Annual Report 2002

Chino Commercial Bank N.A.

Chino Commercial Bank N.A.

"On September 1, 2000 the newly formed Chino Commercial Bank opened for business in their initial location on Pipeline Avenue, in Chino."

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Corporate Profile

Chino Commercial Bank is a community-based institution with special expertise in serving small and medium-sized business customers, professionals and upscale personal customers. The Bank offers a full range of commercial banking services, with an emphasis on high quality service and long-term banking relationships.

The Bank was opened on September 1, 2000 and was founded by a group of local business people, with the belief that success would result from local ownership, community support and excellent service. That dream has become a reality, as Chino Commercial Bank has enjoyed wide public acceptance from the first day the Bank opened its doors.

The Bank has grown steadily, and reported profitability on an annual basis after only two years in business. Chino Commercial Bank had total assets of more than $41 million at year-end 2002. The Bank's loan portfolio at December 31, 2002 exceeded $21 million.

Common Stock of Chino Commercial Bank is traded on the under the stock symbol "CKNA" (OTCBB). The Bank serves customers throughout the Inland Empire, and plans to open additional branches in the near future.

Chino Commercial Bank N.A.

"The Bank has grown steadily, and reported profitability on an annual basis after only two years in business."

Chino Commercial Bank N.A.

“Now that we have achieved a level of profitability, the focus for this year is “Building”: Building customer relationships, Building deposit totals, Building earnings, and most importantly, Building stability and Shareholder value.”

Letter to Shareholders

To our Shareholders;

We are very pleased to present you with Chino Commercial Bank’s third annual report, for the year 2002. We are very proud, as you will see, to report that the Bank posted a profit during 2002 of $202,962. This represents the Bank’s first profitable year of operation since opening its doors on September 1, 2000.

Now that we have achieved a level of profitability, the focus for this year is “Building”: building customer relationships, building deposit totals, building earnings, and most importantly, building stability and Shareholder value.

As you will read, we have been very fortunate in 2002 in building deposits from $20 million to $36.5 million, or 82%. During the year, loans also increased from $10.2 million to $22.0 million, or 115%, and revenue increased from $1.5 million to $2.3 million, or 53%. The building process can be seen in the charts to the right, which are intended to show some of the developments over the last nine quarters since opening.

We believe, rather than explosive growth and dramatic revenue projections, it is the steady, consistent, building of an organization, which ultimately results in establishing a firm foundation, which is the basis for sustained growth and earnings.

During these times of economic uncertainty, corporate scandals, and the failure of some very large public companies, we find comfort in being a community bank, where we have the opportunity to have close, one-on-one relationships with our customers, employees and shareholders alike. As a community bank, we typically meet our customers at their place of business, view collateral directly, and will continue to have close contact with our borrowers and depositors throughout the years. We feel the practice of getting to know our customers individually and visiting the companies regularly, helps us to avoid some of the issues of improper accounting and corporate governance that have dominated the news, and so adversely affected some very large organizations. By making loans in our local area, to borrowers we know and can visit, it allows the Bank to avoid some of the pitfalls associated with large-scale industry changes or regional trends.

Your management and staff are focused on building a solid foundation for future growth of the Bank, through the principles of aggressive marketing efforts, sound, conservative credit policies and innovative solutions to our customer's financial needs. We believe that these core values are what sets Chino Commercial Bank apart.

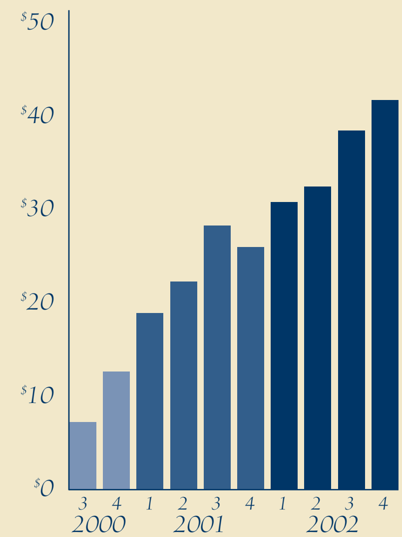
As a locally owned, locally managed independent bank, we feel that Chino Commercial Bank is truly a benefit to not only our customers, but also our shareholders and the community as a whole.

On behalf or your Board of Directors, Management and the Staff, I would like to thank you for your confidence and continued support of the Bank and look forward to another successful year.

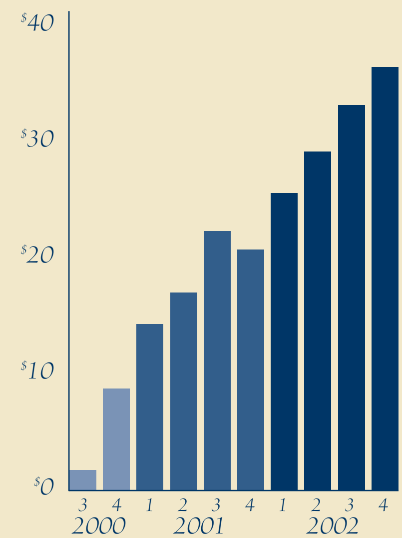
Sincerely,

Dann H. Bowman
President and Chief Executive Officer

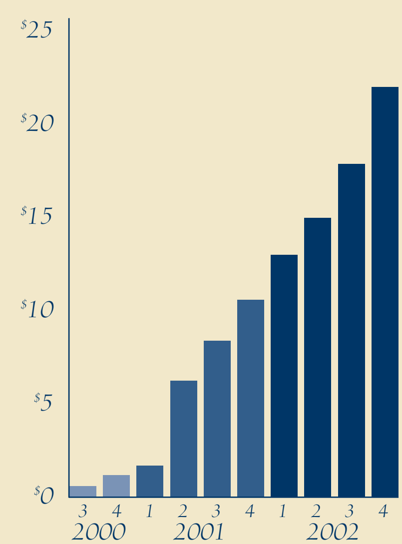
Chino Commercial Bank N.A.



Assets by Quarter
(dollars in millions)



Deposits by Quarter
(dollars in millions)



Gross Loans by Quarter
(dollars in millions)

Chino Commercial Bank N.A.

Board of Directors

"The Founding Directors of Chino Commercial Bank had a vision for the new Bank – a vision that was based on local ownership, community support and excellent service."

DANN H. BOWMAN
President and
Chief Executive Officer

BERNARD WOLFSWINKEL
Chairman of the Board
Retired

LINDA M. COOPER
Corporate Secretary
President,
Inland Empire Escrow

H. H. "CORKY" KINDSVATER
Vice Chairman of the Board
Retired -
Former Chief Executive Officer
Hillview Acres

POLLYANNA FRANKS
President and
Chief Executive Officer
Sunset Haven

RICHARD G. MALOOLY
Co-owner, Re/Max Realty 100

RICHARD J. VANDERPOOL
President,
Cal Cover Products, Inc.

THOMAS A. WOODBURY, D.O.
Family Practice
Physician and Surgeon

JEANETTE L. YOUNG
Realtor, Century 21 King Office

Officers & Staff

Chino Commercial Bank N.A.

◀ *Pictured left to right*

Jo Anne Painter
EVP/Chief Financial Officer

Roger Caberto
VP/Chief Credit Officer

Jerry Buck
Regional VP

Pictured left to right ▶

Jeff Kowallis
Utility

Rosa Aguirre
Mortgage Banking Specialist

◀ *Pictured left to right*

Cecelia Juarez
Utility

Robin Mora
Personal Banking Officer

Laura Mota
Utility

Pictured left to right ▶

John Hagen
Commercial Relationship Officer

Trish Bowman
Shareholder Relations

Gerardo Perez
Commercial Relationship Officer

◀ *Pictured left to right*

Elvia Cardenas
Utility

Diana Johnson
VP/Operations Administrator

Frances Chapman
Utility

"Chino Commercial Bank is proud of its staff of banking professionals who are committed to a high level of personal service for every Bank customer"

Management's Discussion & Analysis of Financial Condition and Results of Operation

This discussion presents Management's analysis of the financial condition and results of operations of the Bank as of and for each of the years ended December 31, 2002 and 2001. The discussion should be read in conjunction with the Financial Statements of the Bank and the Notes related thereto presented elsewhere herein.

Except for historical information contained herein, the matters discussed in this report contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"), that involve substantial risks and uncertainties. Actual results of Chino Commercial Bank could differ materially from such forward-looking statements contained herein. Factors that could cause future results to vary from current expectations include, but are not limited to, changes in economic conditions, interest rates, deposit flows, loan demand, real estate values, competition, accounting principles, and government legislation and regulation. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date hereof. The Bank undertakes no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after the date thereof.

COMPARISON OF RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2002 AND DECEMBER 31, 2001

GENERAL

One of the Bank's primary sources of revenue is net interest income, which is the difference between interest and fees derived from earning assets and interest paid on liabilities obtained to fund those assets. The Bank's net interest income is affected by changes in the volume of interest-earning assets and interest-bearing liabilities. It is also affected by changes in yields earned on interest-earning assets and rates paid on interest-bearing liabilities. The Bank also generates non-interest income, including transaction fees. The Bank's non-interest expenses consist primarily of employee compensation and benefits, occupancy and equipment expenses and other operating expenses. The Bank's results of operations are affected by its provision for loan losses. Results of operations may also be affected by other factors, including general economic and competitive conditions, mergers and acquisitions of other financial institutions within the Bank's market area, changes in interest rates, government policies and actions of regulatory agencies.

For the year ended December 31, 2002, the Bank recorded net income of $202,962 or $.37 per share as compared to a net loss of $228,831 or $(.42) per share for the year ended December 31, 2001. The Bank posted net interest income of $1,623,470 for the year ended December 31, 2002, as compared to $1,109,411 for the year ended December 31, 2001 representing an increase of 46.3%. Average interest-earning assets increased $11.6 million to $32.2 million with average interest-bearing liabilities increasing by $3.8 million to $10.2 million yielding a net interest margin decrease of 35 basis points to 5.05% for the year ended December 31, 2002. Although average balances increased during 2002, the impact of the lower interest rate environment impacted the overall net interest margin. Other non-interest income increased by $373,782 due to: 1) a full year of mortgage banking activity in 2002 yielding $245,877 in income as compared to one month of activity in 2001 yielding $1,927 in income and 2) an overall increase in number of deposit accounts with analysis charges as well as other service charges causing a $159,490 increase in service charges on deposit accounts. Non-interest expenses increased by $419,848 due primarily to additional staff, normal salary increases and transaction oriented charges (i.e., item processing, courier expenses).

