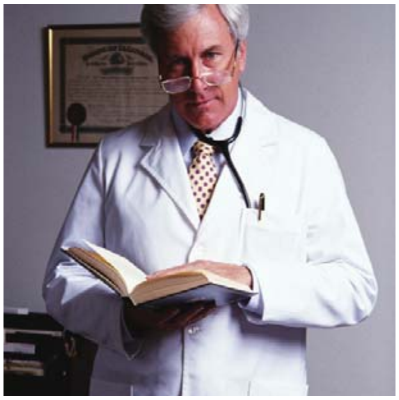
Chino Commercial Bank N.A.



2003 ANNUAL REPORT

CORPORATE PROFILE

Chino Commercial Bank has become one of the Inland Empire's leading community banks, serving a diverse and growing economic region. The Bank also serves professionals and individuals with high-quality banking products and a personalized level of service.

Founded in September 2000, Chino Commercial Bank was established upon a belief in the values of local ownership, community enterprise and a commitment to excellent personal service. The Bank's remarkable growth is a testimony to the broad acceptance of our way of doing business. This year, Chino Commercial Bank reports record financial performance in our 2003 annual report.

At Chino Commercial Bank our goal is to provide a level of service that sets us apart from other banks. We have established standards that focus on an unsurpassed level of customer care, while helping us to achieve financial performance objectives that enhance shareholder value. Now and in the future, we will continually strive to implement new technologies and increase our collective knowledge to maintain and expand a distinct competitive advantage.

The common stock of Chino Commercial Bank is traded on the Over-the-Counter Bulletin Board (OTCBB) under the stock symbol "CKNA".

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FINANCIAL HIGHLIGHTS

As of or for the year ended December 31, ($ in thousands except per share and ratio data)	2003	2002	2001
SELECTED BALANCE SHEET DATA:			
Total assets	$ 58,579	$ 41,662	$ 26,150
Total loans	27,193	21,862	11,154
Deposits	53,093	36,535	20,001
Non-interest bearing deposits	40,772	25,655	12,814
Stockholders' equity	5,330	4,936	4,650
SELECTED OPERATING DATA:			
Net interest income	2,265	1,624	1,109
Net income (loss)	501	203	(229)
Basic income (loss) per share	0.92	0.37	(0.42)
Diluted income (loss) per share	$ 0.88	$ 0.37	$ (0.41)
PERFORMANCE RATIOS:			
Return on average assets	0.99%	0.59%	(0.99)%
Return on average equity	9.66%	4.26%	(4.71)%
Equity to total assets at the end of the period	9.10%	11.85%	17.78%
Core efficiency ratio	80.10%	84.63%	114.72%
Non-interest expense to average assets	4.81%	5.21%	5.91%
REGULATORY CAPITAL RATIOS:			
Average equity to average assets	10.26%	13.92%	20.97%
Leverage capital	9.48%	12.04%	17.63%
Tier I risk based	16.64%	19.37%	32.68%
Risk-based capital	17.74%	20.19%	33.47%

KEY OBJECTIVES ATTAINED DURING 2003:

- Assets increased by $16.9 million or 40.6% to $58.6 million
- Loans increased by $5.3 million or 24.4% to $27.2 million
- Deposits increased by $16.6 million or 45.3% to $53.1 million
- Non-interest bearing deposits remain high at 76.8% of the total deposits
- Net income increased by 147% to $500,509
- Return on average assets rose to 0.99% from 0.59%
- Return on average equity rose to 9.66% from 4.26%

TO OUR SHAREHOLDERS:

We are very pleased to present you with Chino Commercial Bank's fourth annual report, for the year 2003. As you will see, the Bank had an outstanding year, posting an increase in Total Assets of $17 million to $58 million or a gain of 41%. We were also fortunate in building Deposits from $36 million to $53 million or an increase of 45%; and to increase Loans from $22 million to $27 million, a gain of 24%. Perhaps equally important, was the level of credit quality attained, with the Bank suffering no loan losses during the year, and ending the year with no loan delinquency and no non-accrual loans.

Similar to the gains recognized in the Balance Sheet, we also realized a 25% increase in gross revenue, up to $2.9 million, increasing net profits to $500,509 or $0.88 per diluted share, a 147% increase over last year's earnings.

This level of profitability is reflected in a Return on Beginning Equity of 10.14%, and a Return on Average Assets of .99%.

These results had a very positive effect upon the market price of your Bank's common stock, which began the year bid at $12.00 and ended the year bid at $21.00, an increase of 75%.

Though the Bank employs the latest technological systems and equipment, we believe our greatest strength lies in knowing our customers, and in being able to take the time to understand their business and financial needs, and to offer solutions which are designed specifically for their unique situation.

During this time of mega-mergers and mega sized banks, Dot-com communication, and ever-changing technology, it is reassuring to know that certain values do not go out of style: a friendly greeting from a professional, who knows you, a banker who is interested in your business and can focus on meeting those needs. These services have become rare and highly valued in today's business climate.

At Chino Commercial Bank, we believe Businesses and Families are the fabric of our community; and we are in the business of helping those Families and Businesses grow. We also believe sound financial management is the thread that binds the fabric of our society, of our community, or our neighborhoods together.

Drive down any street in the area, and you will see buildings, businesses, companies and homes. Small and large, these companies manufacture products and provide services, and most importantly provide a living for the people who run and work in them.

These days we are hearing a lot of talk about "job creation" as though it were a new governmental program, but in fact the things the Bank does every day, in helping businesses meet payroll, purchase equipment, finance receivables, all serve to create and preserve jobs. It is this growth and prosperity of local Businesses and Families that allow for the creation of new jobs, which support more families, who buy homes and cars typically provided by other small businesses.

At Chino Commercial Bank, we believe community banking is more than just a business of taking deposits and making loans, we believe Community Banking is a public trust. A Bank, which is owned by the community, and which operates to improve the community, through safe and secure depository functions, as well as sound prudent lending practices.

As consolidations in the financial industry are creating fewer and much larger financial institutions, we believe it is a true benefit to have a community bank, which focuses on the improvement of our community, the community in which we all live and work. A bank owned by the community, where the profits and benefits of prosperity are retained locally.

At Chino Commercial Bank, it is about people helping people. It is about our community investing in itself. It is about old fashioned values, and neighbor helping neighbor. It is about knowing your customer, and about caring about making things better.

Modernly, in our complex and sometimes dangerous society, Banks have been asked to take on new rolls in identifying illegal activity, of detecting financial transactions which may aid those who are opposed to our way of life, and to help uncover those who would hurt us. These responsibilities underscore the necessity of a strong and healthy community banking system, which is close to its customers.

We have been very fortunate during the first three years of the Bank's operation. In addition to phenomenal growth in Deposits and Loans, we have seen our net profit more than double last year. Looking forward, we believe the future of the Bank can be even better than we have experienced so far. As the Bank increases in total assets, its ability to make larger loans increases, its efficiency improves and the potential for additional locations increases.

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.

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 customers' financial needs.

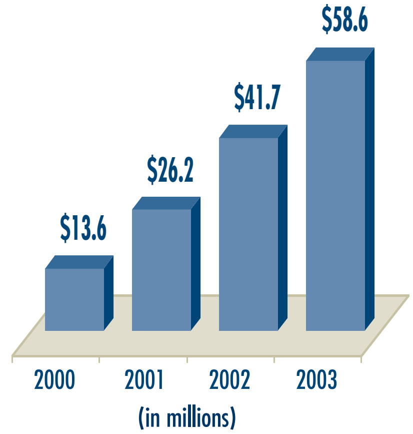
As a locally owned and managed independent bank, we feel that Chino Commercial Bank is truly a benefit not only to our customers and our shareholders, but to the community as a whole.

On behalf of 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.

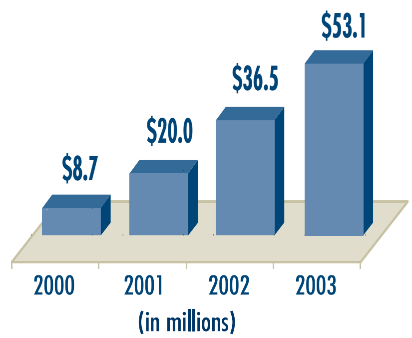
Sincerely,

Dann H. Bowman
President and Chief Executive Officer

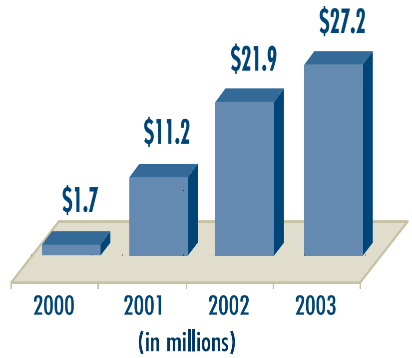
TOTAL ASSETS



TOTAL DEPOSITS



TOTAL LOANS



BOARD OF DIRECTORS

Dann H. Bowman
President and Chief Executive Officer

Bernard Wolfswinkel
Chairman of the Board
Retired

H. H. "Corky" Kindsvater
Vice Chairman of the Board
Chairman, Audit Committee
Retired

Jeanette L. Young
Corporate Secretary
Realtor, Century 21 King Realtors

Linda M. Cooper
President, Inland Empire Escrow

Pollyanna Franks
Healthcare Consultant

Richard J. Vanderpool
President,
Cal Cover Products, Inc.

Richard G. Malooly
Principal, Re/Max Realty 100

Thomas A. Woodbury, D.O.
Family Practice
Physician and Surgeon

OFFICERS & STAFF

Jo Anne Painter
EVP, Chief Financial Officer

Roger Caberto
Vice President, Chief Credit Officer

Jerry Buck
Regional Vice President

Diana Johnson
Vice President, Operations Administrator

Donna Johnson
Note Department Manager

Joe Grabowski
Credit Analyst

Esperanza Romero
Note Department Assistant

Marvin Ridgeway
Mortgage Banking Specialist

Elvia Cardenas
Wire Department Supervisor

Mercedes Laguna
Utility

Jeff Kowallis
Management Trainee

Jake Soerens
Utility

Robin Mora
AVP, Personal Banking Officer

Laurie Rose
Business Development Trainee

Trish Bowman
Shareholder Relations

Laura Mota
Assistant Operations Supervisor

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial condition of Chino Commercial Bank, N.A. as of December 31, 2003 and 2002, and the related statements of income, changes in stockholders' equity, and cash flows for the three-year period ended December 31, 2003. 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, 2003 and 2002, and the results of its operations and its cash flows for the three-year period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America.

Hutchinson and Bloodgood LLP

Glendale, California
January 22, 2004

Chino Commercial Bank N.A.

ANNUAL REPORT
FINANCIAL STATEMENTS

Chino Commercial Bank N.A.

STATEMENTS OF FINANCIAL CONDITION

	December 31, 2003	December 31, 2002
ASSETS		
Cash and due from banks	$ 3,588,715	1,839,367
Federal funds sold	9,350,000	2,095,000
Cash and cash equivalents	12,938,715	3,934,367
Interest-bearing deposits in other banks	2,388,000	1,685,000
Investment securities available for sale (Note 4)	9,463,551	10,683,120
Investment securities held to maturity (Note 4)	5,327,521	2,517,031
Stock investments, restricted, at cost (Note 5)	372,550	307,900
Total investments	17,551,622	15,193,051
Loans held for sale (Note 6)	126,558	4,151,145
Loans held for investment, net (Note 6)	27,066,018	17,710,408
Total loans, net	27,192,576	21,861,553
Accrued interest receivable	189,574	162,861
Bank premises and equipment (Note 7)	438,393	441,866
Prepaid and other assets	267,698	68,667
Total assets	$ 58,578,578	41,662,365
LIABILITIES		
Deposits		
Non-interest bearing	$ 40,769,746	25,655,491
Interest bearing		
Money market and NOW	9,124,289	7,407,219
Savings	565,012	432,811
Time deposits of $100,000 or greater, due in one year	897,603	1,382,281
Time deposits less than $100,000, due in one year	1,736,483	1,657,526
Total deposits	53,093,133	36,535,328
Accrued interest payable	12,580	19,649
Other liabilities	142,871	171,326
Total liabilities	53,248,584	36,726,303
COMMITMENTS AND CONTINGENCIES (Notes 12, 13 and 14)		
STOCKHOLDERS' EQUITY (Notes 2 and 17)		
Common stock, authorized 10,000,000 shares with a par value of $5 per share; issued and outstanding 545,646 shares on December 31, 2003 and 2002	2,728,230	2,728,230
Additional paid-in capital	2,590,893	2,590,893
Retained earnings (accumulated deficit)	31,264	(469,245)
Accumulated other comprehensive income (loss)	(20,393)	86,184
Total stockholders' equity	5,329,994	4,936,062
Total liabilities and stockholders' equity	$ 58,578,578	41,662,365

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

Chino Commercial Bank N.A.

STATEMENTS OF INCOME

	YEARS ENDED DECEMBER 31, 2003	2002	2001
INTEREST INCOME			
Interest and dividends on investment securities	$ 639,703	$ 695,880	$ 674,376
Interest on Federal funds sold	73,562	49,260	170,542
Interest and fee income on loans	1,743,153	1,106,570	497,512
Total interest income	2,456,418	1,851,710	1,342,430
INTEREST EXPENSE ON DEPOSITS			
Money market and NOW accounts	129,398	142,666	117,206
Savings	2,730	3,275	2,479
Time deposits of $100,000 or more	24,779	33,605	53,294
Time deposits less than $100,000	34,047	30,715	18,950
Total interest expense of deposits	190,954	210,261	191,929
INTEREST EXPENSE ON BORROWINGS	- -	17,979	41,090
Total interest expense	190,954	228,240	233,019
Net interest income	2,265,464	1,623,470	1,109,411
PROVISION FOR LOAN LOSSES (Note 6)	107,800	131,900	94,900
Net interest income after provision for loan losses	2,157,664	1,491,570	1,014,511
NONINTEREST INCOME			
Service charges on deposit accounts	332,858	235,662	76,172
Customer fees and miscellaneous income	4,985	4,048	2,379
Income from mortgage banking activities	141,060	245,877	1,927
Gain on the sale of investment securities available for sale	- -	9,958	41,285
Total noninterest income	478,903	495,545	121,763
NONINTEREST EXPENSES			
Salaries and employee benefits	1,123,433	820,801	587,800
Occupancy and equipment expenses	249,512	239,851	231,145
Other operating expenses	825,070	723,501	545,360
Total noninterest expenses	2,198,015	1,784,153	1,364,305
Income (loss) before income taxes	438,552	202,962	(228,031)
PROVISION (BENEFIT) FOR INCOME TAXES (Note 11)	(61,957)	- -	800
Net income (loss)	$ 500,509	$202,962	$(228,831)
BASIC EARNINGS (LOSS) PER SHARE	$ 0.92	$ 0.37	$ (0.42)
DILUTED EARNINGS (LOSS) PER SHARE	$ 0.88	$ 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, 2003, 2002 AND 2001

	Number of Shares	Common Stock	Additional Paid in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2000	543,982	$ 2,719,910	$ 2,582,573	$ (443,376)	$ 7,465	$ 4,866,572
Proceeds from 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					(4,245)	(4,245)
Total comprehensive loss						(233,076)
Balance at 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					82,964	82,964
Total comprehensive income						285,926
Balance at December 31, 2002	545,646	2,728,230	2,590,893	(469,245)	86,184	4,936,062
Comprehensive income:						
Net income				500,509		500,509
Change in unrealized gain on securities available for sale, net of tax					(106,577)	(106,577)
Total comprehensive income						393,932
Balance at December 31, 2003	545,646	$ 2,728,230	$ 2,590,893	$ 31,264	$ (20,393)	$ 5,329,994

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

Chino Commercial Bank N.A.

