	$ 3	$ 18,561

	For the year end December 31, 2019				
(dollars in thousands)	Real Estate	Commercial	Other	Unallocated	Total
Allowance for loan losses:					
Beginning of year	$ 13,437	$ 4,140	$ —	$ —	$ 17,577
Additions (reductions) to the allowance charged to expense	1,847	433	9	101	2,390
Charge-offs on loans	(166)	(1,093)	—	—	(1,259)
Recoveries on loans	—	108	—	—	108
Ending balance	$ 15,118	$ 3,588	$ 9	$ 101	$ 18,816

The following table presents the recorded investment in loans and impairment method as of June 30, 2020, June 30, 2019, and December 31, 2019, by portfolio segment:

(dollars in thousands) June 30, 2020	Real Estate	Commercial	Other	Unallocated	Total
Reserves:					
Specific	$ —	$ 117	$ 1	$ —	$ 118
General	18,985	3,696	21	—	22,702
Total allowance for loan losses	$ 18,985	$ 3,813	$ 22	$ —	$ 22,820
Loans evaluated for impairment:					
Individually	$ 5,163	$ 11,965	$ 89	$ —	$ 17,217
Collectively	2,215,820	359,585	1,998	—	2,577,403
Total loans, net of deferred loan fees and unaccreted discount on acquired loans	$ 2,220,983	$ 371,550	$ 2,087	$ —	$ 2,594,620

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

December 31, 2019	Real Estate	Commercial	Other	Unallocated	Total
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 at June 30, 2020 and December 31, 2019:

(dollars in thousands) June 30, 2020	Pass	Special Mention	Substandard	Impaired	Total (1)
Real estate:					
Construction and land development	$ 145,324	$ —	$ —	$ 430	$ 145,754
Commercial real estate	840,476	15,794	41,543	2,489	900,302
Single-family residential mortgages	1,170,040	2,056	587	2,244	1,174,927
Commercial:					
Other	257,709	—	7,514	2,258	267,481
SBA	89,812	188	4,362	9,707	104,069
Other:	1,998	—	—	89	2,087
Total loans	$ 2,505,359	$ 18,038	$ 54,006	$ 17,217	$ 2,594,620

(dollars in thousands)	Special

December 31, 2019	Pass	Mention	Substandard	Impaired	Total(1)
Real estate:					
Construction and land development	$ 95,756	$ —	$ —	$ 264	$ 96,020
Commercial real estate	767,603	5,353	18,115	2,197	793,268
Single-family residential mortgages	955,327	—	593	1,334	957,254
Commercial:					
Other	265,178	4,078	5,330	—	274,586
SBA	61,496	189	3,877	9,423	74,985
Other:	821	—	—	—	821
Total loans	$ 2,146,181	$ 9,620	$ 27,915	$ 13,218	$ 2,196,934

(1) Loans, net of deferred fees

The following table presents the aging of the recorded investment in past-due loans at June 30, 2020 and December 31, 2019 by class of loans:

(dollars in thousands) June 30, 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	$ 145,581	$ 145,754	$ 173
Commercial real estate	6,179	12,276	1,036	19,491	880,811	900,302	2,035
Single-family residential mortgages	2,020	1,773	905	4,698	1,170,229	1,174,927	2,244
Commercial:							
Other	2,799	101	953	3,853	263,628	267,481	1,755
SBA	16	40	9,667	9,723	94,346	104,069	9,707
Other:	—	—	89	89	1,998	2,087	89
	$ 11,014	$ 14,363	$ 12,650	$ 38,027	$ 2,556,593	$ 2,594,620	$ 16,003

December 31, 2019	30-59 Days	60-89 Days	90 Days Or More	Total Past Due	Loans Not Past Due	Total Loans	Non-Accrual Loans (1)
Real estate:							
Construction and land development	$ —	$ —	$ —	$ —	$ 96,020	$ 96,020	$ —
Commercial real estate	—	—	725	725	792,543	793,268	725
Single-family residential mortgages	1,454	1,560	450	3,464	953,790	957,254	1,334
Commercial:							
Other	—	—	—	—	274,586	274,586	—
SBA	2,263	—	9,378	11,641	63,344	74,985	9,378
Other:	—	—	—	—	821	821	—
	$ 3,717	$ 1,560	$ 10,553	$ 15,830	$ 2,181,104	$ 2,196,934	$ 11,437

(1) Included in total loans.

The Company has no loans that are 90 days or more past due and still accruing at June 30, 2020 and December 31, 2019.

Information relating to individually impaired loans presented by class of loans was as follows at June 30, 2020 and December 31, 2019:

(dollars in thousands) June 30, 2020	Principal Balance	Recorded Investment	Related Allowance
With no related allowance recorded			
Construction and land development	$ 430	$ 430	$ —
Commercial and industrial	1,817	1,788	
Commercial real estate	2,489	2,489	—
Residential mortgage loans	2,318	2,244	—
Commercial – SBA	9,723	9,707	—
With related allowance recorded			
Commercial and industrial	480	470	117
Single-family residential mortgage	89	89	1
Total	$ 17,346	$ 17,217	$ 118

(dollars in thousands) December 31, 2019	Principal Balance	Recorded Investment	Related Allowance
With no related allowance recorded			
Construction and land development	$ 264	$ 264	$ —
Commercial real estate	2,198	2,197	—
Residential mortgage loans	1,349	1,334	—
Commercial – SBA	9,423	9,423	—
With related allowance recorded			
Commercial – SBA	—	—	—
Total	$ 13,234	$ 13,218	$ —

The following table presents information on impaired loans and leases, disaggregated by loan segment, for the periods indicated:

	Three Months Ended				Six Months Ended			
	June 30, 2020		June 30, 2019		June 30, 2020		June 30, 2019	
(dollars in thousands)	Average Balance	Interest Income	Average Balance	Interest Income	Average Balance	Interest Income	Average Balance	Interest Income
With no related allowance recorded								
Construction and land development	$ 433	$ 6	$ 272	$ 6	$ 435	$ 12	$ 271	$ 12
Commercial and industrial	1,830	7	—	—	1,839	27	—	—
Commercial real estate	2,495	34	2,569	26	2,499	70	2,565	54
Residential mortgage loans	2,394	—	455	—	2,404	—	455	—
Commercial – SBA	11,156	1	3,008	1	11,824	1	3,008	2
With related allowance recorded								
Commercial and industrial	480	—	—	—	504	—	—	—
Commercial – SBA	—	—	75	—	—	—	75	—
Other	89	—	—		89	—	—	
	$ 18,877	$ 48	$ 6,379	$ 33	$ 19,594	$ 110	$ 6,374	$ 68

No interest income on non-accrual loans was recognized on a cash basis for the three and six months ended June 30, 2020 and 2019 and for the year ended December 31, 2019.

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 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 six loans as troubled debt restructurings ("TDRs") at June 30, 2020 and four loans at December 31, 2019, respectively, with aggregate balances of $3.1 million and $1.8 million, respectively. Non-accrual TDRs were $900,000 at June 30, 2020, and zero at December 31, 2019. There were no specific reserves allocated to the loans as of June 30, 2020 and December 31, 2019. There are no commitments to lend additional amounts at June 30, 2020 and December 31, 2019 to customers with outstanding loans that are classified as TDRs. There were no loans that were modified as TDRs during the past twelve months that had payment defaults during the periods.

The following table presents loans by class modified as TDRs that occurred during the six months ended June 30, 2020. There was one loan and two loans modified as TDRs during the three and six months ended June 30, 2020, respectively. There was one new TDR during the three and six months ended June 30, 2019. 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 2020 and 2019.

(dollars in thousands) **June 30, 2020**	**Number of Loans**	**Pre-Modification Recorded Investment**	**Post-Modification Recorded Investment**
Commercial and industrial	2	1,305	1,305
Total	2	$ 1,305	$ 1,305

NOTE 6 - LOAN SERVICING

Mortgage and SBA loans serviced for others are not reported as assets. The principal balances at June 30, 2020 and December 31, 2019 are as follows:

(dollars in thousands)	**June 30, 2020**	**December 31, 2019**
Loans serviced for others:		
Mortgage loans	$ 1,617,875	$ 1,683,298
SBA loans	$ 155,244	$ 170,849
Commercial real estate loans	$ 4,181	$ 4,216

The fair value of servicing assets for mortgage loans was $12.0 million and $15.1 million at June 30, 2020 and December 31, 2019, respectively. The fair value of servicing assets for SBA loans was $5.0 million and $5.6 million at June 30, 2020 and December 31, 2019, respectively. Estimates of the loan servicing asset fair value are derived through a discounted cash flow analysis. Portfolio characteristics include loan delinquency rates, age of loans, note rate and geography. The assumptions embedded in the valuation are obtained from a range of metrics utilized by active buyers in the market place. The analysis accounts for recent transactions, and supply and demand within the market.

Servicing fees net of servicing asset amortization totaled $708,000 and $1.3 million for the three and six months ended June 30, 2020, respectively, and $899,000 and $1.7 million for the three and six months ended June 30, 2019, 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. At June 30, 2020, the Company recorded an impairment writedown of $366,000 on mortgage servicing rights due to the impact of the COVID-19 pandemic.

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.

(dollars in thousands)	Three Months Ended June 30, 2020 Mortgage Loans	Three Months Ended June 30, 2020 SBA Loans	Six Months Ended June 30, 2020 Mortgage Loans	Six Months Ended June 30, 2020 SBA Loans
Servicing assets:				
Beginning of period	$ 13,061	$ 3,766	$ 12,997	$ 4,086
Additions	39	31	827	70
Disposals	(295)	(48)	(638)	(265)
Amortized to expense	(458)	(135)	(839)	(277)
Impairment	(366)	—	(366)	—
End of period	$ 11,981	$ 3,614	$ 11,981	$ 3,614

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

NOTE 7 - GOODWILL AND INTANGIBLES

Goodwill is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill resulting from whole bank acquisitions is not amortized, but tested for impairment at least annually. The Company has selected December 31st as the date to perform the annual impairment test. Goodwill amounted to $69.2 million at June 30, 2020 and $58.6 million at December 31, 2019, and is the only intangible asset with an indefinite life on the balance sheet. The Company did perform goodwill impairment tests as of March 31, 2020 and June 30, 2020. There were no impairment losses recognized on goodwill during the three months and six months ended June 30, 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. The unamortized balance at June 30, 2020 and December 31, 2019 was $5.9 million and $6.1 million, respectively. CDI amortization expense was $357,000 and $385,000 for the three months ended June 30, 2020 and 2019, respectively, and $714,000 and $773,000 for the six months ended June 30, 2020 and 2019, respectively.

Estimated CDI amortization expense for future years is as follows:

(dollars in thousands)	
As of June 30:	
Remainder of 2020	$ 680
2021	1,121
2022	936
2023	800
2024	683
Thereafter	1,656
Total	$ 5,876

NOTE 8 - DEPOSITS

At June 30, 2020, the scheduled maturities of time deposits are as follows:

(dollars in thousands)	June 30, 2020
One year	$ 1,151,925
Two to three years	92,916
Over three years	15,185
Total	$ 1,260,026

The Board of Governors of the Federal Reserve System ("Federal Reserve") announced the reduction of the reserve requirement ratio to zero percent across all deposit tiers, effective March 26, 2020. Depository institutions that were required to maintain deposits in a Federal Reserve bank account to satisfy reserve requirements will no longer be required to do and can use the additional liquidity to lend to individuals and businesses. The Federal Reserve has indicated that it may adjust reserve requirement ratios in the future if conditions warrant.

NOTE 9 - LONG-TERM DEBT

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

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

At June 30, 2020 and December 31, 2019, long-term debt was as follows:

(dollars in thousands)	June 30, 2020	December 31, 2019
Principal	$ 105,000	$ 105,000
Unamortized debt issuance costs	$ 780	$ 951

The following table presents interest and amortization expense the Company incurred for the three and six months ended June 30, 2020 and 2019:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
(dollars in thousands)	2020	2019	2020	2019
Interest Expense:				
Interest	$ 1,662	$ 1,662	$ 3,324	$ 3,324
Amortization	85	85	171	171

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

NOTE 10 - SUBORDINATED DEBENTURES

The Company, through the acquisition of TFC Holding Company ("TFC") in 2016, acquired TFC Statutory Trust (the "Trust"). The Trust conducted a pooled private offering of 5,000 trust preferred securities with a liquidation amount of $1,000 per security. TFC issued $5 million of subordinated debentures to the Trust in exchange for ownership of all of the common securities 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 Federal Reserve 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 1.96% as of June 30, 2020 and 3.54% at December 31, 2019.

In October 2018, the Company, through the acquisition of First American International Corp. (“FAIC”), acquired First American International Statutory Trust I (“FAIC Trust”), a Delaware statutory trust formed in December 2004. The FAIC Trust issued 7,000 units of thirty-year fixed to floating rate capital securities with an aggregate liquidation amount of $7,000,000 to an independent investor, and FAIC issued $7 million of subordinated debentures to the FAIC Trust and all of its common securities, amounting to $217,000, which is included in other assets. There was a $1.2 million valuation reserve recorded to arrive at market value which is treated as a yield adjustment and is amortized over the life of the security. The Company has the option to defer interest payments on the subordinated debentures from time to time for a period not to exceed five consecutive years. The subordinated debentures have a variable rate of interest equal to the three-month LIBOR plus 2.25% through final maturity on December 15, 2034. The rate at June 30, 2020 was 2.56% and 4.14% at December 31, 2019.

In January 2020, the Company, through the acquisition of PGBH, acquired Pacific Global Bank 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 June 30, 2020 was 2.41%.

The Company paid interest expense of $114,000 and $140,000 for the three months ended June 30, 2020 and 2019, respectively and $267,000 and $284,000 for the six months ended June 30, 2020 and 2019, respectively, on the subordinated debentures. The amount of aggregate amortization expense recognized for the three months ended June 30, 2020 and 2019 was $55,000 and $42,000, respectively and $109,000 and $84,000 for the six months ended June 30, 2020 and 2019, respectively.

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

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

NOTE 11 - BORROWING ARRANGEMENTS

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

FHLB Advances. At June 30, 2020, the Company had $150.0 million of five-year term fixed rate FHLB advances outstanding at a weighted average fixed rate of 1.18%, which advances will mature by March 2025.

Federal Funds Arrangements with Commercial Banks. At June 30, 2020, the Company may borrow on an unsecured basis, up to $20.0 million, $10.0 million, $12.0 million and $5.0 million overnight from Zions Bank, Wells Fargo Bank, First Horizon National Bank, and Pacific Coast Bankers' Bank, respectively.

Letter of Credit Arrangements. At June 30, 2020, 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 $12.5 million at June 30, 2020 is collateralized by loans pledged with a carrying value of $28.5 million.

FHLB Secured Line of Credit. The secured borrowing capacity with the FHLB of $1.1 billion at June 30, 2020 is collateralized by loans pledged with a carrying value of $1.1 billion.

At June 30, 2020, the Company had $150.0 million at a weighted average rate of 1.18% in long-term (five year) advances with the FHLB, and no overnight or long-term advances at December 31, 2019. The Company paid interest expenses of $439,000 and $589,000 on such FHLB advances for the three and six months ended June 30, 2020. There were no amounts outstanding under any of the other borrowing arrangements above as of June 30, 2020 and at December 31, 2019 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.

During the three months ended June 30, 2020 and 2019, the Company recorded an income tax provision of $2.9 million and $4.4 million, respectively, reflecting an effective tax rate of 30.8% and 30.3% for the three months ended June 30, 2020 and 2019, respectively. During the six months ended June 30, 2020 and 2019, the Company recorded an income tax provision of $6.2 million and $8.3 million, respectively, reflecting an effective tax rate of 31.7% and 28.7% for the six months ended June 30, 2020 and 2019, respectively. The Company recognized a tax charge from stock option exercises of $1,000 and $52,000 for the three months ended June 30, 2020 and 2019, respectively. The Company recognized a tax benefit from stock option exercises of $26,000 and $40,000 for the six months ended June 30, 2020 and 2019, respectively.

NOTE 13 - COMMITMENTS

The Company leases several of its operating facilities under various noncancellable operating leases expiring at various dates through 2034. The Company is also responsible for common area maintenance, taxes and insurance at the various branch locations.

Future minimum rent payments on the Company’s leases were as follows at June 30, 2020:

(dollars in thousands)	
Year ending December 31:	
2020 remaining	$ 2,798
2021	4,751
2022	4,284
2023	3,322
2024	2,224
Thereafter	9,015
Total	$ 26,394

The minimum rent payments shown above are given for the existing lease obligation and are not a forecast of future rental expense. Total rental expense, recognized on a straight-line basis, was $1.4 million and $1.6 million for the three months ended June 30, 2020 and 2019, respectively and $3.0 million for both six months ended June 30, 2020 and 2019. The Company received rental income of $97,000 and $49,000 in the second quarter of 2020 and 2019, respectively and $181,000 and $99,000 for the six months ended June 30, 2020 and 2019, respectively.

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

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

At June 30, 2020 and December 31, 2019, the Company had the following financial commitments whose contractual amount represents credit risk:

(dollars in thousands)	June 30, 2020	December 31, 2019
Commitments to extend credit	$ 408,838	$ 326,126
Commercial and similar letters of credit	118	358
Standby letters of credit	2,915	3,715
Total	$ 411,871	$ 330,199

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

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

NOTE 14 - RELATED PARTY TRANSACTIONS

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

(dollars in thousands)	June 30, 2020	December 31, 2019
Beginning balance	$ 4,000	$ 3,600
New loans and advances	7,376	16,180
Repayments	(11,376)	(15,780)
Ending balance	$ 0	$ 4,000

There were $11.4 million unfunded loan commitments outstanding to executive officers, directors and their related interests with whom they are associated at June 30, 2020 and none at December 31, 2019.

Deposits from principal officers, directors, and their affiliates at June 30, 2020 and December 31, 2019 were $84.1 million and $84.6 million, respectively.

