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Dear Shareholder:

2013 was another challenging but rewarding year for the Company. In October, the Bank received the Outstanding Overseas Taiwanese SME Award. This award is the highest honor for overseas Taiwanese enterprises. The Bank was among five other recipients of this prestigious award. Besides being recognized for the successes the Company has had, the Bank acquired Los Angeles National Bank ("LANB") and fully integrated it into our Company. The LANB acquisition added three branches to our branch network, including our first branch in Orange County located in the City of Buena Park.

While accomplishing the above tasks, management, under the strong leadership of the Board of Directors, operated the Company in a safe and profitable manner. In 2013, the Company recorded an after tax profit of $7.0 million or $0.65 per share. We grew the Company to $723.4 million, an increase of $146.9 million or 25.5% over December 31, 2012 total assets of $576.5 million. Total deposits increased to $574.1 million, an increase of $131.4 million or 29.7% over December 31, 2012. Net loans increased to $569.1 million, an increase of $248.9 million or 77.7%.

The Bank in 2013 celebrated its fifth year of operations. Under the leadership of the Board of Directors the Bank become profitable within two years, completed three acquisitions and raised an addition $54 million in capital. The Bank is approaching $750 million and is on target to meet its return on asset and return on equity goals.

The nature of banking has changed since the Bank opened in 2008. Banking has become a highly regulated and competitive industry. Presently there are more competitors in the Chinese American marketplace in the San Gabriel Valley area than any other area in the country. This has created fierce competition from our competitors in our market niche and non-traditional competitors. This has led to irrational pricing of loan products in our market. With team work headed by the Chairman and the Chief Executive Officer, we will manage this risk without sacrificing loan quality.

The low interest rate environment continues to be a challenge to bankers by depressing the margin that is earned between loans and deposits. We expect interest rates to be low for the foreseeable future which will continue to depress our margin. The Board and Management are committed to optimizing our margin through carefully managing our balance sheet.

Even though the regulatory environment and competition are tough, there are opportunities for us. Many banks remain weak or have board of directors that are tired of battling the regulatory environment and decreasing returns on their investments. We believe that our market niche is over banked and we will see increased merger and acquisition activities during 2014 and hopefully another strategic fit will materialize for us. We see increased need for import / export financing to Southeast Asia and China, where we have a strong presence and are well positioned. We also see increased demand in the SBA lending area and mortgage lending.

As Chairman of the Board, President and Chief Executive Officer of RBB Bancorp, we are privileged to give the above report to you. After leading the Bancorp for the past four years, there is still much to be accomplished. Among the top priorities has always been maintaining a safe and stable bank. Working closely with members of the Board and the management team, we are confident the Bank will meet its major milestones and achieve its goals.

Thank you for your support!

Louis Chang, Chairman of the Board

Alan Thian, President and CEO

親愛的股東:

對皇佳商業銀行而言，2013 年的確是充滿挑戰却又回收豐盛的一年。10 月份本行獲頒由經濟部及僑委會舉辦之海外台商磐石獎，全球僅六家海外台商獲獎，而且本行是第一家銀行獲頒此獎，誠屬不易。2013 年 5 月我們不但很順利地合併洛杉磯世界華商銀行，將其分行融入我們的分行系統，更擴展我們的分行至橘縣布安納公園市。

除了上述成果，經營團隊在董事會的領導下，本著穩健經營、改善效率、嚴管開支、提高獲利的原則下，截至 2013 年 12 月 31 日止，本行 2013 年全年的稅後淨利潤達七佰萬，每股淨利為 0.65 美元。總資產從 2O12 年的伍億七仟六佰伍拾萬成長至七億二仟三佰四拾萬，總資產增加一億四仟六佰九拾萬，成長率為 25.5%。總存款增加至伍億七仟四佰一拾萬，相較於 2012 年，存款增加一億三仟一佰四拾萬，成長率為 29.7%。總放款增加至伍億六仟九佰一拾萬，相較於 2012 年，放款增加二億四仟八佰九拾萬，成長率為 77.7%。

2013 年回顧本行五年來的經營路程，經營團隊在董事會的領導下，於第 24 個月開始獲利，不但順利完成三家銀行的購併，且增資五仟四佰萬，使總資產達七億五仟萬，同時資產報酬率及資本報酬率亦達到原訂目標。

由於經濟狀況逐漸回穩，房屋市場逐漸改善，和 2008 年相較，銀行業性質亦大有改變。銀行不但要因應快速變遷的法令規章，更要面對更激烈的競爭，這種情形不但在本行所在的聖蓋博谷區是如此，在全國亦是如此，我們要與原來的競爭對手競爭，更要面對新增的主流銀行的強勢競爭。這樣激烈的競爭下將導致非理性的削價競爭，尤其是在貿易融資貼現業務上尤為明顯。但在董事長領導的董事會嚴格監督與田總裁團隊之努力下，我們絶對會完善地管理所有風險，並嚴格要求貸款品質。

銀行將持續面對低利率的環境，使得貸款及存款間的利差縮小。我們預期低利率在可見的未來將仍然壓抑我們的利潤，但董事會及經營團隊會儘力及穩健的擴展我們的利基。

儘管法令規章繁複，競爭激烈，但同時也提供我們很多好的機會。雖說經濟狀況回穩，但是仍有很多銀行積弱不振，或董事們疲於繼續經營銀行及厭煩層出不窮的法令規章和微簿的報酬率。我們相信我們的市場因有太多的銀行競爭己呈現過度擁擠，在 2014 年必然會有銀行購併上升的趨勢，我們也期望我們的策略計劃能夠實現。東南亞的進出口業務，尤其是中國，持續增強，我們會藉著現有的基礎加強、加大我們關係及機會。我們也會增強我們在小型商業貸款及住宅貸款的部分。

身為皇佳商業金控的董事長及總裁兼執行長我們很驕傲的向您們提出上述報告。過去四年多來，皇佳商業銀行在我們的領導下，謹守"安全經營、穩定成長"的原則，和董事及經營團隊無間的配合，我們有絶對的信心，能達成我們的目標，邁向下一個里程碑。

誠摯的謝謝大家的支持!