STATEMENTS OF CASH FLOWS

	YEARS ENDED DECEMBER 31, 2003	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)	$ 500,509	$ 202,962	$ (228,831)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Provision for loan losses	107,800	131,900	94,900
Depreciation and amortization	118,601	119,303	117,840
Amortization of premiums on investment securities	106,920	54,155	10,827
Accretion of deferred loan fees	(22,437)	31,107	(71,941)
Loss on sale of equipment	1,248	- -	- -
Gain on sale of investment securities available for sale	- -	(9,958)	(41,285)
Deferred income tax benefit	(122,964)	(21,868)	- -
Net change in:			
Loans held for sale	4,024,587	(4,016,145)	(135,000)
Accrued interest receivable	(26,713)	(32,306)	(100,771)
Other assets	(40,894)	1,033	(17,054)
Accrued interest payable	(7,069)	(11,450)	26,499
Other liabilities	10,434	76,898	4,172
Net cash provided by (used in) operating activities	4,650,022	(3,474,369)	(340,644)
CASH FLOWS FROM INVESTING ACTIVITIES			
Activity in investment securities available for sale:			
Purchases	(6,414,544)	(8,177,500)	(15,898,647)
Sales	- -	1,490,897	3,294,728
Repayments and calls	5,147,807	1,714,734	5,246,808
Activity in investment securities held to maturity:			
Purchases	(2,801,310)	(447,304)	- -
Repayments and calls	2,189,567	3,216,809	(2,359,087)
Net change in interest-bearing deposits in other banks	(703,000)	(792,000)	(893,000)
Purchase of stock investments, restricted	(64,650)	(7,550)	(90,750)
Loan purchases	(689,999)	(2,428,965)	(1,250,000)
Loan originations and principal collections, net	(8,750,974)	(4,425,562)	(8,180,875)
Purchase of premises and equipment	(116,376)	(37,321)	(53,139)
Net cash used in investment activities	(12,203,479)	(9,893,762)	(20,183,962)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase in deposits	16,557,805	16,534,778	11,323,603
Change in Federal Home Loan Bank advances	- -	(1,250,000)	1,250,000
Change in Federal funds purchased	- -	(160,000)	160,000
Proceeds from the exercise of stock options	- -	- -	16,640
Net cash provided by financing activities	16,557,805	15,124,778	12,750,243
Net increase (decrease) in cash and cash equivalents	9,004,348	1,756,647	(7,774,363)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	$ 3,934,367	$ 2,177,720	$ 9,952,083
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 12,938,715	$ 3,934,367	$ 2,177,720
SUPPLEMENTARY INFORMATION			
Interest paid	$ 198,023	$ 239,691	$ 206,520
Income taxes paid	$ 92,600	$ 1,600	$ 800

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

NOTES TO FINANCIAL STATEMENTS

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. Its primary lending products are real estate and commercial loans. Its primary deposit products are non-interest bearing deposits and money market accounts.

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.

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.

Reclassification

Certain amounts in the 2002 and 2001 financial statements have been reclassified to conform with the 2003 presentation.

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 (1) the length of time and extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its

NOTES TO FINANCIAL STATEMENTS

investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. 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.

Rate Lock Commitments

On March 13, 2002, the Financial Accounting Standards Board (FASB) determined that loan commitments related to the origination or acquisition of mortgage loans that will be held for sale must be accounted for as derivative instruments, effective for fiscal quarters beginning after April 10, 2002. Accordingly, the Bank adopted such accounting on July 1, 2002.

The Bank enters into commitments to originate loans whereby the interest rate on the loan is determined prior to the funding (rate lock commitments). Rate lock commitments on mortgage loans that are intended to be sold are considered to be derivatives. Accordingly, such commitments, along with any related fees received from potential borrowers, are recorded at fair value in derivative assets or liabilities, with changes in fair value recorded in the net gain or loss on the sale of mortgage loans. Fair value is based on fees currently charged to enter into similar agreements. Fair value for fixed-rate commitments also considers the difference between current levels of interest rates and the committed rates. Prior to July 1, 2002, such commitments were recorded to the extent of fees received. Fees received were subsequently included in the net gain or loss on sale of mortgage loans.

The Bank enters into rate lock commitments with individual borrowers and simultaneously obtains a commitment from a third party conduit to purchase the loan at par value.

The cumulative effect of adopting SFAS No. 133 for rate lock commitments as of July 1, 2002 was not material.

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.

NOTES TO FINANCIAL STATEMENTS

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.

The weighted average number of shares outstanding used in the computation of basic and diluted earnings per share is as follows for years ending December 31:

	2003	2002	2001
Weighted average number of shares used in the computation of:			
Basic earnings per share	545,646	545,646	545,262
Diluted earnings per share	569,254	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, 2003 and 2002, 72,270 and 84,623 options, respectively, were available for granting and 90,925 and 78,572 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 the grant, and 25% per year thereafter. All options expire 10 years after date of grant and become fully vested after four years.

NOTES TO FINANCIAL STATEMENTS

Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," as amended 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 amended 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,		
	2003	2002	2001
Net income (loss), as reported	$ 500,509	$ 202,962	$ (228,831)
Total stock-based employee compensation expense determined under fair value method	(99,545)	(90,913)	(91,226)
Related income tax benefit	84,586	- -	- -
Pro forma net income (loss)	$ 485,550	$ 112,049	$ (320,057)
Earnings (loss) per share			
Basic – as reported	$ 0.92	$ 0.37	$ (0.42)
Basic – pro forma	$ 0.89	$ 0.21	$ (0.59)
Diluted – as reported	$ 0.88	$ 0.37	$ (0.41)
Diluted – pro forma	$ 0.85	$ 0.20	$ (0.57)

The income tax benefit in 2003 includes the income tax benefit from pro forma stock option expense in 2003 plus the elimination of the valuation allowance against the pro forma deferred tax asset arising from pro forma stock option expense in 2000 to 2002.

NOTES TO FINANCIAL STATEMENTS

The fair value of each option granted in 2003 and 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 in 2002.

	2003	2001
Dividend yield	0.0%	0.0%
Expected volatility	15.8%	10.3%
Risk-free interest rate	3.7%	5.2%
Expected life	10 years	10 years

Based on these assumptions, the weighted average fair value of options granted in 2003 and 2001 was estimated at $5.52 and $4.28 per option, respectively.

A summary of activity in the Bank's stock option plan is as follows:

	2003		2002		2001	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options outstanding at beginning of year	78,572	$ 10.25	80,941	$ 10.24	81,596	$ 10.00
Options granted	12,353	14.92	- -	- -	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	90,925	$ 10.90	78,572	$ 10.25	80,941	$ 10.24
Options exercisable at year-end	78,410	$ 10.24	52,606	$ 10.12	32,937	$ 10.00

Information pertaining to options outstanding on December 31, 2003 is as follows:

Options Outstanding			Options Exercisable	
Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Number Exercisable	Exercise Price
$10.00	72,572	6.5 years	72,572	$10.00
$13.25	6,000	7.0 years	4,000	$13.25
$13.25	7,353	9.0 years	1,838	$13.25
$17.75	5,000	9.5 years	- -	- -
	90,925	6.9 years	78,410	

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.

NOTES TO FINANCIAL STATEMENTS

The components of comprehensive income (loss) other than net income (loss) and related tax effects are as follows:

	2003	2002	2001
Unrealized holding gains (losses) on securities available for sale	$ (181,099)	$ 150,933	$ (48,470)
Reclassification of gains realized in income	- -	(9,958)	(41,285)
Net unrealized gains (losses)	(181,099)	140,975	(7,185)
Tax effect	74,522	(58,011)	2,940
Other comprehensive income (loss), net of tax	$ (106,577)	$ 82,964	$ (4,245)

Recent Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board (FASB) issued Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46) which establishes guidance for determining when an entity should consolidate another entity that meets the definition of a variable interest entity. FIN 46 requires a variable interest entity to be consolidated by a company if that company will absorb a majority of the expected losses, will receive a majority of the expected residual returns, or both. Transfers to qualified special-purpose entities (QSPEs) and certain other interests in a QSPE are not subject to the requirements of FIN 46. On December 17, 2003, the FASB deferred the effective date of FIN 46 to no later than the end of the first reporting period that ends after March 15, 2004. However, for special-purpose entities a company would be required to apply FIN 46 as of December 31, 2003. The Interpretation had no effect on the Bank's financial statements.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." This Statement amends SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" and clarifies accounting for derivatives instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. This Statement is effective for contracts entered into or modified after June 30, 2003, except in certain circumstances, and hedging relationships designated after June 30, 2003. This Statement did not have a material effect on the Bank's financial statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." This Statement provides new rules on accounting for certain financial instruments that, under previous guidance, issuers could account for as equity. Such financial instruments include mandatorily redeemable shares, instruments that require the issuer to buy back some of its shares in exchange for cash or other assets, or obligations that can be settled with shares, the monetary value of which is fixed. Most of the guidance in SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 30, 2003. This Statement had no effect on the Bank's financial statements.

NOTES TO FINANCIAL STATEMENTS

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, 2003 and 2002, the Bank's reserve balances were in excess of the minimum required of $144,000 and $248,000, respectively.

4 INVESTMENT SECURITIES

The amortized cost and fair value of investment securities at December 31 are as follows:

	2003			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale:				
Mortgage-backed	$ 9,498,116	$ 49,248	$ (83,813)	$ 9,463,551
Securities held to maturity:				
Mortgage-backed	$ 4,092,626	$ 37,731	$ (33,630)	$ 4,096,727
Municipal bonds	448,921	1,656	(3,085)	447,492
Corporate bonds	785,974	48,727	- -	834,701
	$ 5,327,521	$ 88,114	$ (36,715)	$ 5,378,920

	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

The amortized cost and fair value of investment securities as of December 31, 2003 by contractual maturity are shown below:

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
After 1 year through 5 years	$ - -	$ - -	$ 449,293	$ 474,755
After 5 years through 10 years	- -	- -	336,681	359,946
After 10 years through 17 years	- -	- -	448,921	447,492
Mortgage-backed securities	9,498,116	9,463,551	4,092,626	4,096,727
	$ 9,498,116	$ 9,463,551	$ 5,327,521	$ 5,378,920

NOTES TO FINANCIAL STATEMENTS

Information pertaining to securities with gross unrealized losses at December 31, 2003, aggregated by investment category and length of time that individual securities have been in continues loss position, follows:

	Less than 12 Months		Over 12 Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Securities available for sale:				
Mortgage-backed securities	$ 70,293	$ 4,061,881	$ 13,521	$ 453,241
Securities held to maturity:				
Mortgage-backed securities	30,754	1,805,606	2,877	652,749
Municipal bonds	3,085	344,474	- -	- -

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

On December 31, 2003, 14 securities have unrealized losses with aggregate depreciation of 1.6% from the Bank's amortized cost basis. These unrealized losses relate principally to mortgage backed securities issued by federally sponsored agencies, which are fully secured by conforming residential loans. Since the Bank has the ability to hold these securities until estimated maturity, no declines are deemed to be other than temporary.

5 STOCK INVESTMENTS, RESTRICTED

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

	2003	2002
Federal Reserve Bank stock	$ 154,450	$ 144,700
Federal Home Loan Bank stock	168,100	113,200
Pacific Coast Bankers' Bank stock	50,000	50,000
	$ 372,550	$ 307,900

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

6 LOANS AND ALLOWANCE FOR LOAN LOSSES

The Bank had $126,558 and $4,151,145 in loans held for sale at December 31, 2003 and 2002, 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.

NOTES TO FINANCIAL STATEMENTS

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

	2003	2002
Construction loans	$ 468,101	$ 238,997
Real estate loans	19,639,383	11,581,157
Commercial loans	6,475,819	5,272,802
Farm/agriculture	360,269	373,365
Installment loans	596,534	470,121
	27,540,106	17,936,442
Allowance for loan losses	(351,828)	(205,615)
Unearned income and deferred loan fees, net	(122,260)	(20,419)
Loans held for investment, net	$ 27,066,018	$ 17,710,408

As of December 31, 2003 and 2002, there were no loans past due over 90 days or on a non-accrual basis. In addition, there were no impaired loans on those dates. The average balance of impaired loans during 2003 and 2002 was $217,250 and zero, respectively. Interest income recognized on impaired loans in 2003 totaled $15,745 on both a cash and accrual basis.

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

	2003	2002
Balance at January 1	$ 205,615	$ 111,600
Provision charged to expense	107,800	131,900
Loans charged off	- -	(37,885)
Recoveries of loans previously charged-off	38,413	- -
Balance as of December 31	$ 351,828	$ 205,615

Loans serviced for others are not included in the accompanying balance sheets. The unpaid principal balance of loans serviced for others was $1,091,300 and 1,573,531 at December 31, 2003 and 2002, respectively.

7 BANK PREMISES AND EQUIPMENT

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

	2003	2002
Furniture, fixtures and equipment	$ 473,359	$ 398,556
Leasehold improvements	310,331	271,835
Automobile	32,289	32,289
	815,979	702,680
Less accumulated depreciation and amortization	377,586	260,814
	$ 438,393	$ 441,866

Depreciation and amortization expense for years ending December 31, 2003, 2002 and 2001 amounted to $118,601, $119,303 and $117,840, respectively.

NOTES TO FINANCIAL STATEMENTS

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:

	2003	2002
Balance at beginning of period	$ 320,661	$ 310,079
Advances	241,377	194,000
Repayments, net of borrowings	256,028	183,418
Balance as of December 31	$ 306,010	$ 320,661

Deposits from related parties held by the Bank at December 31, 2003 and 2002 amounted to $8,374,775 and $7,770,640, respectively.

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 Bank had no advances outstanding at December 31, 2003 and 2002. On January 5, 2004, the FHLB notified the Bank that it is now eligible to borrow funds collateralized by securities or qualified loans up to 25% of its asset base.

10 FEDERAL FUNDS LINES OF CREDIT

The Bank has a total of $4 million in Federal funds lines of credit with two banks. At December 31, 2003 and 2002, the Bank had no borrowings outstanding.