NET INTEREST INCOME AND NET INTEREST MARGIN

The Bank's earnings depend largely upon the difference between the income received from its loan portfolio and other interest-earning assets and the interest paid on deposits. The difference is "net interest income". Net interest income, when expressed as a percentage of average total interest-earning assets, is referred to as the net interest margin. The Bank's net interest income is affected by the change in the level and the mix of interest-earning assets and interest-bearing liabilities, referred to as volume changes. The Bank's net interest income is also affected by changes in the yields earned on assets and rates paid on liabilities, referred to as rate changes. Interest rates charged on the Bank's loans are affected principally by the demand for such loans, the supply of money available for lending purposes and other factors. Those factors are, in turn, affected by general economic conditions and other factors beyond the Bank's control, such as federal economic policies, the general supply of money in the economy, legislative tax policies, the governmental budgetary matters, and the actions of the Federal Reserve Bank ("FRB").

Interest income increased $510,000 or 37.9% from $1.3 million for the year ended December 31, 2001 to $1.9 million for the year ended December 31, 2002. The increase was principally due to the increase in interest income on loans as the average balance of net loans increased from $6.1 million for the year ended December 31, 2001 to $15.1 million for the year ended December 31, 2002. Average interest-earning assets increased $11.6 million to $32.2 million for the year ended December 31, 2002 compared to $20.6 million for the year ended December 31, 2001. This increase was offset by a decrease of 78 basis points in the yield on average earning assets from 6.53% for the year ended December 31, 2001 to 5.75% for the year ending December 31, 2002.

The average yield on loans, net decreased from 8.17% for the year ended December 31, 2001 to 7.33% for the year ended December 31, 2002. Loan fees of $17,000 were recognized as interest income for the year ended December 31, 2001 while loan costs of $6,000 were recognized against interest income for the year ended December 31, 2002. The yield on loans, net for 2001 without loan fees would have been 7.89% compared to 7.37% for the year ended December 31, 2002. The decline of 52 basis points reflects the impact of a compressed interest rate environment during 2002.

The average yield on securities (U. S. Government agencies, mortgage-backed securities, and other securities) decreased from 6.48% for the year ended December 31, 2001 to 4.96% for the year ended December 31, 2002. The decline in the yield was attributable primarily to the decline in the general level of interest rates. The balance of securities increased from $10.4 million for the year ended December 31, 2001 to $14.0 million for the year ended December 31, 2002.

The increase of $11.6 million in average interest-earning assets between the year ended December 31, 2001 and the year ended December 31, 2002 reflects the growth of the Bank as loans receivable, net increased by $9.0 million, the aggregate balance of securities increased by $3.6 million, while the average balance of Federal funds sold decreased by $1.0 million as these funds were deployed into higher yielding assets.

Interest expense decreased $4,779 from $233,019 for the year ended December 31, 2001 to $228,240 for the year ended December 31, 2002. Average interest-bearing deposits increased from $6.4 million for the year ended December 31, 2001 as compared to $10.2 million for the year ended December 31, 2002. The increase in average interest-bearing liabilities was offset by a decline of 139 basis points in the average interest rate the Bank paid for deposits and borrowings from 3.63% for the year ended December 31, 2001 as compared to 2.24% for the year ended December 31, 2002. The Bank continues to maintain a high ratio of non-interest bearing deposits to total deposits of 70.2% at December 31, 2002 as compared to 64.1% at December 31, 2001.

The net interest margin was 5.05% for the year ended December 31, 2002 as compared to 5.40% for the year ended December 31, 2001. The primary reason for the decline was an overall lower interest rate environment during 2002.

The following table sets forth certain information relating to the Bank for the years ended December 31, 2002 and 2001. The yields and costs are derived by dividing income or expense by the average balances of assets or liabilities, respectively, for the periods shown below. Average balances are derived from average daily balances. Yields include amortized loan fees and costs, which are considered adjustments to yields. The table reflects the Bank's average balances of assets, liabilities and stockholders' equity; the amount of interest income or interest expense; the average yield or rate for each category of interest-earning assets and interest-bearing liabilities; and the net interest spread and the net interest margin for the periods indicated:

DISTRIBUTION, YIELD AND RATE ANALYSIS OF NET INCOME

	For the year ended December 31, 2002			For the year ended December 31, 2001		
	($ in thousands)					
	Average balance	Income/ Expense	Average Yield/Cost	Average balance	Income/ Expense	Average Yield/Cost
Assets						
Interest-earning assets						
Net loans (1)	$ 15,112	$ 1,107	7.33%	$ 6,081	$ 497	8.17%
Securities of U.S. government agencies	2,508	109	4.35%	3,133	202	6.45%
Mortgage-backed securities	9,325	486	5.21%	5,803	363	6.26%
Other securities	2,211	101	4.57%	2,394	110	4.59%
Federal funds sold	3,008	49	1.63%	4,072	171	4.20%
Total interest-earning assets	32,164	1,852	5.76%	20,557	1,343	6.53%
Non-interest earning assets	2,059			2,539		
Total assets	$ 32,223			$ 23,096		
Liabilities and Stockholders' Equity						
Interest-bearing liabilities						
Money Market and NOW accounts	$ 6,976	143	2.05%	$ 3,872	117	3.02%
Savings deposits	436	3	0.69%	197	3	1.52%
Time deposits < $100,000	1,255	33	2.63%	448	19	4.24%
Time deposits equal to or > $100,000	1,046	31	2.96%	975	53	5.44%
Federal Home Loan Bank advance	476	18	3.78%	921	41	4.45%
Total interest-bearing liabilities	10,189	228	2.24%	6,414	233	3.63%
Non-interest bearing deposits	19,136			11,786		
Non-interest bearing liabilities	133			53		
Stockholders' equity	4,765			4,844		
Total liabilities and stockholders' equity	$ 34,223			$ 23,096		
Net interest income		$ 1,624			$ 1,110	
Net interest spread (2)			3.52%			2.90%
Net interest margin (3)			5.05%			5.40%
Ratio of interest-earning assets to interest-bearing liabilities			315.68%			320.50%

1 Amortization of loan fees have been included in the calculation of interest income. Amortized loan fees/(costs) were approximately $(6,000) and $17,000 for the years ended December 31, 2002 and 2001, respectively. Loans are net of the allowance for loan losses, deferred fees and related direct costs.

2 Represents the average rate earned on interest-earning assets less the average rate paid on interest-bearing liabilities.

3 Represents net interest income as a percentage of average interest-earning assets.

PROVISION FOR LOAN LOSSES

Provision for loan losses was $131,900 for the year ended December 31, 2002 as compared to $94,900 for the year ended December 31, 2001. The increase in the provision for loan losses reflects the increase in loan receivable balances. The allowance for loan losses was $205,615 or 1.15% of gross loans held for investment at December 31, 2002 as compared to $111,600 or 1.01% of gross loans held for investment at December 31, 2001.

Provisions to the allowance for loan losses are made monthly, in anticipation of future probable loan losses. The monthly provision is calculated on a predetermined formula to ensure adequacy as the portfolio grows. The formula is composed of various components. Allowance factors are utilized in estimating the allowance for loan losses. The allowance is determined by assigned specific allowances for all loans. As higher allowance levels become necessary as a result of this analysis, the allowance for loan losses will be increased through the provision for loan losses. (See "Financial Condition –Allowance for Loan Losses", below).

NON-INTEREST INCOME

Non-interest income was $495,545 for the year ended December 31, 2002 as compared to $121,763 for the year ended December 31, 2001, an increase of 307.0%. This increase was primarily attributable to an increase in services charges on deposit accounts and customer fees and miscellaneous income, which increased from $78,551 at December 31, 2001 to $239,710 at December 31, 2002, for an increase of $161,159 or 205.2%, as well as to an increase in income from mortgage banking activities which increased from $1,927 at December 31, 2001 to $245,877 at December 31, 2002, which increases were partially offset by a decrease in gain on sale of investment securities available sale, which decreased from $341,285 at December 31, 2001 to $9,958 at December 31, 2002.

The service charges on deposit accounts, customer fees and miscellaneous income are comprised primarily of fees charged to deposit accounts and depository related services. Fees generated from deposit accounts are made up of periodic service fees and fees that relate to specific actions, such as the returning or paying of checks presented against accounts with insufficient funds. Depository related services include fees for money orders and cashier's checks placing stop payments on checks, check-printing fees, wire transfer fees, fees for safe deposit boxes and fees for returned items or checks that were previously deposited. The aggregate balance of these fees increased $161,159 to $239,710 for the year ended December 31, 2002 as compared to the year ended December 31, 2001. The increase is primarily attributable to activity on a higher aggregate number of deposit accounts in 2002 as compared to a lower aggregate number of deposit accounts in 2001. The Bank periodically reviews service charges to maximize service charge income while still maintaining a competitive pricing. Service charge income on deposit accounts increases with the growing deposit volume and number of accounts and to the extent fees are not waived. Therefore, as the number and balances of deposit accounts increases, service charge income is expected to increase.

The Bank recorded gains on the sale of securities available for sale of $9,958 and $41,285 for the years ended December 31, 2002 and 2001, respectively. During 2002, the Bank sold a $1.0 million FHLB agency security for a gain of $9,958. During 2001, the Bank sold $2.6 million in corporate notes for a gain of $27,142, sold a $375,000 FNMA agency security for a gain of $5,881 and sold $247,872 in mortgage-backed securities for a gain of $8,262. All of these securities were classified as available for sale.

During the year ended December 31, 2002, the Bank originated for sale $18.8 million in single-family mortgage loans and sold $14.8 million in mortgage loans generating $245,877 of income from mortgage banking operations compared to $1,927 for the year ended December 31, 2001. The Bank started the mortgage banking division in December 2001 and as market conditions allow, the Bank anticipates continuing the origination and sale of single-family mortgage loans.

