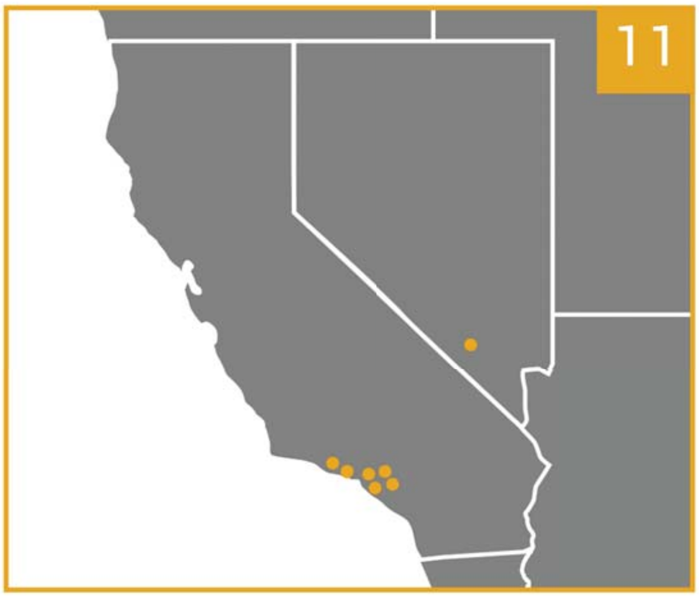
BUSINESS AT A GLANCE

Contents

Our Locations



- Los Angeles
- San Gabriel
- Torrance
- Rowland Heights
- Spring Mountain (Las Vegas)
- Oxnard
- Westlake Village
- Buena Park
- Silverlake
- Monterey Park
- City of Industry (Loan Production Office)

親愛的股東,

2014年是一個充滿成長喜悅的一年。在董事會強力督促與嚴格要求下, 以安全經營及穩定獲利的態度使銀行順利成長。於2014年, 整年的淨利潤創記錄達壹仟四拾萬美元;每股淨利為0.85美元。2014年的總資產成長至九億二仟伍佰九拾萬, 與2013年底的七億二仟三佰四拾萬相較, 總資產增加二億二佰伍拾萬, 成長率為28.0%。總存款成長至七億六仟七佰四拾萬, 與2013年底相較增加一億九仟三佰三拾萬, 成長率為33.7%。總放款成長至七億三仟七佰二拾萬, 增加一億六仟八佰伍拾萬, 成長率為30.0%。

在2014年本行慶祝營運順利邁向第六年。六年來由於董事會強有力的領導,本行成立二年內即開始獲利, 完成三次銀行的購併, 及順利完成第二次增資伍仟四佰萬。於2014年本行第一次發配股票股利。於2015年本行將第一次配發現金股利。

在2014年我們強化小型商業貸款部門, 使其有能力明顯增強小型商業貸款數量。此外, 本行增設房屋貸款部門, 此部門一年能夠受理審批二億四仟萬房屋貸款, 而大部份的房屋貸款會賣給那些由於法規繁苛、無法受理審批房屋貸款而規模較小的社區銀行。

本行總資產己將近拾億, 即有可能在今年底以前超過拾億。在銀行業拾億總資產是一個很重要的里程碑, 將引發本行適用其他更嚴格的法規監管。我們己著手進行並確信己準備好了。

低利率的政策將會持續導致放款及存款之間的利差縮小, 並直接影響所有銀行的獲利。我們預計利率將在2015年開始上調, 董事會和經營團隊會儘力管理好我們的資產負債表以擴大利差。

雖說繁雜的法規和激烈的競爭對於我們是充滿挑戰, 但也是充滿機會。許多銀行仍是積弱不振, 很多社區銀行董事對層出不窮的法規及微薄的獲利能力感到厭煩。我們相信在2015年將會有更多的併購, 並希望能夠策略性的吻合我們的成長計畫使得本行能有實質性的成長。

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。這五年多來, 皇佳商業銀行在我們的領導下, 雖說仍有許多目標需要完成, 但最重要的仍然是謹守"安全經營、穩定成長"的原則, 經營銀行的成長。由於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。

張見齊, 皇佳金控董事會主席

田詒鴻, 總裁兼首席執行長

Dear Shareholder:

2014 was another year of growth for the Company. Under the strong leadership of the Board of Directors, the Company was operated in a safe and profitable manner. In 2014, the Company recorded an after tax profit of $10.4 million or $0.85 per share. We grew the Company to $925.9 million, an increase of $202.5 million or 28.0% over December 31, 2013 total assets of $723.4 million. Total deposits increased to $767.4 million, an increase of $193.3 million or 33.7% over December 31, 2013. Net loans increased to $737.2 million, an increase of $168.1 million or 30.0%.

The Bank celebrated its sixth year of operations in 2014. 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. In 2014 the Company issued its first stock dividend and in 2015 will pay its first cash dividend. In 2014 we strengthened our SBA unit and have the capabilities of producing a significant volume of SBA loans. In addition, we started a residential mortgage unit that is geared to produce $240 million per year in loans. Most of these loans will be sold to other community banks that cannot originate residential mortgages due to the heavy regulatory burden. The Company is approaching $1 billion and most likely will be over that target by 2015 year-end. The $1 billion mark is a milestone in the banking industry, triggering additional regulations for the Company to adopt. We have already started the project to ensure the Company is ready.

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 2015 and hopefully another strategic fit will materialize for us.