張見齊
張見齊
董事長

田詒鴻
田詒鴻
總裁兼執行長

RBB BANCORP AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2013 AND 2012

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Shareholders of
RBB Bancorp and Subsidiaries

We have audited the accompanying consolidated financial statements of RBB Bancorp and Subsidiaries, which are comprised of the consolidated statements of financial condition as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of RBB Bancorp and Subsidiaries as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Vavrinek, Trine, Day & Co., LLP

Laguna Hills, California
February 19, 2014

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RBB BANCORP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2013 AND 2012

ASSETS

	2013	2012
Cash and Due from Banks	$ 23,773,709	$ 32,507,552
Federal Funds Sold and Other Cash Equivalents	12,000,000	29,500,000
TOTAL CASH AND CASH EQUIVALENTS	35,773,709	62,007,552
Interest-Bearing Deposits in Other Financial Institutions	100,000	-
Securities:		
Available for Sale	61,547,620	169,839,256
Held to Maturity (Fair Value 2013 - $7,047,221; 2012 - $7,854,687)	6,742,037	7,125,086
Loans:		
Real Estate	443,538,614	230,757,185
Commercial	139,133,779	100,158,284
TOTAL LOANS	582,672,393	330,915,469
Unaccreted Discount on Acquired Loans	(5,283,190)	(2,901,649)
Deferred Loan Fees, Net of Costs	(760,295)	(697,458)
	576,628,908	327,316,362
Allowance for Loan Losses	(7,549,320)	(7,121,878)
NET LOANS	569,079,588	320,194,484
Cash Surrender Value of Life Insurance	20,210,933	-
Premises and Equipment	7,145,674	2,792,126
FHLB Stock	3,696,000	2,096,500
Net Deferred Tax Assets	8,660,000	6,004,000
Income Tax Receivable	795,434	1,354,070
Other Real Estate Owned	1,510,852	1,424,765
Goodwill	4,000,767	788,890
Core Deposit Intangible	713,738	-
Accrued Interest and Other Assets	3,433,203	2,857,652
	$723,409,555	$576,484,381

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

RBB BANCORP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2013 AND 2012

LIABILITIES AND SHAREHOLDERS' EQUITY

	2013	2012
Deposits:		
Noninterest-Bearing Demand	$ 89,129,152	$ 56,502,217
Savings, NOW and Money Market Accounts	190,786,116	145,996,014
Time Deposits Under $100,000	29,085,370	19,540,398
Time Deposits $100,000 and Over	265,077,985	220,639,754
TOTAL DEPOSITS	574,078,623	442,678,383
FHLB Advances	7,000,000	-
Reserve for Unfunded Commitments	721,561	1,156,019
Capital Subscriptions	-	22,010,550
Accrued Interest and Other Liabilities	3,617,272	2,526,253
TOTAL LIABILITIES	585,417,456	468,371,205
Commitments and Contingencies - Notes E and I	-	-
Shareholders' Equity:		
Preferred Stock - 100,000,000 Shares Authorized, No Par Value; None Outstanding	-	-
Common Stock - 100,000,000 Shares Authorized, No Par Value; 11,658,259 and 9,714,411 Shares Issued and Outstanding for 2013 and 2012, Respectively	125,707,421	102,365,035
Additional Paid-in Capital	5,200,636	3,816,537
Retained Earnings	7,374,317	370,597
Accumulated Other Comprehensive Income (Loss) - Net Unrealized Gain (Loss) on Securities Available for Sale, Net of Tax of $201,716 in 2013 and $1,084,768 in 2012	(290,275)	1,561,007
TOTAL SHAREHOLDERS' EQUITY	137,992,099	108,113,176
	$723,409,555	$576,484,381

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

RBB BANCORP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
INTEREST INCOME		
Interest and Fees on Loans	$ 29,653,433	$ 20,966,694
Interest on Interest-Bearing Deposits	49,078	128,189
Interest on Investment Securities	2,166,929	3,111,930
Interest on Federal Funds Sold and Other	201,943	238,409
TOTAL INTEREST INCOME	32,071,383	24,445,222
INTEREST EXPENSE		
Interest on Savings Deposits, NOW and Money Market Accounts	1,011,063	1,218,512
Interest on Time Deposits	2,350,485	3,191,784
Interest on Other Borrowed Funds	5,687	6
TOTAL INTEREST EXPENSE	3,367,235	4,410,302
NET INTEREST INCOME	28,704,148	20,034,920
Provision for Loan Losses	1,612,540	2,057,920
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	27,091,608	17,977,000
NONINTEREST INCOME		
Service Charges, Fees and Other	1,258,548	804,346
Gain on Sale of Loans	139,782	403,015
Recoveries on Loans Acquired in Business Combinations	713,741	193,000
Increase in Cash Surrender of Life Insurance	210,933	-
Gain on Sale of Securities	179,249	161,513
Gain on Sale of OREO	459,782	761,472
Bank Enterprise Award ("BEA") Grant	415,000	-
	3,377,035	2,323,346
NONINTEREST EXPENSE		
Salaries and Employee Benefits	9,344,683	6,979,627
Occupancy and Equipment Expenses	2,343,703	2,112,818
Data Processing	1,812,494	768,844
Legal and Professional	1,800,762	836,630
Office Expenses	302,988	223,547
Marketing and Business Promotion	261,666	232,167
Insurance and Regulatory Assessments	745,085	657,073
OREO Expenses	138,897	411,431
Other Expenses	1,404,151	1,037,007
	18,154,429	13,259,144
INCOME BEFORE INCOME TAXES	12,314,214	7,041,202
Income Tax Expense	5,310,494	2,994,992
NET INCOME	$ 7,003,720	$ 4,046,210
NET INCOME PER SHARE - BASIC	$ 0.65	$ 0.49
NET INCOME PER SHARE - DILUTED	$ 0.63	$ 0.48

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

RBB BANCORP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
Net Income	$ 7,003,720	$ 4,046,210
OTHER COMPREHENSIVE INCOME (LOSS):		
Unrealized Gains (Losses) on Securities Available for Sale:		
Change in Unrealized Gains (Losses)	(2,958,517)	2,161,749
Reclassification of Gains Recognized in Net Income	(179,249)	(161,513)
	(3,137,766)	2,000,236
Related Income Tax Effect:		
Change in Unrealized Gains (Losses)	1,212,992	(886,317)
Reclassification of Gains Recognized in Net Income	73,492	66,220
	1,286,484	(820,097)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	(1,851,282)	1,180,139
TOTAL COMPREHENSIVE INCOME	$ 5,152,438	$ 5,226,349