NON-INTEREST EXPENSE

The following table sets forth the non-interest expense for years ended December 31, 2002 and 2001:

	Non-interest Expense			
	For the year ended December 31, 2002		For the year ended December 31, 2001	
	Amount	% of Total	Amount	% of Total
	($ in thousands)			
Salaries and employee benefits	821	46.0%	588	43.1%
Occupancy and equipment	240	13.5%	231	16.9%
Data processing	178	10.0%	138	10.1%
Deposit products and services	102	5.7%	114	8.4%
Professional	115	6.4%	88	6.4%
Advertising and marketing	53	3.0%	54	4.0%
Directors' fees and expenses	49	2.7%	-	-
Printing and supplies	39	2.2%	31	2.3%
Telephone	26	1.5%	20	1.5%
Insurance	13	0.7%	11	0.8%
Other expenses	148	8.3%	89	6.6%
Total non-interest expenses	1,784	100.0%	1,364	100.0%

Non-interest expense was $1.8 million for the year ended December 31, 2002 as compared to $1.4 million for the year ended December 31, 2001. Expenses that grew significantly in 2002 were Salaries and employee benefits, Data processing, Professional, Directors' fees and expenses and Other expenses. Salaries and employee benefits expense increased to $821,000 for the year ended December 31, 2002 as compared to $588,000 for the year ended December 31, 2001 due primarily to an increase in staff from thirteen to sixteen, increase in benefit costs related to health insurance, 401K plan contributions, employee recruitment expense and workers' compensation as well as capitalization of loan origination costs that were $126,000 for the year ended December 31, 2002 as compared to $140,500 for the year ended December 31, 2001. Data processing expenses increased to $178,000 for the year ended December 31, 2002 as compared to $138,000 for the year ended December 31, 2001 due primarily to the increased volume of transactions being processed and the number of checks being scrutinized. Professional expenses increased to $115,000 for the year ended December 31, 2002 as compared to $88,000 for the year ended December 31, 2001 primarily due to outside audit fees incurred for information technology, compliance audits and credit reviews and increased legal costs due to numerous new regulations. Directors' fees and expenses increased to $49,000 for the year ended December 31, 2002 as compared to zero for the year ended December 31, 2001 as Directors began receiving compensation for meetings effective March 2002. Other expenses increased to $148,000 for the year ended December 31, 2002 as compared to $89,000 for the year ended December 31, 2001 due primarily to courier expense, expenses related to education and conventions, annual meeting expenses as well as overall transaction-based expenses. Expenses for this period may not necessarily be representative of future periods of operations. It is anticipated that future non-interest expenses will continue to increase as a result of expected increases in loan and deposit volumes and staffing increases.

PROVISION FOR INCOME TAXES

Since inception, the Bank has recorded no provision or benefit for federal income taxes, and only nominal provisions for state income taxes. The Bank incurred net losses totaling $672,207 from inception in September 2000 through December 31, 2001. These losses have created net operating loss carryforwards (NOLCs) that can be used to offset future taxable income. The future tax benefit of these NOLCs, as well as the future tax benefit of other temporary differences between taxable income and financial statement pre-tax income, have given rise to deferred tax assets totaling $306,846 at December 31, 2002. The Bank has an allowance of $241,859 against deferred tax assets at December 31, 2002 because of its record of losses prior to 2002. Management intends to reduce and eventually eliminate the allowance as the Bank records future pre-tax income. Until the allowance is eliminated, the Bank will not need to record provisions for income taxes on pre-tax income. Based on an allowance against deferred tax assets of $241,859 at December 31, 2002, and using a combined federal/state income tax rate of 41.15%, approximately $588,000 of future pre-tax income may be realized prior to the recognition of income tax expense.

The income tax rate used in determining the Bank's income tax provision or benefit, if any, is 34% for federal income tax purposes and 10.84% for state income taxes, net of federal tax benefit. As noted in Note 11 to the Financial Statements, income tax expense is the sum of the two components, namely, current tax expense and deferred tax expense (benefit). Generally, the current tax expense is the result of applying the current tax rate to taxable income. The deferred portion is intended to account for the fact that income on which taxes are paid differs from financial statement pre-tax income because some items of income and expense are recognized in different years for income tax purposes than in the financial statements. These recognition anomalies cause "temporary differences;" eventually, all taxes are paid.

COMPARISON OF FINANCIAL CONDITION AT DECEMBER 31, 2002 AND DECEMBER 31, 2001

GENERAL

At December 31, 2002 and 2001, the Bank had total assets of $41.7 million and $26.2 million, respectively, representing an increase of $15.5 million or 59.3%. Net loans increased significantly by $10.7 million or 96.0% to $21.9 million from $11.2 million at December 31, 2002 and 2001, respectively. Investment securities were $13.2 million and $10.9 million at December 31, 2002 and 2001, respectively. The $13.0 million increase in loans and investments and the $1.7 million increase in cash and cash equivalents were the result of a $16.5 million increase in deposits and a $1.4 million decline in FHLB advances and Federal funds purchased.. Cash and cash equivalents were $3.9 million at December 31, 2002 as compared to $2.2 million at December 31, 2001.

LOAN PORTFOLIO COMPOSITION

Loans, net increased by $10.7 million from $11.2 million as of December 31, 2001 to $21.9 million as of December 31, 2002. Loans, net comprised 42.6% and 52.5% of the assets of the Bank at December 31, 2001 and December 31, 2002, respectively.

The following table sets forth the composition of the Bank's loan portfolio before the allowance for loan losses by major category, both in dollar amount and percentage of the portfolio at the dates indicated:

DISTRIBUTION OF LOANS AND PERCENTAGE COMPOSITION

	As of December 31, 2002		As of December 31, 2001	
	Amount	Percentage	Amount	Percentage
	($ in thousands)			
Loans held for sale	$ 4,151	18.8%	$ 135	1.2%
Construction	239	1.1%	1,782	15.9%
Real estate	11,581	52.4%	4,974	44.3%
Commercial	5,273	23.9%	4,055	36.1%
Farm/Agriculture	373	1.7%	- -	- -
Installment	470	2.1%	289	2.5%
Gross loans	$ 22,087	100.0%	$ 11,235	100.0%

Real estate loans increased by $6.6 million to $11.6 million or 52.5% of total loans at December 31, 2002 from $5.0 million at December 31, 2001 or 44.3% of total loans. Real estate loans are extended to finance the purchase and/or improvement of commercial and residential real estate. The properties may be either owner-occupied or for investment purposes. The Bank adheres to the real estate loan guidelines set forth by the Bank's internal loan policy. These guidelines include, among other things, review of appraisal value, limitation on loan to value ratio, and minimum cash flow requirements to service the debt. The majority of the properties taken as collateral are located in the Inland Empire. Management anticipates that this category of lending, particularly construction and commercial real estate lending, will make up a significant part of the Bank's loan portfolio in the future.

Commercial loans increased by $1.2 million to $5.3 million or 23.9% of total loans at December 31, 2002 from $4.1 million at December 31, 2001 or 36.1% of total loans. Commercial loans include term loans and revolving lines of credit. Term loans have typical maturities of three years to five years and are extended to finance the purchase of business entities, business equipment, leasehold improvements, or for permanent working capital. Lines of credit, in general, are extended on an annual basis to businesses that need temporary working capital and/or import/export financing. Management anticipates that this category of lending will continue to make up a significant portion of the Bank's loan portfolio in the future.

Construction loans, consisting primarily of participations in loans to single-family real estate developers and to individuals in Southern California, decreased by $1.5 million to $238,997 or 1.1% of total loans at December 31, 2002 from $1.8 million at December 31, 2001 or 15.9% of total loans. During 2001, the Bank participated with another independent commercial bank in numerous construction loans. This independent bank was purchased during 2002 and all participated loans have been subsequently paid off.

During December 2001, the Bank began originating single-family mortgage loans. These loans are originated according to two mortgage conduits' underwriting standards with the intent that these loans will be immediately sold to the conduits upon funding. The Bank had $4.2 million and $135,000 in loans held for sale at December 31, 2002 and 2001, respectively. For the years ended December 31, 2002 and 2001, the Bank recognized income from mortgage banking activities of $245,877 and $1,927, respectively. There was only one month activity in 2001 versus a full year of such activity in 2002.

The following table shows the maturity distribution and repricing intervals of the Bank's outstanding loans at December 31, 2002. Loans held for sale of $4.2 million at December 31, 2002 are primarily fixed rate loans with maturities varying between 15 to 30 years. However, since these loans are to be sold in January 2003, they have been excluded from the following table. The table shows the distribution of loans held for investment as between those loans with variable or floating interest rates and those with fixed or predetermined interest rates. Balances of fixed rate loans are displayed in the column representative of the loan's stated maturity date. Balances for variable rate loans are displayed in the column representative of the loan's next interest rate change.

LOAN MATURITIES AND REPRICING SCHEDULE

At December 31, 2002

($ in thousands)

	Within One Year	After One But Within Five Years	After Five Years	Total
Construction	$ 239			$ 239
Commercial	4,671	$ 577	$ 25	5,273
Real Estate	3,121	4,890	3,570	11,581
Farm/Agriculture		373		373
Installment	19	384	67	470
Total gross loans	$ 8,050	$ 6,224	$ 3,662	$ 17,936
Loans with variable (floating) interest rates	$ 3,627	11		$ 3,638
Loans with predetermined (fixed) interest rates	$ 4,423	$ 6,213	$ 3,662	$ 14,298

OFF-BALANCE SHEET ARRANGEMENTS

During the ordinary course of business, the Bank will provide various forms of credit lines to meet the financing needs of its customers. For more information regarding the Bank's off-balance sheet arrangements, see Note 12 to the audited financial statements included herein.

NON-PERFORMING ASSETS

Non-performing assets are comprised of loans on non-accrual status, loans 90 days or more past due and still accruing interest, loans restructured where the terms of repayment have been renegotiated resulting in a reduction or deferral of interest or principal, and other real estate owned ("OREO"). Loans are generally placed on non-accrual status when they become 90 days past due unless Management believes the loan is adequately collateralized and in the process of collection. Loans may be restructured by Management when a borrower has experienced some change in financial status, causing an inability to meet the original repayment terms, and where the Bank believes the borrower will eventually overcome those circumstances and repay the loan in full. OREO consists of properties acquired by foreclosure or similar means that Management intends to offer for sale.

Management's classification of a loan as non-accrual is an indication that there is a reasonable doubt as to the full collectibility of principal or interest on the loan; at this point, the Bank stops recognizing income from the interest on the loan and may reserve any uncollected interest that had been accrued but unpaid if it is determined uncollectible or the collateral is inadequate to support such accrued interest amount. These loans may or may not be collateralized, but collection efforts are continuously pursued.