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 five 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

WELCOME

Welcome to the RBB Bancorp (Company) 2014 Annual Report. The Board of Directors and Management team are excited to report our earnings for 2014 and report our progress. The Company is performing extremely well under the guidance of our Chairman, Louis Chang and the entire Board of Directors. We are seeing the fruits of our labor as profitability continues to increase and the Company continues to grow.

ABOUT US

RBB Bancorp is a bank holding company owning Royal Business Bank (Bank) and RBB Asset Management Company (RAM). The Bank was formed in 2008 to serve the banking needs of the Chinese-American community in the Los Angeles area. The Bank has grown to $925.9 million in assets with 10 branches and one loan production office. With the acquisitions in 2011 and 2013, we increased our branch footprint from the Los Angeles market to include Las Vegas, Orange and Ventura Counties. RAM was formed in 2013 to facilitate the management of purchased assets from our two early acquisitions in 2011 and has been very successful for us. The Bank represents nearly 98% of the profit and total assets of the Bancorp.

SERVICES

- Personal and Business Banking
- Mortgage Lending
- SBA Lending
- Commercial Lending
- Commercial Real Estate Lending
- Construction Lending
- International Trade Financing
- Cash Management

BOARD OF DIRECTORS
董事會

EXPERIENCE AND LEADERSHIP

Our Board is made up of very diverse and successful business men and women. Most of our Board has at least 20 years of experience in business in the Los Angeles area. Our Board represents many industries in our marketing area - internet, professional, real estate, import / export, apparel, and technology businesses are represented.

Our Board is also very active in our community. Our Board and management support the Lincoln Training Center, NACAB (National Association of Chinese American Bankers), NAAC (National Asian American Coalition), TACC (Taiwanese American Chamber Commerce), Taiwan Hotel Motel Association in Southern California & each local Chamber of Commerce.

Board of Directors 董事會

Louis Chang
張見齊
Chairman of the Board

Alan Thian
田詒鴻
President & CEO

Peter Chang
張銘輝
Board Member

Wendell Chen
陳文杰
Board Member

Peggy Huang
蘇百瑾
Board Member

Ruey-Chyr Kao
高瑞治
Board Member

Christopher Koo
古志明
Board Member

Christopher Lin
林創一
Board Member

Ko-Yen Lin
林國彥
Board Member

Paul Lin
林伯彥
Board Member

Richard Lin
林 鋒
Board Member

Catherine Thian
田慧明
Board Member

EXECUTIVES
執行管理層

GROWING THE BUSINESS

We have grown the Company to over $900 million in six years making it one of the fastest growing banking holding companies in the country. Profits continue to grow to over $10 million as of year-end 2014. We have successfully established a mortgage unit and added talent to our SBA team in 2014. We see the mortgage and SBA units to be major contributors to our growth in 2015.

SNL Financial ranked Royal Business Bank as the 9th best performing community bank in the nation for 2014 with assets between $500 million and $5 billion. The Findley Reports awarded the bank "Super Premier" status based upon our 2014 operating results.

Louis Chang 張見齊
Chairman of the Board

Alan Thian 田詒鴻
President &
Chief Executive Officer

David Morris
Executive Vice President
Chief Financial Officer

Vincent Liu 劉憶明
Executive Vice President
Chief Operations Officer

Simon C Pang 馮振發
Executive Vice President
Chief Strategic Officer

Jeffrey Yeh 葉士杰
Executive Vice President
Chief Credit Officer

Tsu Te Huang 黃祖德
Senior Vice President
Branch Administrator

HIGHLIGHTS

Achievements

2008 - Opened the Bank with Over $70 Million in Capital

2009 - Opened Branch in San Gabriel, CA

2010 - Opened Branch in Torrance, CA

2010 - Made First Monthly Profit

2011 - Purchased First Asian Bank in Las Vegas

2011 - Purchased Ventura County Business Bank

2011 - Opened Branch in Rowland Heights, CA

2012 - Raise an additional $54 Million in Capital

2012 - Opened Loan Production Office in the City of Industry, CA

2013 - Purchased Los Angeles National Bank

2013 - Recipient of the Outstanding Oveseas Taiwanese SME Award

2014 - Paid First Stock Dividend

2014 - Started Mortgage Division

2014 - After Tax Profit of Over $10 Million

2015 - SNL Financial ranked the Bank as the 9th best performing community bank in the nation for 2014 with assets between $500 million and $5 billion

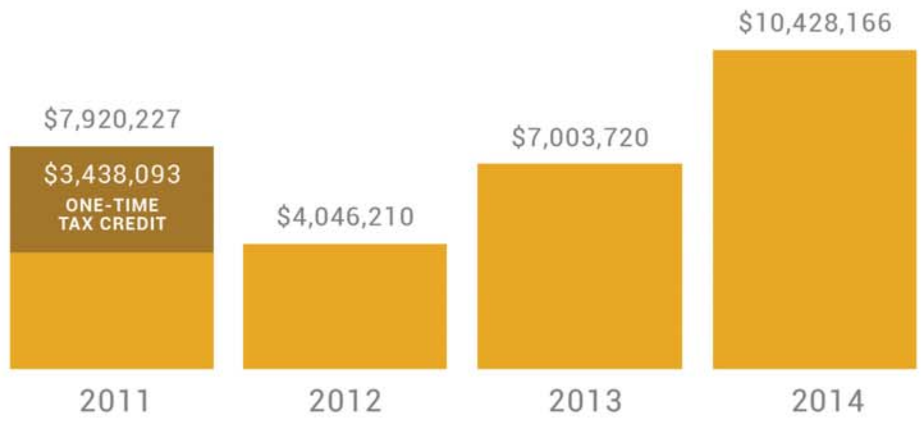
2015 - The Findley Reports awarded the Bank "Super Premier" status based upon our 2014 operating results.