NOTE 15 - STOCK-BASED COMPENSATION

RBB Bancorp 2010 Stock Option Plan

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

RBB Bancorp 2017 Omnibus Stock Incentive Plan

The OSIP was adopted by the Company's board of directors in January 2017 and approved by the Company's shareholders in May 2017. The OSIP was designed to ensure continued availability of equity awards that will assist the Company in attracting and retaining competent managerial personnel and rewarding key employees, directors and other service providers for high levels of performance. Pursuant to the OSIP, the Company's board of directors are allowed to grant awards to eligible persons in the form of qualified and non-qualified stock options, restricted stock, restricted stock units, stock appreciation rights and other incentive awards. The Company has reserved up to 30% of issued and outstanding shares of common stock as of the date the Company adopted the OSIP, or 3,848,341 shares. As of June 30, 2020, there were 1,217,045 shares of common stock available for issuance under the OSIP. This represents 6.17% of the issued and outstanding shares of the Company's common stock as of June 30, 2020. Awards vest, become exercisable and contain such other terms and conditions as determined by the board of directors and set forth in individual agreements with the employees receiving the awards. The OSIP enables the board of directors to set specific performance criteria that must be met before an award vests. The OSIP allows for acceleration of vesting and exercise privileges of grants if a participant's termination of employment is due to a change in control, death or total disability. If a participant's job is terminated for cause, then all awards expire at the date of termination.

The Company recognized stock-based compensation expense of $166,000 and $165,000 and recognized income tax expense on that expense of $1,000 and $52,000 for the three months ended June 30, 2020 and 2019, respectively. The Company recognized stock-based compensation expense of $327,000 and $396,000 and recognized income tax benefits on that expense of $26,000 and $40,000 for the six months ended June 30, 2020 and 2019, respectively.

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 2020 and 2019.

	2020	2019
Expected volatility	28.5%	35.0%
Expected term	6.0 years	6.0 years
Expected dividends	1.99%	1.90%
Risk free rate	1.31%	2.66%
Grant date fair value	$ 4.61	$ 6.32

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

A summary of the status of awards pursuant to the Company's stock option plans as of June 30, 2020 and changes during the six months ended is presented below:

(dollars in thousands, except for share amounts)	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at beginning of year	1,090,968	$ 13.11		
Granted	51,000	20.10		
Exercised	(56,498)	12.61		
Forfeited/cancelled	(14,000)	18.38		
Outstanding at end of year	1,071,470	$ 13.40	3.82 years	$ 1,773
Options exercisable	981,470	$ 12.86	3.33 years	$ 1,189

As of June 30, 2020 there was approximately $452,000 of total unrecognized compensation cost related to outstanding stock options that will be recognized over a weighted-average period of 1.96 years.

The total fair value of the shares vested was $321,000, and $460,000 in 2020 and 2019, respectively. The number of unvested stock options were 90,000, and 76,500 with a weighted-average grant date fair value of $5.35 and $6.32 as of June 30, 2020 and December 31, 2019.

Cash received from the exercise of 56,498 share options was $712,000 for the six months ended June 30, 2020 and cash received from the exercise of 200,629 share options was $2.8 million for the year ended December 31, 2019. The intrinsic value of options exercised was $389,000, and $1.2 million for the six months ended June 30, 2020 and the year ended December 31, 2019, respectively.

NOTE 16 - REGULATORY MATTERS

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

In July 2013, the federal bank regulatory agencies approved the final rules implementing the Basel Committee on Banking Supervision's capital guidelines for U.S. banks. The new rules became effective on January 1, 2015, with certain of the requirements phased-in over a multi-year schedule. Under the rules, minimum requirements increased for both the quantity and quality of capital held by the Bank. The rules include a 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 June 30, 2020 and December 31, 2019, that RBB and the Bank satisfied all capital adequacy requirements to which they were subject.

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

			Amount of Capital Required					
	Actual		Minimum Required for Capital Adequacy Purposes		Minimum Required Plus Capital Conservation Buffer Fully Phased-In		To Be Well-Capitalized Under Prompt Corrective Provisions	
(dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of June 30, 2020:								
Tier 1 Leverage Ratio								
Consolidated	$ 353,503	11.48%	$ 123,200	4.0%	$ 123,200	4.0%	$ 154,000	5.0%
Bank	435,250	14.14%	123,135	4.0%	123,135	4.0%	153,919	5.0%
Common Equity Tier 1 Risk-Based Capital Ratio								
Consolidated	339,329	14.87%	102,721	4.5%	159,788	7.0%	148,375	6.5%
Bank	435,250	19.09%	102,621	4.5%	159,633	7.0%	148,231	6.5%
Tier 1 Risk-Based Capital Ratio								
Consolidated	353,503	15.49%	136,961	6.0%	194,029	8.5%	182,615	8.0%
Bank	435,250	19.09%	136,829	6.0%	193,841	8.5%	182,438	8.0%
Total Risk-Based Capital Ratio								
Consolidated	481,572	21.10%	182,615	8.0%	239,682	10.5%	228,269	10.0%
Bank	459,099	20.13%	182,438	8.0%	239,450	10.5%	228,048	10.0%

			Amount of Capital Required					
	Actual		Minimum Required for Capital Adequacy Purposes		Minimum Required Plus Capital Conservation Buffer Fully Phased-In		To Be Well-Capitalized Under Prompt Corrective Provisions	
(dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2019:								
Tier 1 Leverage Ratio								
Consolidated	$ 353,572	12.89%	$ 109,735	4.0%	$ 109,735	4.0%	$ 137,169	5.0%
Bank	417,036	15.23%	108,150	4.0%	108,150	4.0%	135,187	5.0%
Common Equity Tier 1 Risk-Based Capital Ratio								
Consolidated	343,899	17.16%	90,165	4.5%	140,256	7.0%	130,238	6.5%
Bank	417,036	20.87%	89,127	4.5%	138,642	7.0%	128,739	6.5%
Tier 1 Risk-Based Capital Ratio								
Consolidated	353,572	17.65%	120,219	6.0%	170,311	8.5%	160,292	8.0%
Bank	417,036	20.87%	118,836	6.0%	168,351	8.5%	158,448	8.0%
Total Risk-Based Capital Ratio								
Consolidated	477,262	23.82%	160,292	8.0%	210,384	10.5%	200,366	10.0%
Bank	436,677	21.86%	158,448	8.0%	207,964	10.5%	198,061	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 has issued guidance which requires that they be consulted before payment of a dividend if a financial holding company does not have earnings over the prior four quarters of at least equal to the dividend to be paid, plus other holding company obligations.

NOTE 17 - FAIR VALUE MEASUREMENTS

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

Securities: The fair values of securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1) or matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2).

Other Real Estate Owned: Nonrecurring adjustments to certain commercial and residential real estate properties classified as other real estate owned ("OREO") 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 OREO are performed by state licensed appraisers (for commercial properties) or state certified appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Company. When a Notice of Default is recorded, an appraisal report is ordered. Once received, a member of the credit administration department reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparison to independent data sources such as recent market data or industry wide-statistics for residential appraisals. Commercial appraisals are sent to an independent third party to review. The Company also compares the actual selling price of collateral that has been sold to the most recent appraised value to determine what additional adjustments, if any, should be made to the appraisal values on any remaining other real estate owned to arrive at fair value. If the existing appraisal is older than twelve months a new appraisal report is ordered. No significant adjustments to appraised values have been made as a result of this comparison process as of June 30, 2020.

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

The following table provides the hierarchy and fair value for each major category of assets and liabilities measured at fair value at June 30, 2020 and December 31, 2019:

(dollars in thousands)	Fair Value Measurements Using:			
June 30, 2020	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets measured at fair value:				
On a recurring basis:				
Securities available for sale				
Government agency securities	$ —	$ 1,444	$ —	$ 1,444
SBA agency securities	—	4,615	—	4,615
Mortgage-backed securities	—	15,353	—	15,353
Collateralized mortgage obligations	—	14,571	—	14,571
Corporate debt securities	—	149,773	—	149,773
	$ —	$ 185,756	$ —	$ 185,756
On a non-recurring basis:				
Commercial real estate - collateral dependent impaired loans	$ —	$ —	$ 4,722	$ 4,722
Other real estate owned	—	—	293	293
	$ —	$ —	$ 5,015	$ 5,015
December 31, 2019	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets measured at fair value:				
On a recurring basis:				
Securities available for sale				
Government agency securities	$ —	$ 1,572	$ —	$ 1,572
SBA agency securities	—	4,691	—	4,691
Mortgage-backed securities	—	19,171	—	19,171
Collateralized mortgage obligations	—	11,654	—	11,654
Commercial paper	—	69,898	—	69,898
Corporate debt securities	—	19,083	—	19,083
	$ —	$ 126,069	$ —	$ 126,069
On a non-recurring basis:				
Other real estate owned	$ —	$ —	$ 293	$ 293

No write-downs to OREO were recorded for six three months ended June 30, 2020 or for the year ended December 31, 2019.

Quantitative information about the Company's impaired loans and OREO non-recurring Level 3 fair value measurements at June 30, 2020 and December 31, 2019 is as follows:

(dollars in thousands) **June 30, 2020**	**Fair Value Amount**	**Valuation Technique**	**Unobservable Input**	**Adjustment Range**
Collateral dependent impaired loans - Commercial real estate	$ 4,722	Third Party Appraisals	Management Adjustments to Reflect Current Conditions and Selling Costs	5% - 6%
Other real estate owned	293	Third Party Appraisals	Management Adjustments to Reflect Current Conditions and Selling Costs	5%-6%
December 31, 2019				
Other real estate owned	$ 293	Third Party Appraisals	Management Adjustments to Reflect Current Conditions and Selling Costs	5%-6%

OREO as of June 30, 2020 consists of one single-family residence with a fair value of $293,000.

NOTE 18 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument is the amount at which the asset or obligation could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Fair value estimates are made at a specific point in time based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the entire holdings of a particular financial instrument. Because no market value exists for a significant portion of the financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature, involve uncertainties and matters of judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on financial instruments both on and off the balance sheet without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Additionally, tax consequences related to the realization of the unrealized gains and losses can have a potential effect on fair value estimates and have not been considered in many of the estimates.

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 Company uses the following methods and assumptions to estimate the fair value of each class of financial instruments:

For cash and due from banks, Federal funds sold, and cash equivalents, the carrying amount is assumed to be a reasonable estimate of fair value, a Level 1 measurement.

For short-term investments and interest-bearing deposits, the carrying amount is assumed to be a reasonable estimate of fair value, a Level 1 measurement.

Securities available for sale are measured by using quoted market prices for similar securities or dealer quotes, a Level 2 measurement. This category generally includes U.S. Government agency securities, U.S. Government sponsored entities, state and municipal securities, mortgage backed securities ("MBS"), collateralized mortgage obligations and corporate bonds.

Equity securities fair value are measured based on quoted market prices in active exchange markets at the reporting date, a level 3 measurement. Equity securities are comprised of other equity securities.

Fair values are estimated for portfolios of loans with similar financial characteristics. Each loan category is further segmented into fixed and adjustable rate interest terms and by performing and non-performing categories. The fair values are based primarily on third-party vendor pricing to determine fair values based on the exit price notion.

The fair value of performing loans is 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 3 measurement.

The fair value of impaired loans is calculated based on the net realizable fair value of the collateral or the observable market price of the most recent sale or quoted price from loans held for sale. The Company does not record loans at fair value on a recurring basis. Nonrecurring fair value adjustments to collateral dependent impaired loans are recorded based on the adjusted appraised value of the collateral, a Level 3 measurement.

The Company records loans held for sale at fair value based on quoted prices from third party sale analysis, existing sale agreements, or appraisal reports adjusted by sales commission assumption, a Level 1 measurement.

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.

The fair value of demand deposits, savings accounts, and certain money market deposits is assumed to be the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit is estimated using the rates currently offered for deposits with similar remaining maturities, a Level 2 measurement.

The fair value of FHLB advances is calculated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates that reflect the credit and interest rate risk, a Level 3 measurement.

Subordinated debentures fair value is calculated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates that reflect the credit and interest rate risk, a Level 3 measurement.

The fair value of long-term debt is calculated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates that reflect the credit and interest rate risk, a Level 3 measurement.

Fair value is estimated in accordance with ASC Topic 825. Fair value estimates are made at specific points 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 Bank's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Bank's 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 and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The fair value hierarchy level and estimated fair value of significant financial instruments at June 30, 2020 and December 31, 2019 are summarized as follows:

		June 30, 2020		December 31, 2019	
(dollars in thousands)	Fair Value Hierarchy	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets:					
Cash and due from banks	Level 1	$ 94,844	$ 94,844	$ 114,763	$ 114,763
Federal funds sold and other cash equivalents	Level 1	57,000	57,000	67,000	67,000
Interest-earning deposits in other financial institutions	Level 1	600	600	600	600
Investment securities - AFS	Level 2	185,756	185,756	126,069	126,069
Investment securities - HTM	Level 2	7,615	8,024	8,332	8,632
Mortgage loans held for sale	Level 1	15,479	15,706	108,194	109,385
Loans, net	Level 3	2,571,800	2,622,416	2,178,118	2,158,970
Equity security	Level 3	11,841	11,841	11,826	11,826
Mortgage and SBA serving rights	Level 2	15,595	17,030	17,083	20,752
Financial Liabilities:					
Deposits	Level 2	$ 2,436,520	$ 2,445,214	$ 2,248,938	$ 2,236,329
FHLB advances	Level 3	150,000	150,040	—	—
Long-term debt	Level 3	104,220	136,253	104,049	109,877
Subordinated debentures	Level 3	14,174	14,288	9,673	11,709

NOTE 19 - EARNINGS PER SHARE

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

	For the Three Months Ended June 30,			
	2020		2019	
(dollars in thousands except per share amounts)	Income	Shares	Income	Shares
Net income as reported	$ 6,513		$ 10,142	
Less: Earnings allocated to participating securities	(10)		-	
Shares outstanding		19,739,280		20,077,524
Impact of weighting shares		(28,950)		(2,873)
Used in basic EPS	6,503	19,710,330	10,142	20,074,651
Dilutive effect of outstanding				
Stock options		95,974		370,362
Used in dilutive EPS	$ 6,503	19,806,304	$ 10,142	20,445,013
Basic earnings per common share	$ 0.33		$ 0.51	
Diluted earnings per common share	0.33		0.50	

(dollars in thousands except per share amounts)	For the Six Months Ended June 30, 2020 Income	2020 Shares	2019 Income	2019 Shares
Net income as reported	$ 13,261		$ 20,522	
Less: Earnings allocated to participating securities	$ (19)			
Shares outstanding		19,739,280		20,077,524
Impact of weighting shares		101,813		(16,266)
Used in basic EPS	13,242	19,841,093	20,522	20,061,258
Dilutive effect of outstanding				
Stock options		195,223		379,642
Used in dilutive EPS	$ 13,242	20,036,316	$ 20,522	20,440,900
Basic earnings per common share	$ 0.67		$ 1.02	
Diluted earnings per common share	0.66		1.00	

Stock options for 400,709 shares and 76,500 shares of common stock were not considered in computing diluted earnings per common share for June 30, 2020 and 2019, respectively because they were anti-dilutive.

NOTE 20 – REVENUE FROM CONTRACTS WITH CUSTOMERS

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

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

(dollars in thousands)	For the Three Months Ended June 30, 2020	2019	For the Six Months Ended June 30, 2020	2019
Non-interest income, in scope (1)				
Fees and service charges on deposit accounts	$ 440	$ 315	$ 891	$ 613
Other fees (2)	109	425	258	623
Other income (3)	485	442	937	733
Gain on sale of fixed assets	—	6	—	6
Total in-scope non-interest income	1,034	1,188	2,086	1,975
Non-interest income, not in scope (4)	1,174	4,308	4,737	7,723
Total non-interest income	$ 2,208	$ 5,496	$ 6,823	$ 9,698

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

Wealth Management Fees

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

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

Gain on Sales of OREO and Fixed Assets

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

NOTE 21 - QUALIFIED AFFORDABLE HOUSING PROJECT INVESTMENTS

The Company began investing in qualified housing projects in 2016. At June 30, 2020 and December 31, 2019, the balance of the investment for qualified affordable housing projects was $8.1 million and $8.6 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 housing projects totaled $2.2 million and $4.2 million at June 30, 2020 and December 31, 2019, respectively. The Company expects to fulfill these commitments between 2020 and 2027.

For the three months ended June 30, 2020 and 2019, the Company recognized amortization expense of $247,000 and $225,000, respectively, which was included within income tax expense on the consolidated statements of income. For the six months ended June 30, 2020 and 2019, the Company recognized amortization expense of $494,000 and $450,000, respectively, which was included within income tax expense on the consolidated statements of income.

NOTE 22 - RECENT DEVELOPMENTS

On July 27, 2020, RBB announced a cash dividend of $0.06 per share for the second quarter of 2020. The dividend is payable on August 17, 2020 to common shareholders of record as of August 3, 2020.

On July 27, 2020, the Bank announced it entered into an agreement to purchase a three-story building in the Bensonhurst area of Brooklyn, New York to establish a new branch. On July 29, 2020, the Bank entered into an agreement to lease three floors of a building on Canal Street in Manhattan to which the Bank plans to move its Bowery Street branch.

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

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (the "Report") contains forward-looking statements. These forward-looking statements reflect our current views with respect to, among other things, future events and our results of operations, financial condition and financial performance. These statements are often, but not always, made through the use of words or phrases such as "may," "should," "could," "predict," "potential," "believe," "will likely result," "expect," "continue," "will," "anticipate," "seek," "estimate," "intend," "plan," "projection," "would" and "outlook," or the negative version of those words or other comparable words of a future or forward-looking nature. These forward-looking statements are not historical facts, and are based on current expectations, estimates and projections about our industry, management's beliefs and certain assumptions made by management, many of which, by their nature, are inherently uncertain and beyond our control. Accordingly, we caution you that any such forward-looking statements are not guarantees of future performance and are subject to risks, assumptions and uncertainties that are difficult to predict. Although we believe that the expectations reflected in these forward-looking statements are reasonable as of the date made, actual results may prove to be materially different from the results expressed or implied by the forward-looking statements.