As of December 31, 2002 and 2001, the Bank had no non-performing assets, loans on non-accrual status, restructured loans, adversely classified loans or OREO. The Bank did charge-off a commercial loan for $37,885 in December 2002.

Though the Bank has no non-performing assets at this time, in the future, Management anticipates a certain level of problem assets and adversely classified loans as they are an inherent part of the lending process. Accordingly, the Bank has established an allowance for loan losses of $205,615 and $111,600 at December 31, 2002 and December 31, 2001, respectively.

ALLOWANCE FOR LOAN LOSSES

The Bank maintains an allowance for loan losses at a level Management considers adequate to cover the inherent risk of loss associated with its loan portfolio under prevailing and anticipated economic conditions. In determining the adequacy of the allowance for loan losses, Management takes into consideration growth trends in the portfolio, examination by financial institution supervisory authorities, prior loan loss experience of the Bank's Management, concentrations of credit risk, delinquency trends, general economic conditions, the interest rate environment, and internal and external credit reviews.

The Bank formally assesses the adequacy of the allowance on a quarterly basis. This assessment is comprised of: (i) reviewing the adversely graded, delinquent or otherwise questionable loans; (ii) generating an estimate of the loss potential in each loan; (iii) adding a risk factor for industry, economic or other external factors; and (iv) evaluating the present status of each loan and the impact of potential future events.

Allowance factors are utilized in the analysis of the allowance for loan losses. Allowance factors ranging from 0.65% to 2.00% are applied to disbursed loans that are unclassified and uncriticized. Allowance factors averaging approximately 0.50% are applied to undisbursed loans. Allowance factors are not applied to loans secured by bank deposits nor to loans held for sale, which are recorded at the lower of cost or market.

The process of providing for loan losses involves judgmental discretion, and eventually losses may therefore differ from even the most recent estimates. Due to these limitations, the Bank assumes that there are losses inherent in the current loan portfolio, which may have been sustained, but which have not yet been identified. The Bank therefore attempts to maintain the allowance at an amount sufficient to cover such unknown but inherent losses.

At December 31, 2002 and December 31, 2001, the allowance for loan losses was $205,615 and $111,600, respectively. The ratios of the allowance for loan losses to total loans held for investment at December 31, 2002 and December 31, 2001 were 1.15% and 1.01%, respectively. The ratio of net charge-offs to average total loans was 0.3% at December 31, 2002 and was not applicable for the period ended December 31, 2001 due to the lack of charge-offs.

There can be no assurances that future economic or other factors will not adversely affect the Bank's borrowers, or that the Bank's asset quality may not deteriorate through rapid growth, failure to identify and monitor potential problem loans or for other reasons, thereby causing loan losses to exceed the current allowance.

The following table summarizes, for the years ended December 31, 2002 and 2001, the loan balances at the end of the period and the daily average loan balances during the period; changes in the allowance for loan losses arising from loan charge-offs, recoveries on loans previously charged off, and additions to the allowance which have been charged against earnings, and certain ratios related to the allowance for loan losses.

ALLOWANCE FOR LOAN LOSSES

	As of or For the Year Ended December 31, 2002	2001
	($ in thousands)	
Balances:		
Average total loans outstanding during period	15,112	6,081
Total loans outstanding at the end of the period	17,936	11,100
Allowance for loan losses:		
Balance at the beginning of the period	112	17
Total charge-offs – commercial loans	38	-
Total recoveries	-	-
Net loan charge-offs	38	-
Provision for loan losses	132	95
Balance at the end of the period	206	112
Ratios:		
Net loan charge-offs to average total loans	0.03%	N/A
Provision for loan losses to average total loans	0.87%	1.56%
Allowance for loan losses to total loans at the end of the period	1.15%	1.01%
Net loan charge-offs to allowance for loan losses at the end of the period	18.42%	N/A
Net loan charge-offs to Provision for loan losses	28.72%	N/A

In the future, the Bank intends to concentrate the majority of its earning assets in loans. In all forms of lending there are inherent risks. The Bank anticipates concentrating the preponderance of its loan portfolio in both commercial and real estate loans. A smaller part of the future anticipated loan portfolio will be represented by installment and consumer loans.

While the Bank believes that its underwriting criteria are prudent, outside factors, such as the recession or natural disaster in Southern California could adversely impact credit quality. A repeat the recession in Southern California in the early 1900's or the Los Angeles earthquake of 1994 could cause a deterioration in the Bank's loan portfolio.

The Bank attempts to mitigate collection problems by supporting its loans by collateral. The Bank also utilizes outside credit review in an effort to maintain loan quality. A loan sample group is reviewed quarterly with new loans and those that are delinquent receiving special attention. The use of this outside service provides the Bank with an independent look at its lending activities. In addition to the Bank's internal grading system, loans criticized by this outside review maybe downgraded with appropriate reserves added if required.

As indicated above, the Bank formally assesses the adequacy of the allowance on a quarterly basis by (i) reviewing the adversely graded, delinquent or otherwise questionable loans; (ii) generating an estimate of the loss potential in each loan; (iii) adding a risk factor for industry, economic or other external factors; and (iv) evaluating the present status of each loan and the impact of potential future events. Although Management believes the allowance is adequate to absorb losses as they arise, no assurances can be given that the Bank will not sustain losses in any given period, which could be substantial in relation to the size of the allowance.

The following table provides a breakdown of the allowance for loan losses by categories as of the dates indicated:

ALLOCATION OF ALLOWANCE FOR LOAN LOSSES

	As of December 31,					
	2002		2001		2000	
Balance at End of Period Applicable to:	Amount	% of Loans in Category to Total Loans	Amount	% of Loans in Category to Total Loans	Amount	% of Loans in Category to Total Loans
Construction	$ 7	1.33%	$ 21	16.05%	$ 1	5.57%
Real Estate	86	64.57%	35	44.81%	6	36.13%
Commercial	87	29.40%	48	36.53%	9	53.74%
Farm/Agriculture	3	2.08%				
Installment	5	2.62%	6	2.60%	1	4.55%
Unallocated	18		2			
Total allowance for loan losses	$ 206	100.00%	$ 112	100.00%	$ 17	100.00%
Total loans held for investment	$ 17,936		$ 11,100		$ 1,669	

INVESTMENT PORTFOLIO

The investment policy of the Bank, as established by the Board of Directors, attempts to provide and maintain adequate liquidity and a high quality portfolio that complements the Bank's lending activities and generates a favorable return on investments without incurring undue interest rate or credit risk. The Bank's existing investment security portfolio consists of U.S. government agencies, mortgaged-backed securities, and corporate bonds. Investment securities held to maturity are carried at cost, which equates to the unpaid principal balances adjusted for amortization of premium and accretion of discounts. Investment securities available for sale are carried at fair value. The Bank also invests in short-term interest-bearing deposits in other banks, which totaled $1.7 million and $0.9 million at December 31, 2002 and 2001, respectively. The final component of the Bank's investment portfolio is restricted stock investments in the Federal Reserve Bank, the Federal Home Loan Bank of San Francisco, and Pacific Coast Bankers' Bank. Restricted stock investments totaled $308,000 and $300,000 at December 31, 2002 and 2001, respectively, and are carried at cost.

The investment securities portfolio at fair value was $13.3 million at December 31, 2002 and $10.9 million at December 31, 2001. Investment securities represented 31.7% of total assets at December 31, 2002 and 41.7% of total assets at December 31, 2001. As of December 31, 2002, $10.7 million of the investment portfolio was classified as available for sale and $2.5 million was classified as held to maturity. As of December 31, 2001, $8.5 million of the investment portfolio was classified as available for sale and $2.4 million was classified as held to maturity. With the exception of Federal Home Loan Bank stock of $113,200, Federal Reserve stock of $144,700 and Pacific Coast Bankers' Bank stock of $50,000, the remaining investment portfolio at December 31, 2002 includes both fixed and adjustable rate instruments.

Information concerning the amortized cost and fair value of the Bank's investment securities at December 31, 2002 and 2001, as well as the amortized cost and fair value by maturity distribution at December 31, 2002 and 2001, is contained in Note 4 to the audited financial statements included herein.

DEPOSITS

Total deposits at December 31, 2002 and 2001 were $36.5 million and $20.0 million, respectively. Deposits are the Bank's primary source of funds. As the Bank's need for lendable funds grows, dependence on deposits increases. The percentage of total deposits represented by time deposits was 8.3% and 8.9% at December 31, 2002 and 2001, respectively. The average rate paid on time deposits in denominations of $100,000 or more was 2.96% and 5.44% for the periods ending December 31, 2002 and 2001, respectively. At December 31, 2002 and 2001, the Bank had deposits from related parties of $7.8 million and $7.4 million, respectively.

Information concerning the average balance and average rates paid on deposits by deposit type for the past two years is contained in the Distribution, Yield and Analysis of Net Income table located on page 7 above.

INTEREST RATE RISK MANAGEMENT

The principal objective of interest rate risk management (often referred to as "asset/liability management") is to manage the financial components of the Bank's assets and liabilities so as to optimize the risk/reward equation for earnings and capital in relation to changing interest rates. In order to identify areas of potential exposure to rate changes, the Bank calculates its repricing gap on a quarterly basis. It also performs an earnings simulation analysis and market value of portfolio equity calculation on a quarterly basis to identify more dynamic interest rate exposures than those apparent in standard repricing gap analysis.

The Bank manages the balance between rate-sensitive assets and rate-sensitive liabilities being repriced in any given period with the objective of stabilizing net interest income during periods of fluctuating interest rates. Rate-sensitive assets either contain a provision to adjust the interest rate periodically or mature within one year. Those assets include certain loans, certain investment securities and federal funds sold. Rate-sensitive liabilities allow for periodic interest rate changes and include time certificates, certain savings and interest-bearing demand deposits. The difference between the aggregate amount of assets and liabilities that are repricing at various time frames is called the interest rate sensitivity "gap." Generally, if repricing assets exceed repricing liabilities in any given time period the Bank would be deemed to be "asset-sensitive" for that period. The Bank intends to seek to maintain a balanced position over the period of one year in which it has no significant asset or liability sensitivity, to ensure net interest margin stability in times of volatile interest rates. This will be accomplished by maintaining a significant level of loans and deposits available for repricing within one year.

