Chino Commercial Bank N.A.

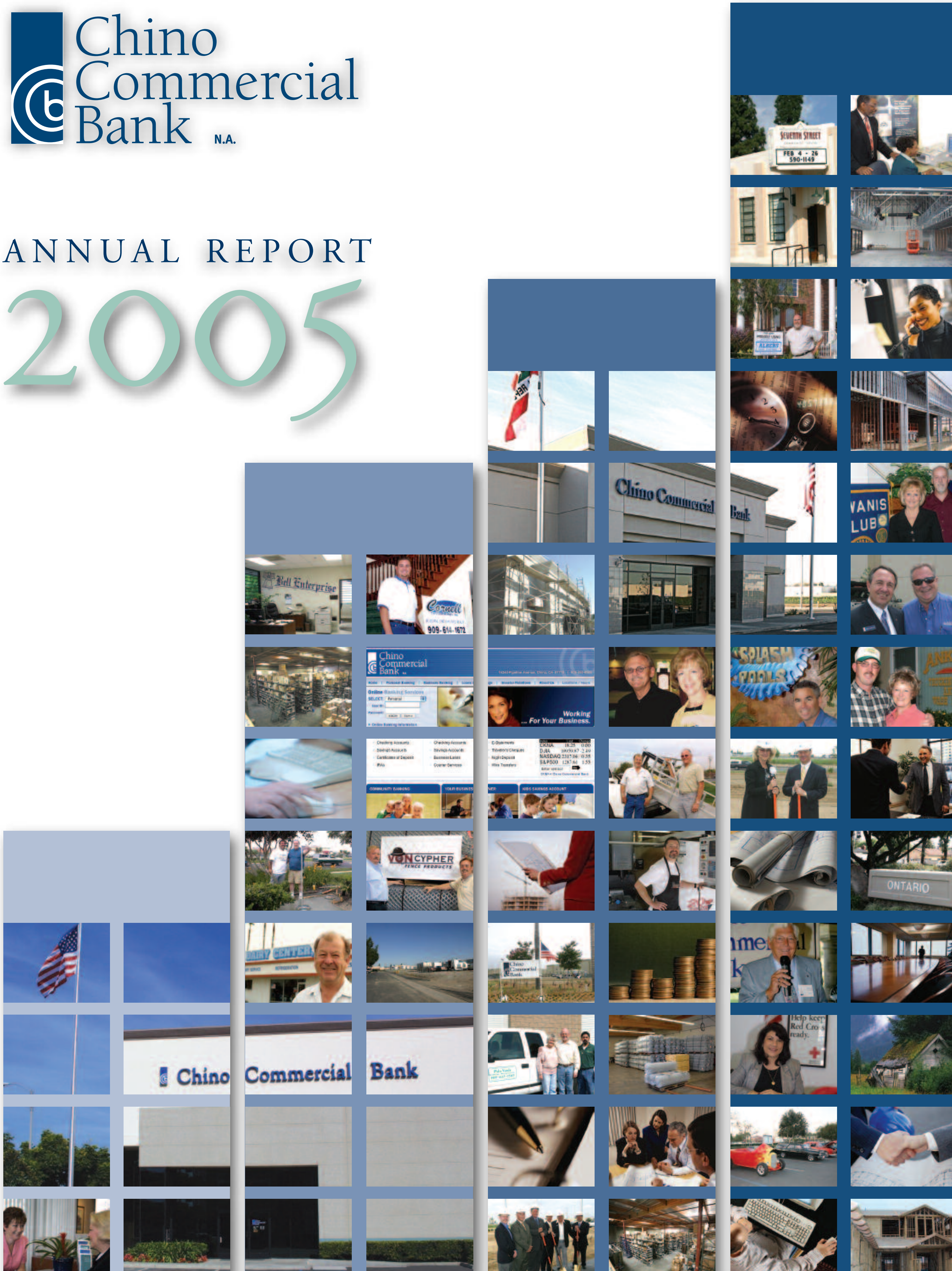
Working… For Your Business.

EQUAL HOUSING LENDER

MEMBER FDIC

Chino Commercial Bank N.A.

ANNUAL REPORT 2005



CORPORATE *profile*



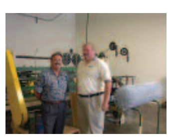
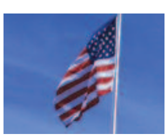

Chino Commercial Bank has become one of the Inland Empire's leading community banks, serving a diverse and growing economic region. The Bank also serves professionals and individuals with high-quality banking products and a personalized level of service.

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.

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)	2005	2004	2003	2002
SELECTED BALANCE SHEET DATA:				
Total assets	$ 91,333	$ 77,086	$ 58,601	$ 41,662
Total Loans	41,807	34,397	27,215	21,861
Deposits	84,022	70,741	53,093	36,535
Non-interest bearing deposits	62,611	56,112	40,770	25,655
Stockholders' equity	6,694	5,901	5,330	4,936
SELECTED OPERATING DATA:				
Interest income	4,261	3,086	2,456	1,852
Net income	885	581	501	203
Basic income per share	1.08	0.71	0.61	0.25
Diluted Income per share	$ 1.00	$ 0.66	$ 0.59	$ 0.25
PERFORMANCE RATIOS:				
Return on average assets	1.05%	0.82%	0.99%	0.59%
Return on average equity	14.03%	10.26%	9.66%	4.26%
Equity to total assets at the end of the period	7.33%	7.66%	9.10%	11.85%
Core efficiency ratio	65.11%	71.31%	80.50%	84.63%
Non-interest expense to average assets	3.51%	3.50%	4.37%	5.21%
REGULATORY CAPITAL RATIOS:				
Average equity to average assets	7.46%	8.00%	10.26%	13.92%
Leverage capital	7.54%	8.36%	9.48%	12.04%
Tier I risk based	12.14%	13.80%	16.64%	19.35%
Risk-based capital	13.21%	14.81%	17.74%	20.17%