The COVID-19 pandemic is adversely affecting us, our customers, counterparties, employees, and third party service providers, and the ultimate extent of the impacts on our business, financial position, results of operations, liquidity, and prospects is uncertain. Continued deterioration in general business and economic conditions, including further increases in unemployment rates, or turbulence in domestic or global financial markets could adversely affect our revenues and the values of our assets and liabilities, reduce the availability of funding, lead to a tightening of credit, and further increase stock price volatility, which could result in impairment to our goodwill in future periods. Changes to statutes, regulations, or regulatory policies or practices as a result of, or in response to COVID-19, could affect us in substantial and unpredictable ways, including the potential adverse impact of loan modifications and payment deferrals implemented consistent with recent regulatory guidance. In addition to the foregoing, there are or will be other important factors that could cause our actual results to differ materially from those indicated in these forward-looking statements, including, but not limited to, the following:

- business and economic conditions generally and in the financial services industry, nationally and within our current and future geographic market areas;
- economic, market, operational, liquidity, credit and interest rate risks associated with our business;
- lack of seasoning in our loan portfolio;
- deteriorating asset quality and higher loan charge-offs;
- the laws and regulations applicable to our business;
- our ability to achieve organic loan and deposit growth and the composition of such growth;
- our ability to originate and sell non-qualified mortgages;
- increased competition in the financial services industry, nationally, regionally or locally;
- our ability to maintain our historical earnings trends;
- our ability to raise additional capital to implement our business plan;
- material weaknesses in our internal control over financial reporting;
- systems failures or interruptions involving our information technology and telecommunications systems or third-party servicers;
- the composition of our management team and our ability to attract and retain key personnel;
- the fiscal position of the U.S. federal government and the soundness of other financial institutions;
- our ability to monitor our lending relationships;
- the composition of our loan portfolio, and the concentration of loans in mortgage-related industries;
- the portion of our loan portfolio that is comprised of participations and shared national credits;
- the amount of nonperforming and classified assets we hold;
- time and effort necessary to resolve nonperforming assets;

- the effect of acquisitions we may make, such as our recently completed acquisition of PGBH, including, without limitation, the failure to achieve the expected revenue growth and/or expense savings from such acquisitions, and/or the failure to effectively integrate an acquisition target into our operations;
- our limited operating history as an integrated company and our recent acquisitions;
- environmental liability associated with our lending activities;
- 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 the COVID-19 pandemic;
- the geographic concentration of our markets in Southern California, Las Vegas (Nevada), Chicago (Illinois) and the New York City metropolitan area and the southwest United States;
- the commencement and outcome of litigation and other legal proceedings against us or to which we may become subject;
- the impact of recent and future legislative and regulatory changes, including changes in banking, securities and tax laws and regulations and their application by our regulators;
- uncertainty relating to the LIBOR calculation process, the phasing out of LIBOR after 2021, and uncertainty regarding potential alternative reference rates, including SOFR;
- possible impairment charges to goodwill;
- natural disasters, earthquakes, fires and severe weather;
- the effect of changes in accounting policies and practices as may be adopted from time to time by our regulatory agencies, as well as by the Public Company Accounting Oversight Board, the Financial Accounting Standards Board and other accounting standards setters, including ASU 2016-13 (Topic 326), “Measurement of Credit Losses on Financial Instruments,” commonly referenced as the CECL model, which will change how we estimate credit losses and may increase the required level of our allowance for loan losses after adoption;
- requirements to remediate adverse examination findings;
- changes in the scope and cost of FDIC deposit insurance premiums;
- implementation of regulatory initiatives regarding bank capital requirements that may require heightened capital;
- the obligations associated with being a public company;
- cybersecurity threats and the cost of defending against them;
- RBB’s status as an EGC and the potential effects of no longer qualifying as an EGC in future periods;
- our success at managing the risks involved in the foregoing items;
- our modeling estimates related to an increased interest rate environment;
- our ability to achieve the cost savings and efficiencies in connection with branch closures;
- our estimates as to our expected operational leverage and the expected additional loan capacity of our relationship managers; and
- our success at managing the risks involved in the foregoing items.

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

CRITICAL ACCOUNTING POLICIES

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

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

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

Our significant accounting policies are described in greater detail in our 2019 audited consolidated financial statements included in our 2019 Annual Report, which are essential to understanding Management's Discussion and Analysis of Financial Condition and Results of Operations.

GENERAL

RBB is a financial holding company registered under the Bank Holding Company Act of 1956, as amended. Our principal business is to serve as the holding company for the Bank and RAM. At June 30, 2020, RBB had total consolidated assets of $3.1 billion, gross consolidated loans of $2.6 billion HFI and HFS, total consolidated deposits of $2.4 billion and total consolidated stockholders' equity of $414.0 million. RBB's common stock trades on the Nasdaq Global Select Market under the symbol "RBB".

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

RBB operates full-service banking offices in Arcadia, Cerritos, Diamond Bar, Irvine, Los Angeles, Monterey Park, Oxnard, Rowland Heights, San Gabriel, Silver Lake, Torrance, West Los Angeles, and Westlake Village (California), Brooklyn, Queens and Manhattan (New York City), Chinatown and Bridgeport (Chicago) and Las Vegas (Nevada). The Bank opened a new banking office in Flushing (Queens, New York) in February 2019, and we plan to open a new branch in Edison New Jersey in 2020. We closed one banking office in Manhattan in April 2019 and also one in March 2020. The Bank is a Community Development Financial Institution and as such is able to receive grants from the United States Treasury Department. Any grants we receive will be used to invest in low-to-moderate income areas in the communities we serve.

RBB has completed six acquisitions since 2011, including the acquisition of PGBH which was completed on January 10, 2020.

In response to the COVID-19 pandemic and declaration of a national emergency by the Trump administration, the Company fully implemented our Business Continuity Plan to safeguard its employees and operations. The banking and finance sectors have been identified as one of the 13 critical infrastructure sectors essential to our nation's security, and economic and social stability. All Bank branches remain open, with routine banking services offered through online banking, drive-up windows and limited lobby access.

We implemented a number of actions to support a healthy workforce:

- Flexible work practices such as work-from-home options, working in shifts and placing greater distances between employees;
- Discontinued non-essential business travel and meetings; and
- Utilizing online meeting platforms.

We have been and will continue to actively address client needs, including offering loan relief to all impacted clients. We have enrolled clients in the SBA Paycheck Protection Program ("PPP"). See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Analysis of Financial Condition – COVID-19 Impact on Loan Quality" for a discussion of the pandemic's effect on the Company's loan portfolio with certain information provided as of June 30, 2020.

As of mid-July all of our employees have returned to working at their office, unless they require working remotely from home. We implemented "social distancing" to space employees in work areas. Employees wear masks as a further precaution.

Although it is too early for us to determine the exact impact of COVID-19 on our financial performance, we expect our financial performance to be affected in the following manner:

- We expect similar single-family loan growth except we expect the mix will change. We expect higher FNMA loan originations and lower non-qualified mortgage originations;
- We expect lower loan sales volume and gains due to the closing of all jumbo and non-qualified mortgage secondary market purchasers and lower non-qualified mortgage originations;
- We expect commercial real estate loan origination volume to remain stable; however, we have implemented stricter loan underwriting standards by lowering our loan-to-value maximum and requiring six to twelve months of principal and interest in a deposit account as additional collateral;
- We have not currently experienced any run-off in deposits. We borrowed $150 million in 5-year fixed-rate FHLB advances to enhance our liquidity and obtain funding at an attractive interest rate. In addition, deposit customers are not as rate sensitive and we have lowered deposit rates significantly;
- We expect higher loan losses in the fourth quarter and first quarter of 2021 after loan deferment agreements expire. See "COVID-19 Impact on Loan Quality" for further discussion; and
- We performed a goodwill impairment analysis as of March 31, 2020 and June 30, 2020 and found no impairment. However, depending on the severity of the recession, we may be subject to goodwill impairment in future periods.

Pursuant to recent regulatory guidance, we have elected under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") to not apply GAAP requirements to loan modifications related to the COVID-19 pandemic that would otherwise be categorized as a TDR, and have suspended the determination of loan modifications related to the pandemic from being treated as TDRs. Modifications include the following: (1) forbearance agreements, (2) interest-rate modifications, (3) repayment plans, and (4) any other similar arrangements that defer or delay payments of principal or interest. The relief from TDR treatment applies to modifications of loans that were not more than 30 days past due as of December 31, 2019, and that occur beginning on March 1, 2020, until the earlier of the following dates: (1) 60 days after the date on which the national emergency related to the COVlD-19 pandemic outbreak is terminated, or (2) December 31, 2020. The suspension of TDR accounting and reporting guidance may not be applied to any loan of a borrower that is not related to the COVID-19 pandemic.

OVERVIEW

The following discussion provides information about the results of operations, financial condition, liquidity and capital resources of RBB and its wholly owned subsidiaries. This information is intended to facilitate the understanding and assessment of significant changes and trends related to our financial condition and the results of our operations. This discussion and analysis should be read in conjunction with our audited financial statements included in our 2019 Annual Report, and the unaudited consolidated financial statements and accompanying notes presented elsewhere in this Report.

For the second quarter of 2020, we reported net earnings of $6.5 million, compared with $10.1 million for the second quarter of 2019. This represented a decrease of $3.6 million from the second quarter of 2019. Diluted earnings per share were $0.33 per share for the second quarter of 2020, compared to $0.50 for the same period last year.

At June 30, 2020, total assets were $3.1 billion, an increase of $347.6 million, or 12.5%, from total assets of $2.8 billion at December 31, 2019. Interest-earning assets were $3.0 billion as of June 30, 2020, an increase of $334.0 million, or 12.7%, compared with $2.6 billion at December 31, 2019. The increase in interest-earning assets was primarily due to a $59.0 million increase in investment securities and a $397.7 million increase in loans held for investment, with $172.4 due to the PGBH acquisition, partially offset by a $92.7 million decrease in mortgage loans held for sale and $30.0 million decrease in cash and cash equivalents.

At June 30, 2020, AFS investment securities totaled $185.8 million inclusive of a pre-tax net unrealized gain of $1.6 million, compared to $126.1 million, inclusive of a pre-tax unrealized gain of $340,000, at December 31, 2019. HTM investment securities totaled $7.6 million at June 30, 2020 and $8.3 million at December 31. 2019.

Total HFI loans and leases, net of deferred fees and discounts, were $2.6 billion at June 30, 2020, compared to $2.2 billion at December 31, 2019. HFI loans and leases, net of deferred fees and discounts, increased $397.7 million, or 18.1%, from December 31, 2019. The increase was primarily due to $173.2 million in loans from the PGBH acquisition, a $53.1 million transfer of HFS loans to HFI, and organic loan growth. Between December 31, 2019 and June 30, 2020, within HFI loans, SBA loans increased by $29.1 million, construction and land development ("C&D") loans increased by $49.7 million, commercial real estate ("CRE") loans increased by $107.0 million, and single-family residential ("SFR") mortgage loans increased by $217.7 million, slightly offset by a $7.1 million decrease in commercial and industrial ("C&I") loans.

HFS loans were $15.5 million at June 30, 2020, compared to $108.2 million at December 31, 2019. No HFS loans were acquired from PGBH.

Noninterest-bearing deposits were $574.6 million at June 30, 2020, an increase of $115.8 million, or 25.2%, compared to $458.8 million at December 31, 2019. Interest-bearing deposits were $1.9 billion at June 30, 2020, an increase of $71.8 million, or 4.0%, compared to $1.8 billion at December 31, 2019. The increases were driven by the PGBH acquisition and normal business growth. The PGBH acquisition added $188.4 million in deposits. At June 30, 2020, noninterest-bearing deposits were 23.6% of total deposits, compared to 20.4% at December 31, 2019.

Our average cost of total deposits was 1.10% for the quarter ended June 30, 2020, compared to 1.62% for the same period last year. The decrease is primarily due to an increase of $74.7 million in average demand deposits, and a decrease in the average rate paid on interest-bearing deposits to 1.42% from 1.99% due to the decline in market rates.

Borrowings, consisting of long-term and short-term FHLB advances, long-term debt and subordinated debt, increased to $268.4 million at June 30, 2020, compared to $113.7 million as of December 31, 2019. Borrowings increased by $154.7 million from December 31, 2019.

During the six months ended June 03, 2020, the Company borrowed $150.0 million in five-year FHLB advances. The average fixed rate is 1.18% and the advances will mature by March 2025. The purpose was to enhance our liquidity in light of the COVID-19 pandemic at an attractive interest rate. As of June 30, 2020 and December 31, 2019, we had no short-term advances from the FHLB.

The allowance for loan losses was $22.8 million at June 30, 2020, compared to $18.8 million at December 31, 2019. The allowance for loan losses increased by $4.0 million during the six-month period ending June 30, 2020. The increase was due to a $5.0 million loan and credit loss provision, attributable to increases in non-performing loans and loans held-for-investment 30 to 89 days past due increasing to $23.9 million at June 30, 2020, up from $5.3 million at December 31, 2019, as well as an increase in our general reserve qualitative factors as a result of economic conditions resulting from the COVID-19 pandemic. The allowance for loan losses to total loans and leases outstanding was 0.88% and 0.86% as of June 30, 2020 and December 31, 2019, respectively.

Shareholders' equity increased $6.3 million, or 1.6%, to $414.0 million during the six-month period ending June 30, 2020 due to $13.3 million of net income, $712,000 from the exercise of stock options, $327,000 from stock-based compensation, and an $887,000 increase in net accumulated other comprehensive income, which was partially offset by $5.3 million from the repurchase of common stock and $3.6 million of common stock dividends declared. The increase in accumulated other comprehensive income primarily resulted from increases in unrealized gains on AFS securities.

Our capital ratios under the revised capital framework referred to as Basel III remain well capitalized. As of June 30, 2020, the Company's Tier 1 leverage capital ratio was 11.48%, our common equity Tier 1 ratio was 14.87%, our Tier 1 risk-based capital ratio was 15.49%, and our total risk-based capital ratio was 21.10%. See "*Regulatory Capital Requirements*" herein for a further discussion of our regulatory capital requirements.

ANALYSIS OF RESULTS OF OPERATIONS

Financial Performance

(dollars in thousands except per share amounts)	For the Three Months Ended June 30, 2020	For the Three Months Ended June 30, 2019	Increase (Decrease) $ or #	Increase (Decrease) %	For the Six Months Ended June 30, 2020	For the Six Months Ended June 30, 2019	Increase (Decrease) $ or #	Increase (Decrease) %
Interest income	$ 34,103	$ 35,943	$ (1,840)	(5.1)%	$ 68,131	$ 73,149	$ (5,018)	(6.9)%
Interest expense	9,069	11,626	(2,557)	(22.0)	19,504	22,920	(3,416)	(14.9)
Net interest income	25,034	24,317	717	3.0	48,627	50,229	1,602	3.2
Provision (recapture) for loan losses	3,009	357	2,652	742.9	4,954	907	4,047	446.2
Net interest income after provision for loan losses	22,025	23,960	(1,935)	(8.1)	43,673	49,322	(5,649)	(11.5)
Noninterest income	2,208	5,496	(3,288)	(59.8)	6,823	9,698	(2,875)	(29.7)
Noninterest expense	14,819	14,899	(80)	(0.5)	31,082	30,224	858	2.8
Income before income taxes	9,414	14,557	(5,143)	(35.3)	19,414	28,796	(9,382)	(32.6)
Income tax expense	2,901	4,415	(1,514)	(34.3)	6,153	8,274	(2,121)	(25.6)
Net income	6,513	$ 10,142	$ (3,629)	(35.8)	$ 13,261	$ 20,522	$ (7,261)	(35.4)
Earnings per common share (1):								
Basic	$ 0.33	$ 0.51	$ (0.18)	(0.4)	$ 0.67	$ 1.02	$ (0.35)	(0.3)
Diluted	0.33	0.50	(0.17)	(0.3)	0.66	1.00	(0.34)	(0.3)
Weighted average shares outstanding (1):								
Basic	19,710,330	20,074,651	(364,321)	(1.8)	19,841,093	20,061,258	(220,165)	-1.1%
Diluted	19,806,304	20,445,013	(638,709)	(3.1)	20,036,316	20,440,900	(404,584)	-2.0%
Return on average assets, annualized	0.83%	1.43%	(0.6)%	(42.0)%	0.86%	1.44%	(0.6)%	(41.7)%
Return on average shareholders' equity, annualized	6.34	10.42	(4.08)	(39.2)	6.47	10.69	(4.22)	(39.5)
Noninterest income to average assets, annualized	0.28	0.77	(0.49)	(63.6)	0.44	0.68	(0.24)	(35.3)
Noninterest expense to average assets, annualized	1.89	2.10	(0.21)	(10.0)	2.02	2.11	(0.09)	(4.3)
Efficiency ratio (2)	54.40	49.97	4.43	8.9	56.05	50.43	5.62	11.1
Dividend payout ratio	18.18	19.61	(1.43)	(7.3)	26.87	19.92	6.95	34.9
Average equity to assets ratio	13.09	13.70	(0.61)	(4.5)	13.32	13.42	(0.10)	(0.8)
Tangible book value per share (3)	$ 17.17	$ 16.37	$ 0.80	4.9	$ 17.17	$ 16.37	$ 0.80	4.9
Return on average tangible common equity (3)	7.77%	12.51%	(4.74)%	(37.9)	7.95%	12.88%	(4.93)%	(38.3)

(1) Basic earnings per share are calculated by dividing earnings to common shareholders by the weighted average number of common shares outstanding. Diluted earnings per share are calculated by dividing earnings by the weighted average number of shares adjusted for the dilutive effect of outstanding stock options using the treasury stock method.

(2) Efficiency ratio represents noninterest expenses divided by the sum of fully taxable equivalent net interest income plus noninterest income.

(3) Tangible book value per share, and return on average tangible common equity are non-GAAP financial measures. See "Non-GAAP Financial Measures" for a reconciliation of these measures to their most comparable GAAP measures.