The Bank is generally asset sensitive meaning that net interest income tends to rise as interest rates rise and net interest income tends to decline as interest rates fall. At December 31, 2002, approximately 20.2% of loans have terms that incorporate variable interest rates. Most variable rate loans are indexed to the Bank's prime rate and changes occur as the prime rate changes. Approximately 24.7% of all fixed rate loans at December 31, 2002 mature within twelve months.

Regarding the investment portfolio, a preponderance of the portfolio consists of fixed rate products with typical average lives of between three and five years. The mortgage-backed security portfolio receives monthly principal repayments which reduces the securities average lives as principal repayments levels increase over expected levels. Additionally, agency securities contain options by the agency to call the security, which would cause repayment prior to scheduled maturity.

On the whole, at December 31, 2002, approximately 50.0% or $19.7 million of interest-earning assets will mature or reprice within one year, and approximately 100.0% or $26.5 million of interest-bearing liabilities will reprice or mature over the same period.

Liability costs are generally based upon, but not limited to, U.S. Treasury interest rates and movements and rates paid by local competitors for similar products.

The change in net interest income may not always follow the general expectations of an "asset-sensitive" or "liability-sensitive" balance sheet during periods of changing interest rates. This possibility results from interest rates earned or paid changing by differing increments and at different time intervals for each type of interest-sensitive asset and liability. The interest rate gaps reported in the tables arise when assets are funded with liabilities having different repricing intervals. Since these gaps are actively managed and change daily as adjustments are made in interest rate views and market outlook, positions at the end of any period may not reflect the Bank's interest rate sensitivity in subsequent periods. The Bank attempts to balance longer-term economic views against prospects for short-term interest rate changes in all repricing intervals.

The following table sets forth the interest rate sensitivity of the Bank's interest-earning assets and interest-bearing liabilities as of December 31, 2002 using the interest rate sensitivity gap ratio. For purposes of the following table, an asset or liability is considered rate-sensitive within a specified period when it can be repriced or matures within its contractual terms. Actual payment patterns may differ from contractual payment patterns.

INTEREST RATE SENSITIVITY ANALYSIS AT DECEMBER 31, 2002

	Amounts Subject to Repricing Within					
	0 - 3 months	3 - 12 months	> 1 to 5 years	over 5 years	Non-interest bearing	Total
Fed funds sold	$ 2,095					$ 2,095
Interest earning deposits & short term investments	297	$ 396	$ 992			1,685
Investment Securities	500	-	450	$ 372		1,322
MBS	1,079	3,248	4,842	2,708		11,877
Loans Receivable	11,586	173	6,668	3,661		22,088
FHLB, PCBB & Fed Reserve Stock	308	-	-	-		308
Total interest-earning assets	15,865	3,817	12,952	6,741	-	39,375
Unamortized discounts	(10)	-	(6)	(4)		(20)
Allowance for loan losses	-	-	(133)	(73)		(206)
Net interest earning assets	15,855	3,817	12,813	6,664	-	39,149
Other non-interest earning assets					$ 2,513	2,513
Total assets	$ 15,855	$ 3,817	$ 12,813	$ 6,664	$ 2,513	$ 41,662
Demand deposits including MMDA (a)	$ 23,454					$ 23,454
Certificate of deposit	1,217	$ 1,823				3,040
Total interest-bearing liabilities	24,671	1,823	-	-	-	26,494
Non-interest-bearing deposits					$ 10,049	10,049
Non-interest-bearing liabilities					183	183
Equity				$ 4,936		4,936
Total liabilities & equity	$ 24,671	$ 1,823	-	$ 4,936	$ 10,232	$ 41,662
Interest sensitive gap	$ (8,806)	$ 1,994	$ 12,952	$ 6,741		$ 12,881
Cumulative sensitive gap	$ (8,806)	$ (6,812)	$ 6,140	$ 12,881		
Cumulative interest rate sensitivity gap ratio (based on total assets)	-21.14%	-16.35%	14.74%	30.92%		

(a) includes demand deposit balances with analysis credits tied to a floating rate indices.

The Bank uses Risk Monitor software for asset/liability management in order to simulate the effects of potential interest rate changes on the Bank's net interest margin. These simulations provide static information on the projected fair market value of the Bank's financial instruments under differing interest rate assumptions. The simulation program utilizes specific loan and deposit maturities, embedded options, rates and re-pricing characteristics to determine the effects of a given interest rate change on the Bank's interest income and interest expense. Rate scenarios consisting of key rate and yield curve projections are run against the Bank's investment, loan, deposit and borrowed funds portfolios. The rate projections can be shocked (an immediate and sustained change in rates, up or down). The Bank typically uses three standard interest rate scenarios in conducting the simulation of an upward shock of 200 basis points ("bp") and a downward shock of 200 bp.

The Bank's policy is to limit the change in the Bank's net interest margin and economic value to plus or minus 10% upon application of interest rate shocks of 200 bp, as compared to a base rate scenario. As of December 31, 2002, the Bank had an estimated net interest margin sensitivity profile reflecting a change in net interest income of $50,000 at plus 200 bp and ($96,000) at minus 200 bp. This profile illustrates that if there were an immediate increase of 200 bp in interest rates, the Bank's annual net interest income would likely increase by $50,000, or approximately 3.1%. By the same token, if there were an immediate downward adjustment of 200 bp in interest rates, the Bank's net interest income would likely fall by approximately $96,000, or 5.9%, over the next year. The relationship between the change in net interest income under rising and declining rate scenarios is typically expected to be inversely proportionate. The Bank's interest rate risk profile has changed since December 31, 2001 when it displayed an estimated net interest margin sensitivity profile reflecting a change in net interest income of $78,000 at plus 200 bp and ($47,000) at minus 200 bp.

LIQUIDITY AND CAPITAL RESOURCES

Maintenance of adequate liquidity requires that sufficient resources be available at all times to meet the Bank's cash flow requirements. Liquidity in a banking institution is required primarily to provide for deposit withdrawals and the credit needs of its customers and to take advantage of investment opportunities as they arise. Liquidity management involves the Bank's ability to convert assets into cash or cash equivalents without significant loss, and to raise cash or maintain funds without incurring excessive additional cost. The Bank maintains a portion of its funds in cash, deposits in other banks, overnight investments, and securities available for sale. At December 31, 2002, the Bank's liquid assets totaled approximately $16.3 million and its liquidity level, measured as the percentage of liquid assets to total assets, was 39.1%. Management anticipates that liquid assets and the liquidity level will decline as the Bank leverages itself in the future.

Although the Bank's primary sources of liquidity include liquid assets and a stable deposit base, the Bank has Fed funds lines of credit of $2 million with both Union Bank of California and Pacific Coast Bankers' Bank. The Bank is a member of the Federal Home Loan Bank ("FHLB"). As a member of the FHLB, the Bank may borrow funds collateralized by the Bank's securities or qualified loans up to 15% of its total asset base.

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can trigger mandatory and possibly additional discretionary actions by the regulators that, if undertaken, could have a material effect on the Bank's financial statements and operations. Under capital adequacy guidelines and 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. The Bank's 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 ratios of Total Capital and Tier I Capital to total risk-weighted assets, and of Tier I Capital to average assets. The minimum rates for capital adequacy are 8% (Total Risk-Based), 4% (Tier I Risk-Based) and 4% (Leverage Capital Ratio), respectively. As of December 31, 2002 and 2001, the Bank was "well-capitalized." To be categorized as well-capitalized the Bank must maintain Total Risk-Based, Tier I Risk-Based, and Tier I Leverage Ratios of at least 10%, 6% and 5%, respectively. Note 16 to the audited financial statements provides more detailed information concerning the Bank's capital amounts and ratios at December 31, 2002 and 2001.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Chino Commercial Bank, N.A.
Chino, California

We have audited the accompanying balance sheets of Chino Commercial Bank, N.A. as of December 31, 2002 and 2001, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 financial statements referred to above present fairly, in all material respects, the financial position of Chino Commercial Bank, N.A. as of December 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Hutchinson and Bloodgood LLP

Glendale, California
January 25, 2003

POLARIS™ INTERNATIONAL

Chino Commercial Bank N.A.

CHINO COMMERCIAL BANK, N.A.

BALANCE SHEETS

DECEMBER 31, 2002 AND 2001

	2002	2001
ASSETS		
Cash and due from banks	$ 1,839,367	$ 2,177,720
Federal funds sold	2,095,000	--
Cash and cash equivalents	3,934,367	2,177,720
Interest-bearing deposits in banks	1,685,000	893,000
Investment securities available for sale (Note 4)	10,683,120	8,542,280
Investment securities held to maturity (Note 4)	2,517,031	2,359,087
Stock investments, restricted, at cost (Note 5)	307,900	300,350
Total investments	15,193,051	12,094,717
Loans held for sale (Note 6)	4,151,145	135,000
Loans held for investment, net (Note 6)	17,710,408	11,018,888
Total loans, net	21,861,553	11,153,888
Accrued interest receivable	162,861	130,555
Bank premises and equipment, net (Note 7)	441,866	523,848
Other assets	68,667	69,700
Total assets	$ 41,662,365	$ 26,150,428
LIABILITIES		
Deposits		
Non-interest bearing demand	$ 25,655,491	$ 12,814,625
Interest bearing		
Money market and NOW	7,407,219	5,187,852
Savings	432,811	213,980
Time deposits of $100,000 or greater, due in one year	1,382,281	910,428
Time deposits less than $100,000, due in one year	1,657,526	873,665
Total deposits	36,535,328	20,000,550
Federal Home Loan Bank advance (Note 9)	--	1,250,000
Federal funds purchased (Note 10)	--	160,000
Accrued interest payable	19,649	31,099
Other liabilities	171,326	58,643
Total liabilities	36,726,303	21,500,292
COMMITMENTS AND CONTINGENCIES (Notes 12, 13 and 14)		
STOCKHOLDERS' EQUITY (Notes 2 and 16)		
Common stock, $5 par value; authorized 10,000,000 shares; issued and outstanding 545,646 shares at December 31, 2002 and 2001, respectively	2,728,230	2,728,230
Additional paid-in capital	2,590,893	2,590,893
Accumulated deficit	(469,245)	(672,207)
Accumulated other comprehensive income	86,184	3,220
Total stockholders' equity	4,936,062	4,650,136
Total liabilities and stockholders' equity	$ 41,662,365	$ 26,150,428

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

CHINO COMMERCIAL BANK, N.A.