KEY OBJECTIVES ATTAINED DURING 2005:

- Assets increased by $14.2 million or 18.4% to $91.3 million.
- Loans increased by $7.4 million or 21.5% to $41.8 million.
- Deposits increased by $13.3 million or 18.7% to $84.0 million.
- Non-interest bearing deposits remain high at 74.5% of the total deposits.
- Net income increased by 52.3% to $885,173.
- Return on average equity rose to 14.03% from 10.26%.
- Return on average assets rose to 1.05% from 0.82%.

TO OUR *shareholders:*

We are very pleased to present you with Chino Commercial Bank's annual report, for the year 2005. As you will read, the Bank had an outstanding year, posting record levels of net profits, total assets, total loans and total deposits. During the year, we were successful in constructing and opening the Bank's second location, our new Ontario branch. This was an important step in the growth and development of the organization.

During the year we were able to achieve an increase in Total Assets from $77 million to $91 million, or a gain of 18%. We were also fortunate in building Deposits from $71 million to $84 million, an increase of 19%; and in increasing Loans from $34 million to $42 million, an expansion of 22%. Perhaps equally important, was the level of Loan quality attained, with the Bank suffering no credit losses during the year and ending the year with no loan delinquency and no non-accrual loans. Not only did the Bank end the year with no loan losses, there have been no loan losses since the Bank's inception.

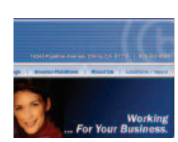
Similar to the increase in Assets, the Bank also realized a 32% gain in gross revenue, up to $4.8 million, yielding record net profits of $885,173 or $1.00 per diluted share, a 52% increase over last year's earnings.

As mentioned above, 2005 was punctuated with the opening of the Bank's new branch office in Ontario. This was a key achievement for the Bank, representing an expansion into a significant and potentially very profitable market area as well as for enhanced system redundancy and greater operational stability for the organization. We are also pleased by the fact that the Bank was able to purchase the ground and build the branch office, rather than simply leasing space. Not only did this approach allow us to select a location and building design which represents the Bank well, but we also believe this strategy allows for improved premises cost stability and enhanced asset appreciation potential.

There has been a great deal of discussion lately regarding the trend and direction of interest rates, and the effects of the present "inverted yield curve" on the banking industry. An inverted yield curve is caused by short term interest rates moving higher than long term interest rates, and has the potential to significantly impact a bank's earnings because the rate that is paid on deposits moves up, while the rate charged for loans remains relatively low. Fortunately, at year-end 74% of the Bank's deposits were held in non-interest bearing accounts, a level substantially above most other banks. As a result, the Bank's net earnings are actually enhanced by moderate increases in interest rates, rather than reduced.

During the year, the Bank continued to stabilize operations and earnings through further diversification of the deposit base, as well as expanded loan totals. In doing so, the Bank continues to focus on the fundamentals of building a diverse and well priced deposit base coupled with sound, conservative loan assets.

We have been very fortunate during the first five years of the Bank's operation. In addition to phenomenal growth in Deposits and Loans, we have seen our net profit increase dramatically. As the Bank increases in total assets, its ability to make larger loans increases, its efficiency improves and the potential for additional locations increases.



Though we have enjoyed substantial success this past year, we also believe, it is the steady, consistent, building of an organization, which ultimately results in establishing a firm foundation, which is the basis for sustained future growth and earnings.

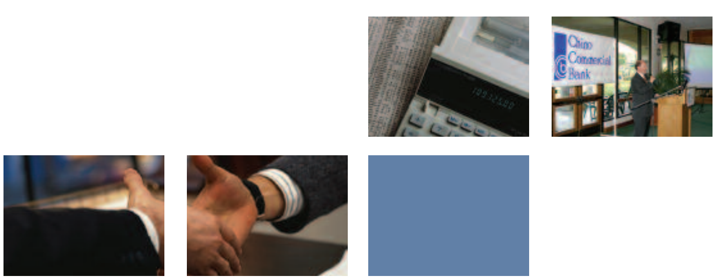
Your management and staff are focused on building a solid foundation for future growth of the Bank, through the principles of aggressive marketing efforts, sound, conservative credit policies and innovative solutions to our customers' financial needs. We believe that these core values are what set Chino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

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

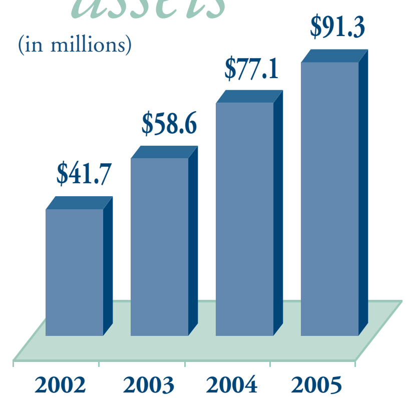
On behalf of your Board of Directors, Management, and Staff, I would like to thank you for your confidence and continued support of the Bank and look forward to another successful year.