Net Interest Income

The principal component of our earnings is net interest income, which is the difference between the interest and fees earned on loans and investments (interest-earning assets) and the interest paid on deposits and borrowed funds (interest-bearing liabilities). Net interest margin is net interest income as a percentage of average interest-earning assets for the period. The level of interest rates and the volume and mix of interest-earning assets and interest-bearing liabilities impact net interest income and net interest margin. The net interest spread is the yield on average interest earning assets minus the cost of average interest-bearing liabilities. Net interest margin and net interest spread are included on a tax equivalent ("TE") basis by adjusting interest income utilizing the federal statutory tax rate of 21% for 2019 and 2020. Our net interest income, interest spread, and net interest margin are sensitive to general business and economic conditions. These conditions include short-term and long-term interest rates, inflation, monetary supply, and the strength of the international, national and state economies, in general, and more specifically, the local economies in which we conduct business. Our ability to manage net interest income during changing interest rate environments will have a significant impact on our overall performance. We manage net interest income through affecting changes in the mix of interest-earning assets as well as the mix of interest-bearing liabilities, changes in the level of interest-bearing liabilities in proportion to interest-earning assets, and in the growth and maturity of earning assets. For additional information see the sections on "*Capital Resources and Liquidity Management"* and Item 3. *Quantitative and Qualitative Disclosures about Market Risk* included in this Report.

The following tables present average balance sheet information, interest income, interest expense and the corresponding average yields earned and rates paid for the three and six months ended June 30, 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.

Interest-Earning Assets and Interest-Bearing Liabilities

(tax-equivalent basis, dollars in thousands)	2020 Average Balance	2020 Interest & Fees	2020 Yield / Rate	2019 Average Balance	2019 Interest & Fees	2019 Yield / Rate
	For the Three Months Ended June 30,					
Earning assets:						
Federal funds sold, cash equivalents and other (1)	$ 231,943	$ 583	1.01%	$ 120,818	$ 1,018	3.38%
Securities						
Available for sale	171,298	823	1.93	87,347	610	2.80
Held to maturity (2)	7,661	72	3.78	9,127	84	3.69
Mortgage loans held for sale	25,130	303	4.85	355,168	4,245	4.79
Loans held for investment: (3)						
Real estate	2,147,646	28,216	5.28	1,763,749	24,394	5.55
Commercial	364,189	4,114	4.54	347,236	5,601	6.47
Total loans	2,511,835	32,330	5.18	2,110,985	29,995	5.70
Total earning assets	2,947,867	$ 34,111	4.65	2,683,445	$ 35,952	5.37
Noninterest-earning assets	206,833			166,719		
Total assets	$ 3,154,700			$ 2,850,164		
Interest-bearing liabilities						
NOW and money market deposits	$ 462,027	$ 751	0.65	387,363	$ 1,188	1.23%
Savings deposits	123,868	31	0.10	97,584	50	0.21
Time deposits	1,314,232	5,933	1.82	1,338,631	7,797	2.34
Total interest-bearing deposits	1,900,127	6,715	1.42	1,823,578	9,035	1.99
FHLB advances	150,000	439	1.18	95,220	662	2.79
Long-term debt	104,168	1,747	6.75	103,826	1,748	6.75
Subordinated debentures	14,141	168	4.78	9,564	181	7.59
Total interest-bearing liabilities	2,168,436	9,069	1.68	2,032,188	$ 11,626	2.29
Noninterest-bearing liabilities						
Noninterest-bearing deposits	557,903			408,219		
Other noninterest-bearing liabilities	15,509			19,183		
Total noninterest-bearing liabilities	573,412			427,402		
Shareholders' equity	412,852			390,574		
Total liabilities and shareholders' equity	$ 3,154,700			$ 2,850,164		
Net interest income / interest rate spreads		$ 25,042	2.97%		$ 24,326	3.08%
Net interest margin			3.42%			3.64%

(1) Includes income and average balances for FHLB stock, term federal funds, interest-bearing time deposits and other miscellaneous interest-bearing assets.

(2) Interest income and average rates for tax-exempt securities are presented on a tax-equivalent basis.

(3) Average loan balances include nonaccrual loans. Interest income on loans includes amortization of deferred loan fees, net of deferred loan costs.

(tax-equivalent basis, dollars in thousands)	For the six months ended June 30, 2020 Average Balance	2020 Interest & Fees	2020 Yield / Rate	2019 Average Balance	2019 Interest & Fees	2019 Yield / Rate
Earning assets:						
Federal funds sold, cash equivalents and other (1)	$ 240,755	$ 1,514	1.26%	$ 111,601	$ 1,798	3.25%
Securities						
Available for sale	154,936	1,578	2.05	78,079	1,118	2.89
Held to maturity (2)	7,839	147	3.77	9,377	173	3.72
Mortgage loans held for sale	51,595	1,284	5.00	402,237	9,735	4.88
Loans held for investment: (3)						
Real estate	2,077,467	54,644	5.29	1,764,278	48,879	5.59
Commercial	350,869	8,981	5.15	349,818	11,465	6.61
Total loans	2,428,336	63,625	5.27	2,114,096	60,344	5.76
Total earning assets	2,883,461	$ 68,148	4.75	2,715,390	$ 73,168	5.43
Noninterest-earning assets	209,699			166,968		
Total assets	$ 3,093,160			$ 2,882,358		
Interest-bearing liabilities						
NOW and money market deposits	$ 468,935	$ 1,939	0.83	400,584	$ 2,430	1.22
Savings deposits	119,410	86	0.14	99,095	102	0.21
Time deposits	1,336,435	13,019	1.96	1,239,474	13,750	2.24
Total interest-bearing deposits	1,924,780	15,044	1.57	1,739,153	16,282	1.89
FHLB advances	100,989	589	1.17	216,638	2,776	2.58
Long-term debt	104,125	3,495	6.75	103,784	3,495	6.79
Subordinated debentures	14,234	376	5.31	9,544	367	7.75
Total interest-bearing liabilities	2,144,128	19,504	1.83	2,069,119	$ 22,920	2.23
Noninterest-bearing liabilities						
Noninterest-bearing deposits	521,729			406,713		
Other noninterest-bearing liabilities	15,282			19,582		
Total noninterest-bearing liabilities	537,011			426,295		
Shareholders' equity	412,021			386,944		
Total liabilities and shareholders' equity	$ 3,093,160			$ 2,882,358		
Net interest income / interest rate spreads		$ 48,644	2.92%		$ 50,248	3.20%
Net interest margin			3.39%			3.73%

(1) Includes income and average balances for FHLB stock, term federal funds, interest-bearing time deposits and other miscellaneous interest-bearing assets.

(2) Interest income and average rates for tax-exempt securities are presented on a tax-equivalent basis.

(3) Average loan balances include nonaccrual loans. Interest income on loans includes amortization of deferred loan fees, net of deferred loan costs.

Interest Rates and Operating Interest Differential

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

	Comparison of Three Months Ended June 30, 2020 and June 30, 2019			Comparison of Six Months Ended June 30, 2020 and June 30, 2019		
	Change due to:			Change due to:		
(tax-equivalent basis, dollars in thousands)	Volume	Rate	Interest Variance	Volume	Rate	Interest Variance
Earning assets:						
Federal funds sold, cash equivalents & other (1)	$ 3	$ (438)	$ (435)	$ 8	$ (292)	$ (284)
Securities (2)						
Available for sale	405	(192)	213	788	(328)	460
Held to maturity	(14)	2	(12)	(29)	3	(26)
Mortgage loans held for sale	(4,002)	60	(3,942)	(8,766)	315	(8,451)
Loans held for investment: (3)						
Real estate	5,067	(1,245)	3,822	8,284	(2,519)	5,765
Commercial	192	(1,679)	(1,487)	27	(2,511)	(2,484)
Total loans	5,259	(2,924)	2,335	8,311	(5,030)	3,281
Total earning assets	$ 1,651	$ (3,492)	$ (1,841)	$ 312	$ (5,332)	$ (5,020)
Interest-bearing liabilities:						
NOW and money market deposits	$ 121	$ (558)	$ (437)	$ 284	$ (775)	$ (491)
Savings deposits	7	(26)	(19)	14	(30)	(16)
Time deposits	(111)	(1,753)	(1,864)	950	(1,681)	(731)
Total interest-bearing deposits	17	(2,337)	(2,320)	1,248	(2,486)	(1,238)
FHLB advances	162	(385)	(223)	(677)	(1,510)	(2,187)
Long-term debt	6	(7)	(1)	12	(12)	—
Subordinated debentures	55	(68)	(13)	125	(116)	9
Total interest-bearing liabilities	240	(2,797)	(2,557)	708	(4,124)	(3,416)
Net interest	$ 1,411	$ (695)	$ 716	$ (396)	$ (1,208)	$ (1,604)

(1) Includes income and average balances for FHLB stock, term federal funds, interest-bearing time deposits and other miscellaneous interest-bearing assets.

(2) Interest income and average rates for tax-exempt securities are presented on a tax-equivalent basis.

(3) Average loan balances include nonaccrual loans. Interest income on loans includes amortization of deferred loan fees, net of deferred loan costs.

Results of Operations—Comparison of Results of Operations for the Three Months Ended June 30, 2020 and 2019

The following discussion of our results of operations compares the three months ended June 30, 2020 and the three months ended June 30, 2019. The results of operations for the three months ended June 30, 2020 are not necessarily indicative of the results of operations that may be expected for the year ending December 31, 2020.

Net Interest Income/Average Balance Sheet. In the second quarter of 2020, we generated $25.0 million of taxable-equivalent net interest income, which was an increase of $716,000, or 2.9%, from the $24.3 million of taxable-equivalent net interest income we earned in the second quarter of 2019. The increase in net interest income was primarily due to a $264.4 million increase in average earning assets, a 61 basis point decrease in the average rate paid on interest-bearing deposits and a $149.7 million increase in average demand deposits, partially offset by a 72 basis point decrease in the average yield on interest-earning assets and a $136.2 million increase in average interest-bearing liabilities. The increase in average interest-earning assets reflected increases in average cash equivalents, average investment securities and total loan average balances (average HFS loans decreased by $330.0 million and average HFI loans increased by $400.9 million).

Our average interest bearing deposit balances increased by $76.5 million, primarily as a result of deposits acquired in the PGBH acquisition and organic growth. The decrease in interest expense was primarily due to a 61 basis point decrease in the average rate paid on interest-bearing liabilities, and a $149.7 million increase in average demand deposits. For the three months ended June 30, 2020 and 2019, our net interest margin was 3.42% and 3.64%, respectively. Our net interest margin benefits from discount accretion on our purchased loan portfolios. Our net interest margin for the three months ended June 30, 2020 and 2019, excluding accretion income, would have been 3.28% and 3.48%, respectively.

Total interest income was $34.1 million for the second quarter of 2020 compared to $35.9 million for the second quarter of 2019. The $1.8 million, or 5.1%, decrease in total interest income was primarily due to a 72 basis point decrease in the yield on average earning assets, partially offset by an increase in average earning assets of approximately $264.4 million.

Interest and fees on HFI and HFS loans for the second quarter of 2020 was $32.6 million compared to $34.2 million for the second quarter of 2019. The $1.6 million, or 4.7%, decrease was primarily due to a 40 basis point decrease in the average yield on loans, reflecting the decline in interest rates, partially offset by a $70.8 million, or 2.9%, increase in the average balance of total loans outstanding. The increase in the average loan balance was primarily due to loans from the PGBH acquisition and organic loan growth. Purchased loan discount accretion income totaled $1.0 million in the second quarter of 2020 compared to $1.1 million in the second quarter of 2019. The average yield on loans benefits from discount accretion on our purchased loan portfolio. For the three months ended June 30, 2020 and 2019, the yield on total HFI and HFS loans was 5.17% and 5.57%, respectively, while the yield on total loans excluding accretion income would have been 5.01% and 5.40%, respectively. Discount on purchased loans increased by $886,000 due to the PGBH acquisition. Due to payoffs of acquired loans, we expect accretion income to decline through the remainder of 2020.

	As of and for the Three Months Ended June 30,		As of and for the Six Months Ended June 30,	
(dollars in thousands)	**2020**	**2019**	**2020**	**2019**
Beginning balance of discount on purchased loans	$ 5,065	$ 7,809	$ 5,068	$ 9,228
Additions due to acquisitions:				
Commercial and industrial	—	—	35	—
SBA	—	—	—	—
Construction and land development	—	—	10	—
Commercial real estate	—	—	145	—
Single-family residential mortgages	—	—	696	—
Total additions	—	—	886	—
Accretion:				
Commercial and industrial	2	34	1	18
SBA	3	3	11	7
Construction and land development	3	—	4	—
Commercial real estate	1,063	740	1,492	1,569
Single-family residential mortgages	(82)	278	370	880
Total accretion	989	1,055	1,878	2,474
Ending balance of discount on purchased loans	$ 4,076	$ 6,754	$ 4,076	$ 6,754

Interest income on our securities portfolio increased $202,000, or 29.5%, to $887,000 in the second quarter of 2020 compared to $685,000 in the second quarter of 2019. This increase is primarily attributable to $82.5 million, or 85.5%, increase in the average balance, partially offset by an 87 basis point decrease in the yield on average securities from the second quarter of 2019 as compared to the second quarter of 2020. Securities income reported in the average balance sheet has been adjusted to a tax-equivalent basis; interest income reported in the Company's consolidated statements of income has not been grossed-up.

Interest income on interest earning deposits, dividend income on FHLB stock, federal funds sold, cash equivalents and other investments decreased to $583,000 for the three months ended June 30, 2020 compared to $1.0 million for the three months ended June 30, 2019. This decrease was primarily due to a 237 basis point decrease in the average yield between the two periods, partially offset by a $111.1 million increase in the average balance of short-term cash investments.

Interest expense on interest-bearing liabilities decreased $2.6 million, or 22.0%, to $9.1 million for the second quarter of 2020 as compared to $11.6 million in the second quarter of 2019 due to decreases in interest rates on both deposits and borrowings, partially offset by increases in most interest-bearing balances and an $149.7 million increase in average non-interest bearing deposits. With the PGBH acquisition in January 2020, $188.4 million in deposits were acquired.

Interest expense on deposits decreased to $6.7 million for the second quarter of 2020 as compared to $9.0 million for the second quarter of 2019. The $2.3 million, or 25.7%, decrease in interest expense on deposits was primarily due to a 57 basis point decrease in the average rate paid on interest-bearing deposits plus a $149.7 million increase in average demand deposits, partially offset by the increase in average interest-bearing deposits. Deposits increased due to the PGB acquisition and organic deposit growth. The average balance of interest-bearing deposits increased $76.5 million, or 4.2%, from $1.8 billion in the second quarter of 2019 compared to $1.9 billion in the second quarter of 2020. Average brokered certificates of deposit were $32.8 million in the second quarter of 2020 and $177.6 million in the second quarter of 2019. Average non-interest bearing deposits increased to $557.9 million, or 36.7%, from $408.2 million in the second quarter of 2019. The 61 basis point decrease in the average rate paid on interest-bearing deposits was primarily due to lower market interest rates.

Interest expense on FHLB advances decreased $223,000 from $662,000 in the second quarter of 2019 to $439,000 in the second quarter of 2020. The average balance increased from $95.2 million to $150.0 million between the two quarters. The $150.0 million in FHLB advances at June 30, 2020 were five-year fixed-rate FHLB advances. The purpose of this borrowing was to obtain funding in order to enhance liquidity in light of the COVID-19 pandemic and obtain funding at an attractive interest rate. The long-term advance average rate is 1.18% and they mature in the first quarter of 2025.

Interest expense on long-term debt and subordinated debentures decreased $14,000 to $1.9 million in the second quarter of 2020 as compared to $1.9 million in the second quarter of 2019. The average long-term debt and subordinated debentures increased to $118.3 million in the second quarter of 2020, compared to $113.4 million in the second quarter of 2019, due to the acquisition of PGBH.

Provision for Loan Losses. The $2.7 million increase in the provision for loan losses, to $3.0 million in the second quarter of 2020 compared to $357,000 in the second quarter of 2019, was primarily attributable to the higher loan balances, an increase in 30-89 day past due loans, an increase in non-performing loans and increased qualitative factors due to impact of the COVID-19 pandemic. There were $320,000 in net loan charge-offs in the second quarter of 2020, as compared to a $32,000 loan charge-off in the second quarter of 2019

Noninterest Income. Noninterest income decreased $3.3 million, or 59.8%, to $2.2 million for the second quarter of 2020, compared to $5.5 million in the same quarter in the prior year. The following table sets forth the major components of our noninterest income for the three and six months ended June 30, 2020 and 2019:

	For the Three Months Ended June 30,		Increase (Decrease)		For the Six Months Ended June 30,		Increase (Decrease)	
(dollars in thousands)	**2020**	**2019**	**$**	**%**	**2020**	**2019**	**$**	**%**
Noninterest income:								
Service charges, fees and other	$ 1,065	$ 1,222	$ (157)	(12.8) %	$ 2,144	$ 2,042	$ 102	5.0 %
Gain on sale of loans	81	3,120	(3,039)	(97.4)	2,792	5,318	(2,526)	(47.5)
Loan servicing fee, net of amortization	708	899	(191)	(21.2)	1,300	1,739	(439)	(25.2)
Recoveries on loans acquired in business combinations	5	55	(50)	(90.9)	47	61	(14)	(23.0)
Unrealized gain on equity securities	—	—	—	—	—	147	(147)	(100.0)
Increase (decrease) in cash surrender of life insurance	191	194	(3)	(1.5)	382	385	(3)	(0.8)
Gain on sale of AFS securities	158	—	158	100.0	158	—	158	100.0
Gain on sale of fixed assets	—	6	(6)	(100.0)	—	6	(6)	(100.0)
Total noninterest income	$ 2,208	$ 5,496	$ (3,288)	(59.8)	$ 6,823	$ 9,698	$ (2,875)	(29.6)

Service charges, fees and other income. Service charges, fees and other income totaled $1.1 million in the second quarter of 2020, compared to $1.2 million in the second quarter of 2019. The decrease was due a $77,000 reduction in wealth management commissions, a $233,000 CDFI grant received in the second quarter of 2019, partially offset by a $115,000 increase in account analysis charges.