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

RBB BANCORP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	Common Stock		Additional Paid-in	Retained Earnings	Accumulated Other Comprehensive	
	Shares	Amount	Capital	(Deficit)	Income (Loss)	Total
Balance at December 31, 2011	7,123,259	$ 71,273,557	$3,574,037	$ (3,675,613)	$ 380,868	$ 71,552,849
Net Income				4,046,210		4,046,210
Exercise of Stock Options	17,000	221,000	(51,000)			170,000
Stock-Based Compensation			293,500			293,500
Issuance of Common Stock Through Private Placement, Net of Expenses of $19,346	2,574,152	30,870,478				30,870,478
Change in Other Comprehensive Income, Net of Taxes					1,180,139	1,180,139
Balance at December 31, 2012	9,714,411	102,365,035	3,816,537	370,597	1,561,007	108,113,176
Net Income				7,003,720		7,003,720
Exercise of Stock Options	18,000	232,210	(52,210)			180,000
Stock-Based Compensation			1,436,309			1,436,309
Issuance of Common Stock Through Private Placement	1,925,848	23,110,176				23,110,176
Change in Other Comprehensive Income, Net of Taxes					(1,851,282)	(1,851,282)
Balance at December 31, 2013	11,658,259	$125,707,421	$5,200,636	$ 7,374,317	$ (290,275)	$ 137,992,099

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

RBB BANCORP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
OPERATING ACTIVITIES		
Net Income	$ 7,003,720	$ 4,046,210
Adjustments to Reconcile Net Income to Net Cash From		
Operating Activities:		
Depreciation, Accretion and Amortization	(1,056,187)	1,133,054
Provision for Loan Losses	1,612,540	2,057,920
Stock-Based Compensation	1,436,309	293,500
Deferred Tax Expense	1,281,000	1,417,000
Gain on Sale of Securities	(179,249)	(161,513)
Gain on Sale of Loans	(139,782)	(403,015)
Gain on Sale of Other Real Estate Owned	(459,782)	(761,472)
Increase in Cash Surrender Value of Life Insurance	(210,933)	-
Loss on Sale of Fixed Assets	-	77,098
Other Items	3,306,997	(1,876,122)
NET CASH FROM OPERATING ACTIVITIES	12,594,633	5,822,660
INVESTING ACTIVITIES		
Decrease in Interest-Bearing Deposits	1,619,000	733,000
Securities Available for Sale:		
Purchases	(3,098,933)	(143,864,442)
Maturities, Prepayments and Calls	34,272,904	39,315,691
Sales	72,730,731	23,531,598
Securities Held to Maturity:		
Purchases	-	(1,020,433)
Maturities, Prepayments and Calls	350,000	-
Purchase of FHLB Stock and Other Equity Securities	(1,601,015)	(415,100)
Purchase of Life Insurance	(20,000,000)	-
Net Increase in Loans	(132,616,504)	(20,882,743)
Proceeds from Sales of Other Real Estate Owned	1,016,195	2,394,461
Net Cash Acquired in Connection with Acquisitions	30,900,534	-
Purchases of Premises and Equipment	(203,521)	(201,619)
NET CASH FROM INVESTING ACTIVITIES	(16,630,609)	(100,409,587)
FINANCING ACTIVITIES		
Net Increase in Demand Deposits and Savings Accounts	10,772,935	39,062,811
Net Decrease in Time Deposits	(41,250,428)	(23,921,914)
Proceeds from FHLB Advances	7,000,000	-
(Decrease) Increase in Capital Subscriptions	(22,010,550)	22,010,550
Issuance of Common Stock	23,290,176	31,040,478
NET CASH FROM FINANCING ACTIVITIES	(22,197,867)	68,191,925
DECREASE IN CASH AND CASH EQUIVALENTS	(26,233,843)	(26,395,002)
Cash and Cash Equivalents at Beginning of Period	62,007,552	88,402,554
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 35,773,709	$ 62,007,552
Supplemental Disclosures of Cash Flow Information:		
Interest Paid	$ 3,496,405	$ 4,621,870
Taxes Paid	$ 2,332,000	$ 2,995,000
Transfer from Loans to Other Real Estate Owned	$ 292,500	$ 791,004

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation and Nature of Operations

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

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

RBB Bancorp has no significant business activity other than its investments in Royal Business Bank and RAM. Accordingly, no separate financial information on RBB Bancorp is provided.

The Company operates full-service banking offices in Los Angeles, San Gabriel, Torrance, Rowland Heights, Westlake Village, Oxnard, Buena Park, Monterey Park, and Silverlake, California and Las Vegas, Nevada and loan production offices in Industry and Rowland Heights, California. The Company's primary source of revenue is providing loans to customers, who are predominately small and middle-market businesses and individuals.

Subsequent Events

The Company has evaluated subsequent events for recognition and disclosure through February 19, 2014, which is the date the financial statements were available to be issued.

Use of Estimates in the Preparation of Financial Statements

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

Cash and Cash Equivalents

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

Cash and Due from Banks

Banking regulations require that banks maintain a percentage of their deposits as reserves in cash or on deposit with the Federal Reserve Bank. The reserves required to be held as of December 31, 2013 and 2012 were $5,415,000 and $4,948,000, respectively. The Company maintains amounts in due from bank accounts, which may exceed federally insured limits. The Company has not experienced any losses in such accounts.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Interest-Bearing Deposits in Other Financial Institutions

Interest-bearing deposits in other financial institutions not included in cash and cash equivalents are carried at cost.

Investment Securities

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

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

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

Loans

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances reduced by any charge-offs or specific valuation accounts and net of any deferred fees or costs on originated loans, or unamortized premiums or discounts on purchased loans.

Loan origination fees and certain direct origination costs are deferred and recognized in interest income using the level-yield method without anticipating prepayments.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Loans - Continued

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

Loans on which the accrual of interest has been discontinued are designated as nonaccrual loans. The accrual of interest on loans is discontinued when principal or interest is past due 90 days or when, in the opinion of management, there is reasonable doubt as to collectibility based on contractual terms of the loan. When loans are placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income. Income on nonaccrual loans is subsequently recognized only to the extent that cash is received and the loan's principal balance is deemed collectible. Interest accruals are resumed on such loans only when they are brought current with respect to interest and principal and when, in the judgment of management, the loans are estimated to be fully collectible as to all principal and interest.