Sincerely,

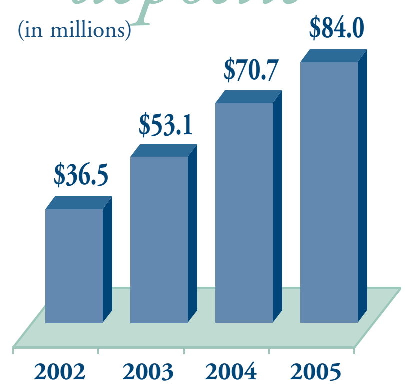
Dann H. Bowman
President and Chief Executive Office



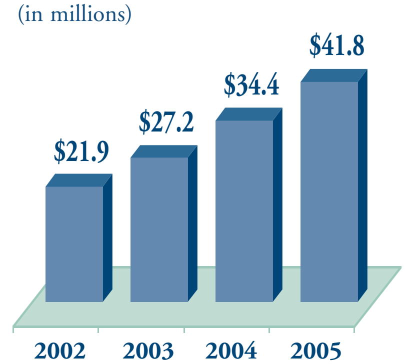
TOTAL *assets*
(in millions)



TOTAL *deposits*
(in millions)



TOTAL *loans*
(in millions)



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
President, Southern Hospitality Estates, Inc.

Gregg C. Gibson
Private Investor

Richard G. Malooly
Principal, Re/Max Realty 100

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

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

OFFICERS & staff

PHOTOS (LEFT TO RIGHT) TOP:

John Odetto
Senior Vice President, Branch Manager

Jerry Buck
Senior Vice President

PHOTOS (LEFT TO RIGHT) BOTTOM:

Jo Anne Painter
EVP, Chief Financial Officer

Roger Caberto
Senior Vice President, Chief Credit Officer

PHOTOS (LEFT TO RIGHT) TOP:

Robin Mora
AVP, Compliance Officer

Frank Pezzali
Assistant Operations Supervisor

Laura Mota
Operations Officer

PHOTOS (LEFT TO RIGHT) BOTTOM:

Elvia Cardenas
Accounting Supervisor

Donna Johnson
AVP/Note Department Manager

PHOTOS (LEFT TO RIGHT) TOP:

Jake Soerens
Network Administrator

Trish Bowman
Shareholder Relations

PHOTOS (LEFT TO RIGHT) BOTTOM:

Jennifer Flier
New Accounts

Elizabeth Harrington
New Accounts

PHOTOS (LEFT TO RIGHT) TOP:

Mercedes Laguna
Assistant Wire Room Supervisor

Theresa Teben
Credit Analyst

PHOTOS (LEFT TO RIGHT) BOTTOM:

Esperanza Romero
Note Department Assistant

Irene Becerra
Accountant

PHOTOS (LEFT TO RIGHT) TOP:

Tamara Adams
Utility Teller

Monica Rivas
Utility Teller

Aaron Lara
Utility Teller

PHOTOS (LEFT TO RIGHT) BOTTOM:

Alicia Arzate
Utility Teller

Irma Ruiz
Utility Teller

PHOTOS (LEFT TO RIGHT):

Stacy Snowball
Business Development

Geneva Breceda
AVP/Business Development

Melody Batchelor
Business Development

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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, 2005 and 2004, and the related statements of income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2005. 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 standards of the Public Company Accounting Oversight Board (United States). 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, 2005 and 2004, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America.

Hutchinson and Bloodgood LLP

Glendale, California
January 24, 2006

Chino Commercial Bank N.A.

ANNUAL REPORT

financial statements

STATEMENTS OF FINANCIAL CONDITION

	December 31, 2005	December 31, 2004
Assets		
Cash and due from banks	$ 5,328,842	$ 2,374,688
Federal funds sold	11,370,000	10,925,000
Cash and cash equivalents	16,698,842	13,299,688
Interest-bearing deposits in other banks	6,030,000	6,271,000
Investment securities available for sale (Note 4)	16,311,377	15,562,826
Investment securities held to maturity (fair value approximates $5,764,134 and $4,859,395) (Note 4)	5,850,687	4,801,024
Stock investments, restricted, at cost (Note 5)	572,200	493,100
Total investments	28,764,264	27,127,950
Loans held for investment, net of allowance for loan losses of $544,139 and $407,046 (Note 6)	41,806,807	34,397,314
Accrued interest receivable	314,849	258,528
Bank premises and equipment (Note 7)	1,936,168	389,965
Prepaid and other assets	1,811,979	1,612,617
Total assets	$ 91,332,909	$ 77,086,062
Liabilities		
Deposits		
Non-interest bearing	$ 62,610,963	$ 56,112,375
Interest bearing		
Money market and NOW	16,793,824	10,231,507
Savings	913,249	926,275
Time deposits of $100,000 or greater, due in one year	2,216,104	1,802,181
Time deposits less than $100,000, due in one year	1,487,803	1,668,794
Total deposits	84,021,943	70,741,132
Accrued interest payable	28,858	20,642
Other liabilities	588,068	422,994
Total liabilities	84,638,869	71,184,768
***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 $3.33 per share; issued and outstanding 818,453 shares on December 31, 2005 and 2004	2,728,230	2,728,230
Additional paid-in capital	2,590,600	2,590,600
Retained earnings	1,497,818	612,645
Accumulated other comprehensive loss	(122,608)	(30,181)
Total stockholders' equity	6,694,040	5,901,294
Total liabilities and stockholders' equity	$ 91,332,909	$ 77,086,062

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

Chino Commercial Bank N.A.