11 INCOME TAXES

The following is a summary of the provision (benefit) for income taxes for the years ended December 31:

	2003	2002	2001
Current tax provision:			
Federal	$ 131,205	$ 55,003	$ - -
State	58,269	21,868	800
Benefit of loss carryforwards, federal	(128,467)	(55,003)	- -
	61,007	21,868	800
Deferred tax provision (benefit):			
Federal	128,922	- -	- -
State	(10,027)	- -	- -
Adjustment to valuation allowance	(241,859)	(21,868)	- -
	(122,964)	(21,868)	- -
	$ (61,957)	$ - -	$ 800

The provision (benefit) for income taxes differs from income taxes determined by applying statutory tax rates to pretax income (loss) primarily because of changes in the valuation allowance against deferred tax assets and the utilization of federal net operating loss carryforwards.

NOTES TO FINANCIAL STATEMENTS

The components of the net deferred tax asset, included in other assets on the balance sheets, are as follows at December 31:

	2003	2002
Deferred tax assets:		
Allowance for loan losses	$ 87,927	$ 43,513
Start-up expenses	63,018	100,830
Donation carryforward	283	2,733
Valuation adjustment on mortgage loans	27,238	- -
Unrealized loss on securities available for sale	14,225	- -
Net operating loss carryforward	37,231	159,770
	229,922	306,846
Valuation allowance	- -	(241,859)
	229,922	64,987
Deferred tax liabilities:		
Depreciation and amortization	(9,745)	(2,412)
Cash basis of reporting for tax purposes	(49,618)	(41,349)
Unrealized gain on securities available for sale	- -	(60,116)
	(59,363)	(103,877)
Net deferred tax asset (liability)	$ 170,559	$ (38,890)

As of December 31, 2003 and 2002, the Bank had the following approximate net operating loss carryforwards that are available to offset future taxable income:

	2003	2002
Federal	$ - -	$ 360,000
State	520,000	520,000

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

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, 2003 and 2002, the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount	
	2003	2002
Commitments to grant loans	$ - -	$ - -
Unadvanced lines of credit	4,773,367	3,008,918
Letters of credit	285,300	100,000

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.

13 ON BALANCE SHEET DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Bank originates certain mortgage loans for sale to investors (conduits). The Bank enters into rate lock commitments with borrowers for generally a 30-day or 60-day period for these loans. Concurrently, the Bank obtains a commitment from the conduits to purchase the loans from the Bank at an amount above face value at the locked-in rate. The excess of the purchase price over the face value of the loan results in mortgage banking income to the Bank. The purchase commitment from the conduit remains in effect generally for approximately 20 to 40 days, depending on the conduit's requirements. Unfunded loans for which commitments have been entered into are called "pipeline loans." The Bank had $597,000 and $3,800,000 in pipeline loans as of December 31, 2003 and 2002, respectively. Some of these rate lock commitments will ultimately expire without being completed. To the extent that a loan is ultimately granted and the commitment with the conduit expires before the loan is sold, these rate lock commitments expose the Bank to variability in their fair value due to changes in interest rates. If interest rates increase, the value of these rate lock commitments decreases. Conversely, if interest rates decrease, the value of these rate lock commitments increases.

On March 13, 2002, the FASB determined that loan commitments related to the origination or acquisition of mortgage loans that will be held for sale must be accounted for as derivative instruments. Accordingly, the Bank adopted such accounting on July 1, 2002, and such commitments, along with any related fees received from potential borrowers, are recorded at fair value in derivative assets or liabilities, with changes in fair value recorded in net gain or loss on sale of mortgage loans. Fair value is based on fees currently charged to enter into similar agreements. Fair value for fixed-rate commitments also considers the difference between current levels of interest rates and the committed rates.

14 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 in July 2005 with an option to renew for an additional five years.

NOTES TO FINANCIAL STATEMENTS

At December 31, 2003, the minimum future rental payments are as follows:

Year Ending December 31,	
2004	$ 74,043
2005	37,569
	$ 111,612

Rental expense for the years ended December 31, 2003 and 2002 amounted to $71,886 and $69,793, 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.

15 CONCENTRATION OF 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 73% and 66% of total loans held for investment at December 31, 2003 and 2002, respectively. The Bank has no concentration of loans with any one customer or industry.

Deposits from escrow companies represented 49% and 43% of total deposits on December 31, 2003 and 2002, respectively. Four escrow companies accounted for 45% of total deposits on December 31, 2003.

16 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, 2003, 2002 and 2001, the expense attributable to the Plan amounted to $27,707, $20,605 and $17,023, respectively.

17 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 classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

NOTES TO FINANCIAL STATEMENTS

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, 2003 and 2002 are also presented in the table. Management believes, as of December 31, 2003 and 2002, that the Bank met all capital adequacy requirements to which it is subject.

As of June 30, 2003, 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.

	2003					
	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	$ 5,702	17.74%	$ 2,572	8.00%	$ 3,215	10.00%
Tier 1 capital to risk-weighted assets	$ 5,350	16.64%	$ 1,286	4.00%	$ 1,929	6.00%
Tier 1 capital to average assets	$ 5,350	9.48%	$ 2,258	4.00%	$ 2,823	5.00%

	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%

18 RESTRICTIONS ON DIVIDENDS, LOANS AND ADVANCES

National banking regulations place certain restrictions on dividends paid by the Bank. The Bank was restricted from paying dividends during its first three years of operations which ended September 2003. Going forward, dividends are generally limited to the retained earnings of the Bank, subject to minimum regulatory capital requirements.

Chino Commercial Bank N.A.

FORM 10-KSB

OFFICE OF THE COMPTROLLER OF THE CURRENCY
WASHINGTON, D.C. 20219

FORM 10-KSB

(Mark One) [X] **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year period ended December 31, 2003

[ ] **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ___________ to ___________.

OCC File Number: 35366

CHINO COMMERCIAL BANK, N.A.

United States	**NO. 33-0884033**
(State or other jurisdiction of incorporation)	**(IRS Employer Identification No.)**

14345 Pipeline Avenue, Chino California 91710
(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code: (909) 393-8880

Securities registered pursuant to Section 12(b) of the Exchange Act: None
Securities registered pursuant to Section 12(g) of the Exchange Act: Common Stock

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

Disclosure of delinquent filers pursuant to Item 405 of Regulation S-B is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB [ ]

The registrant's revenues for its most recent fiscal year were $2,935,321.

As of March 17, 2004, the aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $9.9 million. Shares of common stock held by each executive officer and director and each person owning more than five percent of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of the affiliate status is not necessarily a conclusive determination for other purposes.

On March 17, 2004, there were 545,646 shares of Chino Commercial Bank, N.A. Common Stock outstanding.

Documents Incorporated by Reference: Portions of the definitive proxy statement for the 2004 Annual Meeting of the Shareholders to be filed with the Comptroller of the Currency pursuant to SEC Regulation 14A are incorporated by reference in Part III, Items 9-12 and Item 14.

Transitional Small Business Disclosure Format (check one): Yes ____ No__X_

Chino Commercial Bank, N.A.
December 31, 2003

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PART I

Item 1. Description of Business

General

Chino Commercial Bank, N.A. ("the Bank") is a national bank organized under the laws of the United States, which was organized on December 8, 1999 and commenced operations on September 1, 2000. The Bank operates a full-service banking office in Chino, California. The Bank's main office and administrative offices are located at 14345 Pipeline Avenue, Chino, California. Its telephone number is (909) 393-8880.

The Bank's deposit accounts are insured under the Federal Deposit Insurance Act up to applicable limits. The Bank is subject to periodic examinations of its operations and compliance by the office of the Comptroller of the Currency. The Bank is a member of the Federal Reserve System and a member of the Federal Home Loan Bank. See "Regulation and Supervision."

As a community-oriented bank, the Bank offers a wide array of personal, consumer and commercial services generally offered by a locally managed, independently operated bank. The Bank provides a broad range of deposit instruments and general banking services, including checking, savings, and money market accounts; certificate of deposit for both business and personal accounts; telebanking (banking by phone); and courier services. As of December 31, 2003, the Bank had $53.1 million in deposits. Non-interest bearing deposits totaled $40.8 million or 76.6% of total deposits and interest-bearing deposits were $12.3 million or 23.2% of total deposits. As of December 31, 2003, deposits from related parties represent approximately 15.8% of total deposits of the Bank. See "Risk Factors – Dependence Upon Related Parties." Further, at December 31, 2003 49% of the Bank's deposits were concentrated in one industry, escrow companies. See "Risk Factors—Concentration of Deposit Accounts in One Industry."

The Bank also provides a wide variety of lending products for both business and consumers. Commercial loan products include lines of credit, letters of credit, term loans and equipment loans, commercial real restate loans, accounts receivable financing, factoring, equipment leasing and other working capital financing. Financing products for individuals include auto, home equity and home improvement lines of credit, personal lines of credit and MasterCard debit cards. Real estate loan products include construction loans, lot loans, residential real estate brokerage, commercial real estate conduit sales, mini-perm commercial real estates and home mortgages. As of December 31, 2003, the Bank had total assets of $58.6 million and $27.2 million in net loans. The Bank's lending activity is concentrated primarily in real estate loans, which constituted 71.0%, and commercial loans, which constituted 23.4% of the Bank's loan portfolio as of December 31, 2003.

Market Area and Competition

The banking business in California generally, and specifically in the market area which the Bank serves, is highly competitive with respect to virtually all products and services and has become increasingly so in recent years. The industry continues to consolidate and strong, unregulated competitors have entered banking markets with products targeted at highly profitable customer segments. Many largely unregulated competitors are able to compete across geographic boundaries and provide customers increasing access to meaningful alternatives to banking services in nearly all significant products. These competitive trends are likely to continue. The Bank competes for loans and deposits with other commercial banks, as well as with savings and loan associations, credit unions, thrift and loan companies, and other financial and non-financial institutions. With respect to commercial bank competitors, the market is largely dominated by a relatively small number of major banks with many offices operating over a wide geographical area. These banks have, among other advantages, the ability to finance wide-ranging and effective advertising campaigns and to allocate their investment resources to regions of highest yield and demand. Many of the major banks operating in the area offer certain services, which the Bank does not offer directly (but some of which the Bank offers through correspondent institutions). By virtue of their greater total capitalization, such banks also have substantially higher lending limits than the Bank.[1]

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[1] Legal lending limits to each customer are limited to a percentage of a bank's total capital accounts, the exact percentage depending upon the nature of the loan transaction. Currently, loans by national banks to any one customer are generally limited to fifteen percent (15%) of capital and unimpaired surplus, plus an additional ten percent (10%) of capital and unimpaired surplus, if such additional loans are secured by readily marketable collateral meeting certain requirements.

In addition to other banks, competitors include savings institutions, credit unions, and numerous non-banking institutions, such as finance companies, leasing companies, insurance companies, brokerage firms, and investment banking firms. In recent years, increased competition has also developed from specialized finance and non-finance companies that offer money market and mutual funds, wholesale finance, credit card, and other consumer finance services, including on-line banking services and personal finance software. Strong competition for deposit and loan products affects the rates of those products as well as the terms on which they are offered to customers. Mergers between financial institutions have placed additional pressure on banks within the industry to streamline their operations, reduce expenses, and increase revenues to remain competitive. Competition has also intensified due to Federal and State interstate banking laws enacted in the mid-1990's, which permit banking organizations to expand geographically into other states, and the California market has been particularly attractive to out-of-state institutions. The Financial Modernization Act, which became effective March 2000, made it possible for full affiliations to occur between banks and securities firms, insurance companies, and other financial companies, and is also expected to intensify competitive conditions (see "REGULATION AND SUPERVISION -- Financial Modernization Act" herein).

Technological innovations have also resulted in increased competition in the financial services market. Such innovations have, for example, made it possible for non-depository institutions to offer customers automated transfer payment services that previously have been considered traditional banking products. In addition, many customers now expect a choice of several delivery systems and channels, including telephone, mail, on-line, ATMs, self-service branches, and/or in-store branches. In addition to other banks, the sources of competition for such products include savings associations, credit unions, brokerage firms, money market and other mutual funds, asset management groups, finance and insurance companies, and mortgage banking firms.

In an effort to compete effectively, the Bank provides quality, personalized service and fast, local decision-making, which major bank competitors are generally unable to offer. The Bank relies on local promotional activities, personal relationships established by the Bank's officers, directors and employees with the Bank's customers, and specialized services tailored to meet the needs of the Bank's primary service area.

The Bank's primary service area consists of the western portion of San Bernardino County, with a particular emphasis on Chino and Chino Hills. This primary service area is currently served by approximately 30 banking institutions. The Bank competes in its service area by using to the fullest extent possible the flexibility which its independent status and strong community ties permit. This status includes an emphasis on specialized services, local promotional activity, and personal contacts by the Bank's officers, directors, organizers and employees. Programs have and will continue to be developed which are specifically addressed to the needs of small businesses, professionals and consumers. If our customers' loan demands exceed the Bank's lending limit, the Bank is able to arrange for such loans on a participation basis with other financial institutions and intermediaries. The Bank can also assist those customers requiring other services not offered by the Bank to obtain such services from its correspondent banks.

Recent Accounting Pronouncements

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities (FIN 46)"which establishes guidance for determining when an entity should consolidate another entity that meets the definition of a variable interest entity. FIN 46 requires a variable interest entity to be consolidated by a company if that company will absorb a majority of the expected losses, will receive a majority of the expected residual returns, or both. Transfers to qualified special-purpose entities ("QSPEs") and certain other interests in a QSPE are not subject to the requirements of FIN 46. On December 17, 2003, the FASB deferred the effective date of FIN 46 to no later than the end of the first reporting period that ends after March 15, 2004, however, for special-purpose entities the Bank would be required to apply FIN 46 as of December 31, 2003. The Interpretation had no effect on the Bank's financial statements.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." This Statement amends SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. This Statement is effective for contracts entered into or modified after June 30, 2003, except in certain circumstances, and hedging relationships designated after June 30, 2003. This Statement did not have a material effect on the Bank's financial statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This Statement provides new rules on accounting for certain financial instruments that, under previous guidance, issuers could account for as equity. Such financial instruments include mandatorily redeemable shares, instruments that require the issuer to buy back some of its shares in exchange for cash or other assets, or obligations that can be settled with shares, the monetary value of which is fixed. Most of the guidance in SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 30, 2003. This Statement had no effect on the Bank's financial statements.

EMPLOYEES

As of December 31, 2003, the Bank had 21 full-time employees. Of these individuals, five were officers of the Bank holding titles of Assistant Vice President or above. The Bank believes that its employee relations are satisfactory. None of the Bank's employees are represented by a union or covered under a collective bargaining agreement.

REGULATION AND SUPERVISION

The following discussion of statutes and regulations affecting banks is only a summary and does not purport to be complete. This discussion is qualified in its entirety by reference to such statutes and regulations. No assurance can be given that such statutes or regulations will not change in the future.