Mortgage Business

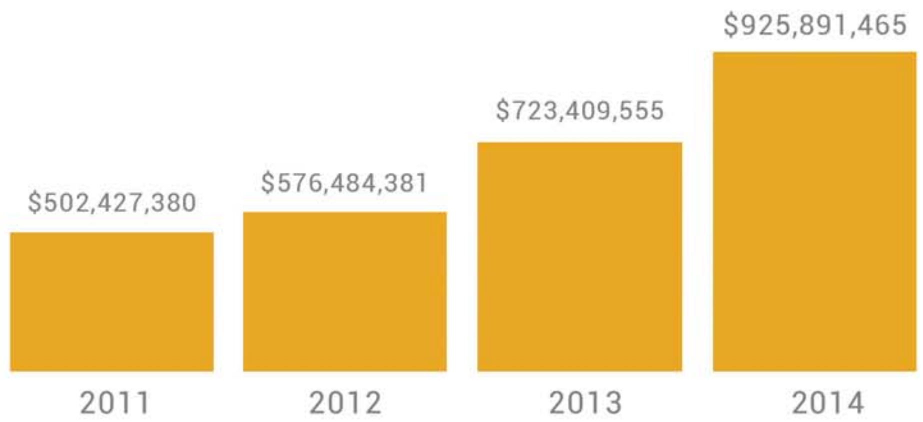
In March 2014 the Bank hired a team of professional mortgage lenders and their support staff with the task of originating between $20 and $30 million a month in residential mortgage loans and selling them to other local community banks. As of year-end the unit has originated $74 million in loans and sold $21 million.

FINANCIAL HIGHLIGHTS

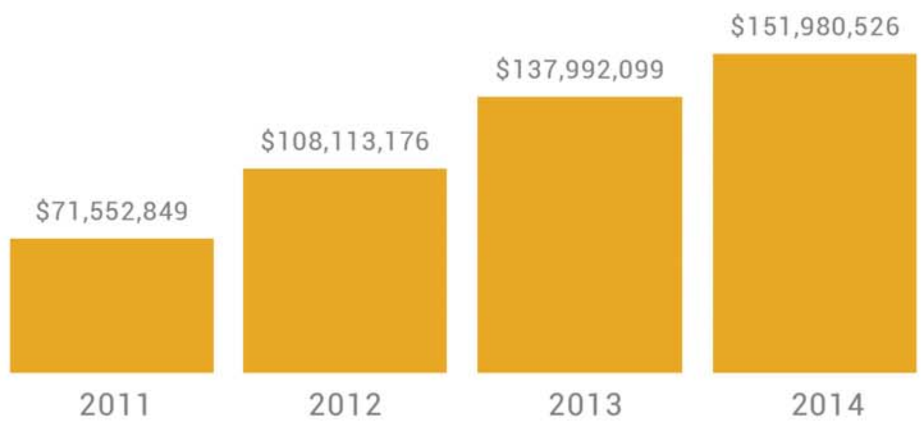
Net Income



Assets



Total Equity



RBB BANCORP AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2014 AND 2013

CONTENTS

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

VALUE THE DIFFERENCE

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, 2014 and 2013, 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, 2014 and 2013, 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 18, 2015

RBB BANCORP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

DECEMBER 31, 2014 AND 2013

ASSETS

	2014	2013
Cash and Due from Banks	$ 97,694,739	$ 23,773,709
Federal Funds Sold and Other Cash Equivalents	9,000,000	12,000,000
TOTAL CASH AND CASH EQUIVALENTS	106,694,739	35,773,709
Interest-Bearing Deposits in Other Financial Institutions	200,000	100,000
Securities:		
Available for Sale	24,930,592	61,547,620
Held to Maturity (Fair Value 2014 - $7,244,495; 2013 - $7,047,221)	6,710,215	6,742,037
Mortgage Loans Held for Sale	45,604,210	-
Loans Held for Investment:		
Real Estate	526,797,234	443,538,614
Commercial	176,698,033	139,133,779
TOTAL LOANS	703,495,267	582,672,393
Unaccreted Discount on Acquired Loans	(2,921,972)	(5,283,190)
Deferred Loan Fees, Net of Costs	(137,666)	(760,295)
	700,435,629	576,628,908
Allowance for Loan Losses	(8,847,627)	(7,549,320)
NET LOANS	691,588,002	569,079,588
Premises and Equipment	7,013,779	7,145,674
FHLB Stock	3,432,000	3,696,000
Net Deferred Tax Assets	8,712,000	8,660,000
Income Tax Receivable	-	795,434
Other Real Estate Owned	1,160,852	1,510,852
Cash Surrender Value of Life Insurance	20,818,647	20,210,933
Goodwill	4,000,767	4,000,767
Core Deposit Intangible	582,567	713,738
Accrued Interest and Other Assets	4,443,095	3,433,203
	$ 925,891,465	$723,409,555