	Years Ended December 31,		
	2005	2004	2003
Interest Income			
Interest and fee income on loans	$ 2,888,186	$ 2,170,806	$ 1,743,153
Interest on Federal funds sold	386,707	138,011	73,562
Interest and dividends on investment securities	985,773	777,001	639,703
Total interest income	4,260,666	3,085,818	2,456,418
Interest Expense on Deposits			
Money market and NOW accounts	179,438	123,560	129,398
Savings	3,417	2,003	2,730
Time deposits of $100,000 or more	46,364	22,448	24,779
Time deposits less than $100,000	30,104	23,515	34,047
Total interest expense of deposits	259,323	171,526	190,954
Interest Expense on Borrowings	272	40	- -
Total interest expense	259,595	171,566	190,954
Net interest income	4,001,071	2,914,252	2,265,464
Provision for Loan Losses (Note 6)	137,093	77,648	97,043
Net interest income after provision for loan losses	3,863,978	2,836,604	2,168,421
Noninterest Income			
Service charges on deposit accounts	461,678	429,622	332,858
Customer fees and miscellaneous income	9,476	1,993	4,985
Income from mortgage banking activities	17,697	66,207	141,060
Income from bank owned life insurance	64,421	59,687	- -
Total noninterest income	553,272	557,509	478,903
Noninterest Expenses			
Salaries and employee benefits	1,451,897	1,234,509	1,123,433
Occupancy and equipment expenses	263,418	254,320	249,512
Other operating expenses	1,250,143	987,575	835,827
Total noninterest expenses	2,965,458	2,476,404	2,208,772
Income before income taxes	1,451,792	917,709	438,552
Provision (Benefit) for Income Taxes (Note 11)	566,619	336,328	(61,957)
Net income	$ 885,173	$ 581,381	$ 500,509
Basic Earnings Per Share	$ 1.08	$ 0.71	$ 0.61
Diluted Earnings Per Share	$ 1.00	$ 0.66	$ 0.59

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, 2005, 2004 AND 2003

	NUMBER OF SHARES	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS (ACCUMULATED DEFICIT)	ACCUMULATED OTHER COMPRE-HENSIVE INCOME (LOSS)	TOTAL
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 loss 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
Three for two stock split on May 20, 2004	272,807	- -	(293)	- -	- -	(293)
Comprehensive income:						
Net income	- -	- -	- -	581,381	- -	581,381
Change in unrealized loss on securities available for sale, net of tax	- -	- -	- -	- -	(9,788)	(9,788)
Total comprehensive income						571,593
Balance at December 31, 2004	818,453	2,728,230	2,590,600	612,645	(30,181)	5,901,294
Comprehensive income:						
Net income	- -	- -	- -	885,173	- -	885,173
Change in unrealized loss on securities available for sale, net of tax	- -	- -	- -	- -	(92,427)	(92,427)
Total comprehensive income						792,746
Balance at December 31, 2005	818,453	$ 2,728,230	$ 2,590,600	$ 1,497,818	($122,608)	$ 6,694,040

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

STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2005	2004	2003
Cash Flows from Operating Activities			
Net income	$ 885,173	$ 581,381	$ 500,509
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	137,093	77,648	97,043
Depreciation and amortization	120,978	113,763	118,601
Amortization of premiums on investment securities	47,998	107,821	106,920
Amortization of deferred loan costs (fees)	(111,114)	(48,571)	(22,437)
Loss on sale of equipment	- -	3,681	1,248
Deferred income taxes	(76,933)	67,173	(122,964)
Net change in:			
Loans held for sale	- -	126,558	4,024,587
Accrued interest receivable	(56,321)	(68,954)	(26,713)
Other assets	(58,201)	(85,290)	(40,894)
Accrued interest payable	8,216	8,062	(7,069)
Other liabilities	165,074	257,693	21,191
Net cash provided by operating activities	1,061,963	1,140,965	4,650,022
Cash Flows from Investing Activities			
Activity in investment securities available for sale:			
Purchases	(4,866,786)	(9,433,001)	(6,414,544)
Repayments and calls	3,934,397	3,269,289	5,147,807
Activity in investment securities held to maturity:			
Purchases	(2,940,717)	(1,015,754)	(2,801,310)
Repayments and calls	1,870,239	1,482,277	2,189,567
Net change in interest-bearing deposits in other banks	241,000	(3,883,000)	(703,000)
Purchase of stock investments, restricted	(79,100)	(120,550)	(64,650)
Loan purchases	(1,605,309)	(807,055)	(689,999)
Loan originations and principal collections, net	(5,830,163)	(6,530,888)	(8,750,974)
Purchase of life insurance	- -	(1,320,000)	- -
Purchase of premises and equipment	(1,667,181)	(69,016)	(116,376)
Net cash used in investing activities	(10,943,620)	(18,427,698)	(12,203,479)
Cash Flows from Financing Activities			
Net increase in deposits	13,280,811	17,647,999	16,557,805
Distribution of cash for partial shares from stock split	- -	(293)	- -
Net cash provided by financing activities	13,280,811	17,647,706	16,557,805
Net increase in cash and cash equivalents	3,399,154	360,973	9,004,348
Cash and Cash Equivalents at Beginning of Year	$ 13,299,688	$ 12,938,715	$ 3,934,367
Cash and Cash Equivalents at End of Year	$ 16,698,842	$ 13,299,688	$12,938,715
Supplementary Information			
Interest paid	$ 251,107	$ 163,504	$ 198,023
Income taxes paid	$ 694,100	$ 27,000	$ 92,600