Gain on sale of loans. Gains on sale of loans are comprised of gains on sale of SFR mortgage loans and SBA loans. Gains on sale of loans totaled $81,000 in the second quarter of 2020, compared to $3.1 million in the second quarter of 2019. The decrease was primarily caused by the effect of the COVID-19 pandemic upon the mortgage and housing markets which slowed non-qualified mortgage origination and caused mortgage securitization to pause.

The following table presents information on loans sold and gains on loans sold for the three and six months ended June 30, 2020 and 2019.

(dollars in thousands)	For the Three Months Ended June 30, 2020	2019	Increase (Decrease) $	%	For the Six Months Ended June 30, 2020	2019	Increase (Decrease) $	%
Loans sold:								
SBA	$ 1,249	$ 10,025	$ (8,776)	-87.5%	$ 2,646	$ 13,765	$ (11,119)	-80.8%
SFR mortgages	5,212	175,032	(169,820)	-97.0%	105,676	346,419	(240,743)	-69.5%
Commercial real estate	—	1,584	(1,584)	-100.0%	—	10,422	(10,422)	-100.0%
	$ 6,461	$ 186,641	$ (180,180)	-96.5%	$ 108,322	$ 370,606	$ (262,284)	-70.8%
Gain on loans sold:								
SBA	$ 69	$ 616	$ (547)	-88.8%	$ 159	$ 741	$ (582)	-78.5%
SFR mortgages	12	2,504	(2,492)	-99.5%	2,633	4,425	(1,792)	-40.5%
Commercial real estate	—	—	—	100.0%	—	152	(152)	-100.0%
	$ 81	$ 3,120	$ (3,039)	-97.4%	$ 2,792	$ 5,318	$ (2,526)	-47.5%

Loan servicing income, net of amortization. Loan servicing income, net of amortization decreased due to the increase in the payoffs in the SFR mortgage portfolio. The decrease in SBA loans serviced is due greater SBA loan prepayments in 2019, which were greater than SBA loan sales in 2019 and 2020. The following table presents information on loans servicing income for the three and six months ended June 30, 2020 and 2019.

(dollars in thousands) ***For the period***	For the Three Months Ended June 30, 2020	2019	Increase $	%	For the Six Months Ended June 30, 2020	2019	Increase $	%
Loan servicing income, net of amortization								
SFR mortgage loans	$ 405	$ 752	$ (347)	-46.1%	$ 942	$ 1,432	$ (490)	-34.2%
SBA loans	303	147	156	106.1%	358	307	51	16.6%
Total	$ 708	$ 899	$ (191)	-21.2%	$ 1,300	$ 1,739	$ (439)	-25.2%

Our loan servicing income, net of amortization, decreased by $191,000 to $708,000 for the three months ended June 30, 2020 compared to net servicing income of $899,000 for the three months ended June 30, 2019.

The following table shows loans serviced for others as of June 30, 2020 and 2019:

(dollars in thousands)	June 30, 2020	2019	Increase (Decrease) $	%
As of period-end				
SFR loans serviced	$ 1,617,875	$ 1,734,204	$ (116,329)	-6.7%
SBA loans serviced	155,244	181,719	(26,475)	-14.6%
CRE loans serviced	4,181	4,251	(70)	-1.6%

We are servicing SFR mortgage loans for other financial institutions and FNMA, and we are servicing SBA and CRE loans as of June 30, 2020. The change in the respective servicing portfolios reflects prepayment of loans and sales of loans from 2019 through the second quarter of 2020.

Recoveries on loans acquired in business combinations. Recoveries on loans acquired in business combinations was $5,000 in the quarter ended June 30, 2020, compared to $55,000 in the comparable quarter of 2019.

Cash surrender value of life insurance. The income from the cash surrender value of life insurance decreased $3,000 in the quarter ended June 30, 2020 compared to the same quarter in 2019.

Gain on sale of fixed assets. No fixed assets were sold in the second quarter of 2020. There was a gain of $6,000 for the second quarter of 2019.

Noninterest expense. Noninterest expense decreased $80,000, or 0.5%, to $14.8 million in the second quarter of 2020 compared to $14.9 million in the second quarter of 2019. The following table sets forth major components of our noninterest expense for the three and six months ended June 30, 2020 and 2019:

	For the Three Months Ended June 30,		Increase (Decrease)		For the Six Months Ended June 30,		Increase (Decrease)	
(dollars in thousands)	**2020**	**2019**	**$**	**%**	**2020**	**2019**	**$**	**%**
Noninterest expense:								
Salaries and employee benefits	$ 8,103	$ 8,169	$ (66)	-0.8 %	$ 17,608	$ 17,287	$ 321	1.9
Occupancy and equipment expenses	2,527	2,674	(147)	(5.5)	4,931	4,926	5	0.1
Data processing	882	1,219	(337)	(27.6)	2,024	2,228	(204)	(9.2)
Legal and professional	670	656	14	2.1	1,274	1,081	193	17.9
Office expenses	337	294	43	14.6	660	630	30	4.8
Marketing and business promotion	111	316	(205)	(64.9)	325	678	(353)	(52.1)
Insurance and regulatory assessments	234	284	(50)	(17.6)	411	582	(171)	(29.4)
Core deposit premium	357	385	(28)	(7.3)	714	773	(59)	(7.6)
OREO expenses (income)	14	81	(67)	(82.7)	28	162	(134)	(82.7)
Merger and conversion expenses	276	15	261	1,740.0	679	86	593	689.5
Other expenses	1,308	806	502	62.3	2,428	1,791	637	35.6
Total noninterest expense	$ 14,819	$ 14,899	$ (80)	(0.5)	$ 31,082	$ 30,224	$ 858	2.8

Salaries and employee benefits expense. Salaries and employee benefits expense decreased $66,000, or 0.8%, to $8.1 million for the second quarter of 2020 compared to $8.2 million for the second quarter of 2019. The Company incurred approximately $519,000 in severance pay in the second quarter of 2020. The number of full-time equivalent employees was 350 at June 30, 2020, 382 at March 31, 2020, 355 at December 31, 2019 and 372 at June 30, 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.

Occupancy and equipment expense. Occupancy and equipment expense decreased $147,000, or 5.5%, to $2.5 million for the second quarter of 2020 compared to $2.7 million for the second quarter of 2019. On June 30, 2020, the Company had 27 branch and office locations, compared to 25 at December 31, 2019 and 25 at June 30, 2019. On March 31, 2020, we closed the Grand Street branch in New York City. The lease for this branch expired in April 2020. Branch operations and staff were transferred to the Bowery branch. With the acquisition of PGBH, we acquired three branches located in the Chicago neighborhoods of Chinatown and Bridgeport. The Bank plans to open a new full service banking branch in Edison, New Jersey in the second half of 2020. The branch will be located at 561 US-1, in the Wicks Shopping Plaza in Edison. The Bank entered into an agreement to purchase a property located at 2057 86th Street, Brooklyn, New York, in the Bensonhurst neighborhood, to house a full-service branch. We expect this branch to open in 2021.

Data processing expense. Data processing expense decreased $337,000, or 27.6%, to $882,000 for the second quarter of 2020, compared to $1.2 million for the second quarter of 2019. This decrease resulted primarily from reducing duplicative services in our regions and applying a $90,000 credit from the data processing agreement. Effective June 2019, the Company renegotiated its data processing master agreement with the vendor, under which the Company is allowed to offset future monthly data processing expenses up to approximately $2.2 million through January 2026. As of June 30, 2020, $2.0 million of this benefit remained for future use.

Legal and professional expense. Legal and professional expense increased $14,000 to $670,000 in the three months ended June 30, 2020 compared to $656,000 for the three months ended June 30, 2019. This increase was primarily due to normal business activity.

Office expenses. Office expenses are comprised of communications, postage, armored car, and office supplies and were $337,000 for the three months ended June 30, 2020 compared to $294,000 for the three months ended June 30, 2019. This increase primarily resulted from normal business growth.

Marketing and business promotion expenses. Marketing and business promotion expense decreased $205,000, or 64.9%, to $111,000 in the second quarter of 2020, compared to $316,000 for the second quarter of 2019. The decrease was primarily due the slowed economy and cost saving measures in the second quarter of 2020.

Insurance and regulatory expenses. Insurance and regulatory assessments decreased $50,000, or 17.6%, to $234,000 in the second quarter of 2020. The decrease was primarily due to a FDIC small bank assessment credit of $179,000 received in the first quarter of 2020.

Amortization expenses. Amortization of CDI was $357,000 in the second quarter of 2020, compared to $385,000 in the same period of 2019. In January 2020 we added $491,000 of CDI in connection with the PGBH acquisition. CDI amortization occurs over 8 to 10 years.

Merger and conversion expenses. Merger and conversion expense was $276,000 in the second quarter of 2020 compared to $15,000 in the same period of 2019, following the completion of the PGBH acquisition in the first quarter of 2020.

Other Expenses. Other expenses increased $502,000, or 62.3%, to $1.3 million for the second quarter of 2020, compared to $806,000 in the second quarter of 2019. The provision for unfunded commitments was $51,000 in the second quarter of 2020 compared to a credit of $18,000 in the second quarter of 2019. At June 30, 2020, the Company recorded an impairment writedown of $366,000 on mortgage servicing rights due to the impact of the COVID-19 pandemic.

Income Tax Expense. During the three months ended June 30, 2020 and 2019, the Company recorded an income tax provision of $2.9 million and $4.4 million, respectively, reflecting an effective tax rate of 30.8% and 30.3% for the three months ended June 30, 2020 and 2019, respectively. The Company recognized tax expense from stock option exercises of $1,000 and $52,000 for the three months ended June 30, 2020 and 2019, respectively.

Net Income. Net income after tax amounted to $6.5 million for the second quarter 2020, a $3.6 million, or a 35.8% decrease from $10.1 million in the second quarter of 2019. For the second quarter of 2020 as compared to the second quarter of 2019, net interest income before the provision for loan losses decreased by $2.6 million, the provision for loan losses increased by $2.7 million, non-interest income decreased by $3.3 million, non-interest expense decreased by $80,000, and income tax expense decreased by $1.5 million.

Results of Operations—Comparison of Results of Operations for the Six Months Ended June 30, 2020 and June 30, 2019

The following discussion of our results of operations compares the first half ended June 30, 2020 and June 30, 2019, respectively. The results of operations for the six months ended June 30, 2020 are not necessarily indicative of the results of operations that may be expected for the year ending December 31, 2020.

Net Interest Income/Average Balance Sheet. In the first half of 2020, we generated net interest income of $48.6 million, a decrease of $1.6 million, or 3.2%, from the $50.2 million in net interest income of the first half of 2019. This decrease was largely due to a 68 basis point decrease in the average yield on interest-earning assets, partially offset by a $168.1 million increase in the average balance of interest-earning assets. The increase in the average balance of interest-earning assets was primarily due to organic HFI loan growth, an increase in Federal funds sold and cash equivalents, and investment securities, partially offset by a decrease in average HFS loans. For the six-months ended June 30, 2020 and 2019, our net interest margin was 3.39% and 3.73%, respectively. Our net interest margin benefits from discount accretion on our purchased loan portfolios. The net interest margin for the six-months ended June 30, 2020 and 2019, excluding accretion income, would have been 3.26% and 3.60%, respectively.

Total interest income was $68.1 million for the first half of 2020 compared to $73.1 million for the first half of 2019. The $5.0 million, or 6.9%, decrease in total interest income was due to decreases in interest earned on our loan portfolio and federal funds sold, partially offset by an increase on our securities portfolio.

Interest and fees on loans was $64.9 million for the first half of 2020 compared to $70.1 million for the first half of 2019. The $5.2 million, or 7.4%, decrease in interest income on loans was primarily due to a 36 basis point decrease in the average yield on total loans, reflecting the decline in market rates. The average yield on loans benefits from discount accretion on our acquired loan portfolios. For the six months ended June 30, 2020 and 2019, the average yield on total loans was 5.26% and 5.62%, respectively, while the average yield on total loans excluding accretion income would have been 5.11% and 5.44%, respectively. A substantial portion of our acquired loan portfolio that is subject to discount accretion consists of commercial real estate loans. The table on page 10 illustrates by loan type the accretion income for the first half of 2020 and 2019.

Interest income on our securities portfolio increased $435,000, or 34.2%, to $1.7 million in the first half of 2020 compared to $1.3 million in the first half of 2019. The increase in interest income on securities was primarily due to an increase in the average balance of the portfolio of $75.3 million, or 86.1%, partially offset by a 85 basis point decrease in the average yield on securities. Securities income reported in the average balance sheet has been adjusted to a tax-equivalent basis; interest income reported in the Company's consolidated statements of income has not been grossed-up.

Interest income on our federal funds sold, cash equivalents and other investments decreased $284,000, or 15.8%, to $1.5 million in the first half of 2020 compared to $1.8 million in the first half of 2019. The decrease in interest income on these cash equivalents was due to a 199 basis point decrease in the average yield partially offset by an increase in the average balance of $129.2 million. The reasons for the decreased yield were the decrease in the federal funds rate over the period plus a $192,000 decrease in the FHLB dividend.

Interest expense on interest-bearing liabilities decreased $3.4 million, or 14.9%, to $19.5 million in in the first half of 2020 compared to $22.9 million in the first half of 2019 due to lower rates on interest bearing liabilities (NOW, money market and time deposits, and FHLB advances), partially offset by increases in balances of $75.0 million (deposits, FHLB long- and short-term advances, long-term debt and subordinated debentures).

Interest expense on deposits decreased to $15.0 million in the first half of 2020 compared to $16.3 million in the first half of 2019. The $1.2 million, or 7.6%, decrease in interest expense on deposits was primarily due to a 29 basis point decrease in average deposit rates, partially offset by a $300.6 million, or 14.0%, increase in the average balance of total deposits. The increase in the average balance of deposits resulted primarily from normal business growth.

Interest expense on borrowings (FHLB advances, long-term debt and subordinated debentures) decreased to $4.5 million in the first half of 2020 compared to $6.6 million in the first half of 2018. This decrease was primarily due the average FHLB advance decreasing to $100.9 million in the first half of 2020 compared to $216.6 million in the first half of 2019. FHLB advances were primarily used to fund held-for-sale loans.

Provision for Loan Losses. Provision for loan loss expense in the first half of 2020 was $5.0 million due to the economic impact of the COVID-19 pandemic and normal loan growth, compared to a $907,000 provision in the first half of 2019.

Noninterest Income. Noninterest income decreased $2.9 million, or 29.6%, to $6.8 million in the first half of 2020 compared to $9.7 million in the first half of 2019. The table on page 11 sets forth major components of our noninterest income for the respective periods.

Service charges, fees and other income. Service charges, fees and other income increased to $2.1 million in the first half of 2020 compared to $2.0 million in the first half of 2019. The increase primarily resulted from increased account analysis charges.

Gain on sale of loans. Gain on sale of loans decreased to $2.8 million in the first half of 2020 compared to $5.3 million in the first half of 2019 due to a decreased amount of mortgage loan sales. As noted in the table on page 12, we sold $108.3 million in SFR mortgage, SBA and CRE loans in the first half of 2020 compared to $370.6 million in the same period of 2019.

Loan servicing income, net of amortization. Our loan servicing income, net of amortization decreased by $439,000 to $1.3 million for the six months ended June 30, 2020 compared to $1.7 million for the six months ended June 30, 2019. The reduction in income is due to the decrease in loans being serviced in 2020, partially offset by write-downs in serving assets due to pay-offs of SBA serviced loans. We were servicing $1.8 billion in SFR mortgage, SBA and CRE loans as of June 30, 2020 compared to $1.9 billion as of June 30, 2019. Additional details are reflected in the table on page 12.

Recoveries on loans acquired in business combinations. Recoveries on loans acquired in business combinations decreased $14,000 to $47,000 in the first half of 2020 compared to $61,000 in the first half of 2019

Unrealized Gain on Equity Securities. The $147,000 decrease was due to the one-time implementation of ASU 2016-01 in 2019.

Increase in cash surrender of life insurance. Cash surrender of life insurance value decreased by $3,000 to $382,000 for the six months ended June 30, 2020 compared to $385,000 for the six months ended June 30, 2019.

Gain on sale of fixed assets. In the second quarter of 2019, the Company sold fixed assets for a $6,000 gain.

Noninterest expense. Noninterest expense increased $858,000, or 2.8%, to $31.1 million for the first half of 2020 compared to $30.2 million in the same period of 2019. The table on page 13 sets forth major components of our noninterest expense for the six months ended June 30, 2020 compared to the six months ended June 30, 2019. The primary reason for the increase was the PGBH acquisition plus normal business growth.

Salaries and employee benefits expense. Salaries and employee benefits expense increased $321,000, or 1.9%, to $17.6 million in the first half of 2020 compared to $17.3 million in the same period of 2019. This increase was primarily attributable to severance pay in the second quarter of 2020, largely offset by a decrease in all other salaries and employee benefits. The number of full-time equivalent employees was 350 at June 30, 2020, 355 at December 31, 2019 and 372 at June 30, 2019.

Occupancy and equipment expense. Occupancy and equipment expense increased $5,000, or 0.1%, to $4.9 million in the first half of 2020 compared to the same amount in the first half of 2019. The increase in occupancy expense is mainly due to the PGBH acquisition, partially offset by the closing of the Grand Street branch in April 2020.

Data processing expense. Data processing expense decreased $204,000, or 9.2%, to $2.0 million in the first half of 2020 compared to $2.2 million for the first half of 2019, mainly due to the $185,000 application of a credit per the data processing agreement discussed above.

Legal and professional expenses. Legal and professional expense increased $193,000, or 17.9%, from $1.1 million in the first half of 2019 compared to $1.3 million for the first half of 2020. This increase was primarily due to normal business growth.

Office expenses. Office expenses are comprised of communications, postage, armored car, and office supplies and totaled $660,000 in first half of 2020 compared to $630,000 for the first half of 2019. The $30,000, or 4.8%, increase primarily resulted from normal business growth.