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

RBB BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2014 AND 2013

LIABILITIES AND SHAREHOLDERS' EQUITY

	2014	2013
Deposits:		
Noninterest-Bearing Demand	$105,347,177	$ 89,129,152
Savings, NOW and Money Market Accounts	187,292,128	190,786,116
Time Deposits Under $250,000	214,737,031	142,336,882
Time Deposits $250,000 and Over	259,988,354	151,826,473
TOTAL DEPOSITS	767,364,690	574,078,623
FHLB Advances	-	7,000,000
Reserve for Unfunded Commitments	408,561	721,561
Income Tax Payable	681,764	-
Accrued Interest and Other Liabilities	5,455,924	3,617,272
TOTAL LIABILITIES	773,910,939	585,417,456
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; 12,410,399 and 12,241,172 Shares Issued and Outstanding for 2014 and 2013, Respectively	136,212,257	125,707,421
Additional Paid-in Capital	6,372,375	5,200,636
Retained Earnings	9,447,664	7,374,317
Accumulated Other Comprehensive Income (Loss) - Net Unrealized Gain (Loss) on Securities Available for Sale, Net of Tax of $35,975 in 2014 and $201,716 in 2013	(51,770)	(290,275)
TOTAL SHAREHOLDERS' EQUITY	151,980,526	137,992,099
	$925,891,465	$723,409,555

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, 2014 AND 2013

	2014	2013
INTEREST INCOME		
Interest and Fees on Loans	$ 36,614,319	$ 29,653,433
Interest on Interest-Bearing Deposits	62,266	49,078
Interest on Investment Securities	968,712	2,166,929
Interest on Federal Funds Sold and Other	503,458	201,943
TOTAL INTEREST INCOME	38,148,755	32,071,383
INTEREST EXPENSE		
Interest on Savings Deposits, NOW and Money Market Accounts	1,104,441	1,011,063
Interest on Time Deposits	3,412,242	2,350,485
Interest on Other Borrowed Funds	5,615	5,687
TOTAL INTEREST EXPENSE	4,522,298	3,367,235
NET INTEREST INCOME	33,626,457	28,704,148
Provision for Loan Losses	1,445,641	1,612,540
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	32,180,816	27,091,608
NONINTEREST INCOME		
Service Charges, Fees and Other	1,415,372	1,258,548
Gain on Sale of Loans	2,495,608	139,782
Recoveries on Loans Acquired in Business Combinations	204,547	713,741
Increase in Cash Surrender of Life Insurance	607,714	210,933
Gain on Sale of Securities	267,991	179,249
Gain on Sale of OREO	492,738	459,782
Gain on Sale of Fixed Assets	12,000	-
Bank Enterprise Award ("BEA") Grant	-	415,000
	5,495,970	3,377,035
NONINTEREST EXPENSE		
Salaries and Employee Benefits	10,425,609	9,344,683
Occupancy and Equipment Expenses	2,355,715	2,343,703
Data Processing	1,446,154	1,812,494
Legal and Professional	2,417,252	1,800,762
Office Expenses	311,825	302,988
Marketing and Business Promotion	316,817	261,666
Insurance and Regulatory Assessments	591,477	745,085
OREO Expenses	112,280	138,897
Other Expenses	2,134,936	1,404,151
	20,112,065	18,154,429
INCOME BEFORE INCOME TAXES	17,564,721	12,314,214
Income Tax Expense	7,136,555	5,310,494
NET INCOME	$ 10,428,166	$ 7,003,720
NET INCOME PER SHARE - BASIC	$ 0.85	$ 0.62
NET INCOME PER SHARE - DILUTED	$ 0.81	$ 0.60

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, 2014 AND 2013

	2014	2013
Net Income	$ 10,428,166	$ 7,003,720
OTHER COMPREHENSIVE INCOME (LOSS):		
Unrealized Gains (Losses) on Securities Available for Sale:		
Change in Unrealized Gains (Losses)	672,237	(2,958,517)
Reclassification of Gains Recognized in Net Income	(267,991)	(179,249)
	404,246	(3,137,766)
Related Income Tax Effect:		
Change in Unrealized Gains (Losses)	(275,617)	1,212,992
Reclassification of Gains Recognized in Net Income	109,876	73,492
	(165,741)	1,286,484
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	238,505	(1,851,282)
TOTAL COMPREHENSIVE INCOME	$ 10,666,671	$ 5,152,438

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, 2014 AND 2013

	Common Stock		Additional Paid-in	Retained	Accumulated Other Comprehensive	
	Shares	Amount	Capital	Earnings	Income (Loss)	Total
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
Other Comprehensive Income (Loss), 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
Net Income				10,428,166		10,428,166
Exercise of Stock Options, Including Tax Benefits of $66,780	164,600	2,150,017	(438,261)			1,711,756
Stock-Based Compensation			1,610,000			1,610,000
5% Stock Dividend	587,540	8,354,819		(8,354,819)		-
Other Comprehensive Income, Net of Taxes					238,505	238,505
Balance at December 31, 2014	12,410,399	$ 136,212,257	$ 6,372,375	$ 9,447,664	$ (51,770)	$ 151,980,526

