RBB BANCORP
皇佳商業金控

2016 ANNUAL REPORT

TABLE OF CONTENTS

LETTER FROM THE CHAIRMAN	PAGE 02
HIGHLIGHTS	PAGE 04
EXECUTIVES	PAGE 06
BOARD OF DIRECTORS	PAGE 08
FINANCIAL REPORT	PAGE 11
CORPORATE INFO	PAGE 62

親愛的股東，

2016年是一個品質保證的一年。在董事會的領導下，我們順利的完成宏基銀行的併購，成功的超越既定的目標，並準備好為將來的成長衝刺。我們既努力於併購宏基銀行，我們仍專注於銀行的成長及加強提供優質的客戶服務予我們的社區。

皇佳金控持續的成為在美國最有活力、成長最快的銀行之一。在2017年3月21日，標普全球市場資訊將皇佳商業銀行評為2016年全美最佳績效的百家銀行中，從資產十億至百億之間，名列第三。這是對董事會的領導及本行成長策略的專注做最大的肯定。

截至2016年12月底為止，皇佳商業銀行總淨利為一仟九佰一拾萬，與2015年同期相較成長46.9%，每股淨利為1.49元。總資產達十四億, 成長37.3%。總存款為十一億五仟萬, 成長35.3%。總放款為十一億一仟萬, 成長40.5%。

皇佳商業銀行於2016年不但完成宏基銀行及宏基金控的購併，我們更專注於推展四項主要的放款項目，商業放款、商業房地產、住宅貸款及小型商業貸款。有別於其他的同業銀行，本行在擴展貸款產品從二項產品到四項產品之際，亦大幅減低商業房地產的比例，使本行更好的立足於將來的成長。

回饋社區一直是皇佳商業銀行秉持的信念，本行的董事及主管都設有社區服務的目標。因此，皇佳商業銀行經美國財政部認證為社區發展金融機構(CDFI)。並因爲本行對服務中低收入社區少數族裔的承諾，本行於2016年獲得亞美民族聯盟(NACC)頒發長頸鹿獎(Giraffe Award)。

隨著新上任的川普團隊，我們寄望銀行法規的鬆綁會減輕我們的負擔，但他們是否能貫徹他們的承諾，却還是未定之天。本行謹慎樂觀的希望川普團隊能夠完成一些重大目標。

本人身為皇佳金控董事長、執行長兼總裁，謹代表董事會提交上述報告。在過去八年領導本行，仍舊有未竟之事項，但穩健經營、穩定成長卻總是本行最優先的原則。

謝謝您的支持！

田詒鴻

田詒鴻
董事長
總裁兼執行長

Dear Shareholders:

This was a hallmark year for RRB Bancorp. We entered the year with the knowledge of merging TFC Holding Company (TomatoBank) into RBB. We ended the year exceeding our goals and ready for future expansion within our market. Rather than allowing ourselves to be distracted by the news of the day, we remained focused on growing the Company and increasing the services we offer to our community.

RBB Bancorp continues to be one of the most dynamic and fastest growing bank holding companies in the country. On March 21, 2017 Royal Business Bank was ranked 3rd by S&P Global Market Intelligence's ranking of the top-performing community banks between $1 billion and $10 billion in assets in 2016. This is a testament to the leadership of the Board of Directors and the focus we have in operating our strategy.

In 2016, our net income increased 46.9% to $19.1 million, earnings per share also increased to $1.49 per share, total assets increased 37.3% to $1.40 billion, total deposits increased 35.3% to $1.15 billion and gross loans increased 40.5% to $1.11 billion.

2016 was not only a year of consolidating TomatoBank into RBB, but was also a year to concentrate on developing our four lending pillars; commercial & industrial, commercial real estate, residential mortgages and small business administration lending. Unlike many of the competitors in our market, we have diversified our lending products from two to four product lines, reducing our concentration in commercial real estate significantly while making us better positioned for future growth.

We also believe that we should give back to our community. We have a goal that every officer and board member is to be active in the communities we serve. As a result, Royal Business Bank was approved as a Certified Community Development Financial Institution (CDFI) from the United States Department of Treasury. As a result of our commitment to serve the low-to-moderate income communities of all minorities, we were awarded the Giraffe Award by the National Asian-American Coalition in 2016.

With the new administration in Washington we are hopeful that regulations will become less burdensome for all of us. However, it is too early for us to tell if the new administration can follow through with its promises. We are cautiously optimistic.

As Chairman of the Board, President and Chief Executive Officer of RBB Bancorp, I am privileged to give the above report to you. After leading the Bancorp for the past eight years, there is still much to be accomplished. Among the priorities has always been maintaining a safe and stable bank.

Thank you for your support!

Alan Thian
Chairman of the Board
President and CEO

ABOUT US 2016

ORIGIN

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 and has since expanded to serve Orange and Ventura Counties, as well as the Clark County, Nevada market.

SERVICES

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

CASH MANAGEMENT

- Cash Vault
- ACH
- Business Online Banking
- Business Bill Payment
- Remote Capture Deposit
- Wire Transfer
- Zero Balance Account

GROWTH

The Bank has grown to $1.4 billion in assets with 13 branches and one loan production office.

Our Bank is customer-focused, community-oriented and committed to making our neighborhoods better places to live and work. We take pride in being involved in the communities that we serve.

COMMERCIAL & INDUSTRY

MOBILE BANKING

RBB Mobile Banking allows you to securely view account balances and recent transactions, transfer funds between your accounts, pay your bills, send Popmoney transfers, find branch locations, set up account alerts, and even make mobile deposits...all from the convenience of your mobile device.

WHAT WE DO

Building personal relationships with our customers is central to our philosophy. We want to help them meet their goals and help secure a brighter future for generations to come.

We provide the kind of security and stability that you can count on.

Visit us online at www.rbbusa.com or at any of our branches.

EXECUTIVES
ROYAL BUSINESS BANK

NET INCOME (In Thousands)

2011	$7,920
2012	$4,046
2013	$7,003
2014	$10,428
2015	$12,973
2016	**$19,079**

ASSETS (In Thousands)

2012	$502,427
2012	$576,484
2013	$723,409
2014	$925,891
2015	$1,023,084
2016	**$1,395,551**

TOTAL EQUITY (In Thousands)

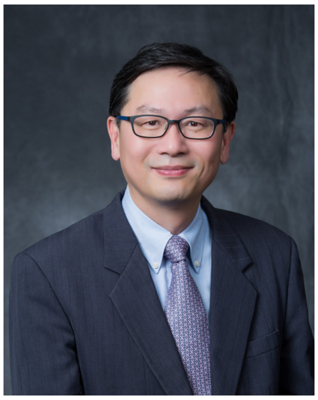
2011	$71,552
2012	$108,113
2013	$137,992
2014	$151,980
2015	$163,645
2016	**$181,585**

Alan Thian 田詒鴻
Chairman of the Board
CEO / President

Simon C Pang 馮振發
Executive Vice President
Chief Strategy Officer

Vincent Liu 劉憶明
Executive Vice President
Chief Operations Officer

David Morris
Executive Vice President
Chief Financial Officer



Jeffrey Yeh 葉士杰
Executive Vice President
Chief Credit Officer

Tsu Te Huang 黃祖德
Executive Vice President
Branch Administrator

Larsen Lee
Executive Vice President
Director of Mortgage Lending

BOARD OF DIRECTORS

ROYAL BUSINESS BANK

Louis Chang 張見齊
Emeritus Chairman
Founder

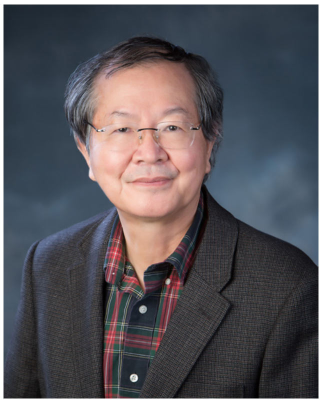
Alan Thian 田詒鴻
Chairman of the Board
CEO / President

Peter Chang 張銘輝
Board Member

Wendell Chen 陳文杰
Board Member

Peggy Huang 蘇百瑾
Board Member

Dr. Ruey-Chyr Kao 高瑞治
Board Member



James Kao PhD 高文環
Board Member

Christopher Koo CPA 古志明
Board Member

Christopher Lin PhD 林創一
Board Member

Ko-Yen Lin 林國彥
Board Member

Paul Lin 林柏彥
Board Member

Richard Lin 林鋒
Board Member

Catherine Thian 田慧明
Board Member

RBB BANCORP AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2016, 2015 AND 2014

This statement has not been reviewed or confirmed for accuracy or relevance by the Federal Reserve Deposit Insurance Company

CONTENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM 13

CONSOLIDATED FINANCIAL STATEMENTS

- **Consolidated Balance Sheets** 14
- **Consolidated Statements of Income** 16
- **Consolidated Statements of Comprehensive Income** 17
- **Consolidated Statements of Changes in Shareholders' Equity** 18
- **Consolidated Statements of Cash Flows** 19
- **Notes to Consolidated Financial Statements** 20 through 61

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

VALUE THE DIFFERENCE

REPORT OF INDEPENDENT REGISTERED ACCOUNTING FIRM

Board of Directors and Shareholders of

RBB Bancorp and Subsidiaries

Los Angeles, California

We have audited the accompanying consolidated financial statements of RBB Bancorp and Subsidiaries, which are comprised of the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2016, and the related notes to the consolidated financial statements. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States) and 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of RBB Bancorp and Subsidiaries as of December 31, 2016 and 2015, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2016 in accordance with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), RBB Bancorp's internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 22, 2017, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Vavrinek, Trine, Day & Co., LLP

Laguna Hills, California
March 22, 2017

25231 Paseo De Alicia, Suite 100 Laguna Hills, CA 92653 Tel: 949.768.0833 www.vtdcpa.com Fax: 949.768.8408

RBB BANCORP AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2016 AND 2015
(In thousands, except for share amounts)

	2016	2015
ASSETS		
Cash and Due from Banks	$ 74,213	$ 80,391
Federal Funds Sold and Other Cash Equivalents	44,500	33,500
TOTAL CASH AND CASH EQUIVALENTS	118,713	113,891
Interest-Bearing Deposits in Other Financial Institutions	345	7,462
Securities:		
Available for Sale	39,277	20,416
Held to Maturity (Fair Value 2016 - $6,553; 2015 - $7,144)	6,214	6,678
Mortgage Loans Held for Sale	44,345	41,496
Loans Held for Investment:		
Real Estate	755,301	525,433
Commercial	361,227	267,266
TOTAL LOANS	1,116,528	792,699
Unaccreted Discount on Acquired Loans	(8,085)	(1,712)
Deferred Loan Costs (Fees), Net	2,003	1,375
	1,110,446	792,362
Allowance for Loan Losses	(14,162)	(10,023)
NET LOANS	1,096,284	782,339
Premises and Equipment	6,585	6,860
Federal Home Loan Bank ("FHLB") Stock	6,770	4,149
Net Deferred Tax Assets	11,097	7,449
Other Real Estate Owned ("OREO")	833	293
Cash Surrender Value of Life Insurance	21,958	21,398
Goodwill	29,940	4,001
Servicing Assets	3,704	2,105
Core Deposit Intangibles	1,793	466
Accrued Interest and Other Assets	7,693	4,081
	$ 1,395,551	$ 1,023,084

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

RBB BANCORP AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2016 AND 2015
(In thousands, except for share amounts)

LIABILITIES AND SHAREHOLDERS' EQUITY

	2016	**2015**
Deposits:		
Noninterest-Bearing Demand	$ 174,272	$ 114,647
Savings, NOW and Money Market Accounts	296,699	243,585
Time Deposits Under $250,000	310,969	209,748
Time Deposits $250,000 and Over	370,823	285,437
TOTAL DEPOSITS	1,152,763	853,417
Reserve for Unfunded Commitments	604	320
Income Tax Payable	793	1,174
Long-Term Debt	49,383	-
Subordinated Debentures	3,334	-
Accrued Interest and Other Liabilities	7,089	4,528
TOTAL LIABILITIES	1,213,966	859,439
Commitments and Contingencies - Notes 6 and 12	-	-
Shareholders' Equity:		
Preferred Stock - 100,000,000 Shares Authorized, No Par Value; None Outstanding	-	-
Common Stock - 100,000,000 Shares Authorized, No Par Value; 12,827,803 and 12,770,571 Shares Issued and Outstanding for 2016 and 2015 Respectively	142,651	141,873
Additional Paid-in Capital	8,417	7,706
Retained Earnings	30,784	14,259
Accumulated Other Comprehensive Income (Loss) - Net Unrealized Loss on Securities Available for Sale, Net of Tax of $186 in 2016 and $134 in 2015	(267)	(193)
TOTAL SHAREHOLDERS' EQUITY	181,585	163,645
	$ 1,395,551	$ 1,023,084

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, 2016, 2015 AND 2014
(In thousands, except per share amounts)

	2016	2015	2014
INTEREST AND DIVIDEND INCOME			
Interest and Fees on Loans	$ 65,888	$ 41,026	$ 36,614
Interest on Interest-Bearing Deposits	334	246	62
Interest on Investment Securities	872	553	969
Dividend Income on FHLB Stock	800	474	287
Interest on Federal Funds Sold and Other	295	214	217
TOTAL INTEREST INCOME	68,189	42,513	38,149
INTEREST EXPENSE			
Interest on Savings Deposits, NOW and Money Market Accounts	1,975	1,343	1,104
Interest on Time Deposits	6,968	5,592	3,412
Interest on Subordinated Debentures and other	2,547	-	-
Interest on Other Borrowed Funds	217	1	6
TOTAL INTEREST EXPENSE	11,707	6,936	4,522
NET INTEREST INCOME	56,482	35,577	33,627
Provision for Loan Losses	4,974	1,386	1,446
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	51,508	34,191	32,181
NONINTEREST INCOME			
Service Charges, Fees and Other	2,373	1,568	1,415
Gain on Sale of Loans	5,847	4,316	2,496
Recoveries on Loans Acquired in Business Combinations	170	103	204
Increase in Cash Surrender of Life Insurance	560	579	608
Gain on Sale of Securities	19	78	268
Gain on Sale of OREO	-	1,218	493
(Loss) Gain on Sale of Fixed Assets	(3)	-	12
	8,966	7,862	5,496
NONINTEREST EXPENSE			
Salaries and Employee Benefits	13,784	11,122	10,426
Occupancy and Equipment Expenses	3,098	2,359	2,356
Data Processing	2,018	1,532	1,446
Legal and Professional	1,565	954	2,417
Office Expenses	598	353	312
Marketing and Business Promotion	542	475	317
Insurance and Regulatory Assessments	883	761	591
Amortization of Intangibles	372	117	131
OREO Expenses (Income), net	28	(18)	112
Other Expenses	5,018	2,429	2,004
	27,906	20,084	20,112
INCOME BEFORE INCOME TAXES	32,568	21,969	17,565
Income Tax Expense	13,489	8,996	7,137
NET INCOME	$ 19,079	$ 12,973	$ 10,428
NET INCOME PER SHARE - BASIC	$ 1.49	$ 1.02	$ 0.82
NET INCOME PER SHARE - DILUTED	$ 1.39	$ 0.96	$ 0.79

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, 2016, 2015 AND 2014
(In thousands)

	2016	2015	2014
Net Income	$ 19,079	$ 12,973	$ 10,428
OTHER COMPREHENSIVE INCOME (LOSS):			
Unrealized Gains (Losses) on Securities Available for Sale:			
Change in Unrealized Gains (Losses)	(107)	(161)	672
Reclassification of Gains Recognized in Net Income	(19)	(78)	(268)
	(126)	(239)	404
Related Income Tax Effect:			
Change in Unrealized Gains (Losses)	44	66	(276)
Reclassification of Gains Recognized in Net Income	8	32	110
	52	98	(166)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	(74)	(141)	238
TOTAL COMPREHENSIVE INCOME	$ 19,005	$ 12,832	$ 10,666

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, 2016, 2015 AND 2014
(In thousands, except share amounts)

	Common Stock		Additional Paid-in	Retained	Accumulated Other Comprehensive	
	Shares	Amount	Capital	Earnings	Income (Loss)	Total
Balance at December 31, 2013	11,658,259	$ 125,707	$ 5,201	$ 7,375	$ (290)	$ 137,993
Net Income				10,428		10,428
Exercise of Stock Options, Including Tax Benefits of $67	164,600	2,150	(438)			1,712
Stock-Based Compensation			1,610			1,610
5% Stock Dividend	587,540	8,355		(8,355)		-
Other Comprehensive Income, Net of Taxes					238	238
Balance at December 31, 2014	12,410,399	$ 136,212	$ 6,373	$ 9,448	$ (52)	$ 151,981
Net Income				12,973		12,973
Exercise of Stock Options, Including Tax Benefits of $21	48,729	613	(122)			491
Stock-Based Compensation			1,455			1,455
2.5% Stock Dividend	311,443	5,048		(5,048)		-
Cash Dividend				(3,114)		(3,114)
Other Comprehensive Loss, Net of Taxes					(141)	(141)
Balance at December 31, 2015	12,770,571	$ 141,873	$ 7,706	$ 14,259	$ (193)	$ 163,645
Net Income				19,079		19,079
Exercise of Stock Options, Including Tax Benefits of $10	57,232	778	(183)			595
Stock-Based Compensation			894			894
Cash Dividend				(2,554)		(2,554)
Other Comprehensive Loss, Net of Taxes					(74)	(74)
Balance at December 31, 2016	12,827,803	$ 142,651	$ 8,417	$ 30,784	$ (267)	$ 181,585