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

Note 1 *Bank Description*

Chino Commercial Bank, N.A, a nationally chartered bank, was incorporated on December 8, 1999 and began operations on September 1, 2000 with the opening of its office in Chino, California. The Bank provides a variety of commercial banking services to individuals and small businesses primarily in the Inland Empire region of Southern California. Its primary lending products are real estate and commercial loans. Its primary deposit products are non-interest bearing deposits and money market accounts.

Note 2 *Summary of Significant Accounting Policies*

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

Use of Estimates

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

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 in less than two years and are carried at cost.

Reclassification

Certain amounts in the 2004 and 2003 financial statements have been reclassified to conform to the 2005 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 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 a method approximating the interest method.

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 the Bank 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 cumulative effect of adopting SFAS No. 133 for rate lock commitments was not material.

Until May of 2004, the Bank entered 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 entered into rate lock commitments with individual borrowers and simultaneously obtained a commitment from a third party conduit to purchase the loan at par value.

In May of 2004, the Bank discontinued the mortgage banking program involving rate lock commitments.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when: 1) the assets have been isolated from the Bank, 2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and 3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Bank Premises and Equipment

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

Income Taxes

Deferred tax assets and liabilities are recognized for estimated future tax effects attributable to temporary differences between the book bases and tax bases of various assets and liabilities. 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 shown below for years ending December 31. Amounts in 2003 have been adjusted to reflect the three for two stock-split in 2004.

Weighted average number of shares used in the computation of:	2005	2004	2003
Basic earnings per share	818,453	818,453	818,453
Diluted earnings per share	884,212	883,672	853,881

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, 2005 and 2004, 108,405 options were available for granting and 136,387 options 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 the date of grant and become fully vested after four years.

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 and earnings per share would have been adjusted to the pro forma amounts indicated below:

	Years Ended December 31,		
	2005	2004	2003
Net income, as reported	$ 885,173	$ 581,381	$ 500,509
Total stock-based employee compensation expense determined under fair value method	(19,850)	(28,410)	(99,545)
Related income tax benefit	3,553	3,553	84,586
Pro forma net income	$ 868,876	$ 556,524	$ 485,550
Earnings per share			
Basic – as reported	$ 1.08	$ 0.71	$ 0.61
Basic – pro forma	$ 1.07	$ 0.68	$ 0.59
Diluted – as reported	$ 1.00	$ 0.66	$ 0.59
Diluted – pro forma	$ 0.99	$ 0.63	$ 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.

There were no options granted in 2005 and 2004. The fair value of each option granted in 2003 was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions.

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

Based on these assumptions, the weighted average fair value of options granted in 2003 was estimated at $3.68 per option.

In accordance with Statement of Financial Accounting Standards No. 123R, beginning in 2006 the Bank will be required to record compensation cost for stock options provided to employees, directors and others in return for service to the Bank. The cost is measured at the fair value of the options when granted, and this cost is expensed over the service period, which is normally the vesting period of the options. This will apply to awards that vest after January 1, 2006, the date of adoption of SFAS No. 123R. The effect on results of operations will depend in part on the level of future option grants and the calculation of the fair value of the options granted at such future date, as well as the vesting periods provided, and so cannot currently be predicted.

Notwithstanding options granted in the future, management has evaluated the pro forma cost of the options granted through 2005. The Bank will record compensation costs for stock options granted through 2005 beginning on January 1, 2006. The estimated after tax cost of these options for each of the next five fiscal years ending December 31 is as follows:

2006	$ 16,297
2007	- -
2008	- -
2009	- -
2010	- -

A summary of activity in the Bank's stock option plan is set forth below. Amounts for 2003 have been restated to reflect the three-for-two stock split in 2004.

	2005		2004		2003	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options outstanding at beginning of year	136,387	$ 7.27	136,387	$ 7.27	117,858	$ 6.83
Options granted	- -	- -	- -	- -	18,529	9.95
Options exercised	- -	- -	- -	- -	- -	- -
Options forfeited	- -	- -	- -	- -	- -	- -
Outstanding at end of year	136,387	$ 7.27	136,387	$ 7.27	136,387	$ 7.27
Options exercisable at year-end	131,155	$ 7.02	125,873	$ 7.02	117,615	$ 6.83

Information pertaining to options outstanding on December 31, 2005 is as follows:

Options Outstanding			Options Exercisable	
Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Number Exercisable	Exercise Price
$ 6.67	108,858	4.5 years	108,858	$ 6.67
$ 8.83	9,000	5.0 years	9,000	$ 8.83
$ 8.83	11,029	7.0 years	8,272	$ 8.83
$ 11.83	7,500	7.5 years	5,025	$ 11.83
	136,387	4.9 years	131,155	