Allowance for Loan Losses

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

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

<u>Allowance for Loan Losses - Continued</u>

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

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

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

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

<u>Certain Acquired Loans</u>

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Premises and Equipment

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

Other Real Estate Owned

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

Goodwill and Other Intangible Assets

Goodwill is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill resulting from whole bank acquisitions is not amortized, but tested for impairment at least annually. The Company has selected November 30 as the date to perform the annual impairment test. Goodwill amounted to $4,000,767 and $788,890 as of December 31, 2013 and 2012, respectively, and is the only intangible asset with an indefinite life on the balance sheet. No impairment was recognized on goodwill during 2013 and 2012.

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 years. CDI was recognized in the 2013 acquisition of Los Angeles National Bank. The unamortized balance as of December 31, 2013 was $713,738. CDI amortization expense was $88,000 in 2013.

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

2014	$	131,000
2015		117,000
2016		106,000
2017		88,000
2018		87,000

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Company Owned Life Insurance

The Company has purchased life insurance policies on certain key executives. Company owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Federal Home Loan Bank ("FHLB") Stock

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

Stock-Based Compensation

Compensation cost is recognized for stock options issued to employees, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options. This cost is recognized over the period which an employee is required to provide services in exchange for the award, generally defined as the vesting period.

Income Taxes

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

Retirement Plans

The Company established a 401(k) plan in 2010. The Company contributed $46,000 and $41,000 in 2013 and 2012, respectively.

Comprehensive Income

The change in unrealized gains and losses on securities available for sale is the only component of accumulated other comprehensive income for the Company. The amount reclassified out of other accumulated comprehensive income relating to realized gains on securities available for sale was $179,249 and $161,513 for 2013 and 2012, with the related tax effect of $73,492 and $66,220, respectively.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Financial Instruments

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

Earnings Per Share ("EPS")

Basic EPS excludes dilution and is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity.

Fair Value Measurement

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

> Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
>
> Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
>
> Level 3: Significant unobservable inputs that reflect the Company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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

Reclassifications

Certain reclassifications have been made in the 2012 financial statements to conform to the presentation used in 2013. These reclassifications had no impact of the Company's previously reported financial statements.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Adoption of New Accounting Standards

In February 2013, the Financial Accounting Standards Board issued Accounting Standards Update 2013-02, *Comprehensive Income* ("Topic 220") - *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income* ("ASU 2013-02"). This ASU requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under Generally Accepted Accounting Principles ("GAAP") to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under GAAP that provide additional detail about those amounts. ASU 2013-02 is effective prospectively for annual and interim periods beginning after December 15, 2012 for public entities and annual periods beginning after December 15, 2013 for nonpublic entities. The adoption of this ASU did not have a material impact on the Company's financial position, results of operations, or cash flows.

NOTE B - ACQUISITIONS

Los Angeles National Bank Acquisition:
On May 17, 2013, the Company acquired all the assets and assumed all the liabilities of Los Angeles National Bank ("LANB") in exchange for cash of $31.3 million. LANB operated four branches in the Los Angeles metropolitan area. The Company acquired LANB to strategically increase its existing presence in the Los Angeles area. Goodwill in the amount of $3.2 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 LANB as of May 17, 2013 and the fair value adjustments and amounts recorded by the Company in 2013 under the acquisition method of accounting:

	LANB Book Value	Fair Value Adjustments	Fair Value
ASSETS ACQUIRED			
Cash and Cash Equivalents	$ 62,176,338	$ -	$ 62,176,338
Interest-Bearing Deposits in Other Financial Institutions	1,719,000	-	1,719,000
Loans, gross	119,946,508	(5,240,599)	114,705,909
Allowance for Loan Losses	(3,621,870)	3,621,870	-
Other Real Estate Owned	350,000	-	350,000
Bank Premises and Equipment	1,285,527	3,498,169	4,783,696
Deferred Tax Assets	2,269,327	385,651	2,654,978
Other Assets	3,485,268	802,000	4,287,268
Total Assets Acquired	$ 187,610,098	$ 3,067,091	$ 190,677,189
LIABILITIES ASSUMED			
Deposits	$ 161,860,440	$ 150,642	$ 162,011,082
Other Liabilities	549,180	53,000	602,180
Total Liabilities Assumed	162,409,620	203,642	162,613,262
Excess of Assets Acquired Over Liabilities Assumed	25,200,478	2,863,449	28,063,927
	$ 187,610,098	$ 3,067,091	
Cash Paid			31,275,804
Goodwill Recognized			$ 3,211,877

The Company accounted for the transaction under the acquisition method of accounting which requires purchased assets and liabilities assumed to be recorded at their respective fair values at the date of acquisition. The Company determined the fair value of loans, leases, core deposit intangible and deposits with the assistance of a third party valuation. The fair value of bank premises and other real estate owned was based on recent appraisals of the properties.

NOTE B - ACQUISITIONS - Continued

The estimated fair values are subject to refinement as additional information relative to the closing date fair values become available through the measurement period. While additional significant changes to the closing date fair values are not expected, any information relative to the changes in these fair values will be evaluated to determine if such changes are due to events and circumstances that existed as of the acquisition date. During the measurement period, any such changes will be recorded as part of the closing date fair value.

In many cases, the fair values of assets acquired and liabilities assumed were determined by estimating the cash flows expected to result from those assets and liabilities and discounting them at appropriate market rates. The most significant category of assets for which this procedure was used was that of acquired loans. 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 Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 310-20 (formerly SFAS 91).

Certain loans, for which specific credit-related deterioration, since origination, was identified, are recorded at fair value, reflecting the present value of the amounts expected to be collected. Income recognition on these "purchased credit-impaired" loans is based on a reasonable expectation about the timing and amount of cash flows to be collected. Acquired loans deemed impaired and considered collateral dependent, with the timing of the sale of loan collateral indeterminate, remain on non-accrual status and have no accretable yield.

For loans acquired, the contractual amounts due, expected cash flows to be collected, interest component and fair value as of the respective acquisition dates were as follows:

	Acquired Loans
Contractual Amounts Due	$ 133,655,634
Cash Flows not Expected to be Collected	-
Expected Cash Flows	133,655,634
Interest Component of Expected Cash Flows	18,949,725
Fair Value of Acquired Loans	$ 114,705,909

None of the loans acquired had evidence of deterioration of credit quality since origination for which it was probable, at acquisition, that the Company would be unable to collect all contractually required payments receivable.