Marketing and business promotion expenses. Marketing and business promotion expense decreased $353,000, or 52.1%, to $325,000 in the first half of 2020 compared to $678,000 for the first half of 2019. This decrease was primarily due to slowed business development activities during the COVID-19 pandemic.

Insurance and regulatory expenses. Insurance and regulatory assessments decreased $171,000, or 29.4%, compared to $582,000 in the first half of 2019. This decrease was due lesser FDIC assessments and insurance costs.

Amortization expenses. Amortization of CDI was $714,000 in the first half of 2020, compared to $773,000 in the first half of 2019. This decrease was due the runoff of CDI from prior acquisitions.

Merger and conversion expenses. Merger and conversion expense was $679,000 in the first half of 2020 compared to $86,000 in the first half of 2019, following the completion of the PGBH acquisition in January 2020.

Other Noninterest expense. Other noninterest expense totaled $2.4 million in the first half of 2020 compared to $1.8 million for the same period of 2019. The increase is partially attributable to an increase in the provision for off-balance sheet commitments of $69,000, a $357,000 increase in other loan related expenses and a mortgage servicing asset writedown of $366,000.

Income Tax Expense. Income tax expense was $6.2 million in the first half of 2020 compared to $8.3 million in the same period of 2019. This decrease was due to the $50,000 decrease in tax deductions for stock option exercises and $9.4 million decrease in pre-tax income. Effective tax rates were 31.7% and 28.7% in the first half of 2020 and 2019, respectively.

Net Income. Net income decreased $7.3 million to $13.3 million in the first half of 2020, compared to $20.5 million in the same period of 2019. The decrease is primarily due to the decrease in net interest income, increase in the provision for loan and lease losses, decrease in non-interest income and increase in non-interest expense, partially offset by decreased income tax expense.

ANALYSIS OF FINANCIAL CONDITION

Assets

Total assets were $3.1 billion as of June 30, 2020 and $2.8 billion as of December 31, 2019. Cash and cash equivalents decreased by $29.9 million, the total gross loan portfolio increased by $305.0 million, primarily with increases in SBA, CRE, SFR mortgage and C&D loans. SFR mortgage loans held for sale decreased by $92.7 million in the six months ended June 30, 2020.

Investment Securities

Our investment strategy aims to maximize earnings while maintaining liquidity in securities with minimal credit risk. The types and maturities of securities purchased are primarily based on our current and projected liquidity and interest rate sensitivity positions.

The following table sets forth the book value and percentage of each category of securities at June 30, 2020 and December 31, 2019. The book value for securities classified as available for sale is reflected at fair market value and the book value for securities classified as held to maturity is reflected at amortized cost.

	June 30, 2020		December 31, 2019	
(dollars in thousands)	**Amount**	**% of Total**	**Amount**	**% of Total**
Securities, available for sale, at fair value				
U.S. government agency securities	$ 1,444	0.7%	$ 1,572	1.2%
SBA agency securities	4,615	2.4%	4,691	3.5%
Mortgage-backed securities, government sponsored agencies	15,353	7.9%	19,171	14.3%
Collateralized mortgage obligations	14,571	7.5%	11,654	8.7%
Commercial paper	114,920	59.5%	69,899	52.0%
Corporate debt securities (1)	34,853	18.1%	19,082	14.1%
Total securities, available for sale, at fair value	$ 185,756	96.1%	$ 126,069	93.8%
Securities, held to maturity, at amortized cost				
Taxable municipal securities	$ 2,798	1.4%	$ 3,505	2.6%
Tax-exempt municipal securities	4,817	2.5%	4,827	3.6%
Total securities, held to maturity, at amortized cost	7,615	3.9%	8,332	6.2%
Total securities	$ 193,371	100.0%	$ 134,401	100.0%

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

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

(dollars in thousands) **June 30, 2020**		**Amortized Cost**		**Gross Unrealized Gains**		**Gross Unrealized Losses**		**Fair Value**
Available for sale								
U.S. government agency securities	$	1,409	$	35	$	—	$	1,444
SBA securities		4,377		238		—		4,615
Mortgage-backed securities - Government sponsored agencies		14,946		407		—		15,353
Collateralized mortgage obligations		14,083		488		—		14,571
Commercial paper		114,920		—		—		114,920
Corporate debt securities		34,422		507		(76)		34,853
	$	184,157	$	1,675	$	(76)	$	185,756
Held to maturity								
Municipal taxable securities	$	2,798	$	155	$	—	$	2,953
Municipal securities		4,817		254		—		5,071
	$	7,615	$	409	$	—	$	8,024
December 31, 2019								
Available for sale								
U.S. government agency securities	$	1,591	$	—	$	(19)	$	1,572
SBA securities		4,671		42		(22)		4,691
Mortgage-backed securities- Government sponsored agencies		19,126		74		(29)		19,171
Collateralized mortgage obligations		11,641		38		(25)		11,654
Commercial paper		69,899		—		—		69,899
Corporate debt securities		18,801		281		—		19,082
	$	125,729	$	435	$	(95)	$	126,069
Held to maturity								
Municipal taxable securities	$	3,505	$	147	$	—	$	3,652
Municipal securities		4,827		153		—		4,980
	$	8,332	$	300	$	—	$	8,632

The weighted-average taxable equivalent book yield on the total investment portfolio at June 30, 2020 was 1.58% with a weighted-average life of 2.31 years. This compares to a weighted-average yield of 2.27% with a weighted-average life of 3.0 years at December 31, 2019. The weighted average life is the average number of years that each dollar of unpaid principal due remains outstanding. Average life is computed as the weighted-average time to the receipt of all future cash flows, using as the weights the dollar amounts of the principal pay-downs.

The table below shows the Company's investment securities' gross unrealized losses and estimated fair value by investment category and length of time that individual securities have been in a continuous unrealized loss position, at June 30, 2020 and December 31, 2019. The unrealized losses on these securities were primarily attributed to changes in interest rates. The issuers of these securities have not, to our knowledge, evidenced any cause for default on these securities. These securities have fluctuated in value since their purchase dates as market rates have fluctuated. However, we have the ability and the intention to hold these securities until their fair values recover to cost or maturity. As such, management does not deem these securities to be other-than-temporarily-impaired A summary of our analysis of these securities and the unrealized losses is described more fully in Note 4 — *Investment Securities* in the Notes to the 2019 consolidated financial statements included in our 2019 Annual Report. Economic trends may adversely affect the value of the portfolio of investment securities that we hold.

	Less than Twelve Months			Twelve Months or More			Total		
(dollars in thousands)	Unrealized Losses	Estimated Fair Value	No. of Issuances	Unrealized Losses	Estimated Fair Value	No. of Issuances	Unrealized Losses	Estimated Fair Value	No. of Issuances
June 30, 2020									
Corporate debt securities	$ (76)	$ 8,419	5	—	—	—	$ (76)	$ 8,419	5
Total available for sale	$ (76)	$ 8,419	5	$ —	$ —	—	$ (76)	$ 8,419	5
December 31, 2019									
Government agency securities	$ (19)	$ 1,572	2	$ —	$ —	—	$ (19)	$ 1,572	2
SBA securities	(22)	1,469	2	—	—	—	(22)	1,469	2
Mortgage-backed securities-Government sponsored agencies	(5)	2,631	4	(24)	3,912	6	(29)	6,543	10
Collateralized mortgage obligations	(10)	5,738	3	(15)	953	2	(25)	6,691	5
Total available for sale	$ (56)	$ 11,410	11	$ (39)	$ 4,865	8	$ (95)	$ 16,275	19

The Company did not record any charges for other-than-temporary impairment losses for the three months ended June 30, 2020 and 2019.

Loans

At June 30, 2020, total loans held for investment, net of allowance for loan losses, totaled $2.6 billion. The following table presents the balance and associated percentage of each major category in our loan portfolio at June 30, 2020 and December 31, 2019:

	As of June 30, 2020		As of December 31, 2019	
(dollars in thousands)	Amount	%	Amount	%
Loans: (1)				
Commercial and industrial	$ 267,481	10.3	$ 274,586	12.5
SBA	104,069	4.0	74,985	3.4
Construction and land development	145,754	5.6	96,020	4.4
Commercial real estate (2)	900,302	34.7	793,268	36.1
Single-family residential mortgages	1,174,927	45.3	957,254	43.6
Other loans	2,087	0.1	821	0.0
Total loans	$ 2,594,620	100.0	$ 2,196,934	100.0
Allowance for loan losses	(22,820)		(18,816)	
Total loans, net	$ 2,571,800		$ 2,178,118	

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

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

Total loans (HFI and HFS) increased $305.0 million, or 13.2%, to $2.6 billion at June 30, 2020 compared to $2.3 billion at December 31, 2019. The Company acquired $172.4 million in loans with the acquisition of PGB in January 2020 and $32.8 million were originated through the PPP loan program. The total loan portfolio increased primarily in SBA, CRE, SFR mortgage loans and C&D loans.

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

Commercial and industrial loans decreased $7.1 million, or 2.6%, to $267.5 million as of June 30, 2020 compared to $274.6 million at December 31, 2019 due to decrease loan activity.

Commercial real estate loans. Commercial real estate loans include owner-occupied and non-occupied commercial real estate, multi-family residential and SFR mortgage loans originated for a business purpose. The interest rate for the majority of these loans are prime-based and have a maturity of five years or less except for the SFR mortgage loans originated for a business purpose which may have a maturity of one year. Our policy maximum loan-to-value ("LTV") ratio is 75% for commercial real estate loans. The total commercial real estate portfolio increased $217.7 million, or 22.7%, to $900.3 million at June 30, 2020, compared to $793.3 million at December 31, 2019. The Company acquired $32.8 million in CRE loans with the PGBH acquisition. The multi-family residential loan portfolio was $254.6 million as of June 30, 2020 and $235.8 million as of December 31, 2019. The SFR mortgage loan portfolio originated for a business purpose totaled $17.9 million as of June 30, 2020 and $19.2 million as of December 31, 2019.

Construction and land development loans. Construction and land development loans increased $49.7 million, or 51.8%, to $145.8 million at June 30, 2020 as compared to $96.0 million at December 31, 2019, as originations exceeded loan repayments. The following table shows the categories of our construction and land development portfolio as of June 30, 2020 and December 31, 2019:

	As of June 30, 2020		As of December 31, 2019	
(dollars in thousands)	**Amount**	**% Mix**	**Amount**	**% Mix**
Residential construction	$ 88,262	60.5	$ 60,749	63.3
Commercial construction	40,909	28.1	29,871	31.1
Land development	16,583	11.4	5,400	5.6
Total construction and land development loans	$ 145,754	100.0	$ 96,020	100.0

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

SBA loans increased $29.1 million, or 38.8%, to $104.1 million at June 30, 2020 compared to $75.0 million at December 31, 2019. This increase was primarily due to $38.9 million in originations, partially offset by loan sales of $2.7 million and $5.2 million in loan pay-offs in the six months ended June 30, 2020. Of the $38.9 million originated, $32.8 million were from the PPP loan program.

SFR Loans. We originate mainly non-qualified, alternative documentation SFR mortgage loans through correspondent relationships or through our branch network or retail channel to accommodate the needs of the Asian-American market. As of June 30, 2020, we had $1.2 billion of SFR real estate loans, representing 45.3% of our HFI loan portfolio, excluding available for sale SFR loans.

Our SFR loan product is a seven-year hybrid adjustable mortgage which re-prices at seven years to the one-year Constant Maturity Treasury rate plus 2.50%. The start rate for the five-year hybrid in the Eastern region is 4.375% plus 1% in points. In the Western region we offer a seven-year hybrid and the start rate is 5.00%.

We originate these non-qualified SFR mortgage loans both to sell and hold for investment. The loans held for investment are generally originated through our retail branch network to our customers, many of whom establish a deposit relationship with us. We sell many of these non-qualified SFR mortgage loans to other Asian-American banks, FNMA and other investors.

Except for SFR loans sold to FNMA, the loans are sold with no representation or warranties and with a replacement feature for the first 90-days if the loan pays off early. As a condition of the sale, the buyer must have the loans audited for underwriting and compliance standards. We originate qualified mortgages and sell them directly to FNMA. These loans are underwritten under FNMA guidelines and sold with the normal FNMA conditions. In addition, we may sell some of our non-qualified SFR mortgage loans to FNMA in a bulk sale with limited recourse to us.

As of June 30, 2020, the weighted average loan-to-value of the portfolio was 55.7%, the weighted average FICO score was 758 and the average duration of the portfolio was 2.4 years. We also offer qualified SFR mortgage loans as a correspondent to a national financial institution.

SFR mortgage real estate loans (which include $17.9 million of home equity loans) increased $217.7 million, or 22.7%, to $1.2 billion as of June 30, 2020 as compared to $957.3 million as of December 31, 2019. This increase includes $53.1 million HFS loans transferred to HFI In addition, loans held for sale decreased $92.7 million, or 85.7% to $15.5 million as of June 30, 2020 compared to $108.2 million December 31, 2019. The decrease in loans held for sale is primarily due the disruption in the non-qualified secondary market caused by the COVID-19 pandemic.

Loan Quality

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

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

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

	As of June 30, 2020		As of December 31, 2019	
(dollars in thousands)	**Amount**	**% (1)**	**Amount**	**% (1)**
Loans:				
Commercial and industrial	$ 2,854	12.5%	$ 2,736	14.5%
SBA	959	4.2	852	4.5
Construction and land development	1,938	8.5	1,268	6.7
Commercial real estate (2)	9,379	41.1	7,668	40.8
Single-family residential mortgages	7,668	33.6	6,182	32.9
Other	22	0.1	9	0.0
Unallocated	—	0.0	101	0.5
Allowance for loan losses	$ 22,820	100.0%	18,816	100.0%

(1) Represents the percentage of the allowance to total loans to the total ALLL.

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

The allowance and the balance of accretable credit discounts represent our estimate of probable and reasonably estimable credit losses inherent in loans held for investment as of the respective balance sheet date. The accretable credit discount was $5.8 million at June 30, 2020 and $5.1 million at December 31, 2019.

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

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

Credit-discount on loans purchased through bank acquisitions. Purchased loans are recorded at market value in two categories, credit discount, and liquidity discount and premiums. The remaining credit discount at the end of a period is compared to the analysis for loan losses for each acquisition. If the credit discount is greater than the expected loss no additional provision is needed. The following table shows our credit discounts by loan portfolio for purchased loans only as of June 30, 2020 and December 31, 2019. We have recorded additional reserves of $1.8 million due to the credit discounts on acquired loans being less than the analysis for loan losses on those acquisitions as of June 30, 2020.

(dollars in thousands)	**As of June 30, 2020**	**As of December 31, 2019**
Commercial and industrial	$ 79	$ 37
SBA	39	42
Construction and land development	10	—
Commercial real estate	1,625	1,657
Single-family residential mortgages	4,062	3,573
Total credit discount on purchased loans	$ 5,815	$ 5,309
Total remaining balance of purchased loans through acquisitions	$ 662,030	$ 579,329
Credit-discount to remaining balance of purchased loans	0.88%	0.92%

Individual loans considered to be uncollectible are charged off against the allowance. Factors used in determining the amount and timing of charge-offs on loans include consideration of the loan type, length of delinquency, sufficiency of collateral value, lien priority and the overall financial condition of the borrower. Collateral value is determined using updated appraisals and/or other market comparable information. Charge-offs are generally taken on loans once the impairment is determined to be other-than-temporary. Recoveries on loans previously charged off are added to the allowance. Net charge-offs (recoveries) to average loans were 0.05% and 0.01% for the three months, and 0.06% and (0.01)% for the six months, ended June 30, 2020 and 2019, respectively.

The allowance for loan losses was $22.8 million at June 30, 2020 compared to $18.8 million at December 31, 2019. The $4.0 million increase was due to a $5.0 million loan loss provision primarily attributable to the higher loan balances, an increase in 30-89 day past due loans, an increase in non-performing loans and the expected impact of increased qualitative factors due to the COVID-19 pandemic.

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

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

The following table provides an analysis of the allowance for loan losses, provision for loan losses and net charge-offs for the three and six months ended June 30, 2020 and 2019:

	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
(dollars in thousands)	**2020**		**2019**		**2020**		**2019**	
Balance, beginning of period	$	20,130	$	18,236	$	18,816	$	17,577
Charge-offs:								
Commercial and industrial		200		32		200		32
SBA		119		—		750		—
Total charge-offs		319		32		950		32
Recoveries:								
Commercial and industrial		—		—		—		—
SBA		—		—		—		—
Construction and land development		—		—		—		109
Commercial real estate		—		—		—		—
Single-family residential mortgages		—		—		—		—
Total recoveries		—		—		-		109
Net charge-offs (recoveries)		319		32		950		(77)
Provision for loan losses		3,009		357		4,954		907
Balance, end of period	$	22,820	$	18,561	$	22,820	$	18,561
Total loans at end of period (1) (2)	$	2,594,620	$	2,092,438	$	2,594,620	$	2,092,438
Average loans (2)	$	2,511,835	$	2,110,985	$	2,428,336	$	2,114,097
Net charge-offs (recoveries) annualized, to average loans		0.05%		0.01%		0.05%		-0.01%
Allowance for loan losses to total loans		0.88%		0.89%		0.88%		0.89%
Credit-discount on loans purchased through acquisitions	$	5,815	$	6,308	$	5,815	$	6,308

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

(2) Excludes loans held for sale.

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

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

In cases where a borrower experiences financial difficulties and we make certain concessionary modifications to contractual terms, the loan is classified as a 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.

Pursuant to recent regulatory guidance, we have elected under the CARES Act to not apply GAAP requirements to loan modifications related to the COVID-19 pandemic that would otherwise be categorized as a TDR, and have suspended the determination of loan modifications related to the pandemic from being treated as TDRs. Modifications include the following: (1) forbearance agreements, (2) interest-rate modifications, (3) repayment plans, and (4) any other similar arrangements that defer or delay payments of principal or interest. The relief from TDR guidance applies to modifications of loans that were not more than 30 days past due as of December 31, 2019, and that occur beginning on March 1, 2020, until the earlier of the following dates: (1) 60 days after the date on which the national emergency related to the COVlD-19 pandemic outbreak is terminated, or (2) December 31, 2020. The suspension of TDR accounting and reporting guidance may not be applied to any loan of a borrower that is not related to the COVID-19 pandemic.