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, 2016, 2015 AND 2014
(In thousands)

	2016	2015	2014
OPERATING ACTIVITIES			
Net Income	$ 19,079	$ 12,973	$ 10,428
Adjustments to Reconcile Net Income to Net Cash From			
Operating Activities:			
Depreciation and Amortization of Premises, Equipment and Intangibles	1,360	1,020	919
Net Amortization (Accretion) of Securities, Loans, Deposits, and Other	(7,199)	(1,012)	(2,204)
Provision for Loan Losses	4,974	1,386	1,446
Stock-Based Compensation	894	1,455	1,610
Deferred Tax Expense (Benefit)	1,289	1,361	(218)
Gain on Sale of Securities	(19)	(78)	(268)
Gain on Sale of Loans	(5,847)	(4,316)	(2,496)
Gain on Sale of Other Real Estate Owned	-	(1,218)	(493)
Increase in Cash Surrender Value of Life Insurance	(560)	(579)	(608)
Loans Originated and Purchased for Sale	(184,030)	(157,409)	(95,143)
Proceeds from Loans Sold	221,328	176,744	52,442
Other Items	3,950	(1,232)	2,533
NET CASH FROM OPERATING ACTIVITIES	55,219	29,095	(32,052)
INVESTING ACTIVITIES			
Decrease (Increase) in Interest-Bearing Deposits	9,437	(7,262)	(100)
Securities Available for Sale:			
Purchases	(12,485)	(5,471)	-
Maturities, Prepayments and Calls	4,403	4,115	11,272
Sales	5,083	5,514	25,606
(Purchase) Redemption of FHLB Stock and Other Equity Securities, net	(3,265)	(766)	164
Net Decrease (Increase) in Loans	40,290	(103,128)	(122,445)
Proceeds from Sales of Other Real Estate Owned	-	2,086	843
Net Cash Paid in Connection with Acquisition	(35,051)	-	-
Purchases of Premises and Equipment	(210)	(468)	(417)
NET CASH FROM INVESTING ACTIVITIES	8,202	(105,380)	(85,077)
FINANCING ACTIVITIES			
Net (Decrease) Increase in Demand Deposits and Savings Accounts	(47,679)	65,761	12,724
Net (Decrease) Increase in Time Deposits	(58,235)	20,343	180,614
Net Change in FHLB Advances	-	-	(7,000)
Cash Dividends Paid	(2,554)	(3,114)	-
Issuance of Subordinated Debentures, net of issuance costs	49,274	-	-
Issuance of Common Stock	595	491	1,712
NET CASH FROM FINANCING ACTIVITIES	(58,599)	83,481	188,050
INCREASE IN CASH AND CASH EQUIVALENTS	4,822	7,196	70,921
Cash and Cash Equivalents at Beginning of Period	113,891	106,695	35,774
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 118,713	$ 113,891	$ 106,695
Supplemental Disclosures of Cash Flow Information:			
Interest Paid	$ 12,342	$ 6,872	$ 4,487
Taxes Paid	$ 12,515	$ 7,120	$ 5,810
Transfer from Loans to Other Real Estate Owned	$ 540	$ -	$ -
Transfer of Loans to Held for Sale	$ 71,626	$ 53,127	$ 89,359
Securities Held to Maturity Transferred to Available for Sale	$ 433	$ -	$ -

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

NOTE 1 - 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. Parent only condensed financial information on RBB Bancorp is provided in Note 21.

The Company operates full-service banking offices in Los Angeles, San Gabriel, Torrance, Rowland Heights, Westlake Village, Oxnard, Monterey Park, Diamond Bar, Cerritos, West LA, Arcadia, and Silverlake, California and Las Vegas, Nevada and a loan production office in the City of 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 March 22, 2017, 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, 2016 and 2015 were $9,811,000 and $4,560,000, 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 1 - 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 semi-annual 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 or acquired and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings. Loans held for sale consist primarily of first trust deed mortgages on single-family residential properties located in California.

Mortgage loans held for sale are generally sold with servicing rights retained. The carrying value of mortgage loans sold is 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 loans sold.

NOTE 1 - 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 collectability based on contractual terms of the loan. When loans are placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income. Income on nonaccrual loans is subsequently recognized only to the extent that cash is received and the loan's principal balance is deemed collectible. Interest accruals are resumed on such loans only when they are brought current with respect to interest and principal and when, in the judgment of management, the loans are estimated to be fully collectible as to all principal and interest.

Allowance for Loan Losses

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

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

NOTE 1 - 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 1 - 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.

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 $5.8 million, $4.3 million, and $2.5 million in 2016, 2015, and 2014, respectively. Gains on sale of mortgage loans totaled $3.4 million, $1.6 million, and $182,000, and gains on sale of SBA loans totaled $2.4 million, $2.7 million, and $2.3 million in 2016, 2015, and 2014 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 1 - 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 $29.9 million and $4.0 million as of December 31, 2016 and 2015, respectively, and is the only intangible asset with an indefinite life on the balance sheet. No impairment was recognized on goodwill during 2016 and 2015.

Other intangible assets consist of core deposit intangible ("CDI") assets arising from whole bank acquisitions. CDI assets are amortized on an accelerated method over their estimated useful life of 8 to 10 years. CDI was recognized in the 2013 acquisition of Los Angeles National Bank and in the 2016 acquisition of TFC Holding Company. The unamortized balance as of December 31, 2016 and 2015 was $1,793,000 and $466,000, respectively. CDI amortization expense was $372,000, $117,000, and $131,000 in 2016, 2015 and 2014, respectively.

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

2017	$	355
2018		311
2019		274
2020		244
2021		172

NOTE 1 - 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 $221,000, $125,000, and $46,000 in 2016, 2015, and 2014, respectively.

Comprehensive Income

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

NOTE 1 - 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 12. 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 16 and Note 17 for more information and disclosures relating to the Company's fair value measurements.

Operating Segments

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Reclassifications

Certain reclassifications have been made in the 2015 and 2014 financial statements to conform to the presentation used in 2016. These reclassifications had no impact on the Company's previously reported financial statements.

Newly Issued Not Yet Effective Accounting Standards

In May 2014, the Financial Accounting Standards Board ("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. These amendments are effective for public business entities for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period and one year later for nonpublic business entities. Early adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that period. The guidance does not apply to revenue associated with financial instruments and therefore the Company does not expect the new guidance to have a material impact on revenue closely associated with financial instruments, including interest income. The Company plans to perform an overall assessment of revenue streams that may be affected by the ASU including deposit related fees to determine if there would be a potential impact on the Company’s Consolidated Financial Statements. The Company plans to adopt ASU No. 2014-09 on January 1, 2018.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10)*. Changes made to the current measurement model primarily affect the accounting for equity securities and readily determinable fair values, where changes in fair value will impact earnings instead of other comprehensive income. The accounting for other financial instruments, such as loans, investments in debt securities, and financial liabilities is largely unchanged. The Update also changes the presentation and disclosure requirements for financial instruments including a requirement that public business entities use exit price when measuring the fair value of financial instruments measured at amortized cost for disclosure purposes. This Update is generally effective for public business entities in fiscal years beginning after December 15, 2017, including interim periods within those fiscal years and one year later for nonpublic business entities. Based upon a preliminary evaluation of the guidance in ASU No. 2016-01 the Company does not believe that the ASU will have a material impact on the Company’s Consolidated Financial Statements. The Company will continue to monitor any updates to the guidance.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. The most significant change for lessees is the requirement under the new guidance to recognize right-of-use assets and lease liabilities for all leases not considered short-term leases, which is generally defined as a lease term of less than 12 months. This change will result in lessees recognizing right-of-use assets and lease liabilities for most leases currently accounted for as operating leases under current lease accounting guidance. The amendments in this Update are effective for interim and annual periods beginning after December 15, 2018, for public business entities and one year later for all other entities. The Company has several lease agreements which are currently considered operating leases and are therefore not included on the Company's Consolidated Balance Sheets. Under the new guidance the Company expects that some of the lease agreements will have to be recognized on the Consolidated Balance Sheets as a right-of-use asset with a corresponding lease liability. Based upon a preliminary evaluation the Company expects that the ASU will have an impact on the Company's Consolidated Balance Sheets. The Company will continue to evaluate how extensive the impact will be under the ASU on the Company's Consolidated Financial Statements.