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, 2014 AND 2013

	2014	2013
OPERATING ACTIVITIES		
Net Income	$ 10,428,166	$ 7,003,720
Adjustments to Reconcile Net Income to Net Cash From		
Operating Activities:		
Depreciation and Amortization of Premises, Equipment and Intangibles	918,729	943,999
Net Amortization (Accretion) of Securities, Loans and Deposits	(2,203,857)	(2,000,186)
Provision for Loan Losses	1,445,641	1,612,540
Stock-Based Compensation	1,610,000	1,436,309
Deferred Tax Expense	(218,000)	1,281,000
Gain on Sale of Securities	(267,991)	(179,249)
Gain on Sale of Loans	(2,495,608)	(139,782)
Gain on Sale of Other Real Estate Owned	(492,738)	(459,782)
Increase in Cash Surrender Value of Life Insurance	(607,714)	(210,933)
Loans Originated and Purchased for Sale	(95,143,125)	(1,162,500)
Proceeds from Loans Sold	52,441,525	1,337,171
Other Items	2,533,294	3,333,323
NET CASH FROM OPERATING ACTIVITIES	(32,051,678)	12,594,633
INVESTING ACTIVITIES		
(Increase) Decrease in Interest-Bearing Deposits	(100,000)	1,619,000
Securities Available for Sale:		
Purchases	-	(3,098,933)
Maturities, Prepayments and Calls	11,272,276	34,272,904
Sales	25,606,417	72,730,731
Securities Held to Maturity:		
Maturities, Prepayments and Calls	-	350,000
Redemption (Purchase) of FHLB Stock and Other Equity Securities, net	164,000	(1,601,015)
Purchase of Life Insurance	-	(20,000,000)
Net Increase in Loans	(122,445,233)	(132,817,501)
Proceeds from Sales of Other Real Estate Owned	842,739	1,016,195
Net Cash Acquired in Connection with Acquisitions	-	30,900,534
Purchases of Premises and Equipment	(417,271)	(203,521)
NET CASH FROM INVESTING ACTIVITIES	(85,077,072)	(16,630,609)
FINANCING ACTIVITIES		
Net Increase in Demand Deposits and Savings Accounts	12,724,037	10,772,935
Net Increase (Decrease) in Time Deposits	180,613,987	(41,250,428)
Net Change in FHLB Advances	(7,000,000)	7,000,000
Decrease in Capital Subscriptions	-	(22,010,550)
Issuance of Common Stock	1,711,756	23,290,176
NET CASH FROM FINANCING ACTIVITIES	188,049,780	(22,197,867)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	70,921,030	(26,233,843)
Cash and Cash Equivalents at Beginning of Period	35,773,709	62,007,552
CASH AND CASH EQUIVALENTS AT END OF YEAR	$106,694,739	$ 35,773,709
Supplemental Disclosures of Cash Flow Information:		
Interest Paid	$ 4,486,973	$ 3,496,405
Taxes Paid	$ 5,810,019	$ 2,332,000
Transfer from Loans to Other Real Estate Owned	$ -	$ 292,500

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

RBB BANCORP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

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 a loan production office in Industry, 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 18, 2015, 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, 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, 2014 and 2013 were $3,981,000 and $5,415,000, 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 Held For Sale

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

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Loans

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

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

Loans on which the accrual of interest has been discontinued are designated as nonaccrual loans. The accrual of interest on loans is discontinued when principal or interest is past due 90 days or when, in the opinion of management, there is reasonable doubt as to 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

Allowance for Loan Losses - Continued

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.

Certain Acquired Loans

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Servicing Rights

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

Servicing rights are evaluated for impairment based upon the fair value of the rights as compared to carrying amount. Impairment is recognized through a valuation allowance for an individual grouping, to the extent that fair value is less than the carrying amount. If the Company later determines that all or a portion of the impairment no longer exists for a particular grouping, a reduction of the allowance may be recorded as an increase to income.

Servicing fee income, which is reported on the income statement as Service Charges, Fees and Other, 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. Servicing fees net of servicing right amortization totaled $53,692, and $31,179 for the years ended December 31, 2014 and 2013, respectively.

Loans serviced for others totaled $35,954,575 and $8,850,256 as of December 31, 2014 and 2013, respectively.

Transfers of Financial Assets

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

Gains on sales of mortgage and SBA loans totaled $2,495,608 and $139,782 in 2014 and 2013, respectively. Of this total, gains on sale of mortgage loans totaled $182,226 and $0 and gains on sale of SBA loans totaled $2,313,382 and $139,782 in 2014 and 2013, respectively.

Premises and Equipment

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Other Real Estate Owned

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

Goodwill and Other Intangible Assets

Goodwill is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill resulting from whole bank acquisitions is not amortized, but tested for impairment at least annually. The Company has selected December 31 as the date to perform the annual impairment test. Goodwill amounted to $4,000,767 as of December 31, 2014 and 2013, and is the only intangible asset with an indefinite life on the balance sheet. No impairment was recognized on goodwill during 2014 and 2013.

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, 2014 was $582,567. CDI amortization expense was $131,171 in 2014.

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

2015	$ 116,500
2016	105,767
2017	96,033
2018	87,167
2019	79,100

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 in 2014 and 2013.

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 $267,991 and $179,249 for 2014 and 2013, with the related tax effect of $109,876 and $73,492, 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 2013 financial statements to conform to the presentation used in 2014. These reclassifications had no impact of the Company's previously reported financial statements.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Recent Accounting Guidance Not Yet Effective

In January 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-04, *Receivables—Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure,* a consensus of the FASB Emerging Issues Task Force. This Update provides clarification as to when an in-substance repossession or foreclosure has occurred, i.e., the creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan and, therefore, the loan receivable should be derecognized and the real estate property should be recognized. Under ASU No. 2014-04, a creditor has received physical possession of residential real estate property collateralizing a consumer mortgage loan upon either (1) the creditor obtaining legal title to the property upon completion of a foreclosure or (2) the borrower conveying all interest in the property to the creditor to satisfy the loan through completion of a deed in lieu of foreclosure or a similar legal agreement. The Update also will require disclosure in annual and interim financial statements of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The amendments in this Update are effective for interim and annual periods beginning after December 15, 2014. Adoption of this Update is not expected to have a material impact on the Company's consolidated financial statements.