In accordance with generally accepted accounting principles there was no carryover of the allowance for loan losses that had been previously recorded by LANB.

NOTE C - INVESTMENT SECURITIES

The following table summarizes the amortized cost and fair value of securities available for sale and held to maturity at December 31, 2013 and 2012, and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income:

December 31, 2013	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale				
Mortgage-Backed Securities-				
Government Sponsored Agencies	$ 46,955,691	$ 98,314	$ (872,315)	$ 46,181,690
Corporate Debt Securities	15,083,919	282,011	-	15,365,930
	$ 62,039,610	$ 380,325	$ (872,315)	$ 61,547,620
Held to Maturity				
Municipal Taxable Securities	$ 5,759,907	$ 331,972	$ -	$ 6,091,879
Municipal Securities	982,130	-	(26,788)	955,342
	$ 6,742,037	$ 331,972	$ (26,788)	$ 7,047,221
December 31, 2012				
Available for Sale				
U.S. Government Agency	$ 5,251,764	$ 113,424	$ -	$ 5,365,188
Mortgage-Backed Securities-				
Government Sponsored Agencies	129,822,453	1,805,199	(74,534)	131,553,118
Corporate Debt Securities	32,119,263	802,342	(655)	32,920,950
	$167,193,480	$ 2,720,965	$ (75,189)	$169,839,256
Held to Maturity				
Municipal Taxable Securities	$ 7,125,086	$ 729,601	$ -	$ 7,854,687

During 2013 and 2012 the Company sold $72.7 million and $23.5 million of securities available for sale, recognizing gross gains of $179,249 and $161,513, respectively.

There were no securities pledged as of December 31, 2013.

NOTE C - INVESTMENT SECURITIES - Continued

The amortized cost and fair value of the investment securities portfolio as of December 31, 2013 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.

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within One Year	$ 6,035,599	$ 6,083,050	$ -	$ -
Due From One through Five Years	36,359,433	36,199,368	1,448,726	1,552,820
Due from Five to Ten Years	16,374,221	15,994,845	3,303,184	3,450,999
Due after Ten Years	3,270,357	3,270,357	1,990,127	2,043,402
	$ 62,039,610	$ 61,547,620	$ 6,742,037	$ 7,047,221

Substantially all unrealized losses had been in a continuous loss position for less than 12 months as of December 31, 2013 and 2012. Unrealized losses on mortgage-backed and municipal bonds 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.

NOTE D - LOANS

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

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

	2013	2012
Beginning Balance	$ 7,121,878	$ 5,059,929
Additions to the Allowance Charged to Expense	1,612,540	2,057,920
Recoveries on Loans Charged-Off	9,763	4,029
	8,744,181	7,121,878
Less Loans Charged-Off	(1,194,861)	-
Ending Balance	$ 7,549,320	$ 7,121,878

NOTE D - LOANS - Continued

The following table presents the recorded investment in loans and impairment method as of December 31, 2013 and 2012 and the activity in the allowance for loan losses for the years then ended, by portfolio segment:

December 31, 2013	Real Estate	Commercial	Total
Allowance for Loan Losses:			
Beginning of Year	$ 4,688,187	$ 2,433,691	$ 7,121,878
Provisions	1,603,025	9,515	1,612,540
Charge-offs	(1,183,678)	(11,183)	(1,194,861)
Recoveries	-	9,763	9,763
	$ 5,107,534	$ 2,441,786	$ 7,549,320
Reserves:			
Specific	$ -	$ -	$ -
General	5,107,534	2,441,786	7,549,320
Loans Acquired with Deteriorated Credit Quality	-	-	-
	$ 5,107,534	$ 2,441,786	$ 7,549,320
Loans Evaluated for Impairment:			
Individually	$ 4,718,487	$ 415,296	$ 5,133,783
Collectively	430,651,335	138,847,473	569,498,808
Loans Acquired with Deteriorated Credit Quality	1,875,428	120,889	1,996,317
	$437,245,250	$139,383,658	$576,628,908
December 31, 2012			
Allowance for Loan Losses:			
Beginning of Year	$ 3,304,182	$ 1,755,747	$ 5,059,929
Provisions	1,384,005	673,915	2,057,920
Charge-offs	-	-	-
Recoveries	-	4,029	4,029
	$ 4,688,187	$ 2,433,691	$ 7,121,878
Reserves:			
Specific	$ -	$ -	$ -
General	4,688,187	2,433,691	7,121,878
Loans Acquired with Deteriorated Credit Quality	-	-	-
	$ 4,688,187	$ 2,433,691	$ 7,121,878
Loans Evaluated for Impairment:			
Individually	$ 7,201,393	$ 1,166,548	$ 8,367,941
Collectively	216,074,836	98,966,576	315,041,412
Loans Acquired with Deteriorated Credit Quality	3,718,651	188,358	3,907,009
	$226,994,880	$100,321,482	$327,316,362

NOTE D - LOANS - Continued

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. Purchased credit-impaired loans are not subject to the impairment rules under ASC 310-10 and are therefore excluded from the impaired risk category and are instead included in the substandard risk category.

The risk category of loans by class of loans was as follows as of December 31, 2013 and 2012:

December 31, 2013	Pass	Special Mention	Substandard	Impaired	Total
Real Estate:					
Construction and Land Development	$ 61,097,852	$ -	$ -	$ 2,066,237	$ 63,164,089
Residential Real Estate	162,715,639	-	1,094,241	-	163,809,880
Commercial Real Estate	192,242,911	5,767,231	9,608,889	2,652,250	210,271,281
Commercial	131,652,901	4,314,931	3,000,530	415,296	139,383,658
	$ 547,709,303	$10,082,162	$ 13,703,660	$ 5,133,783	$576,628,908
December 31, 2012					
Real Estate:					
Construction and Land Development	$ 50,281,636	$ 2,881,418	$ 1,693,477	$ 1,744,391	$ 56,600,922
Residential Real Estate	55,123,749	-	2,241,803	-	57,365,552
Commercial Real Estate	100,005,618	5,093,597	2,472,189	5,457,002	113,028,406
Commercial	88,829,004	8,167,964	2,157,966	1,166,548	100,321,482
	$ 294,240,007	$16,142,979	$ 8,565,435	$ 8,367,941	$327,316,362

NOTE D - LOANS - Continued

Past due and nonaccrual loans presented by loan class were as follows as of December 31, 2013 and 2012:

	Still Accruing		
December 31, 2013	30-89 Days Past Due	Over 90 Days Past Due	Nonaccrual
Commercial Real Estate	$ -	$ -	$ 156,595
Commercial	662,338	91,089	311,212
	$ 662,338	$ 91,089	$ 467,807
December 31, 2012			
Construction and Land Development	$ -	$ -	$ 1,460,887
Commercial Real Estate	-	-	3,400,348
Commercial	122,393	-	1,123,281
	$ 122,393	$ -	$ 5,984,516

Information relating to individually impaired loans presented by class of loans was as follows as of December 31, 2013 and 2012:

	With no Allowance Recorded			
December 31, 2013	Unpaid Principal Balance	Recorded Investment	Average Balance	Interest Income
Construction and Land Development	$ 2,475,401	$ 2,066,237	$ 2,082,901	$ 362,524
Commercial Real Estate	2,652,249	2,652,250	3,877,039	209,473
Commercial	415,296	415,296	790,922	6,109
	$ 5,542,946	$ 5,133,783	$ 6,750,862	$ 578,106
December 31, 2012				
Construction and Land Development	$ 2,134,973	$ 1,744,391	$ 1,687,487	$ 223,720
Commercial Real Estate	6,941,292	5,457,002	5,490,162	3,290
Commercial	1,208,548	1,166,548	1,211,474	-
	$ 10,284,813	$ 8,367,941	$ 8,389,123	$ 227,010

There were no allowances recorded on individually impaired loans as of December 31, 2013 and 2012 and no interest income was recognized on a cash basis in the years then ended.

NOTE D - LOANS - Continued

The Company had eight and nine loans identified as troubled debt restructurings ("TDR's") at December 31, 2013 and 2012, respectively, and no specific reserves have been allocated thereon. There are no commitments to lend additional amounts as of December 31, 2013 and 2012, respectively, to customers with outstanding loans that are classified as TDR's.

During the year ended December 31, 2012, the terms of certain loans were modified as TDR's. The modification of the terms generally included loans where an extension of the maturity date was granted at a stated rate of interest lower than the current market rate for new debt with similar risk. Such extensions ranged from two to five years on the loans restructured in 2012. There was also a restructuring of a participation purchase loan by the lead bank into an A note and a B note with differing repayments terms for both. No charge-off was recorded in conjunction with this A/B note restructure in 2012.

The following table presents loans by class modified as TDR's that occurred during the year ended December 31, 2012:

December 31, 2012	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
Construction and Land Development	1	$ 1,630,523	$ 1,630,523
Commercial Real Estate	4	2,986,819	3,013,648
Commercial	4	1,331,222	1,331,222
	9	$ 5,948,564	$ 5,975,393

There were no loans modified as TDR’s during the year ended December 31, 2013.

The determination of the allowance for loan losses related to TDR's depends on the collectability of principal and interest, according to the repayment terms. The TDR's that occurred in 2012 did not materially change the estimated collectability and therefore did not materially change the related allowance for loan loss amounts.

There were no defaults of TDR's in 2013 or 2012 where the loan was modified within the prior twelve months. Default for this purpose is defined as the loan being 90 days or more past due under the modified terms.

NOTE D - LOANS - Continued

The Company has purchased loans as part of its whole bank acquisitions, for which there was at acquisition, evidence of deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected.

The outstanding balance and carrying amount of purchased credit-impaired loans as of December 31 were as follows:

	2013	2012
Outstanding Balance	$ 3,086,000	$ 5,060,000
Carrying Amount	$ 1,996,000	$ 3,907,000

For these purchased credit-impaired loans, the Company did not increase the allowance for loan losses during 2013 or 2012 as there were no significant reductions in the expected cash flows.

Below is a summary of activity in the accretable yield on purchased credit-impaired loans for 2013 and 2012:

	2013	2012
Balance, Beginning of Year	$ 1,681,966	$ 3,382,348
New Loans Purchased	-	-
Disposals	(301,618)	(385,147)
Restructuring as TDR	-	(906,730)
Reclassification to Nonaccretable	(437,253)	-
Accretion of Income	(172,027)	(408,505)
Balance, End of Year	$ 771,068	$ 1,681,966

Income is not recognized on certain purchased loans if the Company cannot reasonably estimate cash flows expected to be collected. The carrying amount of such loans was $0 and $1,544,056 at December 31, 2013 and 2012, respectively.

NOTE E - PREMISES AND EQUIPMENT

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

	2013	2012
Land and Buildings	$ 5,186,514	$ 450,928
Leasehold Improvements	2,712,708	2,638,292
Furniture, Fixtures, and Equipment	2,017,772	1,844,846
	9,916,994	4,934,066
Less Accumulated Depreciation and Amortization	(2,771,320)	(2,141,940)
	$ 7,145,674	$ 2,792,126

Depreciation expense was $653,899 and $669,353 for 2013 and 2012, respectively.

The Company leases several of its operating facilities under various noncancellable operating leases expiring at various dates through 2021. The Company is also responsible for common area maintenance, taxes and insurance at the various branch locations.

Future minimum rent payments on the Company's leases were as follows as of December 31, 2013:

2014	$ 1,370,137
2015	1,265,521
2016	1,259,292
2017	1,087,973
2018	775,710
Thereafter	598,041
	$ 6,356,674

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 approximately $1,234,490 and $1,106,000 for 2013 and 2012, respectively.

NOTE F - DEPOSITS

At December 31, 2013 the scheduled maturities of time deposits are as follows:

One year	$ 291,296,490
Two to three years	2,866,865
	$ 294,163,355

NOTE G - BORROWING ARRANGEMENTS

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

*Federal Funds Arrangements with Commercial Bank*s. As of December 31, 2013 the Company may borrow on an unsecured basis, up to $15 million, $10 million, $12 million and $5 million overnight from Union Bank, Wells Fargo Bank, First Tennessee National Bank, and Pacific Coast Bankers' Bank, respectively.

Letter of Credit Arrangements. As of December 31, 2013 the Company had an unsecured commercial letter of credit line with Wells Fargo Bank for $2 million.

FRB Secured Line of Credit. The secured borrowing capacity of $101.1 million at December 31, 2013 is collateralized by loans pledged with a carrying value of $152.0 million.

FHLB Secured Line of Credit. The secured borrowing capacity of $87.5 million at December 31, 2013 is collateralized by loans pledged with a carrying value of $112.4 million.