The Bank is subject to regulation, supervision and examination by the Comptroller of the Currency. It is also a member of the Federal Reserve System and, as such, is subject to applicable provisions of the Federal Reserve Act and the regulations promulgated thereunder by the Board of Governors of the Federal Reserve System (the "Federal Reserve Board" or "FRB"). Furthermore, the deposits of the Bank are insured by the Federal Deposit Insurance Corporation ("FDIC") to a maximum of $100,000 per ownership type. For this protection, the Bank pays a quarterly assessment to the FDIC and is subject to the rules and regulations of the FDIC pertaining to deposit insurance and other matters. The regulations of those agencies govern most aspects of the Bank's business, including the making of periodic reports by the Bank, and the Bank's activities relating to dividends, investments, loans, borrowings, capital requirements, certain check-clearing activities, branching, mergers and acquisitions, reserves against deposits, the issuance of securities and numerous other areas. The Bank is also subject to requirements and restrictions of various consumer laws and regulations, as well as, applicable provisions of California law, insofar as they do not conflict with, or are not preempted by, federal banking laws. Supervision, legal action and examination of the Bank by the regulatory agencies are generally intended to protect depositors and are not intended for the protection of shareholders.

The earnings and growth of the Bank are largely dependent on its ability to maintain a favorable differential or "spread" between the yield on its interest-earning assets and the rate paid on its deposits and other interest-bearing liabilities. As a result, the Bank's performance is influenced by general economic conditions, both domestic and foreign, the monetary and fiscal policies of the federal government, and the policies of the regulatory agencies, particularly the FRB. The FRB implements national monetary policies (such as seeking to curb inflation and combat recession) by its open-market operations in United States Government securities, by adjusting the required level of reserves for financial institutions subject to its reserve requirements and by varying the discount rate applicable to borrowings by banks which are members of the Federal Reserve System. The actions of the FRB in these areas influence the growth of bank loans, investments and deposits and also affect interest rates charged on loans and deposits. The nature and impact of any future changes in monetary policies cannot be predicted.

Capital Adequacy Requirements

The Bank is subject to the regulations of the Comptroller governing capital adequacy. Those regulations incorporate both risk-based and leverage capital requirements. Each of the federal regulators has established risk-based and leverage capital guidelines for the banks or bank holding companies it regulates, which set total capital requirements and define capital in terms of "core capital elements," or Tier 1 capital and "supplemental capital elements," or Tier 2 capital. Tier 1 capital is generally defined as the sum of the core capital elements less goodwill and certain intangibles. The following items are defined as core capital elements: (i) common stockholders' equity; (ii) qualifying non-cumulative perpetual preferred stock and related surplus; and (iii) minority interests in the equity accounts of consolidated subsidiaries. Supplementary capital elements include: (i) allowance for loan and lease losses (but not more than 1.25% of an institution's risk-weighted assets); (ii) perpetual preferred stock and related surplus not qualifying as core capital; (iii) hybrid capital instruments, perpetual debt and mandatory convertible debt instruments; and (iv) term subordinated debt and intermediate-term preferred stock and related surplus. The maximum amount of supplemental capital elements which qualifies as Tier 2 capital is limited to 100% of Tier 1 capital, net of goodwill.

The Bank is required to maintain a minimum ratio of qualifying total capital to total risk-weighted assets of 8.0% ("Total Risk-Based Capital Ratio"), at least one-half of which must be in the form of Tier 1 capital ("Tier 1 Risk-Based Capital Ratio"). Risk-based capital ratios are calculated to provide a measure of capital that reflects the degree of risk associated with a banking organization's operations for both transactions reported on the balance sheet as assets, and transactions, such as letters of credit and recourse arrangements, which are recorded as off-balance sheet items. Under the risk-based capital guidelines, the nominal dollar amounts of assets and credit-equivalent amounts of off-balance sheet items are multiplied by one of several risk adjustment percentages, which range from 0% for assets with low credit risk, such as certain U. S. Treasury securities, to 100% for assets with relatively high credit risk, such as business loans. As of December 31, 2003 and 2002, the Bank’s Total Risk-Based Capital Ratio was 17.7% and 20.2%, respectively, and its Tier 1 Risk-Based Capital Ratio was 16.6% and 19.4%, respectively.

The risk-based capital standards also take into account concentrations of credit (i.e., relatively large proportions of loans involving one borrower, industry, location, collateral or loan type) and the risks of “non-traditional” activities (those that have not customarily been part of the banking business). The regulations require institutions with high or inordinate levels of risk to operate with higher minimum capital standards, and authorize the regulators to review an institution's management of such risks in assessing an institution’s capital adequacy.

The risk-based capital regulations also include exposure to interest rate risk as a factor that the regulators will consider in evaluating a bank’s capital adequacy. Interest rate risk is the exposure of a bank's current and future earnings and equity capital arising from adverse movements in interest rates. While interest risk is inherent in a bank's role as financial intermediary, it introduces volatility to bank earnings and to the economic value of the bank.

Banks are also required to maintain a leverage capital ratio designed to supplement the risk-based capital guidelines. Banks that have received the highest rating of the five categories used by regulators to rate banks and are not anticipating or experiencing any significant growth must maintain a ratio of Tier 1 capital (net of all intangibles) to adjusted total assets ("Leverage Capital Ratio") of at least 3%. All other institutions are required to maintain a leverage ratio of at least 100 to 200 basis points above the 3% minimum, for a minimum of 4% to 5%. Pursuant to federal regulations, banks must maintain capital levels commensurate with the level of risk to which they are exposed, including the volume and severity of problem loans, and federal regulators may, however, set higher capital requirements when a bank's particular circumstances warrant. As of December 31, 2003 and 2002, the Bank’s Leverage Capital Ratio was 9.5% and 12.0%, respectively.

Prompt Corrective Action Provisions

Federal law requires each federal banking agency to take prompt corrective action to resolve the problems of insured financial institutions, including but not limited to those that fall below one or more prescribed minimum capital ratios. The federal banking agencies have by regulation defined the following five capital categories: "well capitalized" (Total Risk-Based Capital Ratio of 10%; Tier 1 Risk-Based Capital Ratio of 6%; and Leverage Capital Ratio of 5%); "adequately capitalized" (Total Risk-Based Capital Ratio of 8%; Tier 1 Risk-Based Capital Ratio of 4%; and Leverage Capital Ratio of 4%) (or 3% if the institution receives the highest rating from its primary regulator); "undercapitalized" (Total Risk-Based Capital Ratio of less than 8%; Tier 1 Risk-Based Capital Ratio of less than 4%; or Leverage Capital Ratio of less than 4%) (or 3% if the institution receives the highest rating from its primary regulator); "significantly undercapitalized" (Total Risk-Based Capital Ratio of less than 6%; Tier 1 Risk-Based Capital Ratio of less than 3%; or Leverage Capital Ratio less than 3%); and "critically undercapitalized" (tangible equity to total assets less than 2%). A bank may be treated as though it were in the next lower capital category if after notice and the opportunity for a hearing, the appropriate federal agency finds an unsafe or unsound condition or practice so warrants, but no bank may be treated as "critically undercapitalized" unless its actual capital ratio warrants such treatment.

At each successively lower capital category, an insured bank is subject to increased restrictions on its operations. For example, a bank is generally prohibited from paying management fees to any controlling persons or from making capital distributions if to do so would make the bank "undercapitalized." Asset growth and branching restrictions apply to undercapitalized banks, which are required to submit written capital restoration plans meeting specified requirements (including a guarantee by the parent holding company, if any). "Significantly undercapitalized" banks are subject to broad regulatory authority, including among other things, capital directives, forced mergers, restrictions on the rates of interest they may pay on deposits, restrictions on asset growth and activities, and prohibitions on paying certain bonuses without FDIC approval. Even more severe restrictions apply to critically undercapitalized banks. Most importantly, except under limited circumstances, not later than 90 days after an insured bank becomes critically undercapitalized, the appropriate federal banking agency is required to appoint a conservator or receiver for the bank.

In addition to measures taken under the prompt corrective action provisions, insured banks may be subject to potential actions by the federal regulators for unsafe or unsound practices in conducting their businesses or for violations of any law, rule, regulation or any condition imposed in writing by the agency or any written agreement with the agency. Enforcement actions may include the issuance of cease and desist orders, termination of insurance of deposits (in the case of a bank), the imposition of civil money penalties, the issuance of directives to increase capital, formal and informal agreements, or removal and prohibition orders against "institution-affiliated" parties.

Safety and Soundness Standards

The federal banking agencies have adopted final guidelines establishing safety and soundness standards for all insured depository institutions. Those guidelines relate to internal controls, information systems, internal audit systems, loan underwriting and documentation, compensation and interest rate exposure. In general, the standards are designed to assist the federal banking agencies in identifying and addressing problems at insured depository institutions before capital becomes impaired. If an institution fails to meet these standards, the appropriate federal banking agency may require the institution to submit a compliance plan and institute enforcement proceedings if an acceptable compliance plan is not submitted.

Premiums for Deposit Insurance

The FDIC regulations provide for a risk-based premium system, whereby insured depository institutions are required to pay insurance premiums depending on their risk classification. Under this system, institutions such as the Bank which are insured by the Bank Insurance Fund ("BIF"), are categorized into one of three capital categories (well capitalized, adequately capitalized, and undercapitalized) and one of three supervisory categories based on federal regulatory evaluations. The three supervisory categories are: financially sound with only a few minor weaknesses (Group A), demonstrates weaknesses that could result in significant deterioration (Group B), and poses a substantial probability of loss (Group C). The capital ratios used by the FDIC to define well capitalized, adequately capitalized and undercapitalized are the same in the FDIC's prompt corrective action regulations. The current BIF base assessment rates (expressed as cents per $100 of deposits) are summarized as follows:

	Group A	Group B	Group C
Well Capitalized	0	3	17
Adequately Capitalized	3	10	24
Undercapitalized	10	24	27

In addition, banks must pay an amount, which has fluctuated, but is currently 1.54 basis points, or cents per $100 of insured deposits, towards the retirement of the Financing Corporation bonds issued in the 1980's to assist in the recovery of the savings and loan industry.

At December 31, 2003 and 2002, the Bank exceeded the required ratios for classification as “well capitalized” and had paid no BIF or FICO assessment during the year. See the Notes to the Financial Statements for the capital ratios of the Bank at December 31, 2003 and 2002.

Community Reinvestment Act

The Bank is subject to certain requirements and reporting obligations involving Community Reinvestment Act ("CRA") activities. The CRA generally requires the federal banking agencies to evaluate the record of a financial institution in meeting the credit needs of its local communities, including low and moderate income neighborhoods. The CRA further requires the agencies to take a financial institution's record of meeting its community credit needs into account when evaluating applications for, among other things, domestic branches, consummating mergers or acquisitions, or holding company formations. In measuring a bank's compliance with its CRA obligations, the regulators now utilize a performance-based evaluation system which bases CRA ratings on the bank's actual lending service and investment performance, rather than on the extent to which the institution conducts needs assessments, documents community outreach activities or complies with other procedural requirements. In connection with its assessment of CRA performance, the agencies assign a rating of "outstanding," "satisfactory," "needs to improve" or "substantial noncompliance." The Bank received a “satisfactory” rating in its most recent examination.

Other Consumer Protection Laws and Regulations

The bank regulatory agencies are increasingly focusing attention on compliance with consumer protection laws and regulations. Examination and enforcement has become intense, and banks have been advised to carefully monitor compliance with various consumer protection laws and their implementing regulations. The federal Interagency Task Force on Fair Lending issued a policy statement on discrimination in home mortgage lending describing three methods that federal agencies will use to prove discrimination: overt evidence of discrimination, evidence of disparate treatment, and evidence of disparate impact. In addition to CRA and fair lending requirements, the Bank will be subject to numerous other federal consumer protection statutes and regulations. Due to heightened regulatory concern related to compliance with consumer protection laws and regulations generally, the Bank may incur additional compliance costs or be required to expend additional funds for investments in the local communities it serves.

Interstate Banking and Branching

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the "Interstate Banking Act") regulates the interstate activities of banks and bank holding companies and establishes a framework for nationwide interstate banking and branching. Since June 1, 1997, a bank in one state has generally been permitted to merge with a bank in another state without the need for explicit state law authorization. However, states were given the ability to prohibit interstate mergers with banks in their own state by "opting-out" (enacting state legislation applying equality to all out-of-state banks prohibiting such mergers) prior to June 1, 1997.

Since 1995, adequately capitalized and managed bank holding companies have been permitted to acquire banks located in any state, subject to two exceptions: first, any state may still prohibit bank holding companies from acquiring a bank which is less than five years old; and second, no interstate acquisition can be consummated by a bank holding company if the acquiror would control more then 10% of the deposits held by insured depository institutions nationwide or 30% percent or more of the deposits held by insured depository institutions in any state in which the target bank has branches.

A bank may establish and operate de novo branches in any state in which the bank does not maintain a branch if that state has enacted legislation to expressly permit all out-of-state banks to establish branches in that state.

In 1995 California enacted legislation to implement important provisions of the Interstate Banking Act discussed above and to repeal California's previous interstate banking laws, which were largely preempted by the Interstate Banking Act.

The changes effected by Interstate Banking Act and California laws have increased competition in the environment in which the Bank operates to the extent that out-of-state financial institutions directly or indirectly enter the Bank's market areas. It appears that the Interstate Banking Act has contributed to the accelerated consolidation of the banking industry. While many large out-of-state banks have already entered the California market as a result of this legislation, it is not possible to predict the precise impact of this legislation on the Bank and the competitive environment in which it operates.

Financial Modernization Act

Effective March 11, 2000, the Gramm-Leach-Bliley Act eliminated most barriers to affiliations among banks and securities firms, insurance companies, and other financial service providers, and enabling full affiliations to occur between such entities. This legislation permits bank holding companies to become "financial holding companies" and thereby acquire securities firms and insurance companies and engage in other activities that are financial in nature. A bank holding company may become a financial holding company if each of its subsidiary banks is well capitalized under the FDICIA ("Federal Deposit Insurance Corporation Insurance Act") prompt corrective action provisions, is well managed, and has at least a satisfactory rating under the CRA by filing a declaration that the bank holding company wishes to become a financial holding company. No regulatory approval will be required for a financial holding company to acquire a company, other than a bank or savings association, engaged in activities that are financial in nature or incidental to activities that are financial in nature, as determined by the Federal Reserve Board.

The Gramm-Leach-Bliley Act defines "financial in nature" to include securities underwriting, dealing and market making; sponsoring mutual funds and investment companies; insurance underwriting and agency; merchant banking activities; and activities that the Board has determined to be closely related to banking. A national bank also may engage, subject to limitations on investment, in activities that are financial in nature, other than insurance underwriting, insurance company portfolio investment, real estate development and real estate investment, through a financial subsidiary of the bank, if the bank is well capitalized, well managed and has at least a satisfactory CRA rating. Subsidiary banks of a financial holding company or national banks with financial subsidiaries must continue to be well capitalized and well managed in order to continue to engage in activities that are financial in nature without regulatory actions or restrictions, which could include divestiture of the financial in nature subsidiary or subsidiaries. In addition, a financial holding company or a bank may not acquire a company that is engaged in activities that are financial in nature unless each of the subsidiary banks of the financial holding company or the bank has a CRA rating of satisfactory or better. The Gramm-Leach-Bliley Act also imposes significant requirements on financial institutions with respect to the privacy of customer information, and modifies other existing laws, including those related to community reinvestment.