In March 2016, the FASB issued ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting (Topic 718.)* ASU 2016-09 includes provisions intended to simplify various aspects related to how share-based payments are accounted for and presented in the financial statements. Under ASU 2016-09, excess tax benefits and certain tax deficiencies will no longer be recorded in additional paid-in capital ("APIC"). Instead, they will record all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement, and APIC pools will be eliminated. In addition, the guidance requires excess tax benefits be presented as an operating activity on the statement of cash flows rather than as a financing activity. ASU 2016-09 also permits an accounting policy election for the impact of forfeitures on the recognition of expense for share-based payment awards. Forfeitures can be estimated, as required today, or recognized when they occur. This guidance is effective for public business entities for interim and annual reporting periods beginning after December 15, 2016, and for nonpublic business entities annual reporting periods beginning after December 15, 2017, and interim periods within the reporting periods beginning after December 15, 2018. Early adoption is permitted, but all of the guidance must be adopted in the same period. The Company plans to adopt ASU 2016-09 on January 1, 2018. The Company plans to recognize forfeitures as they occur. The adoption of the ASU will not have a material effect on the Company's Financial Statements or Disclosures. The adoption of ASU 2016-09 could result in increased volatility to income tax expense that is reported related to excess tax benefits and tax.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

In June 2016, the FASB issued ASU No. 2016-13, Measurement of Credit Losses on Financial Instrument (Topic 326). This ASU significantly changes how entities will measure credit losses for most financial assets and certain other instruments that aren't measured at fair value through net income. In issuing the standard, the FASB is responding to criticism that today's guidance delays recognition of credit losses. The standard will replace today's "incurred loss" approach with an "expected loss" model. The new model, referred to as the current expected credit loss ("CECL") model, will apply to: (1) financial assets subject to credit losses and measured at amortized cost, and (2) certain off-balance sheet credit exposures. This includes, but is not limited to, loans, leases, held to maturity securities, loan commitments, and financial guarantees. The CECL model does not apply to available for sale ("AFS") debt securities. For AFS debt securities with unrealized losses, entities will measure credit losses in a manner similar to what they do today, except that the losses will be recognized as allowances rather than reductions in the amortized cost of the securities. As a result, entities will recognize improvements to estimated credit losses immediately in earnings rather than as interest income over time, as they do today. The ASU also simplifies the accounting model for purchased credit-impaired debt securities and loans. ASU 2016-13 also expands the disclosure requirements regarding an entity's assumptions, models, and methods for estimating the allowance for loan and lease losses. In addition, public business entities will need to disclose the amortized cost balance for each class of financial asset by credit quality indicator, disaggregated by the year of origination. ASU No. 2016-13 is effective for interim and annual reporting periods beginning after December 15, 2019, for SEC filers, one year later for non SEC filing public business entities and annual reporting periods beginning after December 15, 2020, for nonpublic business entities and interim periods within the reporting periods beginning after December 15, 2021. Early adoption is permitted for interim and annual reporting periods beginning after December 15, 2018. Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (i.e., modified retrospective approach). The Company has begun its evaluation of the impact of the implementation of ASU 2016-13. The implementation of the provisions of ASU No. 2016-13 will most likely impact the Company’s Consolidated Financial Statements as to the level of reserves that will be required for credit losses. The Company will continue to access the potential impact that this ASU will have on the Company’s Consolidated Financial Statements.

NOTE 2 – ACQUISITIONS

TFC HOLDING COMPANY ACQUISITION:

On February 19, 2016, the Company acquired all the assets and assumed all the liabilities of TFC Holding Company in exchange for cash of $86.7 million. TFC Holding Company operated six branches in the Los Angeles metropolitan area. The Company acquired TFC Holding Company to strategically increase its existing presence in the Los Angeles area. Goodwill in the amount of $25.9 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 TFC Holding Company as of February 19, 2016 and the fair value adjustments and amounts recorded by the Company in 2016 under the acquisition method of accounting:

(dollars in thousands)	TFC Book Value	Fair Value Adjustments	Fair Value
ASSETS ACQUIRED			
Cash and Cash Equivalents	$ 51,613	$ -	$ 51,613
Interest-Bearing Deposits in Other Financial Institutions	2,320	-	2,320
Net Investments - Available for Sale	15,952	(106)	15,846
Loans, gross	400,887	(13,211)	387,676
Allowance for Loan Losses	(9,857)	9,857	-
Bank Premises and Equipment	225	-	225
Deferred Income Taxes	4,027	858	4,885
Other Assets	5,595	1,699	7,294
Total Assets Acquired	$ 470,762	$ (903)	$ 469,859
LIABILITIES ASSUMED			
Deposits	$ 404,465	$ 848	$ 405,313
Subordinated Debentures	5,155	(1,900)	3,255
Other Liabilities	566	-	566
Total Liabilities Assumed	410,186	(1,052)	409,134
Excess of Assets Acquired Over Liabilities Assumed	60,576	149	60,725
	$ 470,762	$ (903)	
Cash Paid			86,664
Goodwill Recognized			$ 25,939

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, deposits, and Subordinated Debentures with the assistance of a third party valuation.

NOTE 2 - ACQUISITIONS – Continued

The estimated fair values are subject to refinement as additional information relative to the closing date fair values becomes 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.

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:

(dollars in thousands)

		Acquired Loans
Contractual Amounts Due	$	441,275
Cash Flows not Expected to be Collected		-
Expected Cash Flows		441,275
Interest Component of Expected Cash Flows		53,599
Fair Value of Acquired Loans	$	387,676

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 TFC Holding Company.

NOTE 3 - INVESTMENT SECURITIES

The following table summarizes the amortized cost and fair value of securities available for sale and held to maturity at December 31, 2016 and 2015, and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income:

(dollars in thousands) **December 31, 2016**	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale				
Government Agency Securities	$ 5,453	$ -	$ (136)	$ 5,317
Mortgage-Backed Securities-				
Government Sponsored Agencies	23,913	38	(311)	23,640
Corporate Debt Securities	10,364	21	(65)	10,320
	$ 39,730	$ 59	$ (512)	$ 39,277
Held to Maturity				
Municipal Taxable Securities	$ 5,301	$ 328	$ -	$ 5,629
Municipal Securities	913	11	-	924
	$ 6,214	$ 339	$ -	$ 6,553
December 31, 2015				
Available for Sale				
Mortgage-Backed Securities-				
Government Sponsored Agencies	$ 15,292	$ -	$ (263)	$ 15,029
Corporate Debt Securities	5,451	-	(64)	5,387
	$ 20,743	$ -	$ (327)	$ 20,416
Held to Maturity				
Municipal Taxable Securities	$ 5,741	$ 440	$ -	$ 6,181
Municipal Securities	937	26	-	963
	$ 6,678	$ 466	$ -	$ 7,144

During 2016, 2015 and 2014 the Company sold $5.1 million, $5.5 million and $25.6 million of securities available for sale, recognizing gross gains of $19,000, $78,000 and $268,000, respectively.

One security with a fair value of $933,000 and $1,220,000 was pledged to secure a local agency deposit at December 31, 2016 and December 31, 2015, respectively.

NOTE 3 - INVESTMENT SECURITIES - Continued

The amortized cost and fair value of the investment securities portfolio as of December 31, 2016 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	
(dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within One Year	$ -	$ -	$ 1,002	$ 1,016
Due From One through Five Years	26,432	26,215	1,957	2,092
Due from Five to Ten Years	13,298	13,062	3,255	3,445
	$ 39,730	$ 39,277	$ 6,214	$ 6,553

The following table summarizes securities with unrealized losses at December 31, 2016 and December 31, 2015, aggregated by major security type and length of time in a continuous unrealized loss position. There were no Held to Maturity Securities in a continuous unrealized loss position at December 31, 2016 and December 31, 2015:

	Less than Twelve Months		Twelve Months or More		Total	
(dollars in thousands)	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value
December 31, 2016						
Government Agency Securities	$ (136)	$ 5,317	$ -	$ -	$ (136)	$ 5,317
Mortgage-Backed Securities-						
Government Sponsored Agencies	(221)	16,231	(90)	2,504	(311)	18,735
Corporate Debt Securities	(65)	5,147	-	-	(65)	5,147
Total Available for Sale	$ (422)	$ 26,695	$ (90)	$ 2,504	$ (512)	$ 29,199
December 31, 2015						
Government Agency Securities	$ -	$ -	$ -	$ -	$ -	$ -
Mortgage-Backed Securities-						
Government Sponsored Agencies	(79)	10,581	(184)	4,448	(263)	15,029
Corporate Debt Securities	(64)	5,387	-	-	(64)	5,387
Total Available for Sale	$ (143)	$ 15,968	$ (184)	$ 4,448	$ (327)	$ 20,416

Unrealized losses have not been recognized into income because the issuer bonds are of high credit quality, management does not intend to sell, it is not more likely than not that management would be required to sell the securities prior to their anticipated recovery and the decline in fair value is largely due to changes in interest rates. The fair value is expected to recover as the bonds approach maturity.