Comprehensive Income

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

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

	2005	2004	2003
Unrealized holding losses on securities available for sale	$ (156,655)	$ (16,632)	$ (181,099)
Reclassification of gains realized in income	- -	- -	- -
Net unrealized losses	(156,655)	(16,632)	(181,099)
Tax effect	64,228	6,844	74,522
Other comprehensive loss net of tax	$ (92,427)	$ (9,788)	$ (106,577)

Recent Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123-R (revised 2004), *Share-Based Payment*, which is a revision of SFAS No. 123. SFAS No. 123-R supersedes APB No. 25 and amends SFAS No. 95, *Statement of Cash Flows*. This statement requires the fair value of all share-based payments to employees be recognized in the statement of income. SFAS No. 123-R is effective for the Bank beginning on January 1, 2006. The Bank expects to adopt SFAS No. 123-R using the modified prospective method, which requires the recognition of expense over the remaining vesting period for the portion of awards not fully vested as of December 31, 2005. The Bank does not expect the adoption of SFAS No. 123-R to have a significant impact on its financial position or results of operations, based on the stock options that are outstanding on December 31, 2005. The adoption of SFAS No. 123-R may become significant if the Bank issues new stock options.

In March 2004, the Financial Accounting Standards Board ("FASB") Emerging Issues Task Force ("EITF") reached consensus on several issues being addressed in EITF Issue No. 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*. The consensus provides guidance for evaluating whether an investment is other-than-temporarily impaired and was effective for other-than-temporary impairment evaluations made in reporting periods beginning after June 15, 2004. The disclosure provisions of EITF 03-1 continue to be effective for the Bank's financial statements for the year ended December 31, 2005.

On November 3, 2005, the FASB issued FASB Staff Position ("FSP") Nos. FAS 115-1 and FAS 124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*. This FSP addresses the determination as to when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of an impairment loss. This FSP also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. This FSP nullifies certain requirements of EITF Issue 03-1, and supersedes EITF Topic No. D-44, *Recognition of Other-Than-Temporary Impairment upon the Planned Sale of a Security Whose Cost Exceeds Fair Value*. The guidance in this FSP amends FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. The FSP is effective for reporting periods beginning after December 15, 2005. The Bank does not anticipate any material impact to its financial condition or results of operations as a result of the adoption of this guidance.

In December 2004, the FASB issued SFAS No. 153, Exchanges of Nonmonetary Assets – An Amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions (SFAS 153). SFAS 153 eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets in paragraph 21(b) of APB Opinion No. 29, Accounting for Nonmonetary Transactions, and replaces it with an exception for exchanges that do not have commercial substance. SFAS 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. This standard was effective for fiscal periods beginning after June 15, 2005. Management believes that the adoption of SFAS 153 will not have an impact on the Bank's financial statements.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections - A Replacement of APB Opinion No. 20 and FASB Statement No. 3. SFAS 154 replaces APB Opinion 20, Accounting Changes, and FASB Statement 3, Reporting Accounting Changes in Interim Financial Statements, and changes the accounting and reporting requirements for a change in accounting principle. SFAS 154 applies to all voluntary changes in an accounting principle, as well as to changes required by a new accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. SFAS 154 is effective for accounting changes and error corrections made in fiscal years beginning after December 15, 2005 and requires retrospective application to prior periods' financial statements for most voluntary changes in an accounting principle, unless it is impracticable to do so. SFAS 154 did not change the guidance for reporting corrections of errors, changes in estimates or for justification of a change in accounting principle on the basis of preferability. The Bank does not anticipate any material impact to its financial condition or results of operations as a result of the adoption of SFAS No. 154.

Note 3 Restrictions on Cash and Amounts Due From Banks

The Bank is required to maintain average balances on hand or with the Federal Reserve Bank. At December 31, 2005 and 2004, these reserve balances amounted to $1,569,000 and $1,696,000, respectively.

Note 4 Investment Securities

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

2005	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale:				
Federal agency	$ 7,770,696	$ - -	$ (93,312)	$ 7,677,384
Municipal bonds	342,881	301	- -	343,182
Mortgage-backed	8,405,609	6,173	(120,971)	8,290,811
	$ 16,519,186	$ 6,474	$ (214,283)	$ 16,311,377
Securities held to maturity:				
Mortgage-backed	$ 5,122,611	$ 11,180	$ (117,009)	$ 5,016,782
Municipal bonds	443,315	9,030	- -	452,345
Corporate bonds	284,761	10,246	- -	295,007
	$ 5,850,687	$ 30,456	$ (117,009)	$ 5,764,134

2004	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale:				
Federal agency	$ 5,963,763	$ 866	$ (22,392)	$ 5,942,237
Mortgage-backed	9,650,218	38,963	(68,592)	9,620,589
	$ 15,613,981	$ 39,829	$ (90,984)	$ 15,562,826
Securities held to maturity:				
Mortgage-backed	$ 3,592,198	$ 23,931	$ (46,076)	$ 3,570,053
Municipal bonds	445,991	2,300	(534)	447,757
Corporate bonds	762,835	78,750	- -	841,585
	$ 4,801,024	$ 104,981	$ (46,610)	$ 4,859,395

The amortized cost and fair value of investment securities as of December 31, 2005 by contractual maturity are shown below:

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within 1 year	$ 3,293,129	$ 3,265,107	$ - -	$ - -
After 1 year through 5 years	4,477,567	4,412,277	- -	- -
After 5 years through 10 years	- -	- -	284,761	295,007
After 10 years through 17 years	342,881	343,182	443,315	452,345
Mortgage-backed securities	8,405,609	8,290,811	5,122,611	5,016,782
	$ 16,519,186	$ 16,311,377	$ 5,850,687	$ 5,764,134

Information pertaining to securities with gross unrealized losses at December 31, 2005, aggregated by investment category and length of time that individual securities have been in a continuous 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	$ 43,941	$ 2,824,505	$ 77,030	$ 3,389,970
Federal agency	47,974	3,731,580	44,903	3,945,862
Securities held to maturity:				
Mortgage-backed securities	67,536	3,172,753	49,473	1,340,447

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, 2005, 38 securities have unrealized losses with aggregate depreciation of 1.7% 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.