USA Patriot Act of 2001

On October 26, 2001, President Bush signed the USA Patriot Act of 2001 (the "Patriot Act"). Enacted in response to the terrorist attacks in New York, Pennsylvania and Washington, D.C. on September 11, 2001, the Patriot Act is intended to strengthen U.S. law enforcement's and the intelligence communities' ability to work cohesively to combat terrorism on a variety of fronts. The potential impact of the Act on financial institutions of all kinds is significant and wide ranging. The Act contains sweeping anti-money laundering and financial transparency laws and requires various regulations, including:

- Diligence requirements for financial institutions that administer, maintain, or manage private bank accounts or correspondent accounts for non-U.S. persons;
- Standards for verifying customer identification at account opening;
- Rules to promote cooperation among financial institutions, regulators, and law enforcement entities in identifying parties that may be involved in terrorism or money laundering;
- Reports by non-financial trades and businesses filed with the Treasury Department's Financial Crimes Enforcement Network for transactions exceeding $10,000, and;
- Filing of suspicious activities reports, securities by brokers and dealers, if they believe that a customer may be violating U. S. laws and regulations.

The Bank implemented the requirements of the Patriot Act during 2001 and 2002. The financial impact on the Bank of compliance with the Patriot Act has been minimal.

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 ("SOA") was enacted to increase corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws. The SOA generally applies to all companies, both U.S. and non-U.S., that file or are required to file periodic reports under the Securities Exchange Act of 1934, including the Bank.

The SOA includes very specific additional disclosure requirements and new corporate governance rules, requires the SEC and securities exchanges to adopt extensive additional disclosure, corporate governance and other related rules and mandates further studies of specified issues by the Securities and Exchange Commission and the Comptroller General. The SOA represents significant federal involvement in matters traditionally left to state regulatory systems, such as the regulation of the accounting profession and to state corporate law, such as the relationship between a board of directors and management and between a board of directors and its committees. The SOA contains provisions which became effective upon enactment on July 30, 2002 and provisions which became effective from within 30 days to one year from enactment. The Securities and Exchange Commission has promulgated regulations to implement various provisions of the SOA, including additional disclosure requirements in periodic filings under the Exchange Act. The Bank has revised its internal policies and Exchange Act disclosures to comply with these new requirements.

Other Pending and Proposed Legislation

Other legislative and regulatory initiatives, which could affect the Bank and the banking industry in general are pending, and additional initiatives may be proposed or introduced, before the United States Congress, the California legislature and other governmental bodies in the future. Such proposals, if enacted, may further alter the structure, regulation and competitive relationship among financial institutions, and may subject the Bank to increased regulation, disclosure and reporting requirements. In addition, the various banking regulatory agencies often adopt new rules and regulations to implement and enforce existing legislation. It cannot be predicted whether, or in what form, any such legislation or regulations may be enacted or the extent to which the business of the Bank would be affected thereby.

RISK FACTORS

The reader should carefully consider the following risk factors and all other information contained in this annual report on Form 10-KSB. The risks and uncertainties described below are not the only ones the Bank faces. Additional risks and uncertainties not presently known to the Bank or that management currently believes are immaterial also may impair the Bank's business. If any of the events described in the following risk factors occur, the Bank's business, results of operations and financial condition could be materially adversely affected. In addition, the trading price of our common stock could decline due to any of the events described in these risks.

1. Poor Economic Conditions in Southern California May Cause the Bank to Incur Losses

A substantial majority of the Bank's assets and deposits are generated in the Inland Empire in Southern California. As a result, poor economic conditions in the Inland Empire area may cause the Bank to incur losses associated with higher default rates and decreased collateral values in our loan portfolio. Economic activity slowed significantly immediately following the September 11, 2001 terrorist attacks. Unemployment levels have increased since mid 2001 in the Inland Empire, which is our geographic center and the base of our deposit and lending activity. If the current recessionary conditions continue or deteriorate, we expect that our level of problem assets could increase accordingly.

2. Lack of Diversification in the Bank's Loan Portfolio Could Cause the Bank to Incur Losses

At December 31, 2003, 71.0% of the Bank's loans are real estate loans, most of which are secured by real property in California. Conditions in the California real estate market would be expected to influence the Bank's level of non-performing assets. A real estate recession in Southern California could adversely affect the Bank's results of operations. In addition, historically, California has experienced, on occasion, significant natural disasters, including earthquakes, brush fires like those occurring in the fall of 2003 and, during early 1998, flooding attributed to the weather phenomenon known as "El Nino." The availability of insurance for losses from such catastrophes is limited. The occurrence of one or more of such catastrophes could impair the value of the collateral for the Bank's real estate secured loans and adversely affect the Bank. Further, during 2002 and 2003 real estate prices in Southern California, including the Inland Empire, rose precipitously. If real estate prices were to fall in Southern California, the security for many of the Bank's real estate secured loans could be reduced and the Bank could incur significant losses if borrowers of real estate secured loans default, and the value of the Bank's collateral is insufficient to cover the losses.

3. Fluctuations in Interest Rates Could Adversely Affect the Bank's Business

Significant increases in market interest rates, or the perception that an increase may occur, could adversely affect both our ability to originate new loans and the Bank's ability to grow. Conversely, a decrease in interest rates could result in an acceleration in the prepayment of loans. In addition, changes in the market interest rates, or changes in the relationships between short-term and long-term market interest rates, or changes in the relationships between different interest rate indices, could affect the interest rates charged on interest-earning assets differently from the interest rates paid on interest-bearing liabilities. This difference could result in an increase in interest expense relative to interest income. An increase in market interest rates also could adversely affect the ability of our floating-rate borrowers to meet their higher payment obligations. If this occurred, it could cause an increase in non-performing assets and net charge-offs, which could adversely affect the Bank.

4. Intense Competition Exists for Loans and Deposits

The banking and financial services business in California generally, and in the Bank's market area specifically, is highly competitive. The increasingly competitive environment is a result primarily of changes in regulation, changes in technology and product delivery systems and the accelerating pace of consolidation among financial service providers. The Bank competes for loans, deposits and customers for financial services with other commercial banks, saving and loan associations, securities and brokerage companies, mortgage companies, insurance companies, finance companies, money market funds, credit unions, and other non-bank financial service providers. Many of these competitors are much larger in total assets and capitalization, have greater access to capital markets and offer a broader array of financial services than the Bank does.

5. Adverse Effects of Banking Regulations or Changes in Banking Regulations Could Adversely Affect the Bank

The Bank is governed by significant federal regulation and supervision, which is primarily for the benefit and protection of the Bank's customers and not for the benefit of its shareholders. In the past, banking business has been materially affected by these regulations. This trend is likely to continue in the future. Laws, regulations or policies currently affecting the Bank may change at any time. Regulatory authorities may also change their interpretation of these statutes and regulations. Therefore, the Bank may be adversely affected by any future changes in laws, regulations, policies or interpretations.

6. Loan Loss Allowance May Not Cover Actual Loan Losses

The Bank maintains an allowance for loan losses at a level, which Management believes is adequate to absorb any inherent losses in the loan portfolio. However, changes in economic, operating and other conditions, including changes in interest rates, that are beyond our control, may cause our actual loan losses to exceed the current allowance estimates. If the actual loan losses exceed the amount provided for, it will negatively impact the Bank's earnings. In addition, the OCC, as part of its supervisory functions, periodically reviews the Bank's allowance for loan losses. Such agency may require the Bank to increase the provision for loan losses or to recognize further loan losses, based upon its judgments, which may be different from those of management. Any increase in the allowance required by the OCC could also negatively impact the Bank.

7. The Bank does not expect to Pay Cash Dividends in the near Future

The Bank believes the most effective use of its capital and earnings is to finance its growth and operations. For this reason, the Bank currently intends to retain all or a vast majority of its earnings for the foreseeable future rather than distribute earnings in the form of dividends to the shareholders. However, while the Bank has not paid a cash dividend to date, it will periodically assess the benefits of doing so. The Bank's ability to declare a dividend on its common stock will depend upon, among other things, future earnings, operating and financial conditions, capital requirements and general business conditions, and receipt of regulatory approvals, if then required. See Part II—Item 5. "Market for Common Equity and Related Stockholder Matters—Dividends."

8. Limited Operating History

The Bank commenced operations on September 1, 2000 and, accordingly, has a limited operating history. No assurances can be given as to the ultimate success of the Bank.

9. Earthquakes and Other Natural Disasters

Southern California, where the Bank's office, and most of its real estate and personal properties securing the Bank's loans are located, is prone to earthquakes, flooding and other disasters. In addition to possibly sustaining damage to the Bank's property, if there is a major earthquake, flood or other natural disaster, the Bank faces the risk that many of its borrowers may experience uninsured property losses, or sustained job interruption and/or loss which may materially impair their ability to meet the terms of their loan obligations. A major earthquake, flood, or other natural disaster in California could have a material effect on the Bank's business, financial condition, results of operation and cash flow.

10. Dependence Upon Related Parties

The Bank has deposits with certain of its directors whose businesses represent a significant portion of the deposit balances of the Bank, representing 15.8% of the Bank's total deposits at December 31, 2003. While the Bank has no reason to believe that the deposits of these related parties would be withdrawn, such an event in a short-time frame would present a significant liquidity and earnings issue for the Bank. It is anticipated that securities available-for-sale and the Bank's credit availability would be sufficient to offset such a liquidity need, although there can be no assurances that this would be the case. See "Management Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources."

11. Concentration of Deposit Accounts in One Industry

As of December 31, 2003 and 2002, deposits from escrow companies represented 49% and 43% of the Bank's total deposits, respectively. Four escrow companies accounted for 45% of total deposits on December 31, 2003. Further, approximately 19.2% of all deposits from escrow companies at December 31, 2003 were from escrow companies affiliated with certain directors of the Bank. If the escrow industry should suffer a significant downturn, due to a decrease in purchases and sales of real property, or otherwise, the deposits from escrow companies in the Bank could decrease significantly which could have a material adverse effect on the financial condition of the Bank. Further, while the Bank has no reason to believe that its directors who are affiliates of certain of the escrow companies would remove the deposit accounts of the escrow companies from the Bank, such an event in a short-time frame could present a significant liquidity and earnings issue for the Bank. See "Dependence Upon Related Parties," above and Note 15 to Notes to Audited Financial Statements included elsewhere herein.

12. Dependence on Key Personnel

The Bank's future success depends in large part upon the continuing contributions of its key management personnel. If the Bank loses the services of one or more key personnel within a short period of time, it could be adversely affected. The Bank's future success is also dependent upon its continuing ability to attract and retain other highly qualified personnel. Competition for such employees among financial institutions in California is intense. The Bank's inability to attract and retain additional key officers could adversely affect the Bank. The Bank can provide no assurance that the Bank will be able to retain any of its key officers and employees or attract and retain qualified personnel in the future. The Bank has one employment contract with its President, Dann H. Bowman, that provides for, among other things, severance payments if the employment arrangement is terminated without cause.

Item 2. Description of Property

The Bank's main office is located at 14345 Pipeline Avenue, Chino, California, and currently houses all Bank operations and administration. The Bank leases these premises pursuant to a lease, which provides for an initial term of five years, with an option to renew the lease for one additional term of five years. The initial five-year term of the lease will expire on June 30, 2005. Current rent expense under the lease is $6,079 per month, with annual rental increases based on the increase in the consumer price index for the Los Angeles/Orange County areas, provided that no annual increase may be greater than 3% of the rent for the previous year. The Bank's offices consist of approximately 6,954 square feet of interior floor space in a new single-story 13,000 square foot commercial office building. The office has a vault, teller windows, customer parking and one automated teller machine located on the exterior of the building.

In the opinion of the Bank's management, the Bank's properties are adequately covered by insurance.

Item 3. Legal Proceedings

Not applicable.

Item 4. Submission of Matters to Vote of Security Holders

Not applicable.

PART II

Item 5. Market for Common Equity, Related Stockholders Matters and Registrant's Purchase of Equity Securities

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 table below indicates the high and low "bid" and "asked" quotations and approximate volume of trading for the Common Stock for the year ended December 31, 2003 and 2002, 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, 2003			
Fourth Quarter	$22.25	$17.75	12,553
Third Quarter.	$18.50	$17.00	10,200
Second Quarter	$18.50	$13.30	21,400
First Quarter	$13.75	$12.00	39,800
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

On March 17, 2004, the "bid" and "asked" quotations for the Common Stock were $26.25 and $26.75, respectively, based upon information provided by The Seidler Companies, Big Bear Lake, California. As of March 17, 2004, there were approximately 468 shareholders of record of the Common Stock.

Stock Repurchases

There were no stock repurchases during the fourth quarter of 2003.

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.

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.

Item 6. Management's Discussion and 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, 2003, 2002 and 2001. The discussion should be read in conjunction with the Financial Statements of the Bank and the Notes related thereto presented elsewhere in this Form 10-KSB Annual Report.

Statements Regarding Forward-Looking Information

Except for historical information contained herein, the matters discussed or incorporated by reference 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. When used in this report, or in the documents incorporated by reference herein, the words "anticipate," "believe," "estimate," "may," "intend," "expect," and similar expressions identify certain of such forward-looking statements. 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, the following: changes in economic conditions (both generally and more specifically in the markets in which the Bank operates); changes in interest rates, deposit flows, loan demand, real estate values and competition; changes in accounting principles, policies or guidelines and in government legislation and regulation (which change from time to time and over which the Bank has no control); other factors affecting the Bank's operations, markets, products and services; and other risks detailed in this Form 10-KSB and in the Bank's other reports filed with the Comptroller of the Currency pursuant to the rules and regulations of the Securities and Exchange Commission. 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.

Selected Financial Data

The "selected" financial data for 2003, 2002, and 2001 that follows is derived from the audited Financial Statements of the Bank and other data from our internal accounting system. The selected financial data should be read in conjunction with the audited Financial Statements and Notes thereto, and Management's Discussion and Analysis of Financial Condition and Results of Operations below. Statistical information set forth below is generally based upon average daily balances.