NOTE 4 - 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:

(dollars in thousands)	2016	2015	2014
Beginning Balance	$ 10,023	$ 8,848	$ 7,549
Additions to the Allowance Charged to Expense	4,974	1,386	1,446
Recoveries on Loans Charged-Off	-	211	95
	14,997	10,445	9,090
Less Loans Charged-Off	(835)	(422)	(242)
Ending Balance	$ 14,162	$ 10,023	$ 8,848

The following table presents the recorded investment in loans and impairment method as of December 31, 2016, 2015 and 2014 and the activity in the allowance for loan losses for the years then ended, by portfolio segment:

NOTE 4 - LOANS – Continued

(dollars in thousands)

December 31, 2016	Real Estate	Commercial	Total
Allowance for Loan Losses:			
Beginning of Year	$ 5,788	$ 4,235	$ 10,023
Provisions	2,323	2,651	4,974
Charge-offs	-	(835)	(835)
Recoveries	-	-	-
	$ 8,111	$ 6,051	$ 14,162
Reserves:			
Specific	$ -	$ 1,782	$ 1,782
General	8,111	4,269	12,380
Loans Acquired with Deteriorated Credit Quality	-	-	-
	$ 8,111	$ 6,051	$ 14,162
Loans Evaluated for Impairment:			
Individually	$ 2,556	$ 3,577	$ 6,133
Collectively	744,349	359,234	1,103,583
Loans Acquired with Deteriorated Credit Quality	730	-	730
	$ 747,635	$ 362,811	$ 1,110,446
December 31, 2015			
Allowance for Loan Losses:			
Beginning of Year	$ 5,696	$ 3,152	$ 8,848
Provisions	(108)	1,494	1,386
Charge-offs	-	(422)	(422)
Recoveries	200	11	211
	$ 5,788	$ 4,235	$ 10,023
Reserves:			
Specific	$ -	$ -	$ -
General	5,788	4,235	10,023
Loans Acquired with Deteriorated Credit Quality	-	-	-
	$ 5,788	$ 4,235	$ 10,023
Loans Evaluated for Impairment:			
Individually	$ 1,482	$ 4,630	$ 6,112
Collectively	519,963	264,610	784,573
Loans Acquired with Deteriorated Credit Quality	1,677	-	1,677
	$ 523,122	$ 269,240	$ 792,362
December 31, 2014			
Allowance for Loan Losses:			
Beginning of Year	$ 5,108	$ 2,442	$ 7,550
Provisions	493	952	1,445
Charge-offs	-	(242)	(242)
Recoveries	95	-	95
	$ 5,696	$ 3,152	$ 8,848
Reserves:			
Specific	$ -	$ -	$ -
General	5,696	3,152	8,848
Loans Acquired with Deteriorated Credit Quality	-	-	-
	$ 5,696	$ 3,152	$ 8,848
Loans Evaluated for Impairment:			
Individually	$ 3,216	$ 593	$ 3,809
Collectively	517,873	176,821	694,694
Loans Acquired with Deteriorated Credit Quality	1,933	-	1,933
	$ 523,022	$ 177,414	$ 700,436

NOTE 4 - 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.

NOTE 4 - LOANS - Continued

The risk category of loans by class of loans was as follows as of December 31, 2016 and 2015:

(dollars in thousands) **December 31, 2016**	Pass	Special Mention	Substandard	Impaired	Total
Real Estate:					
Construction and Land Development	$ 87,174	$ 1,932	$ -	$ 303	$ 89,409
Residential Real Estate	258,415	13,950	6,272	-	278,637
Commercial Real Estate	353,290	4,562	19,484	2,253	379,589
Commercial:					
Other	194,227	-	9,616	-	203,843
SBA	151,066	1,934	2,391	3,577	158,968
	$ 1,044,172	$ 22,378	$ 37,763	$ 6,133	$ 1,110,446
December 31, 2015					
Real Estate:					
Construction and Land Development	$ 67,278	$ -	$ -	$ 315	$ 67,593
Residential Real Estate	231,771	-	-	-	231,771
Commercial Real Estate	218,844	-	3,747	1,167	223,758
Commercial:					
Other	157,394	999	2,086	-	160,479
SBA	103,846	-	285	4,630	108,761
	$ 779,133	$ 999	$ 6,118	$ 6,112	$ 792,362

NOTE 4 - LOANS – Continued

The following tables present the recorded investment in non-accrual and loans past due over 90 days still on accrual by class of loans as of December 31, 2016 and December 31, 2015:

(dollars in thousands)	Non-Accrual		Loans Past Due Over 90 Days Still Accruing	
	2016	2015	2016	2015
Commercial:				
SBA	$ 3,577	$ 4,365	$ -	$ -

The following table presents the aging of the recorded investment in past-due loans as of December 31, 2016 and 2015 by class of loans:

(dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater Than 89 Days Past Due	Total Past Due	Loans Not Past Due	Total
December 31, 2016						
Real Estate:						
Construction and Land Development	$ -	$ -	$ -	$ -	$ 89,409	$ 89,409
Residential Real Estate	-	-	-	-	278,637	278,637
Commercial Real Estate	-	-	-	-	379,589	379,589
Commercial:						
Other	343	-	-	343	203,500	203,843
SBA	-	-	3,577	3,577	155,391	158,968
	$ 343	$ -	$ 3,577	$ 3,920	$ 1,106,526	$ 1,110,446
December 31, 2015						
Real Estate:						
Construction and Land	$ -	$ -	$ -	$ -	$ 67,593	$ 67,593
Development	-	-	-	-	231,771	231,771
Residential Real Estate	-	-	-	-	223,758	223,758
Commercial:						
Other	271	-	-	271	160,208	160,479
SBA	-	-	4,365	4,365	104,396	108,761
	$ 271	$ -	$ 4,365	$ 4,636	$ 787,726	$ 792,362

NOTE 4 - LOANS - Continued

Information relating to individually impaired loans presented by class of loans was as follows as of December 31, 2016 and 2015:

(dollars in thousands) **December 31, 2016**	Unpaid Principal Balance	Recorded Investment	Average Balance	Interest Income	Related Allowance
With no Related Allowance Recorded					
Construction and Land Development	$ 303	$ 303	$ 309	$ 21	$ -
Commercial Real Estate	2,253	2,253	1,710	280	-
Commercial - SBA	18	18	93	-	-
Subtotal	2,574	2,574	2,112	301	-
With an Allowance Recorded					
Commercial - SBA	3,559	3,559	3,559	-	1,782
Total	$ 6,133	$ 6,133	$ 5,671	$ 301	$ 1,782
December 31, 2015					
With no Related Allowance Recorded					
Construction and Land Development	$ 315	$ 315	$ 320	$ 4	$ -
Commercial Real Estate	1,167	1,167	1,145	195	-
Commercial - SBA	4,630	4,630	4,545	14	-
Total	$ 6,112	$ 6,112	$ 6,010	$ 213	$ -
December 31, 2014					
With no Related Allowance Recorded					
Construction and Land Development	$ 702	$ 697	$ 1,382	$ 216	$ -
Commercial Real Estate	2,519	2,519	2,507	327	-
Commercial - SBA	593	593	588	9	-
	$ 3,814	$ 3,809	$ 4,477	$ 552	$ -

No interest income was recognized on a cash basis as of December 31, 2016, 2015 and 2014.

NOTE 4 - LOANS - Continued

The Company had six and seven loans identified as troubled debt restructurings ("TDR's") at December 31, 2016 and 2015, respectively. A specific reserve for $1,782,000 has been allocated for one loan as of December 31, 2016. There are no commitments to lend additional amounts as of December 31, 2016 and 2015, respectively, to customers with outstanding loans that are classified as TDR's.

During the year ended December 31, 2016, the terms of certain loans were modified as TDR's. The modification of the terms generally included loans where a moratorium on loan payments was granted. Such moratoriums ranged from three months to six months on the loans restructured in 2016.