In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This Update requires an entity to recognize revenue as performance obligations are met, in order to reflect the transfer of promised goods or services to customers in an amount that reflects the consideration the entity is entitled to receive for those goods or services. The following steps are applied in the updated guidance: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when, or as, the entity satisfies a performance obligation. This Update is effective for interim and annual periods beginning after December 15, 2016 for public business entities and after December 15, 2017 for non public business entities. Early adoption of this Update is not permitted. The Company is currently in the process of evaluating the impact of the adoption of this Update, but does not expect a material impact on the Company's consolidated financial statements.

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

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, 2014 and 2013, and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income:

December 31, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale				
Mortgage-Backed Securities- Government Sponsored Agencies	$ 25,018,337	$ 95,509	$ (183,254)	$ 24,930,592
Held to Maturity				
Municipal Taxable Securities	$ 5,750,643	$ 515,509	$ -	$ 6,266,152
Municipal Securities	959,572	18,771	-	978,343
	$ 6,710,215	$ 534,280	$ -	$ 7,244,495
December 31, 2013				
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

During 2014 and 2013 the Company sold $25.6 million and $72.7 million of securities available for sale, recognizing gross gains of $267,991 and $179,249, respectively.

One security with a fair value of $1,535,000 was pledged to secure a local agency deposit at December 31, 2014.

NOTE C - INVESTMENT SECURITIES - Continued

The amortized cost and fair value of the investment securities portfolio as of December 31, 2014 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	$ -	$ -	$ -	$ -
Due From One through Five Years	14,208,337	14,078,948	1,937,228	2,076,057
Due from Five to Ten Years	10,810,000	10,851,644	3,703,578	4,012,883
Due after Ten Years	-	-	1,069,409	1,155,555
	$ 25,018,337	$ 24,930,592	$ 6,710,215	$ 7,244,495

Substantially all unrealized losses had been in a continuous loss position for less than 12 months as of December 31, 2014 and 2013. Unrealized losses on mortgage-backed securities 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:

	2014	2013
Beginning Balance	$ 7,549,320	$ 7,121,878
Additions to the Allowance Charged to Expense	1,445,641	1,612,540
Recoveries on Loans Charged-Off	94,906	9,763
	9,089,867	8,744,181
Less Loans Charged-Off	(242,240)	(1,194,861)
Ending Balance	$ 8,847,627	$ 7,549,320

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DECEMBER 31, 2014 AND 2013

NOTE D - LOANS - Continued

The following table presents the recorded investment in loans and impairment method as of December 31, 2014 and 2013 and the activity in the allowance for loan losses for the years then ended, by portfolio segment:

December 31, 2014	Real Estate	Commercial	Total
Allowance for Loan Losses:			
Beginning of Year	$ 5,107,534	$ 2,441,786	$ 7,549,320
Provisions	493,159	952,482	1,445,641
Charge-offs	-	(242,240)	(242,240)
Recoveries	94,906	-	94,906
	$ 5,695,599	$ 3,152,028	$ 8,847,627
Reserves:			
Specific	$ -	$ -	$ -
General	5,695,599	3,152,028	8,847,627
Loans Acquired with Deteriorated Credit Quality	-	-	-
	$ 5,695,599	$ 3,152,028	$ 8,847,627
Loans Evaluated for Impairment:			
Individually	$ 3,216,140	$ 592,756	$ 3,808,896
Collectively	517,873,280	176,820,448	694,693,728
Loans Acquired with Deteriorated Credit Quality	1,933,005	-	1,933,005
	$523,022,425	$177,413,204	$700,435,629
December 31, 2013			
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

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, 2014 and 2013:

December 31, 2014	Pass	Special Mention	Substandard	Impaired	Total
Real Estate:					
Construction and Land Development	$ 92,328,000	$ -	$ -	$ 697,055	$ 93,025,055
Residential Real Estate	206,177,811	-	-	-	206,177,811
Commercial Real Estate	217,136,064	815,923	3,348,487	2,519,085	223,819,559
Commercial	166,352,663	3,148,061	7,319,724	592,756	177,413,204
	$ 681,994,538	$ 3,963,984	$ 10,668,211	$ 3,808,896	$700,435,629
December 31, 2013					
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

NOTE D - LOANS - Continued

Past due and nonaccrual loans presented by loan class were as follows as of December 31, 2014 and 2013:

	Still Accruing		
December 31, 2014	30-89 Days Past Due	Over 90 Days Past Due	Nonaccrual
Commercial	$ 4,480,567	$ 250,000	$ 496,614
December 31, 2013			
Commercial Real Estate	$ -	$ -	$ 156,595
Commercial	662,338	91,089	311,212
	$ 662,338	$ 91,089	$ 467,807

Information relating to individually impaired loans presented by class of loans was as follows as of December 31, 2014 and 2013:

	With no Allowance Recorded			
December 31, 2014	Unpaid Principal Balance	Recorded Investment	Average Balance	Interest Income
Construction and Land Development	$ 701,650	$ 697,055	$ 1,381,646	$ 215,931
Commercial Real Estate	2,519,084	2,519,085	2,507,365	326,903
Commercial	592,905	592,756	587,559	8,948
	$ 3,813,639	$ 3,808,896	$ 4,476,570	$ 551,782
December 31, 2013				
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

There were no allowances recorded on individually impaired loans as of December 31, 2014 and 2013 and no interest income was recognized on a cash basis in the years then ended.