	As of and for the years December 31,			As of and for the four months ended December 31,
	2003	2002	2001	2000
	($ in thousands, except per share data)			
Selected Balance Sheet Data:				
Total assets	$ 58,579	$ 41,662	$ 26,150	$ 13,605
Investment securities held to maturity	5,328	2,517	2,359	
Investment securities available for sale	9,464	10,683	8,542	1,119
Loans held for sale	127	4,151	135	
Loan receivable, net (1)	27,066	17,710	11,019	1,653
Deposits	53,093	36,535	20,001	8,677
Non-interest bearing deposits	40,772	25,655	12,814	
FHLB advances and other borrowings			1,410	
Stockholders' equity	5,330	4,936	4,650	4,867
Selected Operating Data:				
Interest income	2,456	1,852	1,342	230
Interest expense	191	228	233	25
Net interest income	2,265	1,624	1,109	205
Provision for loan losses	108	132	95	17
Net interest income after provision for loan losses	2,157	1,492	1,014	188
Non-interest income	479	495	122	2
Non-interest expense	2,198	1,784	1,364	409
Income tax expense/(benefit)	(62)			
Net income (loss)	501	203	(228)	(219)
Share Data:				
Basic income (loss) per share	0.92	0.37	(0.42)	(0.40)
Diluted Income (loss) per share	$ 0.88	$ 0.37	$ (0.41)	$ (0.39)
Weighted average common shares outstanding				
Basic	545,646	545,646	545,262	543,982
Diluted	569,254	550,643	559,228	553,763

Performance Ratios (2):				
Return on average assets	0.99%	0.59%	-0.99%	-2.04%
Return on average equity	9.66%	4.26%	-4.71%	-4.40%
Equity to total assets at the end of the period	9.10%	11.85%	17.78%	35.77%
Net interest spread (3)	3.59%	3.52%	2.90%	3.26%
Net interest margin (4)	4.81%	5.05%	5.40%	6.72%
Average interest-earning assets to Average interest-bearing liabilities	400.99%	315.68%	320.50%	521.00%
Core efficiency ratio (5)	80.10%	84.63%	114.72%	198.07%
Non-interest expense to average assets	4.81%	5.21%	5.91%	3.81%
Regulatory capital ratios (2) (6):				
Average equity to average assets	10.26%	13.92%	20.97%	46.32%
Leverage capital	9.48%	12.04%	17.63%	40.85%
Tier I risk based	16.64%	19.35%	32.68%	86.66%
Risk-based capital	17.74%	20.17%	33.47%	86.97%
Asset Quality Ratios (2) (7):				
Allowance for loan losses as a percent of gross loans receivable	1.27%	1.15%	1.01%	1.00%
Net charge-offs to average loans held for investment	(0.02)%	0.02%	n/a	n/a
Non-performing loans to total loans held for investment	n/a	n/a	n/a	n/a
Number of full-service customer facilities	1	1	1	1

(1) The allowance for loan losses at December 31, 2003, 2002, 2001 and 2000 was $351,828, $205,615, $111,600, and $16,700, respectively.
(2) Asset Quality Ratios and Regulatory Capital Ratios are end of the period ratios. Performance ratios are based on average daily balances during the periods indicated.
(3) Net interest spread represents the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities.
(4) Net interest margin represents net interest income as a percent of interest-bearing assets.
(5) Core efficiency ratio represents non-interest expense as a percent of net interest income plus core non-interest income. Core non-interest income excludes gains on the sale of investment securities.
(6) For definitions and further information relating to the Bank's regulatory capital requirements, see "Regulation and Supervision – Capital Adequacy Requirements."
(7) The Bank had no non-performing assets or loans at December 31, 2003, 2002, 2001 and 2000, respectively.

Critical Accounting Policies

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make a number of judgments, estimates and assumptions that affect the reported amount of assets, liabilities, income and expenses in the Bank's financial statements and accompanying notes. Management believes that the judgments, estimates and assumptions used in preparation of the Bank's financial statements are appropriate given the factual circumstances as of December 31, 2003.

Various elements of the Bank's accounting policies, by their nature, are inherently subject to estimation techniques, valuation assumptions and other subjective assessments. Critical accounting policies are those that involve the most complex and subjective decisions and assessments and have the greatest potential impact of the Bank's results of operation. In particular, management has identified one accounting policy that, due to judgments, estimates and assumptions inherent in this policy, and the sensitivity of the Bank's financial statements to those judgments, estimates and assumptions, are critical to an understanding of the Bank's financial statements. This policy relates to the methodology that determines the allowance for loan and lease losses. Management has discussed the development and selection of this critical accounting policy with the Audit Committee of the Board of Directors. Although Management believes the level of the allowance at December 31, 2003 is adequate to absorb losses inherent in the loan portfolio, a decline in the regional economy may result in increasing losses that cannot reasonably be predicted at this time. For further information regarding the allowance for loan losses see "Comparison of Financial Condition at December 31, 2003 and December 31, 2002—Allowance for Loan Losses," and Note 2 to the Bank's audited financial statements included elsewhere herein.

Recently Issued Accounting Standards

Refer to Note 1 to the Financial Statements – "Accounting Policies" for discussion of the recently issued accounting standards.

Results of Operations

General

The year ended December 31, 2003 represented a year of substantial growth for the Bank. As discussed in more detail below:

- Assets increased by $16.9 million or 40.6% to $58.6 million
- Loans increased by $5.3 million or 24.4% to $27.1 million
- Deposits increased by $16.6 million or 45.3% to $53.1 million with non-interest deposits representing 76.8% of the total
- Net income increased by 147% to $500,509
- Return on average assets rose to .99% from .59% and return on average equity rose to 9.66% from 4.26%.

For the year ended December 31, 2003, the Bank recorded net income of $500,509 or $.88 per diluted share as compared to a net income of $202,962 or $.37 per diluted share for the year ended December 31, 2002. The return on average assets was 0.99% and 0.59% for the years ended December 31, 2003 and 2002, respectively. The return on average equity was 9.66% and 4.26% for the years ended December 31, 2003 and 2002, respectively. The primary reason for the increase was due to the growth in the loan portfolio balances which increased by 24.4%. The loan portfolio yields at approximately 7.22% created an increase in interest and fee income on loans which rose to $1.7 million from $1.1 million.

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 $605,000 or 32.7% to $2.5 million for the year ended December 31, 2003 from $1.9 million for the year ended December 31, 2002. Interest income for 2001 was $1.3 million. The increase was principally due to the increase in interest and fee income on loans as the average balance of net loans increased to $24.2 million for the year ended December 31, 2003 from $15.1 million for the year ended December 31, 2003. The average balance of net loans was $6.1 million for 2001. Average interest-earning assets increased $11.6 million to $47.1 million for the year ended December 31, 2003 compared to $32.2 million for the year ended December 31, 2002 and $20.6 million for the year ended December 31, 2001. This increase was offset by a continued decline in the yield on average earning assets to 5.21% for the year ended December 31, 2003 from 5.75% and 6.53% for the years ending December 31, 2002 and 2001, respectively.

The primary reason for the continued decrease in asset yield was the impact of a declining interest rate environment. This lower interest rate environment particularly impacted the yield on securities and overnight investments. The average yield on securities (U. S. Government agencies, mortgage-backed securities, and other securities) decreased to 3.97% for the year ended December 31, 2003 from 4.96% and 6.48% for the years ended December 31, 2002 and 2001, respectively. The impact on income of the decline in yield was offset by an increase in the average balance of securities to $16.1 million for the year ended December 31, 2003 from $14.0 million and $11.1 million for the years ended December 31, 2002 and 2001, respectively.

The continued growth in the loan portfolio had a positive impact on net interest income since 2001. Average net loans increased to $24.2 million for the year ended December 31, 2003 reflecting a $9.1 million increase over 2002 and a $18.1 million increase over 2001. The average yield on loans, net decreased to 7.22% for the year ended December 31, 2003 from 7.33% and 8.17% for the years ended December 31, 2002 and 2001, respectively. The decline of 11 basis points from 2002 to 2003 and 84 basis points from 2001 to 2002 reflects the impact of a falling interest rate environment beginning in January, 2001.

Interest expense decreased by $37,287 to $190,954 for the year ended December 31, 2003 from $228,240 and $233,019 for the years ended December 31, 2002 and 2001, respectively. The reason for the decline is twofold: (1) during 2003, the Bank had no borrowings as compared to 2002 and 2001 when the Bank borrowed occasionally on an overnight basis and had a one year advance with the Federal Home Loan Bank that paid off in April 2002; and (2) the impact of the declining interest rate environment since January 2001. The average interest rate the Bank paid for deposits and borrowings declined by 61 basis points to 1.63% for the year ended December 31, 2003 as compared to 2.24% and 3.63% for the years ended December 31, 2002 and 2001, respectively. Average interest-bearing deposits increased to $11.8 million for the year ended December 31, 2003 as compared to $10.2 million and $6.4 million for the years ended December 31, 2002 and 2001, respectively. The Bank continues to maintain a high ratio of non-interest bearing deposits to total deposits of 76.8% at December 31, 2003 as compared to 70.2% and 64.1% at December 31, 2002 and 2001, respectively.

Net interest margin is calculated by dividing net interest income by average interest-earning assets. The net interest margin was 4.81% for the year ended December 31, 2003 as compared to 5.05% and 5.40% for the years ended December 31, 2002 and 2001, respectively. The primary reason for the decline was an overall declining rate environment since January 2001.

The following table sets forth certain information relating to the Bank for the years ended December 31, 2003 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
($ in thousands)

	For the year ended December 31, 2003			For the year ended December 31, 2002			For the year ended December 31, 2001		
	Average balance	Income/ Expense	Average Yield/Rate	Average balance	Income/ Expense	Average Yield/Rate	Average balance	Income/ Expense	Average Yield/Rate
Assets									
Interest-earnings assets									
Net loans	$24,187	$1,743	7.21%	$15,112	$1,106	7.32%	$ 6,081	$497	8.17%
Securities of U.S. government agencies	73	2	3.63%	2,508	109	4.35%	3,133	202	6.45%
Mortgage-backed securities	12,737	503	3.95%	9,325	486	5.21%	5,803	363	6.26%
Other securities	3,304	135	4.09%	2,211	101	4.57%	2,394	110	4.59%
Federal funds sold	6,816	73	1.07%	3,008	49	1.63%	4,072	171	4.20%
Total interest-earning assets	47,117	$2,456	5.21%	32,164	$1,851	5.75%	20,557	$1,343	6.53%
Non-interest earning assets	3,393			2,058			2,539		
Total assets	$50,510			$34,222			$23,096		
Liabilities and Stockholders' Equity									
Interest-bearing liabilities									
Money market deposits	$ 8,343	$129	1.55%	$ 6,976	$143	2.05%	$ 3,872	$117	3.02%
Savings	501	3	0.60%	436	3	0.69%	197	3	1.52%
Time deposits < $100,000	1,750	34	1.94%	1,255	33	2.63%	448	19	4.24%
Time deposits equal to or > $100,000	1,157	25	2.16%	1,046	31	2.96%	975	53	5.44%
FHLB Advances				476	18	3.78%	921	41	4.45%
Total interest-bearing liabilities	11,750	191	1.63%	10,189	228	2.24%	6,414	233	3.63%
Non-interest bearing deposits	33,458			19,136			11,786		
Non-interest bearing liabilities	120			132			53		
Stockholders' equity	5,182			4,765			4,844		
Total liabilities and stockholders' equity	$50,510			$34,222			$23,096		
Net interest income		$2,265			$1,623			$1,110	
									2.90%
Net interest spread			3.59%			3.52%			5.40%
Net interest margin			4.81%			5.05%			
Ratio of interest-earning assets to interest-bearing									320.50%
liabilities			400.99%			315.67%			

[1].Amortization of loan fees have been included in the calculation of interest income. Amortized loan fees/(costs) were approximately $32,870, $(6,000) and $17,000 for the years ended December 31, 2003, 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.

Rate/Volume Analysis

The following table presents the extent to which changes in interest rates and changes in the volume of interest-earning assets and interest-bearing liabilities have affected the Bank's interest income and expense during the periods indicated. Information is provided in each category with respect to: (i) changes attributable to changes in volume (changes in volume multiplied by prior rate); (ii) changes attributable to changes in rate (changes in rate multiplied by prior volume); (iii) changes attributable to changes in rate and volume (changes in rate multiplied by changes in volume); and (iv) the net change.

	Year ended December 31, 2003 Compared to the year ended December 31, 2002 ($ in thousands) Increase (Decrease) Due to Changes In			
	Volume	Rate	Rate/ Volume	Net
Interest-earning assets				
Net Loans, net of Deferred fees	$ 664	$ (17)	$(10)	$637
Securities of U. S. Government agencies	(106)	(17)	17	(105)
Mortgage-backed securities	178	(118)	(43)	17
Other securities	50	(11)	(5)	34
Federal funds sold	62	(17)	(21)	24
Total interest-earning assets	848	(180)	(62)	606
Interest-bearing liabilities				
Money market and NOW	28	(35)	(6)	(13)
Savings deposits	0	(0)	(0)	0
Time deposits < $100,000	13	(9)	(3)	1
Time deposits equal to or > $100,000	3	(8)	(1)	(6)
Federal Home Loan Bank Advance	(18)	(18)	18	(18)
Total interest-bearing liabilities	26	(70)	8	(36)
Change in net interest income	$822	$(110)	$(70)	$642

	Year Ended December 31, 2002 Compared to Year Ended December 31, 2001 ($ in thousands)			
	Increase (Decrease) Due to Changes In			
	Volume	Rate	Rate/ Volume	Net
Interest-earning assets				
Net Loans, net of deferred fees/(costs)	$ 738	$ (52)	$(77)	$ 609
Securities of U. S. Government agencies	(40)	(66)	13	(93)
Mortgage-backed securities	220	(61)	(37)	123
Other securities	(8)	(1)	--	(9)
Federal funds sold	(45)	(105)	27	(122)
Total interest-earning assets	865	(284)	(73)	508
Interest-bearing liabilities				
Money market and NOW	94	(38)	(30)	26
Savings deposits	4	(2)	(2)	--
Time deposits < $100,000	34	(7)	(13)	14
Time deposits equal to or > $100,000	34	(7)	(2)	(22)
Federal Home Loan Bank Advance	(20)	(6)	3	(23)
Total interest-bearing liabilities	116	(77)	(44)	(5)
Change in net interest income	$749	$(207)	$ (29)	$ 513

Provision for Loan Losses

Provision for loan losses was $107,800, $131,900 and $94,900 for the years ended December 31, 2003, 2002, and 2001, respectively. The increase in the provision for loan losses reflects the increase in loan receivable balances. The Bank provided less provision during 2003 due to a $38,413 recovery from a prior year charge-off. The allowance for loan losses was $351,828 or 1.27% of gross loans held for investment at December 31, 2003 as compared to $205,615 or 1.15% and $111,600 or 1.01% of gross loans held for investment at December 31, 2002 and 2001, respectively.

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 “Comparison of Financial Condition at December 31, 2003 and December 31, 2002 –Allowance for Loan Losses”, below).

Non-Interest Income

Other income includes service charges on deposit accounts, income from mortgage banking activities, gain on the sale of available for sale investment securities and other miscellaneous income. Non-interest income declined by $16,642 or 3.4% to $478,903 for the year ended December 31, 2003 as compared to $495,545 for the year ended December 31, 2002 and represented 16.3% of total revenue for 2003 as compared to 21.1% for 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 $93,149 or 38.9% to $332,858 for the year ended December 31, 2003 from $239,710 and $76,172 for the years ended December 31, 2002 and 2001, respectively. The increase is primarily attributable to activity on a higher aggregate number of deposit accounts as non-interest deposits increased to $40.8 million at December 31, 2003 from $25.7 million and $12.8 million at December 31, 2002 and 2001, respectively. 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.