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

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

(dollars in thousands)	As of June 30, 2020	As of December 31, 2019
Accruing troubled debt restructured loans:		
Commercial and industrial	$ 503	$ —
SBA	—	45
Construction and land development	257	264
Commercial real estate	454	1,472
Total troubled debt restructured loans	1,214	1,781
Non-accruing troubled debt restructured loans:		
Commercial and industrial	$ 802	$ —
SBA	40	—
Commercial real estate	998	—
Total non-accruing troubled debt restructured loans	1,840	—
Non-accrual loans:		
Commercial and industrial	$ 1,755	$ —
SBA	9,707	9,378
Construction and land development	173	—
Commercial real estate	2,035	725
Single-family residential mortgages	2,244	1,334
Other	89	—
Total non-accrual loans	16,003	11,437
Loans past due 90 days or more, still accruing	—	—
Total non-performing loans	17,217	13,218
Other real estate owned	293	293
Nonperforming assets	$ 17,510	$ 13,511
Allowance for loan losses to nonperforming loans	132.54%	142.35%
Nonperforming loans to total loans (excluding HFS loans)	0.66%	0.60%
Nonperforming assets to total assets	0.56%	0.43%

The $4.0 million increase in nonperforming loans at June 30, 2020 was primarily due to the additions to non-accrual loans of two SBA loans totaling $3.7 million, two commercial and industrial loans totaling $1.0 million and two single-family mortgage loans totaling $653,000.

Our 30-89 day delinquent loans increased to $23.9 million as of June 30, 2020 from $5.3 million as of December 31, 2019. Refer to Note 5 to the quarterly financial statements for the detail of past due loans as of June 30, 2020 and December 31, 2020. The increase in past due loans was due to the economic impact of the COVID-19 pandemic.

We did not recognize any interest income on nonaccrual loans during the periods ended June 30, 2020 and December 31, 2019 while the loans were in nonaccrual status. We recognized interest income on loans modified under TDRs of $70,000 and $15,000 during the three months ended June 30, 2020 and 2019, and $129,000 and $33,000 for the six months ended June 30, 2020 and 2019, 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.

COVID-19 Impact on Loan Quality

We increased SBA lending during the second quarter of 2020 as many of the Bank’s customers sought to participate in the SBA’s PPP Program. As of June 30, 2020, the Company has processed approximately 258 PPP loans with the SBA in the total amount of approximately $32.8 million or 1.3% of the Company’s total HFI loan portfolio. In addition to actively participating in the PPP loan program, we are making available to our SBA customers the SBA six-month payment guarantee program.

As of June 30, 2020, borrowers representing approximately 470 SFR mortgage loans totaling $219.2 million, or 8.5% of the Company’s total HFI loan portfolio, and 94 commercial borrowers representing $191.7 million, or 7.3% of the Company’s HFI loan portfolio, have requested some form of payment deferral. The majority of our non-single-family residential loan portfolio customer requests is to defer payment for three months. It is too early in the pandemic-induced economic slowdown to determine the total amount of loans that will ultimately require payment deferrals.

Cash and Cash Equivalents. Cash and cash equivalents decreased $29.9 million, or 16.5%, to $151.8 million as of June 30, 2020 as compared to $181.8 million at December 31, 2019. This decrease was primarily due to $70.1 million in cash from operating activities, $141.2 million in cash from financing activities, partially offset by $241.2 million used in investing activities.

The Federal Reserve announced the reduction of the reserve requirement ratio to zero percent across all deposit tiers, effective March 26, 2020. Depository institutions that were required to maintain deposits in a Federal Reserve Bank account to satisfy reserve requirements will no longer be required to do so and can use the additional liquidity to lend to individuals and businesses. It is our understanding that the Federal Reserve currently has no current plans to reinstate the reserve requirement. However, the Federal Reserve may adjust reserve requirement ratios in the future if conditions warrant.

Goodwill and Other Intangible Assets. Goodwill was $69.2 million at June 30, 2020 and $58.6 million at December 31, 2019. Goodwill represents the excess of the consideration paid over the fair value of the net assets acquired. Other intangible assets, which consist of core deposit intangibles, were $5.9 million and $6.1 million at June 30, 2020 and December 31, 2019, respectively. The goodwill balance increased from December 31, 2019 as a result of the PGBH acquisition. The CDI assets are amortized primarily on an accelerated basis over their estimated useful lives, generally over a period of eight to ten years. We performed a goodwill impairment analysis as of March 31, 2020 and June 30, 2020 and found no impairment.

Liabilities. Total liabilities increased by $341.3 million to $2.7 billion at June 30, 2020 from $2.4 billion at December 31, 2019, primarily due to a $150.0 FHLB long-term advances plus $187.6 million in deposit growth.

Deposits. As a Chinese-American business bank that focuses on successful businesses and their owners, many of our depositors choose to leave large deposits with us. The Bank measures core deposits by reviewing all relationships over $250,000 on a quarterly basis. We track all deposit relationships over $250,000 on a quarterly basis and consider a relationship to be core if there are any three or more of the following: (i) relationships with us (as a director or shareholder); (ii) deposits within our market area; (iii) additional non-deposit services with us; (iv) electronic banking services with us; (v) active demand deposit account with us; (vi) deposits at market interest rates; and (vii) longevity of the relationship with us. We consider all deposit relationships under $250,000 as a core relationship except for time deposits originated through an internet service. This differs from the traditional definition of core deposits which is demand and savings deposits plus time deposits less than $250,000. As many of our customers have more than $250,000 on deposit with us, we believe that using this method reflects a more accurate assessment of our deposit base. As of June 30, 2020, the Bank considers $2.2 billion or 88.9% of our deposits as core relationships.

As of June 30, 2020, our top ten deposit relationships totaled $333.0 million, of which four are related to directors and shareholders of the Company for a total of $116.6 million, or 35.0% of our top ten deposit relationships. As of June 30, 2020, our directors and shareholders with deposits over $250,000 totaled $126.4 million or 8.1% of all relationships over $250,000.

The following table summarizes our average deposit balances and weighted average rates for the three months ended June 30, 2020 and year ended December 31, 2019:

(dollars in thousands)	For the Three Months Ended June 30, 2020 Average Balance	Weighted Average Rate (%)	For the Year Ended December 31, 2019 Average Balance	Weighted Average Rate (%)
Noninterest-bearing demand	$ 557,903	—	$ 421,174	—
Interest-bearing:				
NOW	57,547	0.42	24,925	0.27
Savings	123,868	0.10	97,670	0.20
Money market	404,480	0.63	370,451	1.19
Time, less than $250,000	725,142	1.73	712,534	2.25
Time, $250,000 and over	589,090	1.91	566,810	2.35
Total interest-bearing	1,900,127	1.42	1,772,390	1.93
Total deposits	$ 2,458,030	1.10	$ 2,193,564	1.56

The following table sets forth the maturity of time deposits of $250,000 or more and wholesale deposits as of June 30, 2020:

(dollars in thousands)	Three Months	Three to Six Months	Six to 12 Months	After 12 Months	Total
Time deposits, $250,000 and over	$ 171,372	$ 96,683	$ 280,037	$ 25,806	$ 573,898
Wholesale deposits (1)	4,401	11,890	49,520	20,545	86,356
Time, brokered	—	—	—	2,378	2,378
Total	$ 175,773	$ 108,573	$ 329,557	$ 48,729	$ 662,632

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

We acquire wholesale time deposits from the internet and outside deposits originators as needed to supplement liquidity. These time deposits are primarily under $250,000 and we do not consider them core deposits. The total amount of such deposits was $86.4 million as of June 30, 2020 and $93.2 million as of December 31, 2019. The Bank had $2.4 million in brokered deposits at June 30, 2020 and $67.1 million as of December 31, 2019. The brokered deposits were acquired to support our HFS SFR mortgage loans.

Total deposits increased $187.6 million to $2.4 billion at June 30, 2020 as compared to $2.2 billion at December 31, 2019. As of June 30, 2020, total deposits were comprised of 23.6% noninterest-bearing demand accounts, 24.7% of interest-bearing non-maturity accounts and 51.7% of time deposits.

As of June 30, 2020, $38,000 in deposit overdrafts were reclassified as other loans. As of December 31, 2019, the amount was $111,000.

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 June 30, 2020 and December 31, 2019, respectively. 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 is 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:

	As of and for the Three Months Ended June 30,		As of and for the Six Months Ended June 30,	
(dollars in thousands)	**2020**	**2019**	**2020**	**2019**
Outstanding at period-end	$ 150,000	$ 40,000	$ 150,000	$ 40,000
Average amount outstanding	150,000	95,220	100,989	216,638
Maximum amount outstanding at any month-end	150,000	110,000	364,500	364,500
Weighted average interest rate:				
During period	1.18%	2.75%	1.17%	2.58%
End of period	1.18%	2.52%	1.18%	2.52%

Long-term Debt. In March 2016, the Company issued $50.0 million, 6.5% fixed-to-floating rate subordinated notes due March 31, 2026. The Company used the net proceeds from the offering for general corporate purposes, including providing capital to the Bank and maintaining adequate liquidity at the Company. The subordinated notes bear interest at the initial rate of 6.5% per annum from March 31, 2016 until April 1, 2021, payable on September 30 and December 30 of each year. Thereafter, the Company will pay interest on the principal amount of these notes at a variable rate equal to three month LIBOR plus 516 basis points each March 31, June 30, September 30 and December 31.

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

Subordinated Debentures. Subordinated debentures consist of subordinated notes. As of June 30, 2020 and December 31, 2019, the amount outstanding was $14.2 million and $9.7 million, respectively. Under the terms of our subordinated notes and the related subordinated notes purchase agreements, we are not permitted to declare or pay any dividends on our capital stock if an event of default occurs under the terms of the long term debt. These subordinated notes consist of the following:

The Company maintains the Trust, which has issued a total of $5.2 million securities ($5.0 million in capital securities and $155,000 in common securities). These trust preferred securities were originally issued by the Trust, which was a subsidiary of TFC, which was acquired by the Company in February 2016. The Company determined the fair value as of the valuation date of the Trust issuance was $3.3 million, indicating a discount of $1.9 million. The underlying debentures bear interest equal to three month LIBOR plus 1.65%, payable each March 15, June 15, September 15 and December 15. The maturity date is March 15, 2037. The subordinated debentures have a variable rate of interest equal to the three month LIBOR plus 1.65%, which was 1.96% as of June 30, 2020 and 3.54% at December 31, 2019.

The Company holds maintains FAIC Trust, which has issued a total of $7.2 million securities ($7.0 million in capital securities and $217,000 in common securities). These trust preferred securities were originally issued by FAIC Trust, which was a subsidiary of FAIC, which the Company acquired in October 2018. The Company determined the fair value as of the valuation date of the FAIC Trust issuance was $6.0 million, with a discount of $1.2 million. The underlying debentures bear interest equal to three month LIBOR plus 2.25%, payable each March 15, June 15, September 15 and December 15. The maturity is December 15, 2034. The rate at June 30, 2020 was 2.56% and 4.14% at December 31, 2019.

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 units of 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 June 30, 2020 was 2.41%.

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

Capital Resources and Liquidity Management

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

Shareholders' equity increased $6.3 million, or 1.6%, to $414.0 million during the six-month period ending June 30, 2020 due to $13.3 million of net income, $712,000 from the exercise of stock options, $327,000 from stock-based compensation, and a $887,000 increase in net accumulated other comprehensive income, which was partially offset by $3.6 million of common dividends declared and by $5.3 million of common stock repurchases. The increase in accumulated other comprehensive income primarily resulted from increases in unrealized gains on AFS securities.

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

Our liquidity position is supported by management of liquid assets and liabilities and access to alternative sources of funds. Liquid assets include cash, interest-bearing deposits in banks, federal funds sold, available for sale securities, term federal funds, purchased receivables and maturing or prepaying balances in our securities and loan portfolios. Liquid liabilities include core deposits, federal funds purchased, securities sold under repurchase agreements and other borrowings. Other sources of liquidity include the sale of loans, the ability to acquire additional national market noncore deposits, the issuance of additional collateralized borrowings such as FHLB advances, the issuance of debt securities, additional borrowings through the Federal Reserve's discount window and the issuance of preferred or common securities. Our short-term and long-term liquidity requirements are primarily to fund on-going operations, including payment of interest on deposits and debt, extensions of credit to borrowers, capital expenditures and shareholder dividends. These liquidity requirements are met primarily through cash flow from operations, redeployment of prepaying and maturing balances in our loan and investment portfolios, debt financing and increases in customer deposits. For additional information regarding our operating, investing and financing cash flows, see the consolidated statements of cash flows provided in our consolidated financial statements.

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

As of June 30, 2020 and December 31, 2019, we had $47.0 million of unsecured federal funds lines with no amounts advanced against the lines as of such dates. In addition, lines of credit from the Federal Reserve Discount Window were $12.5 million at June 30, 2020 and $14.3 million at December 31, 2019, respectively. Federal Reserve Discount Window lines were collateralized by a pool of CRE loans totaling $28.5 million and $28.7 million as of June 30, 2020 and December 31, 2019, respectively. We did not have any borrowings outstanding with the Federal Reserve at June 30, 2020 and December 31, 2019, and our borrowing capacity is limited only by eligible collateral.

At June 30, 2020, we had $150.0 million in FHLB long-term advances outstanding, and none at December 31, 2019. Based on the values of loans pledged as collateral, we had $1.1 billion and $636.5 million of additional borrowing capacity with the FHLB as of June 30, 2020 and December 31, 2019, respectively. We also maintain relationships in the capital markets with brokers and dealers to issue certificates of deposit.

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

Regulatory Capital Requirements

We are subject to various regulatory capital requirements administered by the federal and state banking regulators. Failure to meet regulatory capital requirements may result in certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on our financial statements. Under capital adequacy guidelines and the regulatory framework for "prompt corrective action" (described below), we must meet specific capital guidelines that involve quantitative measures of our assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting policies.

In the wake of the global financial crisis of 2008-2009, the role of capital has become fundamentally more important, as banking regulators have concluded that the amount and quality of capital held by banking organizations was insufficient to absorb losses during periods of severely distressed economic conditions. The Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, and banking regulations promulgated by the U.S. federal banking regulators to implement Basel III have established strengthened capital standards for banks and bank holding companies and require more capital to be held in the form of common stock. These provisions, which generally became applicable to RBB and the Bank on January 1, 2015, impose meaningfully more stringent regulatory capital requirements than those applicable to RBB and the Bank prior to that date. In addition, the Basel III regulations implemented a concept known as the "capital conservation buffer." In general, banks and bank holding companies are required to hold a buffer of common equity Tier 1 capital equal to 2.5% of risk-weighted assets over each minimum capital ratio to avoid being subject to limits on capital distributions (e.g., dividends, stock buybacks, etc.) and certain discretionary bonus payments to executive officers. For community banks, the capital conservation buffer requirement commenced on January 1, 2016, with a gradual phase-in. Full compliance with the capital conservation buffer was required by January 1, 2019.

The table below summarizes the minimum capital requirements applicable to RBB 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 RBB and the Bank in order to be considered "well-capitalized" from a regulatory perspective, as well as RBB's and the Bank's capital ratios as of June 30, 2020 and December 31, 2019. RBB and the Bank exceeded all regulatory capital requirements under Basel III and the Bank was considered to be "well-capitalized" as of the dates reflected in the table below:

	Ratio at June 30, 2020	**Ratio at December 31, 2019**	**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	11.48%	12.89%	4.00%	5.00%	5.00%
Bank	14.14%	15.23%	4.00%	5.00%	5.00%
Common Equity Tier 1 Risk-Based Capital Ratio					
Consolidated	14.87%	17.16%	7.00%	6.50%	6.50%
Bank	19.09%	20.87%	7.00%	6.50%	6.50%
Tier 1 Risk-Based Capital Ratio					
Consolidated	15.49%	17.65%	8.50%	8.00%	8.00%
Bank	19.09%	20.87%	8.50%	8.00%	8.00%
Total Risk-Based Capital Ratio					
Consolidated	21.10%	23.82%	10.50%	10.00%	10.00%
Bank	21.13%	21.86%	10.50%	10.00%	10.00%

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

Contractual Obligations

The following table contains supplemental information regarding our total contractual obligations at June 30, 2020:

	Payments Due				
(dollars in thousands)	**Within One Year**	**One to Three Years**	**Three to Five Years**	**After Five Years**	**Total**
Deposits without a stated maturity	$ 1,176,494	$ —	$ —	$ —	$ 1,176,494
Time deposits	1,151,925	92,917	15,182	2	1,260,026
FHLB advances and other borrowings	—	—	150,000	—	150,000
Long-term debt	—	—	—	104,220	104,220
Subordinated debentures	—	—	—	14,174	14,174
Leases	5,313	8,376	4,725	7,980	26,394
Total contractual obligations	$ 2,333,732	$ 101,293	$ 169,907	$ 126,376	$ 2,731,308

Off-Balance Sheet Arrangements

We have limited off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our financial condition, revenues, expenses, results of operations, liquidity, capital expenditures or capital resources.