NOTE D - LOANS - Continued

The Company had six and eight loans identified as troubled debt restructurings ("TDR's") at December 31, 2014 and 2013, respectively, and no specific reserves have been allocated thereon. There are no commitments to lend additional amounts as of December 31, 2014 and 2013, respectively, to customers with outstanding loans that are classified as TDR's.

There were no loans modified as TDR's during the years ended December 31, 2014 and December 31, 2013.

There were no defaults of TDR's in 2014 or 2013 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.

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:

	2014	2013
Outstanding Balance	$ 2,827,000	$ 3,086,000
Carrying Amount	$ 1,933,000	$ 1,996,000

For these purchased credit-impaired loans, the Company did not increase the allowance for loan losses during 2014 or 2013 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 2014 and 2013:

	2014	2013
Balance, Beginning of Year	$ 771,068	$ 1,681,966
Disposals	-	(301,618)
Reclassification to Nonaccretable	-	(437,253)
Accretion of Income	(197,216)	(172,027)
Balance, End of Year	$ 573,852	$ 771,068

NOTE E - PREMISES AND EQUIPMENT

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

	2014	2013
Land and Buildings	$ 5,456,464	$ 5,186,514
Leasehold Improvements	2,727,953	2,712,708
Furniture, Fixtures, and Equipment	2,171,921	2,017,772
	10,356,338	9,916,994
Less Accumulated Depreciation and Amortization	(3,342,559)	(2,771,320)
	$ 7,013,779	$ 7,145,674

Depreciation and amortization expense was $591,434 and $653,899 for 2014 and 2013, 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, 2014:

2015	$ 1,248,396
2016	1,253,967
2017	1,082,488
2018	770,060
2019	374,449
Thereafter	220,682
	$ 4,950,042

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 $1,198,639 and $1,234,490 for 2014 and 2013, respectively.

NOTE F - DEPOSITS

At December 31, 2014 the scheduled maturities of time deposits are as follows:

One year	$ 427,182,750
Two to three years	47,542,635
	$ 474,725,385

NOTE G - BORROWING ARRANGEMENTS

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

Federal Funds Arrangements with Commercial Banks. As of December 31, 2014 the Company may borrow on an unsecured basis, up to $20 million, $10 million, $12 million and $5 million overnight from Zions Bank, Wells Fargo Bank, First Tennessee National Bank, and Pacific Coast Bankers' Bank, respectively.

Letter of Credit Arrangements. As of December 31, 2014 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 $13.8 million at December 31, 2014 is collateralized by loans pledged with a carrying value of $27.7 million.

FHLB Secured Line of Credit. The secured borrowing capacity of $192.5 million at December 31, 2014 is collateralized by loans pledged with a carrying value of $225.7 million.

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

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:

	2014	2013
Current:		
Federal	$ 5,579,776	$ 3,081,182
State	1,774,779	948,312
	7,354,555	4,029,494
Deferred	(218,000)	1,281,000
	$ 7,136,555	$ 5,310,494

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:

	2014		2013	
	Amount	Rate	Amount	Rate
Statutory Federal Tax	$ 5,972,000	34.0%	$ 4,187,000	34.0%
State Franchise Tax, Net of Federal Benefit	1,224,000	7.0%	907,000	5.2%
Tax-Exempt Income	(213,000)	(1.2%)	(79,000)	(0.4%)
Other Items, Net	153,555	0.9%	295,494	1.7%
Actual Tax Expense	$ 7,136,555	40.6%	$ 5,310,494	40.4%

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

	2014	2013
Deferred Tax Assets:		
Pre-Opening Expenses	$ 361,000	$ 349,000
Allowance For Loan Losses	3,150,000	2,173,000
Stock-Based Compensation	1,865,000	1,482,000
Off Balance Sheet Reserve	168,000	297,000
Operating Loss Carryforwards	1,145,000	1,493,000
Other Real Estate Owned	1,102,000	1,320,000
Acquisition Accounting Fair Value Adjustments	982,000	1,804,000
Unrealized Loss on AFS Securities	36,000	202,000
Other	1,915,000	1,324,000
	10,724,000	10,444,000
Deferred Tax Liabilities:		
Depreciation	(1,055,000)	(1,124,000)
Other	(957,000)	(660,000)
	(2,012,000)	(1,784,000)
Net Deferred Tax Assets	$ 8,712,000	$ 8,660,000

NOTE H - INCOME TAXES - Continued

The Company has net operating loss carryforwards of approximately $2.4 million for federal income and approximately $4.6 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 ended after December 31, 2010 are open to audit by the federal authorities and for the years ended after December 31, 2009 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, 2014 and 2013, the Company had the following financial commitments whose contractual amount represents credit risk:

	2014	2013
Commitments to Make Loans	$ 57,001,949	$ 49,186,312
Unused Lines of Credit	91,693,571	75,736,453
Commercial and Similar Letters of Credit	11,616,768	28,260,791
Standby Letters of Credit	1,890,000	3,340,000
	$ 162,202,288	$ 156,523,556

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 J - RELATED PARTY TRANSACTIONS

Loans granted to executive officers, directors and their related interests with which they are associated totaled approximately $9,283,000 and $7,600,000 as of December 31, 2014 and 2013, respectively.