There was $7 million outstanding with the FHLB as of December 31, 2013, which matures on January 6, 2014 and carries an interest rate of 0.16%. There were no amounts outstanding under any of the arrangements above as of December 31, 2012.

NOTE H - INCOME TAXES

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

Income tax expense consists of the following:

	2013	2012
Current:		
Federal	$ 3,081,182	$ 1,351,268
State	948,312	226,724
	4,029,494	1,577,992
Deferred	1,281,000	1,417,000
	$ 5,310,494	$ 2,994,992

NOTE H - INCOME TAXES - Continued

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

	2013		2012	
	Amount	Rate	Amount	Rate
Statutory Federal Tax	$ 4,187,000	34.0%	$ 2,394,000	34.0%
State Franchise Tax, Net of Federal Benefit	907,000	7.4%	521,000	7.4%
Other Items, Net	216,494	1.8%	79,992	1.1%
Actual Tax Expense	$ 5,310,494	43.1%	$ 2,994,992	42.5%

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

	2013	2012
Deferred Tax Assets:		
Pre-Opening Expenses	$ 349,000	$ 603,000
Allowance For Loan Losses	2,173,000	1,751,000
Stock-Based Compensation	1,482,000	1,096,000
Off Balance Sheet Reserve	297,000	476,000
Operating Loss Carryforwards	1,493,000	18,000
Other Real Estate Owned	1,320,000	1,759,000
Acquisition Accounting Fair Value Adjustments	1,804,000	1,190,000
Unrealized Loss on AFS Securities	202,000	-
Other	1,324,000	624,000
	10,444,000	7,517,000
Deferred Tax Liabilities:		
Depreciation	(1,124,000)	-
Unrealized Gain on AFS Securities	-	(1,085,000)
Other	(660,000)	(428,000)
	(1,784,000)	(1,513,000)
Net Deferred Tax Assets	$ 8,660,000	$ 6,004,000

NOTE H - INCOME TAXES - Continued

The Company has net operating loss carryforwards of approximately $3.2 million for federal income and approximately $5.5 million for California franchise tax purposes. Net operating loss carry forwards, to the extent not used will begin to expire in 2027. Net operating loss carryforwards available from acquisitions are substantially limited by Section 382 of the Internal Revenue Code and benefits not expected to be realized due to the limitation have been excluded from the deferred tax asset and net operating loss carryforward amounts noted above.

The Company is subject to federal income tax and franchise tax of the state of California. Income tax returns for the years ending after December 31, 2009 are open to audit by the federal authorities and for the years ending after December 31, 2008 are open to audit by California state authorities.

NOTE I - COMMITMENTS

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

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

As of December 31, 2013 and 2012, the Company had the following financial commitments whose contractual amount represents credit risk:

	2013	2012
Commitments to Make Loans	$ 49,186,312	$ 46,408,020
Unused Lines of Credit	75,736,453	56,925,753
Commercial and Similar Letters of Credit	28,260,791	43,420,144
Standby Letters of Credit	3,340,000	2,139,481
	$ 156,523,556	$ 148,893,398

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.

NOTE J - RELATED PARTY TRANSACTIONS

Loans granted to executive officers, directors and their related interests with which they are associated totaled approximately $7,600,000 and $5,700,000 as of December 31, 2013 and 2012, respectively.

Loan commitments outstanding to executive officers, directors and their related interests with which they are associated totaled approximately $3,400,000 and $9,500,000 as of December 31, 2013 and 2012, respectively.

Deposits from executive officers, directors and their related interests with which they are associated held by the Company at December 31, 2013 and 2012 amounted to approximately $39,672,000 and $43,748,000, respectively.

NOTE K - STOCK OPTION PLAN

Under the terms of the Company's 2010 Stock Option Plan, officers and key employees may be granted both nonqualified and incentive stock options and directors and organizers, who are not also an officer or employee, may only be granted nonqualified stock options. The Plan provides for options to purchase up to 30 percent of the outstanding common stock at a price not less than 100 percent of the fair market value of the stock on the date of the grant. Stock options expire no later than ten years from the date of the grant and generally vest over three years. The Company recognized stock-based compensation expense of $1,436,309 and $293,500 in 2013 and 2012 and recognized income tax benefits on that expense of $446,595 and $45,551, 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:

	2013	2012
Expected Volatility	35.0%	35.0%
Expected Term	5.6 Years	6.2 Years
Expected Dividends	None	None
Risk Free Rate	1.06%	1.16%
Grant Date Fair Value	$ 4.23	$ 3.79

Since the Company has a limited amount of historical stock activity the expected volatility is based on the historical volatility of similar banks that have a longer trading history. The expected term represents the estimated average period of time that the options remain outstanding. Since the Company does not have sufficient historical data on the exercise of stock options, the expected term is based on the "simplified" method that measures the expected term as the average of the vesting period and the contractual term. 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.

NOTE K - STOCK OPTION PLAN - Continued

A summary of the status of the Company's stock option plan as of December 31, 2013 and changes during the year then ended is presented below:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at Beginning of Year	1,537,242	$ 10.10		
Granted	769,500	$ 12.00		
Exercised	(16,000)	$ 10.00		
Forfeited or Expired	(40,500)	$ 10.89		
Outstanding at End of Year	2,250,242	$ 10.84	6.7 Years	$ 7,610,253
Options Exercisable	1,314,076	$ 10.11	5.2 Years	$ 5,398,900

As of December 31, 2013 there was approximately $2,630,000 of total unrecognized compensation cost related to outstanding stock options that will be recognized over a weighted-average period of 1.5 years. The intrinsic value of options exercised was $36,000 and $34,000 in 2013 and 2012, respectively.

NOTE L - REGULATORY MATTERS

Holding companies (with assets over $500 million 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.

Under capital adequacy guidelines and the regulatory framework for prompt corrective action, RBB Bancorp and the Bank must meet specific capital guidelines that involve quantitative measures of RBB Bancorp's and 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 RBB Bancorp and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2013 and 2012, that RBB Bancorp and the Bank meet all capital adequacy requirements to which it is subject.

As of December 31, 2013, the most recent notification from the FDIC categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action (there are no conditions or events since that notification that management believes have changed the Bank's category). To be categorized as well-capitalized, the Bank must maintain minimum ratios as set forth in the table below.