Statements of Income

YEARS ENDED DECEMBER 31, 2002 AND 2001

	2002	2001
INTEREST AND DIVIDEND INCOME:		
Interest and fees on loans	$ 1,106,570	$ 497,512
Interest and dividends on investment securities	695,880	674,376
Interest on Federal funds sold	49,260	170,542
Total interest income	1,851,710	1,342,430
INTEREST EXPENSE ON DEPOSITS:		
Money Market and NOW accounts	142,666	117,206
Savings	3,275	2,479
Time deposits of $100,000 or greater	33,605	53,294
Time deposits less than $100,000	30,715	18,950
Total interest expense on deposits	210,261	191,929
INTEREST EXPENSE ON BORROWINGS	17,979	41,090
Total interest expense	228,240	233,019
Net interest income	1,623,470	1,109,411
PROVISION FOR LOAN LOSSES (Note 6)	131,900	94,900
Net interest income after provision for loan losses	1,491,570	1,014,511
OTHER NONINTEREST INCOME:		
Service charges on deposit accounts	235,662	76,172
Gain on the sale of investment securities available for sale	9,958	41,285
Income from Mortgage Banking activities	245,877	1,927
Customer fees and miscellaneous income	4,048	2,379
	495,545	121,763
OPERATING NONINTEREST EXPENSES:		
Salaries and employee benefits	820,801	587,800
Occupancy and equipment expenses	239,851	231,145
Other operating expenses	723,501	545,360
	1,784,153	1,364,305
Income (loss) before income taxes	202,962	(228,031)
Provision for income taxes (Note 11)	—	800
NET INCOME (LOSS)	$ 202,962	$ (228,831)
EARNINGS (LOSS) PER SHARE:		
Basic	$ 0.37	$ (0.42)
Diluted	$ 0.37	$ (0.41)

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

CHINO COMMERCIAL BANK, N.A.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 2002 AND 2001

	Number of Shares	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
BALANCE, December 31, 2000	543,982	$ 2,719,910	$ 2,582,573	$ (443,376)	$ 7,465	$ 4,866,572
Exercise of stock options	1,664	8,320	8,320	- -	- -	16,640
Comprehensive loss:						
Net loss	- -	- -	- -	(228,831)	- -	(228,831)
Change in unrealized gain on securities available for sale, net of tax effect	- -	- -	- -	- -	(4,245)	(4,245)
Total comprehensive loss						(233,076)
BALANCE, December 31, 2001	545,646	2,728,230	2,590,893	(672,207)	3,220	4,650,136
Comprehensive income:						
Net income	- -	- -	- -	202,962	- -	202,962
Change in unrealized gain on securities available for sale, net of tax effect	- -	- -	- -	- -	82,964	82,964
Total comprehensive income						285,926
BALANCE, December 31, 2002	545,646	$ 2,728,230	$ 2,590,893	$ (469,245)	$ 86,184	$ 4,936,062

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

CHINO COMMERCIAL BANK, N.A.

Statements of Cash Flows

YEARS ENDED DECEMBER 31, 2002 AND 2001

	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ 202,962	$ (228,831)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Provision for loan losses	131,900	94,900
Depreciation and amortization	119,303	117,840
Amortization of premiums on investment securities available for sale	54,155	10,827
Gain on sale of investment securities available for sale	(9,958)	(41,285)
Amortization of deferred loan costs (fees), net	31,107	(71,941)
Deferred income tax benefit	(21,868)	--
Change in accrued interest receivable	(32,306)	(100,771)
Change in other assets	1,033	(17,054)
Change in accrued interest payable	(11,450)	26,499
Change in other liabilities	76,898	4,172
Net cash provided by (used in) operating activities	541,776	(205,644)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net change in interest-bearing deposits in other banks	(792,000)	(893,000)
Activity in securities available for sale		
Purchases	(8,177,500)	(15,898,647)
Sales	1,490,897	3,294,728
Repayments and calls	1,714,734	5,246,808
Activity in securities held to maturity		
Purchases	(447,304)	--
Repayments and calls	3,216,809	(2,359,087)
Purchase of stock investments, restricted	(7,550)	(90,750)
Purchase of loans	(2,428,965)	(1,250,000)
Loan originations and principal collections, net	(8,441,707)	(8,315,875)
Purchases of premises and equipment	(37,321)	(53,139)
Net cash used in investing activities	(13,909,907)	(20,318,962)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	16,534,778	11,323,603
Increase (decrease) in Federal Home Loan Bank advance	(1,250,000)	1,250,000
Increase (decrease) in Federal funds purchased	(160,000)	160,000
Proceeds from exercise of stock options	--	16,640
Net cash provided by financing activities	15,124,778	12,750,243
Net increase (decrease) in cash and cash equivalents	1,756,647	(7,774,363)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2,177,720	9,952,083
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 3,934,367	$ 2,177,720
SUPPLEMENTARY INFORMATION		
Interest paid	$ 239,690	$ 206,520
Income taxes paid	$ 800	$ 800
NON-CASH INVESTING ACTIVITY		
Reclassification of investments from available for sale category held to maturity	$ 2,927,449	$ --

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

Notes to Financial Statements

NOTE 1 BANK DESCRIPTION

Chino Commercial Bank, N.A, a nationally chartered bank, was incorporated on December 8, 1999 and began operations on September 1, 2000 with the opening of its office in Chino, California. The Bank provides a variety of commercial banking services to individuals and small businesses primarily in the Inland Empire region of Southern California.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

Use of estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the valuation of the deferred tax asset.

Business

The Bank provides a variety of commercial banking services to individuals and small businesses in the Inland Empire area of Southern California. Its primary deposit products are non-interest bearing deposits and money market accounts. Its primary lending products are real estate and commercial loans.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash, amounts due from banks and Federal funds sold on a daily basis.

Interest-Bearing Deposits in Other Banks

Interest-bearing deposits in other banks mature within one year and are carried at cost.

Investment Securities

Debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and recorded at amortized cost. Securities not classified as held to maturity or trading, including equity securities with readily determinable fair values, are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income.

Purchase premiums and discounts are recognized in interest income using methods approximating the interest method over the terms of the securities. Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers independent price quotations, projected target prices of investment analysts within the short term, and the financial condition of the issuer. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Loans Held for Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Fair value is based on commitments on hand from investors or prevailing market prices. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income.

Loans

The Bank grants real estate, commercial and consumer loans to customers. A substantial portion of the loan portfolio is represented by real estate loans in the Inland Empire area. The ability of the Bank's debtors to honor their contracts is dependent upon the general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances. Loans, as reported, have been reduced by unadvanced loan funds, net deferred loan fees, and the allowance for loan losses.

Interest income is accrued daily, as earned, on all loans. Interest is not accrued on loans that are generally ninety days or more past due. Interest income previously accrued on such loans is reversed against current period interest income. Interest income on non-accrual loans is generally recognized only to the extent of interest payments received.

Loan origination fees and costs are deferred and amortized as an adjustment of the loan's yield over the life of the loan using the interest method, which results in a constant rate of return.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to expense. Loan losses are charged against the allowance when management believes the collectibility of the loan balance is unlikely. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based on management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than that of the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that a creditor will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when: 1) the assets have been isolated from the Bank, 2) 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 3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Bank Premises and Equipment

Bank premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives. Leasehold improvements are amortized over the term of the lease or the service lives of the improvements, whichever is shorter. The straight-line method of depreciation is followed for financial reporting purposes, while both accelerated and straight-line methods are followed for income tax purposes.

Income Taxes

Deferred tax assets and liabilities are recognized for estimated future tax effects attributable to temporary differences between income tax and financial reporting purposes and carry-forwards. Valuation allowances are established when necessary to reduce the deferred tax asset to the amount expected to be realized. The current and deferred taxes are based on the provisions of currently enacted tax laws and rates. As changes in tax laws are enacted, deferred tax assets and liabilities are adjusted accordingly through the provision for income taxes.

Earnings Per Share

Basic earnings per share represent income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Bank relate solely to outstanding stock options, and are determined using the treasury stock method. For the period ending December 31, 2002 and 2001 the weighted-average number of shares outstanding used in the computation of basic and diluted earnings (loss) per share is as follows:

	2002	2001
Weighted average number of shares used in the computation of:		
Basic earnings (loss) per share	545,646	545,262
Diluted earnings (loss) per share	550,643	559,228

Stock Option Plan

Under the Bank's stock option plan, the Bank may grant incentive stock options and non-qualified stock options to its directors, officers and employees. At December 31, 2002 and 2001, 78,572 and 80,584 options, respectively, were available for granting and 78,572 and 80,941 options, respectively, were outstanding. The Plan provides that the exercise price of these options shall not be less than the market price of the common stock on the date granted. Incentive options begin vesting after one year from date of grant at a rate of 33% per year. Non-qualified options vest as follows: 25% on the date of grant, and 25% per year beginning on the first anniversary of the date of grant. All options expire 10 years after date of grant and become fully vested after four years.

Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," as superceded by SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure," encourages all entities to adopt a fair value method of accounting for employee stock option plans, whereby compensation cost is measured at the grant date based on the value of the award and is recognized over the service period, which is usually the vesting period. However, it also allows a company to continue to measure compensation cost for those plans using the intrinsic value method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," whereby compensation cost is the excess, if any, of the quoted market price of the stock at the grant date (or other measurement date) over the amount an employee must pay to acquire the stock. Stock options issued under the Bank's stock option plan have no intrinsic value at the grant date, and under Opinion No. 25 no compensation cost is recognized for them.

The Bank has elected to continue with the accounting methodology in Opinion No. 25 and, as a result, must make pro forma disclosures of net income and earnings per share and other disclosures, as if the fair value method of accounting had been applied. The pro forma disclosures include the effects of all stock options granted on or after July 13, 2000. Had compensation cost been determined based on the fair value at the grant date for awards under the plan consistent with the method prescribed by SFAS No. 123, as superceded by SFAS No. 148, the Bank's net income (loss) and earnings (loss) per share would have been adjusted to the pro forma amounts indicated below:

	Years Ended December 31,	
	2002	2001
Net income (loss), as reported	$ 202,962	$ (228,831)
Total stock-based employee compensation expense determined under fair value method	(90,913)	(91,226)
Pro forma net income (loss)	$ 112,049	$ (320,057)
Earnings (loss) per share		
Basic – as reported	$ 0.37	$ (0.42)
Basic – pro forma	$ 0.21	$ (0.59)
Diluted – as reported	$ 0.37	$ (0.41)
Diluted – pro forma	$ 0.20	$ (0.57)

The fair value of each option granted in 2001 is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions. There were no options granted during the year ended December 31, 2002.