Income from mortgage banking activities declined by $104,817 or 42.6% to $141,060 for the year ended December 31, 2003 from $245,877 at December 31, 2002. The decline was due to a slowdown in the refinance mortgage market during the later half of 2003 and a mark-to-market adjustment of $66,636 incurred in classifying $2.9 million of loans held for sale to loans held for investment. During the year ended December 31, 2003, the Bank originated for sale $12.2 million in single-family mortgage loans and sold $13.3 million in mortgage loans generating income of $215,682. 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.

Gains on the sale of investment securities held for sale continue to decline to zero for the year ended December 31, 2003 from $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.

The following table sets forth the various components of non-interest income for the period indicated:

	Non-interest Income For the years ended December 31,					
	2003 Amount	% of Total	2002 Amount	% of Total	2001 Amount	% of Total
	($ in thousands)					
Service charges on Deposit Accounts	$333	69.51%	$236	47.58%	$ 77	63.11%
Other miscellaneous fee income	5	1.06%	4	0.81%	2	1.64%
Income from Mortgage Banking	141	29.43%	246	49.60%	2	1.64%
Gain on Sale of Securities	-	-	10	2.02%	41	33.61%
	$479	100.00%	$496	100.00%	$122	100.00%
As a percentage of average earning assets		1.01%		1.54%		0.51%

Non-Interest Expense

The following table sets forth the non-interest expense for years ended December 31, 2003, 2002 and 2001:

	Non-interest Expense For the years ended December 31,					
	2003	%	2002	%	2001	%
	Amount	of Total	Amount	of Total	Amount	of Total
	($ in thousands)					
Salaries and employee benefits	$1,123	51.09%	$ 821	46.02%	$ 588	43.08%
Occupancy and equipment	250	11.37%	240	13.45%	231	16.92%
Data processing	177	8.05%	178	9.98%	138	10.11%
Deposit products and services	158	7.19%	102	5.72%	114	8.35%
Professional	139	6.32%	115	6.45%	88	6.45%
Advertising and marketing	63	2.87%	53	2.97%	54	3.96%
Directors' fees and expenses	61	2.78%	49	2.75%		0.00%
Printing and supplies	41	1.87%	39	2.19%	31	2.27%
Telephone	22	1.00%	26	1.46%	20	1.47%
Insurance	20	0.91%	13	0.73%	11	0.81%
Other expenses	144	6.55%	148	8.30%	90	6.59%
Total non-interest expenses	$2,198	100.00%	$1,784	100.00%	$1,365	100.00%
Non-interest expense as a percentage of average assets		4.35%		4.43%		5.91%
Efficiency ratio		80.10%		84.59%		114.72%

Non-interest expense was $2.2 million for the year ended December 31, 2003 as compared to $1.8 million and $1.4 million for the years ended December 31, 2002 and 2001, respectively. Expenses that grew significantly in 2003 were Salaries and employee benefits, Deposit products and service expenses, Professional, and Directors' fees. Salaries and employee benefits expense increased to $1.1 million for the year ended December 31, 2003 as compared to $821,000 and $588,000 for the years ended December 31, 2002 and 2001, respectively due primarily to an increase in staff to twenty-one from sixteen, increase in benefit costs related to health insurance, 401K plan contributions, employee recruitment expense and workers' compensation offset by a reduction in the capitalization of loan origination costs, which were $87,600 for the year ended December 31, 2003 as compared to $126,000 and $141,000 for the years ended December 31, 2002 and 2001, respectively. Deposit products and services expenses which includes courier expenses, third party payments and check printing charges increased to $158,000 for the year ended December 31, 2003 as compared to $102,000 and $114,000 for the years ended December 31, 2002 and 2001, respectively. This increase reflects the growth of the non-interest bearing deposit base. Professional expenses increased to $139,000 for the year ended December 31, 2003 as compared to $115,000 and $88,000 for the years ended December 31, 2002 and 2001, respectively primarily due to outside audit fees incurred for information technology, compliance audits and credit reviews and increased legal costs due to costs associated with compliance with numerous new regulations. Directors' fees and expenses increased to $61,000 for the year ended December 31, 2003 as compared to $49,000 and zero for the years ended December 31, 2002 and 2001, respectively as Directors began receiving compensation for meetings effective March 2002. 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

In 2003, the Bank had current income taxes of $61,007 and a deferred tax benefit of $122,964, resulting in a net tax benefit of $61,957. The deferred tax benefit arose from the reduction of the valuation allowance against the deferred tax asset. Management believes that this reduction is appropriate given the Bank's substantially positive earnings and favorable prospects for future earnings, which makes it likely that the Bank will benefit from the deferred tax asset in future periods. As a result of the reduction in the valuation allowance, as well as changes in temporary differences, the deferred tax asset increased from a net liability of $38,890 on December 31, 2002 to a net asset of $144,994 on December 31, 2003.

In 2002, the Bank had current income taxes of $21,686 and a deferred tax benefit of the same amount, resulting in a net tax benefit of zero. The deferred tax benefit arose from the reduction of the valuation allowance against the deferred tax asset.

In 2001, the Bank had current income taxes of $800 and a deferred tax benefit of zero, resulting in a net tax expense of $800. Although the Bank incurred a loss in 2001, management did not record a corresponding income tax benefit because it was unclear at that time whether the Bank would achieve profitability in the future.

Comparison of Financial Condition at December 31, 2003 and December 31, 2002

General

At December 31, 2003 and 2002, the Bank had total assets of $58.6 million and $41.7 million, respectively, representing an increase of $16.9 million or 40.5%. Net loans increased significantly by $5.3 million or 24.2% to $27.2 million from $21.9 million at December 31, 2003 and 2002, respectively. Total Investments were $17.6 million and $15.2 million at December 31, 2003 and 2002, respectively. Cash and cash equivalents were $12.9 million at December 31, 2003 as compared to $3.9 million at December 31, 2002. The $9.0 million increase in cash and cash equivalents; the $5.3 million increase in net loans; and the $2.4 million increase in total investments were the result of a $16.6 million increase in deposits.

Loan Portfolio Composition

Loans, net increased by $5.3 million to $27.2 million as of December 31, 2003 from $21.9 million as of December 31, 2002. Loans, net comprised 46.4% and 52.5% of the assets of the Bank at December 31, 2003 and December 31, 2002, respectively.

The table on the following page 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, 2003		As of December 31, 2002	
	Amount	Percentage	Amount	Percentage
	($ in thousands)			
Loans held for sale	$ 127	0.4%	$ 4,151	18.8%
Construction	468	1.7%	239	1.1%
Real estate	19,639	71.0%	11,581	52.4%
Commercial	6,476	23.4%	5,273	23.9%
Farm/Agriculture	360	1.3%	373	1.7%
Installment	597	2.2%	470	2.1%
Gross loans	$27,667	100.0%	$22,087	100.0%

Real estate loans increased by $8.0 million or 69.6% to $19.6 million or 71.0% of total loans at December 31, 2003 from $11.6 million at December 31, 2002 or 52.4% of total loans. Real estate loans are extended to finance the purchase and/or improvement of commercial and residential real estate. Commercial real estate loans increased to $14.9 million at December 31, 2003 from $11.3 million at December 31, 2002. Residential real estate loans increased to $4.7 million at December 31, 2003 from $295,000 at December 31, 2002. During the fourth quarter of 2003, the Bank classified $2.9 million of residential loans previously accounted for as loans for sale to loans held to maturity. These commercial and residential 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 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 $6.5 million or 23.4% of total loans at December 31, 2003 from $5.3 million at December 31, 2002 or 23.9% 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, increased by $229,000 to $468,101 or 1.7% of total loans at December 31, 2003 from $238,997 at December 31, 2002 or 1.1% of total loans.

Farm/Agriculture loans, consisting primarily of a nursery land loan, decreased to $360,269 or 1.3% of total loans at December 31, 2003 from $373,365 or 1.7% of total loans at December 31, 2002. The decline represents principal payments on the loan.

Installment loans, consisting primarily of consumer loans, increased by $126,413 to $596,534 or 2.2% of total loans at December 31, 2003 from $470,121 or 2.1% of total loans at December 31, 2002.

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 $126,558 and $4.2 million in loans held for sale at December 31, 2003 and 2002, respectively. For the years ended December 31, 2003 and 2002, the Bank recognized income from mortgage banking activities of $141,060 and $245,877, respectively. During the fourth quarter of 2003, the reclassification of $2.9 million of loans held for sale to held to maturity created a $66,636 mark-to-market loss impacting the income recognized from mortgage banking activities for the year.

The table on the below shows the maturity distribution and repricing intervals of the Bank's outstanding loans at December 31, 2003. One Loan held for sale of $126,558 at December 31, 2003 is a five year fixed converting to a variable rate for 25 years. However, since this loan is to be sold during the first quarter of 2004, it has 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, 2003 ($ in thousands)			
	Within One Year	After One But Within Five Years	After Five Years	Total
Construction	$ 468			$ 468
Commercial	5,732	$ 744		6,476
Real Estate	2,831	8,405	$8,403	19,639
Farm/Agriculture		360		360
Installment	40	557		597
Total gross loans	$ 9,071	$10,066	$8,403	$27,540
Loans with variable (floating) interest rates	$9,097	2,602	689	$ 12,388
Loans with predetermined (fixed) interest rates	$613	$8,254	$6,285	$ 15,152

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. These commitments to provide credit represent an obligation of the Bank to its customers, which is not represented in any form within the balance sheets of the Bank. At December 31, 2003 and 2002, the Bank had $4.8 million and $3.0 million, respectively, of off-balance sheet commitments to extend credit. These commitments are the result of existing unused lines of credit and unfunded loan commitments. These commitments represent a credit risk to the Bank. At December 31, 2003 and 2002, the Bank had unadvanced lines of credit of $285,300 and $100,000, respectively. These lines of credit are sometimes unsecured and may not necessarily be drawn upon to the total extent to which the Bank is committed.

The effect on the Bank's revenues, expenses, cash flows and liquidity from the unused portion of the commitments to provide credit cannot be reasonably predicted because there is no guarantee that the lines of credit will ever be used.

For more information regarding the Bank's off-balance sheet arrangements, see Note 12 to the audited financial statements located elsewhere 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, 2003 and 2002, the Bank had no non-performing assets, loans on non-accrual status, restructured loans, or OREO. The Bank did charge-off a commercial loan for $37,885 in December 2002 and recovered this charge-off during 2003. During 2003, the Bank had a single family loan placed on non-accrual in July but this loan was paid in full in November. At December 31, 2003 and 2002, the Bank had adversely classified loans totaling $947,000 or 3.92% of average loans and $410,000 or 2.72% of average loans, respectively. All adversely classified loans were current at December 31, 2003 and 2002. The increase in adversely classified loans was due to the repurchase of a participation interest during 2003. Management continues to anticipate that there will be 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 $351,828 and $205,615 at December 31, 2003 and December 31, 2002, 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 either 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, 2003 and December 31, 2002, the allowance for loan losses was $351,828 and $205,615, respectively. The ratios of the allowance for loan losses to total loans held for investment at December 31, 2003 and December 31, 2002 were 1.27% and 1.15%, respectively. The ratio of net charge-offs to average total loans were (0.2%) and 0.2% at December 31, 2003 and 2002, respectively; as the charge-off in 2002 was recovered during 2003.

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 table below summarizes, for the years ended December 31, 2003 and 2002, 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,		
	2003	2002	2001
	($ in thousands)		
Balances:			
Average total loans outstanding during period	$24,187	$15,112	$ 6,081
Total loans outstanding at the end of the period	27,540	17,936	11,100
Allowance for loan losses:			
Balance at the beginning of the period	206	112	17
Total charge-offs – commercial loan	0	38	0
Total recoveries	(38)	0	0
Net loan charge-offs	(38)	38	0
Provision for loan losses	108	132	95
Balance at the end of the period	$ 352	$ 206	$ 112
Ratios:			
Net loan charge-offs to average total loans	-0.02%	0.02%	n/a
Provision for loan losses to average total loans	0.44%	0.87%	1.56%
Allowance for loan losses to total loans at the end of the period	1.27%	1.15%	1.01%
Net loan charge-offs to allowance for loan losses at the end of the period	-10.79%	18.42%	n/a
Net loan charge-offs to Provision for loan losses	-35.18%	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 of 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,
($ in thousands)

	2003		2002		2001	
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	$11	1.70%	$7	1.33%	$21	16.05%
Real Estate	143	71.31%	86	64.57%	35	44.81%
Commercial	119	23.51%	87	29.40%	48	36.53%
Farm/Agriculture	4	1.31%	3	2.08%		
Installment	7	2.17%	5	2.62%	6	2.60%
Unallocated	68		18		2	
Total Allowance for Loan Losses	$352	100.00%	$206	100.00%	$112	100.00%
Total Loans held for investment	$27,540		$17,936		$11,100	

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 $2.4 million and $1.7 million at December 31, 2003 and 2002, 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 $372,550 and $307,900 at December 31, 2003 and 2002, respectively, and are carried at cost.

The investment securities portfolio at fair value was $14.8 million at December 31, 2003 and $13.3 million at December 31, 2002. Investment securities represented 25.3% of total assets at December 31, 2003 and 31.7% of total assets at December 31, 2002. As of December 31, 2003, $9.5 million of the investment portfolio was classified as available for sale and $5.3 million was classified as held to maturity. As of December 31, 2002, $10.7 million of the investment portfolio was classified as available for sale and $2.6 million was classified as held to maturity. With the exception of Federal Home Loan Bank stock of $168,100, Federal Reserve stock of $154,450 and Pacific Coast Bankers' Bank stock of $50,000, the remaining investment portfolio at December 31, 2003 includes both fixed and adjustable rate instruments.

The following table summarizes the book value and market value and distribution of the Bank's investment securities at December 31, 2003 and December 31, 2002:

	At December 31,			
	2003		2002	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	($ in thousands)			
Held to maturity:				
Mortgage-backed	$ 4,093	$ 4,097	$1,718	$1,781
Corporate bonds	786	835	799	809
Municipal bonds	449	447	- -	- -
Total held to maturity	5,328	5,379	2,517	2,590
Available for sale:				
Federal agency			500	500
Mortgage-backed	9,463	9,463	10,183	10,183
Total available for sale	9,463	9,463	10,683	10,683
Total	$14,791	$14,842	$13,200	$13,273

The following table summarizes the maturity and repricing schedule of the Bank's investment securities and their weighted average yield at December 31, 2003. The table excludes 1) mortgage-backed securities for which the Bank receives monthly principal and interest payments; 2) equity securities, which do not mature or reprice; and 3) interest-bearing deposits in other banks, of which $1.5 million will mature within one year, and $896,000 will mature after one year to five years.