The following table presents loans by class modified as TDR's that occurred during the year ended December 31, 2016:

(dollars in thousands)	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
December 31, 2016			
Commercial Real Estate	1	$ 1,047	$ 1,047
December 31, 2015			
Commercial - SBA	3	$ 4,606	$ 4,606

Two loans to the same customer which were modified in 2015 later defaulted. Default for this purpose is defined as the loan being 90 days or more past due under the modified terms. The total carrying value of those two loans as of December 31, 2015 was approximately $4,365,000, of which approximately $4,163,000 was supported by SBA guarantees.

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:

(dollars in thousands)	**2016**	**2015**
Outstanding Balance	$ 878	$ 2,444
Carrying Amount	$ 730	$ 1,677

For these purchased credit-impaired loans, the Company did not increase the allowance for loan losses during 2016 or 2015 as there were no significant reductions in the expected cash flows.

NOTE 4 - LOANS - Continued

Below is a summary of activity in the accretable yield on purchased credit-impaired loans for 2016 and 2015:

(dollars in thousands)	2016	2015	2014
Balance, Beginning of Year	$ 349	$ 574	$ 771
Disposals	-	(99)	-
Restructuring as TDR	(22)	-	-
Accretion of Income	(185)	(126)	(197)
Balance, End of Year	$ 142	$ 349	$ 574

NOTE 5 - LOAN SERVICING

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

(dollars in thousands)	2016	2015
Loans Serviced for Others:		
Mortgage Loans	$ 259,207	$ 106,866
SBA Loans	$ 110,263	$ 74,371

Activity for servicing assets follows:

	2016		2015		2014	
(dollars in thousands)	Mortgage Loans	SBA Loans	Mortgage Loans	SBA Loans	Mortgage Loans	SBA Loans
Servicing Assets:						
Beginning of year	$ 298	$ 1,807	$ -	$ 720	$ -	$ 128
Additions	912	1,353	329	1,268	-	724
Amortized to expense	(208)	(458)	(31)	(181)	-	(132)
End of year	$ 1,002	$ 2,702	$ 298	$ 1,807	$ -	$ 720

The fair value of servicing assets for mortgage loans was $1,184,000 and $298,000 as of December 31, 2016 and 2015, respectively. The fair value of servicing assets for SBA loans was $3,142,000 and $2,305,000 as of December 31, 2016 and 2015, respectively.

Servicing fees net of servicing asset amortization totaled $615,000, $272,000, and $54,000 for the years ended December 31, 2016, 2015, and 2014, respectively.

NOTE 6 - PREMISES AND EQUIPMENT

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

(dollars in thousands)	2016	2015
Land and Buildings	$ 5,423	$ 5,424
Leasehold Improvements	2,885	2,728
Furniture, Fixtures, and Equipment	2,950	2,675
	11,258	10,827
Less Accumulated Depreciation and Amortization	(4,673)	(3,967)
	$ 6,585	$ 6,860

Depreciation and amortization expense was $750,000, $625,000, and $591,000 for 2016, 2015, and 2014, respectively.

19The Company leases several of its operating facilities under various noncancellable operating leases expiring at various dates through 2022. 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, 2016:

(dollars in thousands)	
2017	$ 1,568
2018	1,270
2019	704
2020	440
2021	330
Thereafter	129
	$ 4,441

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 $1.6 million, $1.2 million, and $1.2 million for 2016, 2015, and 2014, respectively.

NOTE 7 - DEPOSITS

At December 31, 2016 the scheduled maturities of time deposits are as follows:

(dollars in thousands)	
One year	$ 668,913
Two to three years	12,879
	$ 681,792

NOTE 8 - LONG-TERM DEBT

At December 31, 2016 long-term debt was as follows:

(dollars in thousands)	Principal	Unamortized Debt Issuance Costs
6.5% fixed to floating rate subordinated debentures, due March 31, 2026	$ 50,000	$ 617

In March 2016, the Company issued $50 million of 6.5% fixed to floating rate subordinated debentures, due March 31, 2026. The interest rate is fixed through March 31, 2021 and floats at 3 month LIBOR plus 516 basis points thereafter. The sub-debt is considered Tier-two capital at the Company. The Company allocated $35 million to the Bank as Tier-one capital.

NOTE 9 - SUBORDINATED DEBENTURES

The Company, through the acquisition of TFC Bancorp, acquired TFC Statutory Trust. The Trust contained a pooled private offering of 5,000 trust preferred securities with a liquidation amount of $1,000 per security. TFC Bancorp issued $5,000,000 of subordinated debentures to the trust in exchange for ownership of all of the common security of the trust and the proceeds of the preferred securities sold by the trust. The Company is not considered the primary beneficiary of this trust (variable interest entity), therefore the trust is not consolidated in the Company's financial statements, but rather the subordinated debentures are shown as a liability at market value as of the close of the acquisition which was $3,255,000. There was a $1,900,000 valuation reserve recorded to arrive at market value which is treated as a yield adjustment and is amortized over the life of the security. The amount of amortization expense recognized in 2016 was $79,000. The Company also purchased an investment in the common stock of the trust for $155,000 which is included in other assets. The Company may redeem the subordinated debentures, subject to prior approval by the Federal Reserve Bank on or after March 15, 2012, at 100% of the principal amount, plus accrued and unpaid interest. The subordinated debentures mature on March 15, 2037. The Company has the option to defer interest payments on the subordinated debentures from time to time for a period not to exceed five consecutive years. The Company has been paying interest on a quarterly basis. The subordinated debentures may be included in Tier I capital (with certain limitations applicable) under current regulatory guidelines and interpretations. The subordinated debentures have a variable rate of interest equal to the three month London Interbank Offered Rate (LIBOR) plus 1.65%, which was 2.61% at December 31, 2016.

NOTE 10 - BORROWING ARRANGEMENTS

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

*Federal Funds Arrangements with Commercial Bank*s. As of December 31, 2016 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, 2016 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 $15 million at December 31, 2016 is collateralized by loans pledged with a carrying value of $25.6 million.

FHLB Secured Line of Credit. The secured borrowing capacity of $387.3 million at December 31, 2016 is collateralized by loans pledged with a carrying value of $434.6 million.

There were no amounts outstanding under any of the arrangements above as of December 31, 2016 and 2015.

NOTE 11 - INCOME TAXES

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

Income tax expense consists of the following:

(dollars in thousands)	2016	2015	2014
Current:			
Federal	$ 9,359	$ 5,662	$ 5,580
State	2,841	1,973	1,775
	12,200	7,635	7,355
Deferred	1,289	1,361	(218)
	$ 13,489	$ 8,996	$ 7,137

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

	2016		2015		2014	
(dollars in thousands)	Amount	Rate	Amount	Rate	Amount	Rate
Statutory Federal Tax	$ 11,399	35.0%	$ 7,469	34.0%	$ 5,972	34.0%
State Franchise Tax, Net of Federal Benefit	2,281	7.0%	1,550	7.1%	1,224	7.0%
Tax-Exempt Income	(202)	(0.6%)	(203)	(0.9%)	(213)	(1.2%)
Other Items, Net	11	0.0%	180	0.8%	154	0.9%
Actual Tax Expense	$ 13,489	41.4%	$ 8,996	41.0%	$ 7,137	40.6%

NOTE 11 - INCOME TAXES – Continued

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

(dollars in thousands)	2016	2015
Deferred Tax Assets:		
Pre-Opening Expenses	$ 287	$ 321
Allowance For Loan Losses	5,954	4,076
Stock-Based Compensation	2,576	2,345
Off Balance Sheet Reserve	254	132
Operating Loss Carryforwards	693	796
Other Real Estate Owned	17	13
Acquisition Accounting Fair Value Adjustments	1,779	457
Unrealized Loss on AFS Securities	186	134
Other	2,520	1,905
	14,266	10,179
Deferred Tax Liabilities:		
Depreciation	(917)	(1,024)
Other	(2,252)	(1,706)
	(3,169)	(2,730)
Net Deferred Tax Assets	$ 11,097	$ 7,449

The Company has net operating loss carryforwards from acquisitions of approximately $697,000 for federal income and approximately $6.4 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, 2012 are open to audit by the federal authorities and for the years ended after December 31, 2011 are open to audit by California state authorities.

NOTE 12 - 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, 2016 and 2015, the Company had the following financial commitments whose contractual amount represents credit risk:

	2016		2015	
(dollars in thousands)	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Commitments to Make Loans	$ 54,812	$ 13,191	$ 31,597	$ 10,613
Unused Lines of Credit	38,943	53,435	48,351	37,723
Commercial and Similar Letters of Credit	8,966	-	10,424	-
Standby Letters of Credit	1,100	150	780	205
	$ 103,821	$ 66,776	$ 91,152	$ 48,541

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 13 - RELATED PARTY TRANSACTIONS

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

(dollars in thousands)	2016	2015
Balance, Beginning of Year	$ 3,971	$ 9,283
New Loans and Advances	1,274	11,888
Repayments	(1,800)	(17,200)
Balance, End of Year	$ 3,445	$ 3,971

Loan commitments outstanding to executive officers, directors and their related interests with whom they are associated totaled approximately $2.3 million and $2.1 million as of December 31, 2016 and 2015, respectively.