Note 5 Stock Investments, Restricted

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

	2005	2004
Federal Reserve Bank stock	$ 159,600	$ 159,600
Federal Home Loan Bank (FHLB) stock	362,600	283,500
Pacific Coast Bankers' Bank stock	50,000	50,000
	$ 572,200	$ 493,100

As a member of the FHLB system, the Bank is required to maintain an investment in FHLB stock in an amount equal to the greater of 1% of its outstanding mortgage loans or 5% of advances from the FHLB. There were no advances from the FHLB as of December 31, 2005 or 2004. No ready market exists for FHLB stock, and it has no quoted market value.

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

Note 6 Loans and Allowance for Loan Losses

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

	2005	2004
Construction loans	$ 2,790,712	$ 3,520,772
Real estate loans, commercial	26,439,898	19,473,670
Real estate loans, consumer	4,004,446	4,412,912
Commercial loans	8,295,566	6,596,517
Farm/agriculture	330,919	346,261
Installment loans	633,511	573,557
	42,495,052	34,923,689
Allowance for loan losses	(544,139)	(407,046)
Unearned income and deferred loan fees, net	(144,106)	(119,329)
Loans held for investment, net	$ 41,806,807	$ 34,397,314

As of December 31, 2005 and 2004, 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.

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

	2005	2004
Balance at January 1	$ 407,046	$ 329,398
Provision charged to expense	137,093	77,648
Balance as of December 31	$ 544,139	$ 407,046

Loans serviced for others are not included in the accompanying balance sheets. The unpaid principal balance of loans serviced for others was $1,935,122 and $2,063,640 at December 31, 2005 and 2004, respectively.

Note 7 Bank Premises and Equipment

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

	2005	2004
Land	$ 639,150	$ - -
Furniture, fixtures and equipment	580,783	527,531
Leasehold improvements	310,330	310,331
Automobile	32,289	32,289
Construction in progress	970,285	- -
	2,532,837	870,151
Less accumulated depreciation and amortization	596,669	480,186
	$ 1,936,168	$ 389,965

Depreciation and amortization expense for years ending December 31, 2005, 2004 and 2003 amounted to $120,978, $113,763 and $118,601, respectively.

Note 8 Related Party Transactions

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

Aggregate related party loan transactions were as follows:

	2005	2004
Balance at beginning of period	$ 311,779	$ 306,010
Advances	- -	33,500
Repayments, net of borrowings	(39,931)	(27,731)
Balance as of December 31	$ 271,843	$ 311,779

Deposits from related parties held by the Bank at December 31, 2005 and 2004 amounted to $11,386,205 and $9,218,488, respectively.

Note 9 Federal Home Loan Bank Borrowings

As a member of the Federal Home Loan Bank (FHLB), the Bank may borrow funds collateralized by securities or qualified loans up to 25% of its asset base. The Bank had no advances outstanding at December 31, 2005 and 2004.

On December 21, 2005, the Bank entered into a stand by letter of credit with the FHLB for $800,000. This stand-by letter of credit was issued as collateral for local agency deposits that the Bank is maintaining.

Note 10 Federal Funds Lines of Credit

The Bank has a total of $5 million in Federal funds lines of credit with two banks. At December 31, 2005 and 2004, the Bank had no borrowings outstanding.

Note 11 Income Taxes

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

	2005	2004	2003
Current tax provision:			
Federal	$ 471,204	$ 235,941	$ 131,205
State	172,348	70,535	58,269
Benefit of loss carryforwards	- -	(37,321)	(128,467)
	643,552	269,155	61,007
Deferred tax provision (benefit):			
Federal	$ (56,081)	$ 7,024	$ 128,922
State	(20,852)	60,149	(10,027)
Adjustment to valuation allowance	- -	- -	(241,859)
	(76,933)	67,173	(122,964)
	$ 566,619	$ 336,328	$ (61,957)

The reasons for the differences between the statutory federal income tax rate and the effective tax rates are summarized as follows for years ended December 31:

	2005	2004	2003
Statutory federal tax rate	34.0%	34.0%	34.0%
Increase (decrease) resulting from:			
State taxes, net of federal tax benefit	7.2%	7.2%	7.2%
Tax-exempt earnings on life insurance policies	(1.8%)	(2.7%)	- -
Tax-exempt interest from municipal bonds	(0.7%)	(0.9%)	(0.5%)
Other, net	0.3%	(1.0%)	0.5%
	39.0%	36.6%	41.2%
Adjustment to valuation allowance against deferred tax asset	0.0%	0.0%	(55.3%)
Effective tax rate	39.0%	36.6%	(14.1%)