Investment Maturities and Repricing Schedule
($ in thousands)

	Less Than One Year		After One But Within 5 Years		After 5 But Within 10 Years		After 10 But Within 20 Years	
Held to Maturity								
Corporate Bonds	-	-	$475	6.46%	$366	6.69%		
Municipals	-	-					$447	4.08%
Totals			$475	6.46%	$366	6.69%	$447	4.08%

Deposits

Total deposits at December 31, 2003 and 2002 were $53.1 million and $36.5 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 5.0% and 8.3% at December 31, 2003 and 2002, respectively. The average rate paid on time deposits in denominations of $100,000 or more was 2.16% and 2.96% for the periods ending December 31, 2003 and 2002, respectively. At December 31, 2003 and 2002, the Bank had deposits from related parties of $8.4 million and $7.8 million, respectively. See "Risk Factors - Dependence Upon Related Parties". Further, at December 31, 2003 and 2002, deposits from escrow companies represented 49% and

43% of the Bank's total deposits, respectively. See "Risk Factors – Concentration of Deposit Accounts in One Industry".

The following table summarizes the distribution of average daily deposits and the average daily rates paid for the years ended December 31, 2003 and December 31, 2002, respectively.

	Average deposits			
	For the year ended December 31, 2003		For the year ended December 31, 2002	
	($ in thousands)			
	Average Balance	Average Rate	Average Balance	Average Rate
Demand deposits, non-interest bearing	$33,458	-	$19,136	-
Money market and NOW accounts	8,343	1.55%	6,976	2.05%
Savings deposits	501	0.60%	436	0.69%
Time certificate of deposits in demoninations of $100,000 or more	1,157	2.16%	1,046	2.96%
Other time deposits	1,750	1.94%	1,255	2.63%
Total deposits	$ 45,209	0.42%	$28,849	0.66%

At December 31, 2003, the scheduled maturities of the Bank's time deposits in denominations of $100,000 or greater which amounted to $898,000 were as follows:

Maturities of Time Deposits of $100,000 or more
At December 31, 2003
($ in thousands)

Three months or less	$402
Over three months through six months	200
Over six months through twelve months	296
Over twelve months	-
	$898

Federal Home Loan Advances and Other Borrowings

The Bank utilizes Federal Home Loan Bank ("FHLB") advances as alternative sources of funds to supplement customer deposits. These borrowings are collaterized by securities and secondarily by the Bank's investment in capital stock of the FHLB. The FHLB provides advances pursuant to several different credit programs, each of which has its own interest rate, range of maturities, and collaterization requirements. The maximum amount that the FHLB will advance to member institutions, including the Bank, fluctuates from time to time in accordance with policies of the FHLB. The Bank had no advances outstanding with the FHLB at December 31, 2003 or December 31, 2002.

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, and if repricing liabilities exceeds repricing assets at any given time period, the Bank would be deemed to be "liability-sensitive" for that period. The Bank seeks 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. In seeking to achieve this goal, the Bank maintains 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, 2003, approximately 41.7% 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 5.7% of all fixed rate loans at December 31, 2003 mature within twelve months.

A preponderance of the Bank's investment 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.

At December 31, 2003, approximately 57.2% or $31.2 million of interest-earning assets will mature or reprice within one year, and approximately 100.0% or $37.8 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 table on the following page sets forth the interest rate sensitivity of the Bank's interest-earning assets and interest-bearing liabilities as of December 31, 2003 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, 2003
($ in thousands)

	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	$ 9,350					$ 9,350
Interest earning deposits & short term investments	198	$ 1,294	$ 896			2,388
Investment Securities			450	$ 787		1,237
MBS	1,730	4,848	6,216	760		13,554
Loans Receivable	12,169	1,220	8,257	6,020		27,666
FHLB, PCBB & Fed Reserve Stock	373	-	-	-		373
Total interest-earning assets	23,820	7,362	15,819	7,567	-	54,568
Unamortized discounts	(24)	-	(32)	(66)		(122)
Allowance for loan losses	(154)	-	(106)	(92)		(352)
Net interest earning assets	23,642	7,362	15,681	7,409	-	54,094
Other non-interest earning assets					$4,485	4,485
Total assets	$23,642	$7,362	$15,681	$ 7,409	$4,485	$58,579
Demand deposits including MMDA (a)	$35,207					$35,207
Certificate of deposit	1,080	$ 1,554				2,634
Total interest-bearing liabilities	36,287	1,554	-	-	-	37,841
Non-interest-bearing deposits					$15,252	15,252
Non-interest-bearing liabilities					156	156
Equity				$ 5,330		5,330
Total liabilities & equity	$36,287	$ 1,554	-	$ 5,330	$15,408	$58,579
Interest sensitive gap	$(12,645)	$ 5,808	$15,681	$ 2,079		$10,923
Cumulative sensitive gap	$(12,645)	$(6,837)	$ 8,844	$10,923		
Cumulative interest rate sensitivity gap ratio (based on total assets)	-21.58%	-11.67%	15.09%	18.64%		

(a) includes demand deposit balances with analysis credits tied to 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, 2003, the Bank had an estimated net interest margin sensitivity profile reflecting a change in net interest income of $208,000 at plus 200 bp and ($229,000) 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 $208,000, or approximately 8.2%. 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 $229,000, or 9.1%, 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, 2002 when it displayed 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.

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, 2003, the Bank's liquid assets totaled approximately $24.8 million and its liquidity level, measured as the percentage of liquid assets to total assets, was 42.3%. 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. On January 5, 2004, the FHLB notified the Bank that it is now eligible to borrow funds collateralized by securities or qualified loans up to 25% of its 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. The Bank had Total Risk-Based and Tier I Risk-Based capital ratios of 17.74% and 16.64%, respectively at December 31, 2003. The Bank's Leverage Capital Ratio was 9.48% at December 31, 2003. (See Part I, Item 1 "Description of Business – Regulation and Supervision – Capital Adequacy Requirements" herein for exact definitions and regulatory capital requirements). As of December 31, 2003 and 2002, 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.

Risk Management

Various types of risk are inherent in the business of banking. Federal regulators have adopted examination guidelines that scrutinize not only the Bank's level of risk, but also its ability to manage and control that risk. Regulators evaluate risks that affect capital, liquidity, and compliance to determine their potential effect on the safety and soundness of the Bank. Certain risks may be covered by insurance coverage, but management must establish a risk management approach that addresses all areas of risk.

The Bank has in place acceptable limits for each of the risks identified by the Federal Deposit Insurance Corporation. The Bank has defined the types of risk, and has mechanisms in place to manage, monitor and report these risks. Specifically, the Bank focuses on six risk categories within each area of the Bank. Those include credit risk, interest rate risk, liquidity risk, market risk, transaction risk and compliance risk.

Impact of Inflation; Seasonality

The primary impact of inflation on the Bank is its effect on interest rates. The Bank's primary source of income is net interest income, which is affected by changes in interest rates. The Bank attempts to limit the impact of inflation on its net interest margin through management of rate-sensitive assets and liabilities and the analysis of interest rate sensitivity. The effect of inflation on premises and equipment as well as non-interest expenses has not been significant since the Bank's inception. The Bank's business is generally not seasonal.

Item 7: Financial Statements

Item 8: Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not Applicable.

Item 8A: Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Bank's Chief Executive Officer and its Chief Financial Officer, after evaluating the effectiveness of the Bank's disclosure controls and procedures as defined in Exchange Act Rules 13a-15(e) promulgated under the Exchange Act as of the end of the period covered by this report (the "Evaluation Date") have concluded that as of the Evaluation Date, the Bank's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Bank and its consolidated subsidiaries would be made known to them by others within those entities, particularly during the period in which this report was being prepared. Disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Controls

There were no significant changes in the Bank's internal controls over financial reporting or in other factors in the fourth quarter of 2003 that has materially affected, or is reasonably likely to materially affect, the Bank's internal controls over financial reporting.

PART III

Item 9: Directors, Executive Officers, Promoters, and Control Persons: Compliance with Section 16(a) of the Exchange Act

Code of Ethics

The Bank has adopted a code of ethics applicable to all of its officers, directors and employees, including its principal executive officer, principal financial officer, principal accounting officer and persons performing similar functions.

Other Information Concerning Directors and Executive Officers

The remainder of the information required by Item 9 will be contained in the Bank's definitive Proxy Statement for the Bank's 2004 Annual Meeting of Shareholders which the Bank will file with the Comptroller of the Currency within 120 days after the close of the Bank's 2003 fiscal year in accordance with SEC Regulation 14A under the Securities Exchange Act of 1934. Such information is incorporated herein by this reference.

Item 10: Executive Compensation *

Item 11: Stock Ownership by Certain Beneficial Owners and Management

Equity Compensation Plan Information

The following table provides information as of December 31, 2003, with respect to options outstanding and available under the Bank's 2000 Stock Option Plan, which is the Bank's only equity compensation plan other than an employee benefit plan meeting the qualification requirements of Section 401(a) of the Internal Revenue Code.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options	Weighted-Average Exercise Price of Outstanding Options	Number of Securities Remaining Available for Future Issuance
Equity compensation plans approved by security holders……….	90,925	$10.90	72,270

Other Information Concerning Stock Ownership by Certain Beneficial Owners and Management

The remainder of the information required by Item 11 will be contained in the Bank's definitive Proxy Statement for the Bank's 2004 Annual Meeting of Shareholders which the Bank will file with the Comptroller of the Currency within 120 days after the close of the Bank's 2003 fiscal year in accordance with SEC Regulation 14A under the Securities Exchange Act of 1934. Such information is incorporated herein by this reference.

Item 12: Certain Relationships and Related Transactions *

* The information required by Items 10 – 12 listed above is contained in the Bank's definitive Proxy Statement for the Bank's 2004 Annual Meeting of Shareholders which the Bank intends to file with the Comptroller within 120 days after the close of the Bank's 2003 fiscal year in accordance with SEC Regulation 14A under the Securities Exchange Act of 1934. Such information is incorporated herein by this reference.

Item 13: Exhibits and Reports on Form 8-K

(a) Exhibits

3.1 Articles of Association of Chino Commercial Bank, N.A. (1)
3.2 Bylaws of Chino Commercial Bank, N.A. (1)
4.1 Specimen of Common Stock Certificate (1)
10.1 Lease between the Bank and Majestic Realty Co. (2)
10.2 Employment Agreement for Dann H. Bowman (6)
10.4 Agreement between the Bank and InterCept Group (3)
10.5 2000 Stock Option Plan (4)
10.6 Agreement between Bank and InterCept Group (5)
11 Statement Regarding Computation of Net Income/(Loss) Per Share (7)
21 Subsidiaries of Registrant - none
31.1 Certification of Chief Executive Officer (Section 302 Certification)
31.2 Certification of Chief Financial Officer (Section 302 Certification)
32 Certification of Periodic Financial Report (Section 906 Certification)

(b) Reports on Form 8-K

A filing was made on January 28, 2004 of a press release dated January 26, 2004 reporting the Bank's preliminary results of operations and financial condition as of and for the quarter ended December 31, 2003.

(1) Incorporated by reference from the Bank's Registration Statement on Form SB-2 as filed with the Comptroller on December 22, 1999.
(2) Incorporated by reference from the Bank's Form 10-QSB for the quarter ended March 31, 2000 as filed with the Comptroller of the Currency.
(3) Incorporated by reference from the Bank's Form 10-QSB for the quarter ended June 30, 2000 as filed with the Comptroller of the Currency.
(4) Incorporated by reference from the Bank's Form 10-QSB for the quarter ended September 30, 2000 as filed with the Comptroller of the Currency.
(5) Incorporated by reference from the Bank's Form 10-KSB for the year ended December 31, 2002 as filed with the Comptroller of the Currency.
(6) Incorporated by reference from the Bank's Form 10-QSB for the quarter ended June 30, 2003 as filed with the Comptroller of the Currency.
(7) The information required by this exhibit is incorporated from Note 2 of the Bank's Financial Statements included herein.

Item 14. Principal Accountant Fees and Services *

* The information required by Item 14 listed above is contained in the Bank's definitive Proxy Statement for the Bank's 2004 Annual Meeting of Shareholders which the Bank intends to file with the Comptroller within 120 days after the close of the Bank's 2003 fiscal year in accordance with SEC Regulation 14A under the Securities Exchange Act of 1934. Such information is incorporated herein by this reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: March 18, 2004

CHINO COMMERCIAL BANK

By: /s/ Dann H. Bowman___________
Dann Bowman
President and Chief Executive Officer

/s/ Jo Anne Painter______________
Jo Anne Painter
Executive Vice President and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Dann H. Bowman______________ Dann H. Bowman	Director and President	March 18, 2004
/s/ Bernard Wolfswinkel___________ Bernard Wolfswinkel	Chairman of the Board, Director	March 18, 2004
/s/ H. H. Kindsvater______________ H. H. Kindsvater	Vice Chairman of the Board, Director	March 18, 2004
/s/ Linda Cooper_________________ Linda Cooper	Director	March 18, 2004
/s/ Pollyanna Franks______________ Pollyanna Franks	Director	March 18, 2004
/s/ Richard Malooly______________ Richard Malooly	Director	March 18, 2004
/s/ Richard Vanderpool __________ Richard Vanderpool	Director	March 18, 2004

/s/ Thomas Woodbury Thomas Woodbury, D. O	Director	March 18, 2004
/s/ Jeanette Young Jeanette Young	Director and Corporate Secretary	March 18, 2004

Exhibit 31.1

Certification of Chief Executive Officer

(Section 302 Certification)

I, Dann H. Bowman, certify that:

1. I have reviewed this annual report on Form 10-KSB of Chino Commercial Bank ;

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

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

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

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

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

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

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

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

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

Date: March 18, 2004

By: /S/ Dann H. Bowman_____________
Dann H. Bowman
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF PERIODIC FINANCIAL REPORT
(Section 302 Certification)

I, Jo Anne Painter, certify that:

1. I have reviewed this annual report on Form 10-KSB of Chino Commercial Bank ;

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

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

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

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

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

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

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

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

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

March 18, 2004

By: /S/ Jo Anne Painter___________________
Jo Anne Painter
Executive Vice President and Chief Financial Officer

Exhibit 32

Certification of Periodic Financial Report
(Section 906 Certification)

Dann H. Bowman and Jo Anne Painter hereby certify as follows:

1. They are the Chief Executive Officer and Chief Financial Officer, respectively, of Chino Commercial Bank, N. A.

2. The Form 10-KSB of Chino Commercial Bank, N. A. for the year ended December 31, 2003 complies with the requirements of section 13(a) or 15(d) of the Securities and Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)) and the information contained in the report on Form 10-KSB fairly presents, in all material respects, the financial condition and results of operations of Chino Commercial Bank, N.A.

Date: March 18, 2004

/S/ Dann H. Bowman____________________
Dann H. Bowman, President and Chief Executive Officer

Date: March 18, 2004

/S/ Jo Anne Painter______________________
Jo Anne Painter, Executive Vice President and Chief Financial Officer

Chino Commercial Bank N.A.

MARKET MAKERS

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STOCK SYMBOL:

"CKNA" - Common Stock (OTCBB)

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EQUAL HOUSING LENDER

MEMBER FDIC

Chino Commercial Bank N.A.