Deposits from principal officers, directors, and their affiliates at year-end 2016 and 2015 were $37.2 million and $42.1 million.

NOTE 14- 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 $894,000, $1.5 million, and $1.6 million in 2016, 2015, and 2014 and recognized income tax benefits on that expense of $267,000, $482,000, and $454,000, 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:

	2016	2015
Expected Volatility	35.0%	35.0%
Expected Term	6.0 Years	6.0 Years
Expected Dividends	None	None
Risk Free Rate	1.93%	1.84%
Grant Date Fair Value	$ 6.76	$ 6.29

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 14 - STOCK OPTION PLAN - Continued

A summary of the status of the Company's stock option plan as of December 31, 2016 and changes during the year then ended is presented below:

(dollars in thousands, except for share amounts)	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at Beginning of Year	2,374,657	$ 10.68		
Granted	210,000	$ 18.25		
Exercised	(57,232)	$ 10.22		
Forfeited or Expired	(32,291)	$ 15.81		
Outstanding at End of Year	2,495,134	$ 11.26	4.7 Years	$ 17,449
Options Exercisable	2,166,308	$ 10.35	4.1 Years	$ 17,123

As of December 31, 2016 there was approximately $1,453,000 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 $216,000, $231,000, and $609,000 in 2016, 2015, and 2014, respectively.

NOTE 15 - REGULATORY MATTERS

Holding companies (with assets over $1 billion at the beginning of the year) and banks are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements.

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

NOTE 15 - REGULATORY MATTERS - Continued

Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. Capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total, Tier 1 and CET1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). The capital conservation buffer for 2016 is 9.057%. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes, as of December 31, 2016 and 2015, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2016, the most recent notification from the FDIC categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action (there are no conditions or events since that notification that management believes have changed the Bank's category). To be categorized as well-capitalized, the Bank must maintain minimum ratios as set forth in the table below.

The following table sets forth RBB Bancorp's consolidated and the Bank's actual capital amounts and ratios and related regulatory requirements for the Bank as of December 31, 2016:

			Amount of Capital Required			
	Actual		For Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Provisions	
(dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2016:						
Total Capital (to Risk-Weighted Assets)						
Consolidated	$217,244	19.2%	NA	NA	NA	NA
Bank	$192,784	17.1%	$ 90,417	8.0%	$113,021	10.0%
Tier 1 Capital (to Risk-Weighted Assets)						
Consolidated	$153,682	13.6%	NA	NA	NA	NA
Bank	$178,645	15.8%	$ 67,813	6.0%	$ 90,417	8.0%
CET1 Capital (to Risk-Weighted Assets)						
Consolidated	$150,786	13.3%	NA	NA	NA	NA
Bank	$178,645	15.8%	$ 50,860	4.5%	$ 73,464	6.5%
Tier 1 Capital (to Average Assets)						
Consolidated	$153,682	11.0%	NA	NA	NA	NA
Bank	$178,645	12.8%	$ 55,777	4.0%	$ 69,722	5.0%

NOTE 15 - REGULATORY MATTERS – Continued

The following table sets forth RBB Bancorp's consolidated and the Bank's actual capital amounts and ratios and related regulatory requirements for the Bank as of December 31, 2015:

	Actual		Amount of Capital Required: For Capital Adequacy Purposes		Amount of Capital Required: To Be Well-Capitalized Under Prompt Corrective Provisions	
(dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2015:						
Total Capital (to Risk-Weighted Assets)						
Consolidated	$168,851	21.5%	NA	NA	NA	NA
Bank	$154,468	19.7%	$ 62,625	8.0%	$ 78,281	10.0%
Tier 1 Capital (to Risk-Weighted Assets)						
Consolidated	$159,020	20.2%	NA	NA	NA	NA
Bank	$144,675	18.5%	$ 46,969	6.0%	$ 62,625	8.0%
CET1 Capital (to Risk-Weighted Assets)						
Consolidated	$159,020	20.2%	NA	NA	NA	NA
Bank	$144,675	18.5%	$ 35,227	4.5%	$ 50,883	6.5%
Tier 1 Capital (to Average Assets)						
Consolidated	$159,020	15.3%	NA	NA	NA	NA
Bank	$144,675	13.9%	$ 41,514	4.0%	$ 51,893	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.

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 16 - 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, 2016.

NOTE 16 - 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, 2016 and 2015:

(dollars in thousands)	Fair Value Measurements Using:			
December 31, 2016	Level 1	Level 2	Level 3	Total
Assets Measured at Fair Value:				
On a Recurring Basis:				
Securities Available for Sale	$ -	$ 39,277	$ -	$ 39,277
On a Non-Recurring Basis:				
Other Real Estate Owned	$ -	$ -	$ 833	$ 833
December 31, 2015				
Assets Measured at Fair Value:				
On a Recurring Basis:				
Securities Available for Sale	$ -	$ 20,416	$ -	$ 20,416
On a Non-Recurring Basis:				
Other Real Estate Owned	$ -	$ -	$ 293	$ 293

No write-downs to OREO were recorded in 2016 or 2015.

Quantitative information about the Company's non-recurring Level 3 fair value measurements as of December 31, 2016 and 2015 is as follows:

(dollars in thousands) **December 31, 2016**	Fair Value Amount	Valuation Technique	Unobservable Input	Adjustment Range	Weighted-Average Adjustment
Other Real Estate Owned	$ 833	Third Party Appraisals	Management Adjustments to Reflect Current Conditions and Selling Costs	10% - 15%	12%
December 31, 2015					
Other Real Estate Owned	$ 293	Third Party Appraisals	Management Adjustments to Reflect Current Conditions and Selling Costs	13%	13%

NOTE 17 - 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.

NOTE 17 - 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

Long-Term Debt

The fair values of the Company's long-term borrowings are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 2 classification.

Subordinated Debentures

The fair values of the Company's Subordinated Debentures are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 3 classification.

Off-Balance Sheet Financial Instruments

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

The fair value hierarchy level and estimated fair value of significant financial instruments at December 31, 2016 and 2015 are summarized as follows:

NOTE 17 - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

(dollars in thousands)	Fair Value Hierarchy	2016 Carrying Value	2016 Fair Value	2015 Carrying Value	2015 Fair Value
Financial Assets:					
Cash and Due From Banks	Level 1	$ 74,213	$ 74,213	$ 80,391	$ 80,391
Federal Funds Sold and Other Cash Equivalents	Level 1	44,500	44,500	33,500	33,500
Interest-Bearing Deposits in Other Financial Institutions	Level 1	345	345	7,462	7,462
Investment Securities - AFS	Level 2	39,277	39,277	20,416	20,416
Investment Securities - HTM	Level 2	6,214	6,553	6,678	7,144
Mortgage Loans Held for Sale	Level 1	44,345	45,433	41,496	42,096
Loans, Net	Level 3	1,096,284	1,095,944	782,339	807,290
Financial Liabilities:					
Deposits	Level 2	$ 1,152,763	$ 1,140,707	$ 853,417	$ 848,639
Long-Term Debt	Level 2	49,383	48,447	-	-
Subordinated Debentures	Level 3	3,334	3,334	-	-

NOTE 18 - 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:

	2016		2015		2014	
(dollars in thousands)	Income	Shares	Income	Shares	Income	Shares
Net Income as Reported	$ 19,079		$ 12,973		$ 10,428	
Shares Outstanding at Year End		12,827,803		12,770,571		12,720,659
Impact of Weighting Shares						
Purchased During the Year		(26,813)		(8,739)		(78,599)
Used in Basic EPS	19,079	12,800,990	12,973	12,761,832	10,428	12,642,060
Dilutive Effect of Outstanding						
Stock Options		894,910		790,850		528,625
Used in Dilutive EPS	$ 19,079	13,695,900	$ 12,973	13,552,682	$ 10,428	13,170,685

Stock options for 321,000, 139,225, and 159,400 shares of common stock were not considered in computing diluted earnings per common share for 2016, 2015, and 2014, respectively, because they were anti-dilutive.

NOTE 19 - STOCK DIVIDENDS

The Company issued a 2.5% and a 5% stock dividend in 2015, and 2014 respectively. No stock dividend was issued in 2016. The per share data in the statements of income and the footnotes have been adjusted to give retroactive effect to these dividends.