Dividend yield	0.00%
Expected volatility	10.3%
Risk-free interest rate	5.2%
Expected life	10 years

Based on these assumptions, the weighted average fair value of options granted in 2001 was estimated at $4.28 per option.

A summary of the status of the Bank's stock option plan as of December 31, 2002 and 2001 and changes during the years then ended are as follows:

	2002		2001	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options outstanding at beginning of year	80,941	$ 10.24	81,596	$ 10.00
Options granted	- -	- -	6,000	13.25
Options exercised	- -	- -	(1,664)	10.00
Options forfeited	(2,369)	10.00	(4,991)	10.00
Outstanding at end of year	78,572	$ 10.25	80,941	$ 10.24
Options exercisable at year-end	52,606		32,937	

	Options Outstanding			Options Exercisable	
Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 10.00	72,572	7.5 years	$ 10.00	50,626	$10.00
$ 13.25	6,000	8.0 years	$ 13.25	1,980	$13.25

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income.

The components of comprehensive income (loss) other than net income (loss) and related tax effects at December 31, 2002 and 2001 are as follows:

	2002	2001
Unrealized holding gains (losses) on securities available for sale	$ 150,933	$ (48,470)
Reclassification of gains realized in income	(9,958)	(41,285)
Net unrealized gains (losses)	140,975	(7,185)
Tax effect	(58,011)	2,940
Other comprehensive income (loss), net of tax	$ 82,964	$ (4,245)

Accounting Changes

In December 2001, the American Institute of Certified Public Accountants ("AICPA") issued Statement of Position 01-6, "Accounting by Certain Entities (Including Entities with Trade Receivables) that Lend to or Finance the Activities of Others," to reconcile and conform the accounting and financial reporting provisions established by various AICPA industry guides. This Statement is effective for annual and interim financial statements issued for fiscal years beginning after December 15, 2001 and did not have a material impact on the Bank's financial statements.

In December 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure," which provides for transition methods for companies electing to record compensation expense associated with stock options, as well as enhanced disclosures for companies that elect to retain the intrinsic value method of accounting as prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees". The provisions of this Statement are effective for fiscal years ending after December 15, 2002. The adoption of this Statement did not have a material impact on the Bank's financial statements.

NOTE 3 RESTRICTIONS ON CASH AND AMOUNTS DUE FROM BANKS

The Bank is required to maintain average balances on hand or with the Federal Reserve Bank. At December 31, 2002 and 2001, the minimum required reserve balances amounted to $248,000 and $30,000, respectively.

NOTE 4 INVESTMENT SECURITIES

The amortized cost and fair value of investment securities at December 31, 2002 and 2001, with gross unrealized gains, are as follows:

	2002			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale:				
Federal agency	$ 499,480	$ 774	$ - -	$ 500,254
Mortgage-backed	10,037,566	156,581	(11,281)	10,182,866
	$ 10,537,046	$ 157,355	$ (11,281)	$ 10,683,120
Securities held to maturity:				
Mortgage-backed	$ 1,717,516	$ 63,287	$ - -	$ 1,780,803
Corporate bonds	799,515	14,747	(4,841)	809,421
	$ 2,517,031	$ 78,034	$ (4,841)	$ 2,590,224

	2001			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale:				
Federal agency	$ 996,955	$ - -	$ - -	$ 996,955
Mortgage-backed	7,539,868	13,369	(7,912)	7,545,325
	$ 8,536,823	$ 13,369	$ (7,912)	$ 8,542,280
Securities held to maturity:				
Federal agency	$ 1,995,240	$ - -	$ 15,317	$ 1,979,923
Corporate bonds	363,847	- -	- -	363,847
	$ 2,359,087	$ - -	$ 15,317	$ 2,343,770

The amortized cost and fair value of investment securities as of December 31, 2002, by contractual maturity, is shown below:

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
After 1 year through 5 years	$ 499,480	$ 500,254	$ 449,005	$ 444,164
After 5 years through 10 years	- -	- -	350,510	365,257
Mortgage-backed securities	10,037,566	10,182,866	1,717,516	1,780,803
	$ 10,537,046	$ 10,683,120	$ 2,517,031	$ 2,590,224

NOTE 5 STOCK INVESTMENTS, RESTRICTED

Restricted stock investments include the following at December 31, 2002 and 2001, and are recorded at cost:

	2002	2001
Federal Reserve Bank stock	$ 144,700	$ 142,550
Federal Home Loan Bank stock	113,200	107,800
Pacific Coast Bankers' Bank stock	50,000	50,000
	$ 307,900	$ 300,350

The FHLB stock is evaluated for impairment based on an estimate of the ultimate recoverability of par value.

NOTE 6 LOANS AND ALLOWANCE FOR LOAN LOSSES

The Bank had $4,151,145 and $135,000 in loans held for sale at December 31, 2002 and 2001, respectively. These loans are comprised of single-family mortgages originated for sale under the underwriting guidelines of two mortgage conduits. The mortgage conduits have committed to purchasing the loans.

The composition of the Bank's loans held for investment at December 31, 2002 and 2001 is as follows:

	2002	2001
Construction loans	$ 238,997	$ 1,781,829
Real estate loans	11,581,157	4,974,373
Commercial loans	5,272,802	4,055,189
Farm/agriculture	373,365	- -
Installment loans	470,121	288,940
	17,936,442	11,100,331
Allowance for loan losses	(205,615)	(111,600)
Deferred loan costs (fees), net	(20,419)	30,157
Net loans held for investment	$ 17,710,408	$ 11,018,888

As of December 31, 2002 and 2001, there were no loans past due over 90 days or on a non-accrual basis. In addition, there were no impaired loans.

Changes in the allowance for loan losses are summarized as follows:

	2002	2001
Balance at January 1	$ 111,600	$ 16,700
Provision charged to expense	131,900	94,900
Loans charged off	(37,885)	- -
Recoveries of loans previously charged-off	- -	- -
Balance as of December 31	$ 205,615	$ 111,600

Loans serviced for others are not included in the accompanying balance sheets. The unpaid principal balance of loans serviced for others was $1,573,531 and zero at December 31, 2002 and 2001, respectively.

NOTE 7 BANK PREMISES AND EQUIPMENT

Bank premises and equipment consisted of the following at December 31:

	2002	2001
Furniture, fixtures and equipment	$ 398,556	$ 372,586
Leasehold improvements	271,835	263,235
Automobile	32,289	32,289
	702,680	668,110
Less accumulated depreciation and amortization	260,814	144,262
	$ 441,866	$ 523,848

Depreciation and amortization expense for the period ended December 31, 2002 and 2001 amounted to $119,303 and $117,840, respectively.

NOTE 8 RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank has granted loans to certain officers, directors and companies with which they are associated. All such loans and commitments to lend were made under terms that are consistent with the Bank's normal lending policies.

Aggregate related party loan transactions were as follows:

	2002	2001
Balance at beginning of period	$ 310,079	$ - -
Advances	194,000	310,079
Repayments, net of borrowings	183,418	- -
Balance as of December 31	$ 320,661	$ 310,079

Deposits from related parties held by the Bank at December 31, 2002 and 2001 amounted to $7,770,640 and $7,359,755, respectively.

NOTE 9 FEDERAL HOME LOAN BANK ADVANCE

As a member of the Federal Home Loan Bank (FHLB), the Bank may borrow funds collateralized by securities or qualified loans up to 15% of its asset base. The FHLB advance of $1,250,000 at December 31, 2001 matured on April 9, 2002 and had an annual interest rate of 4.41%. This advance was collateralized by three investment securities totaling $3,300,000. The Bank had no advances outstanding at December 31, 2002.

NOTE 10 FEDERAL FUNDS PURCHASED

The Bank has a total of $4 million in Federal funds lines of credit with two banks. At December 31, 2002, the Bank had no borrowings outstanding. At December 31, 2001, borrowings under these lines of credit totaled $160,000 and matured on January 2, 2002 at a rate of 2.60%.

NOTE 11 INCOME TAXES

The following is a summary of the provision for income taxes for the years ending December 31, 2002 and 2001:

	2002	2001
Current tax provision:		
Federal	$ 55,003	$ - -
State	21,868	800
Benefit of loss carryforwards, federal	(55,003)	- -
	21,868	800
Deferred tax benefit:		
Adjustment to valuation allowance, state	(21,868)	- -
	$ - -	$ 800

The provision for state income taxes of zero in 2002 differs from state income taxes of $21,868 determined by applying statutory tax rates to pretax income because of a change in the valuation allowance against deferred tax assets. The provision for federal income taxes of zero in 2002 differs from federal income taxes of $55,003 determined by applying statutory tax rates to pretax income because of the utilization of federal net operating loss carryforwards.

The components of the net deferred tax liability at December 31, 2002 and 2001 are as follows:

	2002	2001
Deferred tax assets:		
Federal	$ 242,863	$ 313,457
State	63,983	65,959
	306,846	379,416
Valuation allowance	(241,859)	(333,703)
	64,987	45,713
Deferred tax liabilities:		
Federal	(87,009)	(39,615)
State	(16,868)	(8,335)
	(103,877)	(47,950)
Net deferred tax liability	$ (38,890)	$ (2,237)

The tax effects of the temporary differences in income and expense items that give rise to deferred taxes at December 31, 2002 and 2001 are as follows:

	2002	2001
Deferred tax assets:		
Allowance for loan losses	$ 43,513	$ 16,660
Start-up expenses	100,830	138,641
Donation carryforward	2,733	2,063
Net operating loss carryforward	159,770	222,052
	306,846	379,416
Valuation allowance	(241,859)	(333,703)
	64,987	45,713
Deferred tax liabilities:		
Depreciation and amortization	(2,412)	(4,808)
Cash basis of reporting for tax purposes	(41,349)	(40,896)
Unrealized gain on securities available for sale	(60,116)	(2,246)
	(103,877)	(47,950)
Net deferred tax liability	$ (38,890)	$ (2,237)

As of December 31, 2002 and 2001, the Bank had the following approximate net operating loss carryforwards that are available to offset future taxable income:

	2002	2001
Federal	$ 360,000	$ 544,000
State	520,000	520,000

The federal net operating loss carryforward begins to expire after the year 2020. The state net operating loss carryforward begins to expire after the year 2012.