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

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

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

Non-GAAP Financial Measures

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

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

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

(dollars in thousands)	June 30, 2020	December 31, 2019
Tangible common equity:		
Total shareholders' equity	$ 414,025	$ 407,690
Adjustments		
Goodwill	(69,209)	(58,563)
Core deposit intangible	(5,876)	(6,100)
Tangible common equity	$ 338,940	$ 343,027
Tangible assets:		
Total assets-GAAP	$ 3,136,181	$ 2,788,535
Adjustments		
Goodwill	(69,209)	(58,563)
Core deposit intangible	(5,876)	(6,100)
Tangible assets:	$ 3,061,096	$ 2,723,872
Common shares outstanding	19,739,280	20,030,866
Tangible common equity to tangible assets ratio	11.07%	12.59%
Book value per share	$ 20.97	$ 20.35
Tangible book value per share	$ 17.17	$ 17.12

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
(dollars in thousands)	2020	2019	2020	2019
Net income available to common shareholders	$ 6,513	$ 10,142	$ 13,261	$ 20,522
Average shareholder's equity	412,852	390,574	412,021	386,944
Adjustments:				
Goodwill	(69,466)	(58,383)	(70,506)	(58,383)
Core deposit intangible	(6,094)	(7,067)	(6,034)	(7,264)
Adjusted average tangible common equity	$ 337,292	$ 325,124	$ 335,481	$ 321,297
Return on average tangible common equity	7.77%	12.51%	7.95%	12.88%

Efficiency Ratio. The Company uses certain non-GAAP financial measures to provide supplemental information regarding the Company's performance. The efficiency ratio is non-interest expense divided by net interest income plus non-interest income. The efficiency ratio is presented for the quarters ended June 30, 2020, March 31, 2020 and June 30, 2019, plus the six-month periods ending June 30, 2020 and 2019.

	For the three months ended		For the six months ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Efficiency Ratio (non-GAAP)				
Non-interest expense	$ 14,819	$ 16,263	$ 31,082	$ 30,224
Net interest income	25,034	23,593	48,627	50,229
Non-interest income	2,208	4,615	6,823	9,698
Net interest income and non-interest income	$ 27,242	$ 28,208	$ 55,450	$ 59,927
Efficiency ratio	54.40%	57.65%	56.05%	50.43%

Regulatory Reporting to Financial Statements

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

	As of	
(dollars in thousands)	June 30, 2020	December 31, 2019
Adjusted core deposit to total deposit ratio:		
Core deposits (1)	$ 1,874,532	$ 1,651,678
Adjustments to core deposits		
CD > $250,000 considered core deposits (2)	439,183	446,968
Less brokered deposits considered non-core	(2,378)	(67,089)
Less internet deposits < $250,000 considered non-core (3)	(86,356)	(26,025)
Less other deposits not considered core (4)	(59,772)	(60,719)
Adjusted core deposits	$ 2,165,209	1,944,813
Total deposits	$ 2,436,520	$ 2,249,061
Adjusted core deposits to total deposits ratio	88.86%	86.47%

(1) Core deposits comprise all demand and savings deposits of any amount plus time deposits less than $250,000.

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

(3) Comprised of internet and outside deposit originator time deposits less than $250,000, which are not considered to be core deposits.

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

Net Non-Core Funding Dependency Ratio. Management measures net non-core funding dependency ratio by using the data provided under "Core Deposits to Total Deposits Ratio" above to make adjustments to the traditional definition of net non-core funding dependency ratio. The traditional net non-core funding dependency ratio measures non-core funding sources less short-term assets divided by total earning assets. The ratio indicates the dependency of the Company on non-core funding. As of June 30, 2020, short-term borrowings consist of FHLB open advances that reprice daily without a fixed maturity date. The following table reconciles the adjusted net non-core dependency ratio.

(dollars in thousands)	**As of June 30, 2020**	**As of December 31, 2019**
Non-core deposits (1)	$ 561,989	$ 597,382
Adjustment to Non-core deposits:		
CD > $250,000 considered core deposits (2)	(439,183)	(446,968)
Brokered deposits	2,378	67,089
Internet deposits considered non-core (3)	86,356	26,025
Other deposits not considered core (4)	59,772	60,719
Adjusted non-core deposits	271,312	304,247
Short term borrowings outstanding	—	—
Adjusted non-core liabilities (A)	271,312	304,247
Short term assets (5)	272,118	71,303
Adjustment to short term assets:		
Purchased receivables with maturities less than 90-days	—	—
Adjusted short term assets (B)	272,118	71,303
Net non-core funding (A-B)	$ (806)	$ 232,944
Total earning assets	$ 2,943,722	$ 2,587,093
Adjusted net non-core funding dependency ratio	-0.03%	9.00%

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

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

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

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

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk represents the risk of loss due to changes in market values of assets and liabilities. We incur market risk in the normal course of business through exposures to market interest rates, equity prices, and credit spreads. We have identified two primary sources of market risk: interest rate risk and price risk.

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

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

Interest rate risk management is an active process that encompasses monitoring loan and deposit flows complemented by investment and funding activities. Effective management of interest rate risk begins with understanding the dynamic characteristics of assets and liabilities and determining the appropriate interest rate risk posture given business forecasts, management objectives, market expectations, and policy constraints.

An asset sensitive position refers to a balance sheet position in which an increase in short-term interest rates is expected to generate higher net interest income, as rates earned on our interest-earning assets would reprice upward more quickly than rates paid on our interest-bearing liabilities, thus expanding our net interest margin. Conversely, a liability sensitive position refers to a balance sheet position in which an increase in short-term interest rates is expected to generate lower net interest income, as rates paid on our interest-bearing liabilities would reprice upward more quickly than rates earned on our interest-earning assets, thus compressing our net interest margin.

Interest rate risk measurement is calculated and reported to the board and ALCO at least quarterly. The information reported includes period-end results and identifies any policy limits exceeded, along with an assessment of the policy limit breach and the action plan and timeline for resolution, mitigation, or assumption of the risk.

We use two approaches to model interest rate risk: Net Interest Income at Risk, or NII at Risk, and Economic Value of Equity, or EVE. Under NII at Risk, net interest income is modeled utilizing various assumptions for assets, liabilities, and derivatives. EVE measures the period end market value of assets minus the market value of liabilities and the change in this value as rates change. EVE is a period end measurement.

	Net Interest Income Sensitivity Immediate Change in Rates			
(dollars in thousands)	**-200**	**-100**	**+100**	**+200**
June 30, 2020				
Dollar change	$ 1,848	$ 2,956	$ 4,832	$ 11,201
Percent change	1.79%	2.86%	4.68%	10.85%
December 31, 2019:				
Dollar change	$ 4,224	$ 5,034	$ 5,568	$ 11,629
Percent change	4.69%	5.59%	6.18%	12.91%

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

We are within board policy limits for the +/-100 and +/-200 basis point scenarios. The NII at Risk reported at June 30, 2020, projects that our earnings are expected to be neutral to changes in interest rates over the next year. In recent periods, the amount of fixed rate assets increased resulting in a position shift from slightly asset sensitive to interest rate neutral.

	Economic Value of Equity Sensitivity (Shock) Immediate Change in Rates			
(dollars in thousands)	**-200**	**-100**	**+100**	**+200**
June 30, 2020				
Dollar change	$ 17,929	$ 4,491	$ (5,696)	$ (7,992)
Percent change	4.61%	1.15%	-1.46%	-2.05%
December 31, 2019:				
Dollar change	$ (73,739)	$ (45,290)	$ 298	$ 485
Percent change	-17.48%	-10.74%	0.07%	0.11%

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

We are within board policy limits for the +/-100 and +/-200 basis point scenarios . The EVE reported at June 30, 2020 projects that as interest rates increase immediately, the economic value of equity position will be expected to decrease slightly. When interest rates rise, fixed rate assets generally lose economic value; the longer the duration, the greater the value lost. The opposite is true when interest rates fall.

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

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

ITEM 4. CONTROLS AND PROCEDURES

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

Changes in internal control over financial reporting. There have not been any changes in the Company’s internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) during the fiscal quarter to which this Report relates that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

The following risk factor supplements should be read in conjunction with, the risk factors described in our 2019 Annual as previously disclosed in Item 1A to Part I of our consolidated audited financial statements, as filed with the SEC on March 16, 2020. The materiality of any risks and uncertainties identified in our Forward Looking Statements contained in this report or those that are presently unforeseen could result in significant adverse effects on our financial condition, results of operations and cash flows. See Part I, Item 2 for "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Report.

The recent COVID-19 pandemic has led to periods of significant volatility in financial, commodities and other markets and could harm our business and results of operations.

In December 2019, COVID-19 was first reported in Wuhan, Hubei Province, China. Since then, COVID-19 infections have spread to additional countries including the United States. In March 2020, the World Health Organization declared COVID-19 to be a pandemic. Given the ongoing and dynamic nature of the circumstances, it is difficult to predict the impact of the coronavirus pandemic on our business, and there is no guarantee that our efforts to address or mitigate the adverse impacts of the coronavirus will be effective. The impact to date has included periods of significant volatility in financial, commodities and other markets. This volatility, if it continues, could have an adverse impact on our customers and on our business, financial condition and results of operations as well as our growth strategy.

Our business is dependent upon the willingness and ability of our customers to conduct banking and other financial transactions. The spread of COVID-19 has caused and could continue to cause severe disruptions in the U.S. economy at large, and has resulted and may continue to result in disruptions to our customers' businesses, and a decrease in consumer confidence and business generally. In addition, recent actions by US federal, state and local governments to address the pandemic, including travel bans, stay-at-home orders and school, business and entertainment venue closures, may have a significant adverse effect on our customers and the markets in which we conduct our business. The extent of impacts resulting from the coronavirus pandemic and other events beyond our control will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus pandemic and actions taken to contain the coronavirus or its impact, among others.

Disruptions to our customers could result in increased risk of delinquencies, defaults, foreclosures and losses on our loans. The escalation of the pandemic may also negatively impact regional economic conditions for a period of time, resulting in declines in local loan demand, liquidity of loan guarantors, loan collateral (particularly in real estate), loan originations and deposit availability. If the global response to contain COVID-19 escalates or is unsuccessful, we could experience a material adverse effect on our business, financial condition, results of operations and cash flows.

The spread of the COVID-19 outbreak and the governmental responses may disrupt banking and other financial activity in the areas in which we operate and could potentially create widespread business continuity issues for us.

The outbreak of COVID-19 and the U.S. federal, state and local governmental responses may result in a disruption in the services we provide. We rely on our third-party vendors to conduct business and to process, record, and monitor transactions. If any of these vendors are unable to continue to provide us with these services or experience interruptions in their ability to provide us with these services, it could negatively impact our ability to serve our customers. Furthermore, the COVID-19 pandemic could negatively impact the ability of our employees and customers to engage in banking and other financial transactions in the geographic areas in which we operate and could create widespread business continuity issues for us. We also could be adversely affected if key personnel or a significant number of employees were to become unavailable due to infection, quarantine or other effects and restrictions of a COVID-19 outbreak in our market areas. Although we have business continuity plans and other safeguards in place, there is no assurance that such plans and safeguards will be effective. If we are unable to promptly recover from such business disruptions, our business and financial conditions and results of operations would be adversely affected. We also may incur additional costs to remedy damages caused by such disruptions, which could adversely affect our financial condition and results of operations.

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.

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.

Interest rate volatility stemming from COVID-19 could negatively affect our net interest income, lending activities, deposits and profitability.

Our net interest income, lending activities, deposits and profitability could be negatively affected by volatility in interest rates caused by uncertainties stemming from COVID-19. In March 2020, the Federal Reserve lowered the target range for the federal funds rate to a range from 0 to 0.25 percent, citing concerns about the impact of COVID-19 on markets and stress in the energy sector. A prolonged period of extremely volatile and unstable market conditions would likely increase our funding costs and negatively affect market risk mitigation strategies. Higher income volatility from changes in interest rates and spreads to benchmark indices could cause a loss of future net interest income and a decrease in current fair market values of our assets. Fluctuations in interest rates will impact both the level of income and expense recorded on most of our assets and liabilities and the market value of all interest-earning assets and interest-bearing liabilities, which in turn could have a material adverse effect on our net income, operating results, or financial condition.

We are subject to increasing credit risk as a result of the COVID-19 pandemic, which could adversely impact our profitability.

Our business depends on our ability to successfully measure and manage credit risk. We are exposed to the risk that the principal of, or interest on, a loan will not be paid timely or at all or that the value of any collateral supporting a loan will be insufficient to cover our outstanding exposure. In addition, we are exposed to risks with respect to the risks resulting from changes in economic and industry conditions and risks inherent in dealing with individual loans and borrowers. As the overall economic climate in the U.S., generally, and in our market areas specifically, experiences material disruption due to the COVID-19 pandemic, our borrowers may experience difficulties in repaying their loans and governmental actions may provide payment relief to borrowers affected by COVID-19 and preclude our ability to initiate foreclosure proceedings in certain circumstances and, as a result, the collateral we hold may decrease in value or become illiquid, and the level of our nonperforming loans, charge-offs and delinquencies could rise and require significant additional provisions for credit losses. Additional factors related to the credit quality of certain loans include the duration of state and local moratoriums on evictions for non-payment of rent or other fees. The payment on these loans that are secured by income producing properties are typically dependent on the successful operation of the related real estate property and may subject us to risks from adverse conditions in the real estate market or the general economy.

We are actively working to support our borrowers to mitigate the impact of the COVID-19 pandemic on them and on our loan portfolio, including through loan modifications that defer payments for those who experienced a hardship as a result of the COVID-19 pandemic. Although recent regulatory guidance provides that such loan modifications are exempt from the calculation and reporting of TDRs and loan delinquencies, we cannot predict whether such loan modifications may ultimately have an adverse impact on our profitability in future periods. Our inability to successfully manage the increased credit risk caused by the COVID-19 pandemic could have a material adverse effect on our business, financial condition and results of operations.

We may incur impairments to goodwill or other intangibles as a result of the economic volatility resulting from the COVID-19 pandemic, which could adversely affect our financial condition, results of operations and stock price.

As of June 30, 2020, we had $69.8 million recorded as goodwill. We evaluate our goodwill for impairment at least annually. Although we conducted an impairment assessment of goodwill and intangibles in the first and second quarters of 2020 and the impairment evaluation did not identify any impairment in the first and second quarters of 2020, there can be no assurances that prolonged significant negative economic trends resulting from the COVID-19 pandemic, including the lack of recovery in the market price of our common stock, or reduced estimates of future cash flows or disruptions to our business, will not result in impairments to goodwill or other intangibles, such as our core deposit intangibles. If our analysis results in impairment to goodwill or other intangibles, we would be required to record an impairment charge to earnings in our financial statements during the period in which such impairment is determined to exist. Any such change could have a material adverse effect on our financial condition, results of operations and stock price.

Unpredictable future developments related to or resulting from the COVID-19 pandemic could materially and adversely affect our business and results of operations.

Because there have been no comparable recent global pandemics that resulted in a similar global impact, we do not yet know the full extent of the COVID-19 pandemic's effects on our business, operations, or the global economy as a whole. Any future development will be highly uncertain and cannot be predicted, including the scope and duration of the pandemic, the effectiveness of our work from home arrangements, third party providers' ability to support our operation, and any actions taken by governmental authorities and other third parties in response to the pandemic. We are continuing to monitor the COVID-19 pandemic and related risks, although the rapid development and fluidity of the situation precludes any specific prediction as to its ultimate impact on us. However, if the pandemic continues to spread or otherwise results in a continuation or worsening of the current economic and commercial environments, our business, financial condition, results of operations and cash flows as well as our regulatory capital and liquidity ratios could be materially adversely affected and many of the risks described in our 2019 Annual Report will be heightened.

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". For as long as we continue to be an emerging growth company, we may take advantage of reduced regulatory and reporting requirements that are otherwise generally applicable to public companies. These include, without limitation, not being required to comply with the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act, reduced financial reporting requirements, reduced disclosure obligations regarding executive compensation, and exemptions from the requirements of holding non-binding advisory votes on executive compensation and golden parachute payments. The SEC permits an "emerging growth company" such as us to take advantage of an extended transition period to comply with new or revised accounting standards applicable to public companies. Since RBB'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 RBB will be available through the end of 2022. We may take advantage of these provisions for up to five years (which should be through January 2023), 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 foregoing red reporting requirements, which may result in a less active trading market and increased volatility in our stock price.

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

On June 24, 2019, the Board of Directors approved a stock repurchase program to buy back up to an aggregate of 1.0 million shares of our common stock. On March 31, 2020, the Board of Directors approved an additional 250,000 shares eligible to be bought back, at a maximum price of $19.00 per share, through April 1, 2020. For the three months ended June 30, 2020, we have repurchased shares of common stock, as set forth in the table below.

	Issuer Purchases of Equity Securities			
Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publically Announced Plan	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plan
April 1, 2020 to April 30, 2020	—	$ —	—	732,131
May 1, 2020 to May 31, 2020	—	$ —	—	732,131
June 1, 2020 to June 30, 2020	—	$ —	—	732,131
Total	348,094			

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

Exhibit No	Description of Exhibits
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 (1)
3.1	Articles of Incorporation of RBB Bancorp (2)
3.2	Bylaws of RBB Bancorp (3)
3.3	Amendment to Bylaws of RBB Bancorp (5)
4.1	Specimen Common Stock Certificate of RBB Bancorp (4)
	The other instruments defining the rights of holders of the long-term debt securities of the Company and its subsidiaries are omitted pursuant to section (b)(4)(iii)(A) of Item 601 of Regulation S-K. The Company hereby agrees to furnish copies of these instruments to the SEC upon request.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	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 Quarterly Report on Form 10-Q for the quarter ended June 30, 2020, formatted in Inline XBRL (contained in Exhibit 101)

(1) Incorporated by reference from Exhibit 2.1 of the Registrant's Quarterly Report in Form 10-Q filed with the SEC on November 12, 2019.

(2) 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.

(3) 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.

(4) 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.

(5) Incorporated by reference from Exhibit 3.3 of the Registrant's Quarterly Report in Form 10-Q filed with the SEC on November 13, 2018.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

RBB BANCORP
(Registrant)

Date: August 10, 2020

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

Exhibit 31.1

CERTIFICATION

I, Alan Thian, certify that:

1. I have reviewed this quarterly report on Form 10-Q of RBB Bancorp;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting

Date: August 10, 2020

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

Exhibit 31.2

CERTIFICATION

I, David Morris, certify that:

1. I have reviewed this quarterly report on Form 10-Q of RBB Bancorp;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 10, 2020

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

Exhibit 32.1

CERTIFICATION

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of RBB Bancorp (the “Company”) on Form 10-Q for the period ended June 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Alan Thian, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 10, 2020

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

Exhibit 32.2

CERTIFICATION

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of RBB Bancorp (the “Company”) on Form 10-Q for the period ended June 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, David Morris, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 10, 2020

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