Loan commitments outstanding to executive officers, directors and their related interests with which they are associated totaled approximately $5,827,000 and $3,400,000 as of December 31, 2014 and 2013, respectively.

Deposits from executive officers, directors and their related interests with which they are associated held by the Company at December 31, 2014 and 2013 amounted to approximately $39,502,000 and $39,672,000, 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 $1,610,000 and $1,436,309 in 2014 and 2013 and recognized income tax benefits on that expense of $454,261 and $446,595, 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:

	2014	2013
Expected Volatility	35.0%	35.0%
Expected Term	6.0 Years	5.6 Years
Expected Dividends	None	None
Risk Free Rate	1.97%	1.06%
Grant Date Fair Value	$ 5.08	$ 4.23

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, 2014 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	2,362,754	$ 10.84		
Granted	159,450	$ 13.68		
Exercised	(164,600)	$ 9.70		
Forfeited or Expired	(79,700)	$ 11.41		
Outstanding at End of Year	2,277,904	$ 10.51	6.1 Years	$ 12,989,052
Options Exercisable	1,579,542	$ 9.90	5.1 Years	$ 9,962,322

As of December 31, 2014 there was approximately $1,770,000 of total unrecognized compensation cost related to outstanding stock options that will be recognized over a weighted-average period of 1.3 years. The intrinsic value of options exercised was $609,000 and $36,000 in 2014 and 2013, 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, 2014 and 2013, that RBB Bancorp and the Bank meet all capital adequacy requirements to which it is subject.

As of December 31, 2014, 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, 2014 and 2013 (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, 2014:						
Total Capital (to Risk-Weighted Assets)						
Consolidated	$ 156,458	21.7%	$ 57,639	8.0%	NA	NA
Bank	$ 140,076	19.6%	$ 57,275	8.0%	$ 71,594	10.0%
Tier 1 Capital (to Risk-Weighted Assets)						
Consolidated	$ 147,449	20.5%	$ 28,819	4.0%	NA	NA
Bank	$ 131,123	18.3%	$ 28,637	4.0%	$ 42,956	6.0%
Tier 1 Capital (to Average Assets)						
Consolidated	$ 147,449	16.8%	$ 35,083	4.0%	NA	NA
Bank	$ 131,123	15.0%	$ 34,900	4.0%	$ 43,625	5.0%
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%

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, 2014.

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, 2014 and 2013:

	Fair Value Measurements Using:			
December 31, 2014	Level 1	Level 2	Level 3	Total
Assets Measured at Fair Value:				
On a Recurring Basis:				
Securities Available for Sale	$ -	$ 24,930,592	$ -	$ 24,930,592
On a Non-Recurring Basis:				
Other Real Estate Owned	$ -	$ -	$1,160,852	$ 1,160,852
December 31, 2013				
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

No write-downs from the original value of OREO have been recorded in 2014 or 2013.

Quantitative information about the Company's non-recurring Level 3 fair value measurements as of December 31, 2014 and 2013 is as follows:

December 31, 2014	Fair Value Amount	Valuation Technique	Unobservable Input	Adjustment Range	Weighted-Average Adjustment
Other Real Estate Owned	$ 1,160,852	Third Party Appraisals	Management Adjustments to Reflect Current Conditions and Selling Costs	0 -100 %	42%
December 31, 2013					
Other Real Estate Owned	$ 1,510,852	Third Party Appraisals	Management Adjustments to Reflect Current Conditions and Selling Costs	0 - 69%	30%

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, 2014 and 2013 are summarized as follows (dollar amounts in thousands):

		2014		2013	
	Fair Value Hierarchy	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets:					
Cash and Due From Banks	Level 1	$ 97,695	$ 97,695	$ 23,774	$ 23,774
Federal Funds Sold and Other Cash Equivalents	Level 1	9,000	9,000	12,000	12,000
Interest-Bearing Deposits in Other Financial Institutions	Level 1	200	200	100	100
Investment Securities - AFS	Level 2	24,931	24,931	61,547	61,547
Investment Securities - HTM	Level 2	6,710	7,244	6,742	7,047
Mortgage Loans Held for Sale	Level 1	45,604	46,002	-	-
Loans, Net	Level 3	691,588	686,330	569,080	570,498
Financial Liabilities:					
Deposits	Level 2	767,365	769,818	574,079	574,071
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:

	2014		2013	
	Income	Shares	Income	Shares
Net Income as Reported	$ 10,428,166		$7,003,720	
Shares Outstanding at Year End		12,410,399		12,241,172
Impact of Weighting Shares Purchased During the Year		(80,623)		(915,156)
Used in Basic EPS	10,428,166	12,329,776	7,003,720	11,326,016
Dilutive Effect of Outstanding Stock Options		515,732		259,163
Used in Dilutive EPS	$ 10,428,166	12,845,508	$7,003,720	11,585,179

Stock options for 159,400 and 417,750 shares of common stock were not considered in computing diluted earnings per common share for 2014 and 2013 because they were anti-dilutive.

NOTE P - STOCK DIVIDENDS

The Company issued a 5% stock dividend in 2014. The per share data in the statements of income and the footnotes have been adjusted to give retroactive effect to these dividends.

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ROYAL BUSINESS BANK

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RBB BANCORP
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