NOTE 12 OFF-BALANCE-SHEET ACTIVITIES

Credit-Related Financial Instruments

The Bank is a party to credit-related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to grant loans, unadvanced lines of credit, standby letters of credit and commercial letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet.

The Bank's exposure to credit loss is represented by the contractual amount of these commitments. The Bank uses the same credit policies in making commitments as it does for on-balance-sheet instruments. At December 31, 2002 and 2001, the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount	
	2002	2001
Commitments to grant loans	$ - -	$ - -
Unadvanced lines of credit	3,008,918	3,312,887
Letters of credit	100,000	90,000

Commitments to grant loans are agreements to lend to customers as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the customer. Collateral held varies but may include accounts receivable, inventory, equipment, income-producing commercial properties, residential properties, and properties under construction.

Unadvanced lines of credit are commitments for possible future extensions of credit to existing customers. These lines of credit are sometimes unsecured and may not necessarily be drawn upon to the total extent to which the Bank is committed.

Standby and commercial letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers.

NOTE 13 OTHER COMMITMENTS AND CONTINGENCIES

Operating Lease Commitments

The Bank has a non-cancelable lease agreement for its premises. The lease term is five years expiring July 2005 with an option to renew for an additional five years.

At December 31, 2002, the minimum future rental payments are as follows:

Year Ending December 31,	
2003	$ 71,886
2004	74,043
2005	37,569
	$ 183,498

Rental expense for the years ended December 31, 2002 and 2001 amounted to $69,793 and $68,234, respectively.

Employment Agreement

The Bank has entered into a three-year employment agreement with a key officer. The agreement provides for an annual base salary plus an incentive bonus equal to 5% of the Bank's net income. In addition, the key officer may receive a discretionary bonus determined by the Board of Directors. Employment may be terminated for cause, as defined, without incurring obligations. In the event of termination without cause, the key officer is entitled to severance compensation equal to at least six months' salary.

NOTE 14 CONCENTRATION OF CREDIT RISK

The Bank grants commercial, real estate and installment loans to businesses and individuals primarily in the Inland Empire area. Most loans are secured by business assets, and commercial and residential real estate. Real estate and construction loans held for investment represented 66% and 61% of total loans held for investment at December 31, 2002 and 2001, respectively. The Bank has no concentration of loans with any one customer or industry.

NOTE 15 EMPLOYEE BENEFIT PLAN

On January 1, 2001, the Bank began a 401(k) savings and retirement plan ("the Plan") that includes substantially all employees. Employees may contribute up to 15% of their compensation subject to certain limits based on Federal tax law. The Bank has implemented the Plan based on safe harbor provisions. Under the Plan, the Bank will match 100% of an employee's contribution up to the first 3% of compensation, and 50% of an employee's contribution up to the next 2% of compensation. Matching contributions will immediately be 100% vested. For the years ended December 31, 2002 and 2001, the expense attributable to the Plan amounted to $20,605 and $17,023, respectively.

NOTE 16 STOCKHOLDERS' EQUITY

Minimum Regulatory Requirements

The Bank is subject to various regulatory capital requirements administered by the federal banking regulators. 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 Bank's financial statements. 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. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Chino Commercial Bank N.A.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum capital ratios as set forth in the following table. The Bank's actual capital amounts and ratios as of December 31, 2002 and 2001 are also presented in the table. Management believes, as of December 31, 2002 and 2001, that the Bank met all capital adequacy requirements to which it is subject.

As of June 30, 2002, the most recent notification from the Office of the Comptroller of the Currency categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following table. There are no conditions or events since notification that management believes have changed the Bank's category.

2002	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in Thousands)			
Total capital to risk-weighted assets:	$ 5,056	20.19%	$ 2,003	8.00%	$ 2,504	10.00%
Tier 1 capital to risk-weighted assets:	$ 4,850	19.37%	$ 1,002	4.00%	$ 1,502	6.00%
Tier 1 capital to average assets:	$ 4,850	12.04%	$ 1,611	4.00%	$ 2,013	5.00%

2001	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in Thousands)			
Total capital to risk-weighted assets:	$ 4,759	33.47%	$ 1,144	8.00%	$ 1,430	10.00%
Tier 1 capital to risk-weighted assets:	$ 4,647	32.68%	$ 572	4.00%	$ 858	6.00%
Tier 1 capital to average assets:	$ 4,647	17.63%	$ 1,054	4.00%	$ 1,318	5.00%

NOTE 17 RESTRICTIONS ON DIVIDENDS, LOANS AND ADVANCES

Federal and state banking regulations place certain restrictions on dividends paid by the Bank. The Bank may not pay any dividends during its first three years of operations. After that, dividends are generally limited to the retained earnings of the Bank, subject to minimum regulatory capital requirements.

Market for Common Equity and Related Stockholders Matters

Chino Commercial Bank N.A.

To date, there has been only a very limited market for the Bank's Common Stock, and although the Bank's Common Stock is not subject to any specific restrictions on transfer (with the exception of stock held by affiliates of the Bank), and a more active trading market for the Common Stock may develop, there can be no assurance that an active trading market will develop in the future, or if developed, that it will be maintained. The Bank's Common Stock is quoted for trading on the OTC Bulletin Board under the symbol "CKNA." Management is aware of the following Securities Dealers, which actively make a market in the Bank's Common Stock: The Seidler Companies, Big Bear Lake, California and Wedbush Morgan Securities, Portland Oregon (the "Securities Dealers").

The information in the following table indicates the high and low "bid" and "asked" quotations and approximate volume of trading for the Common Stock for the year ended December 31, 2002 and 2001, and is based upon information provided by the Securities Dealers. These quotations reflect inter-dealer prices, without retail mark-up, mark-down, or commission, do not reflect the actual transactions and do not include nominal amounts traded directly by shareholders or though dealers other than the Securities Dealers.

	Quotations for the Bank's Common Stock		Approximate Trading Volume
	High	Low	
Year Ended December 31, 2002			
Fourth Quarter	$ 12.00	$ 10.66	44,400
Third Quarter	$ 11.40	$ 10.95	18,100
Second Quarter	$ 11.15	$ 10.05	35,300
First Quarter	$ 10.60	$ 9.25	30,400
Year Ended December 31, 2001			
Fourth Quarter	$ 12.75	$ 9.00	18,400
Third Quarter	$ 13.00	$ 12.25	14,400
Second Quarter	$ 13.75	$ 12.00	7,300
First Quarter	$ 13.25	$ 12.00	11,800

On December 31, 2002, the "bid" and "asked" quotations for the Common Stock were $12.00 and $13.00, respectively, based upon information provided by The Seidler Companies, Big Bear Lake, California. As of December 31, 2002, there were approximately 499 shareholders of record of the Common Stock.

DIVIDENDS

Management of the Bank presently intends to follow a policy of retaining earnings, if any, for the purpose of increasing the net worth and reserves of the Bank during its early years of operation. Accordingly, it is anticipated that no cash dividends will be declared during the early stages of the Bank's development, and no assurance can be given that the Bank's earnings will permit the payment of dividends of any kind in the future.

The future dividend policy of the Bank will be subject to the discretion of the Board of Directors and will depend upon a number of factors, including future earnings, financial condition, liquidity, and general business conditions. In addition, the Bank's ability to make dividend payments will be subject to statutory and regulatory restrictions and, under certain circumstances, approval of the Comptroller may be required with respect to the issuance of dividends.

Market for Common Equity and Related Stockholders Matters

(continued)

Each share of Common Stock will participate equally in dividends, which are payable when and as declared by the Board of Directors out of funds legally available for that purpose. No national bank may, pursuant to 12 U.S.C. Section 56, pay dividends from its capital; all dividends must be paid out of net profits then on hand, after deducting for expenses including losses and bad debts. The payment of dividends out of net profits of a national bank is further limited by 12 U.S.C. Section 60(a) which prohibits a bank from declaring a dividend on its shares of common stock until the surplus fund equals the amount of capital stock, or if the surplus fund does not equal the amount of capital stock, until one-tenth of the Bank's net profits of the preceding half-year in the case of quarterly or semiannual dividends, or the preceding two consecutive half-year periods are transferred to the surplus fund before each dividend is declared.

Pursuant to 12 U.S.C. Section 60(b), the approval of the Comptroller shall be required if the total of all dividends declared by the Bank in any calendar year shall exceed the total of its net profits for that year combined with its net profits for the two preceding years, less any required transfers to surplus or a fund for the retirement of any preferred stock. The Comptroller has adopted guidelines, which set forth factors which are to be considered by a national bank in determining the payment of dividends. A national bank, in assessing the payment of dividends, is to evaluate the bank's capital position, its maintenance of an adequate allowance for loan and lease losses, and the need to review or develop a comprehensive capital plan, complete with financial projections, budgets and dividend guidelines. Therefore, the payment of dividends by the Bank is also governed by the Bank's ability to maintain minimum required capital levels and an adequate allowance for loan and lease losses. Additionally, pursuant to 12 U.S.C. Section 1818(b), the Comptroller may prohibit the payment of any dividend which would constitute an unsafe and unsound banking practice.

FORM 10-KSB:

A copy of the Bank's Form 10-KSB Annual Report as filed with the Office of the Comptroller of the Currency is available to all shareholders upon request. The request should be addressed to:

Jo Anne Painter, Chief Financial Officer,

Chino Commercial Bank

14345 Pipeline Avenue, Chino, California 91710

Market Makers

Chino Commercial Bank N.A.

Troy K Norlander and Michael R. Natzic,
The Seidler Companies, Inc.
42605 Moonridge Road
P.O. Box 1688
Big Bear Lake, California 92315
(800) 288-2811

Joey J. Warmenhoven,
Wedbush Morgan Securities
1300 SW Fifth Ave., Suite 2000
Portland, Oregon 97201
(800) 234-0480

STOCK SYMBOL:

"CKNA" - Common Stock (OTCBB)

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