NOTE L - REGULATORY MATTERS - Continued

The following table sets forth the RBB Bancorp's and Bank's actual capital amounts and ratios and related regulatory requirements as of December 31, 2013 and 2012 (dollar amounts in thousands):

	Actual		Amount of Capital Required: For Capital Adequacy Purposes		Amount of Capital Required: To Be Well-Capitalized Under Prompt Corrective Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2013:						
Total Capital (to Risk-Weighted Assets)						
Consolidated	$ 141,079	23.5%	$ 48,094	8.0%	NA	NA
Bank	$ 116,717	19.6%	$ 47,620	8.0%	$ 59,525	10.0%
Tier 1 Capital (to Risk-Weighted Assets)						
Consolidated	$ 133,555	22.2%	$ 24,047	4.0%	NA	NA
Bank	$ 109,266	18.4%	$ 23,810	4.0%	$ 35,715	6.0%
Tier 1 Capital (to Average Assets)						
Consolidated	$ 133,555	18.5%	$ 28,841	4.0%	NA	NA
Bank	$ 109,266	15.3%	$ 28,600	4.0%	$ 35,750	5.0%
As of December 31, 2012:						
Total Capital (to Risk-Weighted Assets)						
Consolidated	$ 108,667	26.8%	$ 32,444	8.0%	NA	NA
Bank	$ 97,652	24.1%	$ 32,442	8.0%	$ 40,552	10.0%
Tier 1 Capital (to Risk-Weighted Assets)						
Consolidated	$ 103,558	25.5%	$ 16,222	4.0%	NA	NA
Bank	$ 92,543	22.8%	$ 16,221	4.0%	$ 24,331	6.0%
Tier 1 Capital (to Average Assets)						
Consolidated	$ 103,558	17.5%	$ 23,670	4.0%	NA	NA
Bank	$ 92,543	15.6%	$ 23,691	4.0%	$ 29,614	5.0%

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.

NOTE L - REGULATORY MATTERS - Continued

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

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

NOTE M - FAIR VALUE MEASUREMENTS

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

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

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

Appraisals for other real estate owned are performed by state licensed appraisers (for commercial properties) or state certified appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Company. When a Notice of Default is recorded, an appraisal report is ordered. Once received, a member of the credit administration department reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparison to independent data sources such as recent market data or industry wide-statistics for residential appraisals. Commercial appraisals are sent to an independent third party to review. The Company also compares the actual selling price of collateral that has been sold to the most recent appraised value to determine what additional adjustments, if any, should be made to the appraisal values on any remaining other real estate owned to arrive at fair value. If the existing appraisal is older than twelve months a new appraisal report is ordered. No significant adjustments to appraised values have been made as a result of this comparison process as of December 31, 2013.

NOTE M - FAIR VALUE MEASUREMENTS - Continued

The following table provides the hierarchy and fair value for each major category of assets and liabilities measured at fair value at December 31, 2013 and 2012:

	Fair Value Measurements Using:			
December 31, 2013	Level 1	Level 2	Level 3	Total
Assets Measured at Fair Value:				
On a Recurring Basis:				
Securities Available for Sale	$ -	$ 61,547,620	$ -	$ 61,547,620
On a Non-Recurring Basis:				
Other Real Estate Owned	$ -	$ -	$ 1,510,852	$ 1,510,852
December 31, 2012				
Assets Measured at Fair Value:				
On a Recurring Basis:				
Securities Available for Sale	$ -	$169,839,256	$ -	$ 169,839,256
On a Non-Recurring Basis:				
Other Real Estate Owned	$ -	$ -	$ 1,424,765	$ 1,424,765

No write-downs from the original value of OREO have been recorded in 2013 or 2012.

Quantitative information about the Company's non-recurring Level 3 fair value measurements as of December 31, 2013 and 2012 is as follows:

December 31, 2013	Fair Value Amount	Valuation Technique	Unobservable Input	Adjustment Range	Weighted-Average Adjustment
Other Real Estate Owned	$ 1,510,852	Third Party Appraisals	Management Adjustments to Reflect Current Conditions and Selling Costs	0 - 69%	30%
December 31, 2012					
Other Real Estate Owned	$ 1,424,765	Third Party Appraisals	Management Adjustments to Reflect Current Conditions and Selling Costs	0 - 58%	31%

NOTE N - FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

Cash and Cash Equivalents

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

Time Deposits in Other Banks

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

Loans

For variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying amounts. The fair values for all other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers with similar credit quality. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price.

Federal Home Loan Bank Stock and Other Bank Stock

The fair value of Federal Home Loan Bank Stock and other Bank stock is not readily determinable due to the lack of its transferability.

NOTE N - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

Deposits

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

FHLB Advances

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

Off-Balance Sheet Financial Instruments

The fair value of commitments to extend credit and standby letters of credit is estimated using the fees currently charged to enter into similar agreements. The fair value of these financial instruments is not material.

The fair value hierarchy level and estimated fair value of significant financial instruments at December 31, 2013 and 2012 are summarized as follows (dollar amounts in thousands):

		2013		2012	
	Fair Value Hierarchy	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets:					
Cash and Due From Banks	Level 1	$ 23,774	$ 23,774	$ 32,508	$ 32,508
Federal Funds Sold and Other Cash Equivalents	Level 1	12,000	12,000	29,500	29,500
Interest-Bearing Deposits in Other Financial Institutions	Level 1	100	100	-	-
Investment Securities - AFS	Level 2	61,547	61,547	169,839	169,839
Investment Securities - HTM	Level 2	6,742	7,047	7,125	7,855
Loans, Net	Level 3	569,080	570,498	320,194	322,633
Financial Liabilities:					
Deposits	Level 2	574,079	574,071	442,678	444,128
FHLB Advances	Level 2	7,000	7,000	-	-

NOTE O - EARNINGS PER SHARE ("EPS")

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

	2013		2012	
	Income	Shares	Income	Shares
Net Income as Reported	$ 7,003,720		$4,046,210	
Shares Outstanding at Year End		11,658,259		9,714,411
Impact of Weighting Shares Purchased During the Year		(871,577)		(1,420,494)
Used in Basic EPS	7,003,720	10,786,682	4,046,210	8,293,917
Dilutive Effect of Outstanding Stock Options		246,822		60,690
Used in Dilutive EPS	$ 7,003,720	11,033,504	$4,046,210	8,354,607

Stock options for 417,750 and 71,250 shares of common stock were not considered in computing diluted earnings per common share for 2013 and 2012 because they were anti-dilutive.

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