NOTE 20 – QUALIFIED AFFORDABLE HOUSING PROJECT INVESTMENTS

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The Company began investing in qualified housing projects in 2016. At December 31, 2016 the balance of the investment for qualified affordable housing projects was $986,000. This balance is reflected in the accrued interest and other assets line on the consolidated balance sheets. Total unfunded commitments related to the investments in qualified housing projects totaled $840,000 at December 31, 2016. The Company expects to fulfill these commitments during the year ending 2027.

During the year ending December 2016, the Company recognized amortization expense of $14,000, which was included within income tax expense on the consolidated statements of income.

Additionally, during the year ended December 31, 2016, the Company recognized tax credits and other benefits from its investment in affordable housing tax credits of $12,000.

NOTE 21 - PARENT ONLY CONDENSED FINANCIAL INFORMATION

December 31, 2016 and 2015

(Dollars in Thousands)	2016	2015
ASSETS		
Cash and Cash Equivalents	$ 17,497	$ 8,852
Investment in Bank Subsidiary	209,727	149,300
Investment in Royal Asset Management ("RAM")	6,125	5,851
Other Assets	1,455	106
Total Assets	$ 234,804	$ 164,109
LIABILITIES AND SHAREHOLDERS' EQUITY		
Long Term Debt	49,383	-
Subordinated Debentures	3,334	-
Other Liabilities	8	(30)
Total Liabilities	52,725	(30)
Shareholders' Equity:		
Common Stock	142,651	141,873
Additional Paid-in Capital	8,417	7,706
Retained Earnings	31,278	14,753
Accumulated Other Comprehensive Income (Loss)	(267)	(193)
Total Shareholders' Equity	182,079	164,139
Total Liabilities and Shareholders' Equity	$ 234,804	$ 164,109

CONDENSED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
Years Ended December 31, 2016, 2015 and 2014

(Dollars in Thousands)	2016	2015	2014
Interest Expense	$ 2,728	$ -	$ -
Noninterest Expense	123	298	117
Loss Before Equity in Undistributed Income of Subsidiaries	(2,851)	(298)	(117)
Equity in Undistributed Income of:			
Royal Business Bank	20,483	12,310	10,037
Royal Asset Management	274	804	450
Income before Income Taxes	17,906	12,816	10,370
Income Tax Benefit	1,173	125	48
Net Income	19,079	12,941	10,418
Other Comprehensive Income (Loss)	(74)	(141)	238
Total Comprehensive Income	$ 19,005	$ 12,800	$ 10,656

NOTE 21 - PARENT ONLY CONDENSED FINANCIAL INFORMATION - Continued

CONDENSED STATEMENTS OF CASH FLOW
Years Ended December 31, 2016, 2015 and 2014

(Dollars in Thousands)	2016	2015	2014
Cash Flows from Operating Activities:			
Net Income	$ 19,079	$ 12,941	$ 10,418
Provision for deferred income taxes	(1,172)	(125)	(49)
Undistributed Income of Subsidiaries	(20,757)	(13,114)	(10,487)
Change in Other Assets and Liabilities	29	135	(9)
	(2,821)	(163)	(127)
Cash Flows from Investment Activities:			
Outlays for business acquisitions	(839)	-	-
Investment in Subsidiaries	(35,000)	5,000	(10,000)
	(35,839)	5,000	(10,000)
Cash Flows from Financing Activities:			
Issuance of Subordinated Debentures, net of issuance costs	49,274	-	-
Dividends Paid	(2,554)	(3,114)	-
Issuance of Common Stock	585	470	1,645
	47,305	(2,644)	1,645
Increase (Decrease) in Cash and Cash Equivalents	8,645	2,193	(8,482)
Cash and Cash Equivalents Beginning of Year	8,852	6,659	15,141
Cash and Cash Equivalents End of Year	$ 17,497	$ 8,852	$ 6,659

Note 22 - Subsequent Events

On January 18, 2017, the Company announced that the Board of Directors had declared a cash dividend of $0.30 per common share. The cash dividend is payable on February 28, 2017 to stockholders of record at the close of business on February 15, 2017 in the amount of $3,848,000.

We have evaluated events that have occurred subsequent to December 31, 2016 through March 22, 2017, and have concluded there are no subsequent events that would require recognition in the accompanying consolidated financial statements.

CORPORATE INFO

Administrative Office

Alan Thian
President
Chief Executive Officer

(626) 307-7588; (213) 533-7928

Simon Pang
Executive Vice President
Chief Strategy Officer
Regional Offices Coordinator

(626) 307-7555

Risk Management Department

Vincent Liu
Executive Vice President
Chief Operations Officer

(213) 533-7917

Sophy Chu
Senior Vice President
Compliance Officer

(213) 533-7906

Jun No
Senior Vice President
BSA Officer

(213) 533-7911

Commercial Lending Department

Doris Yung
First Vice President
Loan Portfolio Manager
CRE & Construction Lending

(626) 307-7565

Finance Department

David Morris
Executive Vice President
Chief Financial Officer

(714) 670-2488

Central Operations

Jay (Justo) Gonzalez
Vice President
Central Operations Manager

(714) 676-0276

Branch Administration

Tsu-Te Huang
Executive Vice President
Branch Administrator

(626) 307-7508

Information Tech Department

Erik Grier
First Vice President
Chief Information Officer

(714) 670-7660x240

William Sanchez
First Vice President
Chief Information Security Officer

(714) 228-5860

Residential Mortgage Loan Division

Larsen Lee
Executive Vice President
Director of Mortgage Lending

(213) 553-7919

Credit Administration

Jeffrey Yeh
Executive Vice President
Chief Credit Officer

(626) 307-7556

Keith Thomas
Senior Vice President
Regional Administrator

(702) 405-2525

Vivian Huang
First Vice President
Sr. Credit Review Officer

(626) 923-6622

Legal Counsel

Alberto G. Alverado
Senior Advisor and Counsel

(626) 307-7562

SBA Department

Mike Kim
Senior Vice President
SBA Manager

(626) 923-6629

International Trade Operations

Catherine Wang
First Vice President
International Banking Manager

(626) 307-7551

BRANCHES

San Gabriel Branch

Ashley Chang
Vice President
Branch Manager
123 East Valley Boulevard, Suite 101
San Gabriel, CA 91776

(626) 307-7503

Monterey Park Branch

Tiffany Tsai
Service Manager
700 West Garvey Avenue
Monterey Park, CA 91754

(626) 570-4810

Cerritos Branch

Helen Lee
Operations Officer
11304 1/2 South Street
Cerritos, CA 90703

(562) 274-0854

Spring Mountain Branch

Nikki Guo
Vice President
Branch Manager
3919 Spring Mountain Road
Las Vegas, NV 89102

(702) 405-2519

Torrance Branch

Grace Lin
Vice President
Branch Manager
23740 Hawthorne Blvd, Suite 103
Torrance, CA 90505

(310) 602-4519

L.A. Silver Lake Branch

Josephine Nhan
Assistant Vice President
Service Manager
1912 Sunset Boulevard
Los Angeles, CA 90026

(213) 989-1007

West L.A. Branch

Peter Eason
Vice President
Branch Manager
2105 Sawtelle Boulevard
Los Angeles, CA 90025

(424) 535-2316

Westlake Village Branch

Thushara Liyange
Vice President
Branch Manager
600 Hampshire Road, Suite 100
Westlake Village, CA 91361

(805) 497-2776

Rowland Heights Branch

Fanny Fan
Vice President
Branch Manager
1015 South Nogales Street
Unit 121 and 122A
Rowland Heights, CA 91748

(626) 322-1208

Diamond Bar Branch

Annie Liu
Service Manager
1241 South Grand Avenue, Suite K
Diamond Bar, CA 91765

(909) 378-4837

Arcadia Branch

Ken Shen
Acting Branch Manager
901 South Baldwin Avenue
Arcadia, CA 91007

(626) 802-9035

Oxnard Branch

Thushara Liyanage
Vice President
Branch Manager
366 W. Esplanade Dr.
Oxnard, CA 93036

(805) 288-4140

OFFICE ADDRESSES

Corporate Headquarters

660 South Figueroa Street, Suite 1888
Los Angeles, CA 90017

(213) 627-9888

San Gabriel Administrative Office

123 East Valley Boulevard, Suite 201
San Gabriel, CA 91776

(626) 307-7500

SBA Department Office

18605 East Gale Avenue, Suite 238
City of Industry, CA 91748

(626) 923-6620

Buena Park - Operation Center

7025 Orangethorpe Avenue,
Buena Park, CA 90621

(714) 670-2400