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

	2005	2004
Deferred tax assets:		
Allowance for loan losses	$ 190,341	$ 121,674
Start-up expenses	- -	25,207
Valuation adjustment on mortgage loans	17,031	23,300
Unrealized loss on securities available for sale	85,523	21,053
Depreciation and amortization	7,852	- -
	300,747	191,234
Deferred tax liabilities:		
Depreciation and amortization	$ - -	$ (6,499)
Cash basis of reporting for tax purposes	(40,919)	(74,521)
	(40,919)	(81,020)
Net deferred tax asset	$ 259,828	$ 110,214

Note 12 Off-Balance-Sheet Activities

Credit-Related Financial Instruments

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

The Bank's exposure to credit loss is represented by the contractual amount of these commitments. The Bank uses the same credit policies in making commitments as it does for on-balance-sheet instruments. At December 31, 2005 and 2004, the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount	
	2005	2004
Commitments to grant loans	$ - -	$ - -
Unadvanced lines of credit	7,921,333	4,663,657
Letters of credit	315,300	453,960

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.

Credit-Related Financial Instruments

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

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

Note 13 On Balance Sheet Derivative Instruments and Hedging Activities

Until May of 2004, the Bank originated certain mortgage loans for sale to investors (conduits). The Bank entered into rate lock commitments with borrowers for generally a 30-day or 60-day period for these loans. Concurrently, the Bank obtained 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 resulted in mortgage banking income to the Bank. The purchase commitment from the conduit remained 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 zero and $597,000 in pipeline loans as of December 31, 2004 and 2003, respectively. Some of these rate lock commitments expired without being completed. To the extent that a loan was ultimately granted and the commitment with the conduit expired before the loan was sold, these rate lock commitments exposed 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, were 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.

In May of 2004, the Bank discontinued the mortgage banking program involving rate lock commitments.

Note 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. The Bank exercised this option on November 10, 2004.

At December 31, 2004, the minimum future rental payments are as follows:

Year Ending December 31,	
2006	$ 78,552
2007	80,909
2008	83,336
Thereafter	129,388
	$ 372,185

Rental expense for the years ended December 31, 2005, 2004 and 2003 amounted to $76,264, $74,043 and $71,886, respectively.

Employment Agreement

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

Note 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 78% of total loans held for investment at December 31, 2005 and 2004. The Bank has no concentration of loans with any one customer or industry.

Deposits from escrow companies represented 47% and 54% of total deposits on December 31, 2005 and 2004, respectively. Four escrow companies accounted for 31% and 37% of total deposits on December 31, 2005 and 2004, respectively.

Note 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, 2005, 2004 and 2003, the expense attributable to the Plan amounted to $32,755, $30,141 and $27,707, respectively.

Note 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.

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, 2005 and 2004 are also presented in the table. Management believes, as of December 31, 2005 and 2004, that the Bank met all capital adequacy requirements to which it is subject.

As of June 30, 2005, 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.

	2005					
	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	$ 7,418	13.21%	$ 4,492	8.00%	$ 5,615	10.00%
Tier 1 capital to risk-weighted assets	$ 6,817	12.14%	$ 2,246	4.00%	$ 3,369	6.00%
Tier 1 capital to average assets	$ 6,817	7.54%	$ 3,616	4.00%	$ 4,519	5.00%

	2004					
	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	$ 6,366	14.81%	$ 3,439	8.00%	$ 4,299	10.00%
Tier 1 capital to risk-weighted assets	$ 5,932	13.80%	$ 1,719	4.00%	$ 2,579	6.00%
Tier 1 capital to average assets	$ 5,932	8.36%	$ 2,839	4.00%	$ 3,549	5.00%

Note 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 and, in some cases, the approval of the Bank's regulator.

Note 19 Other Operating Expenses

The following sets forth the breakdown of other operating expenses for the years ended December 31:

	2005	2004	2003
Data processing fees	$ 231,774	$ 194,536	$ 178,420
Deposit products and services	330,973	247,649	158,355
Professional fees	163,546	172,185	139,437
Advertising and marketing	130,804	77,637	63,168
Directors' fees and expenses	78,247	66,034	61,112
Other operating expense	314,799	229,534	235,335
	$1,250,143	$ 987,575	$ 835,827

Note 20 Fair Value of Financial Instruments

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Bank's various financial instruments. In cases where quoted market prices are not available, fair value is based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Discount rates on loans can vary significantly depending on the risk profile of the loan and the borrower's deposit relationship with the Bank. Accordingly, the fair value estimates may not be realized in the immediate settlement of the instrument. SFAS 107 excludes certain financial instruments and all non-financial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Bank.

The following methods and assumptions were used by the Bank in estimating fair value disclosures for financial instruments:

Cash and Cash Equivalents - The carrying amounts reported in the balance sheet for cash and short-term instruments approximate their fair values.

Interest-Bearing Deposits in Other Banks - The fair value of interest-bearing deposits in other banks is estimated by discounting future cash flows using current offering rates for deposits with similar characteristics.

Investment Securities - Fair values for investment securities are based on quoted market prices.

Stock Investments - The carrying values of stock investments approximate fair value based on the redemption provisions of the stock.

Loans - The fair value of performing fixed rate loans is estimated by discounting future cash flows using the Bank's current offering rate for loans with similar characteristics. The fair value of performing adjustable rate loans is considered to be the same as book value. The fair value of non-performing loans is estimated at the fair value of the related collateral or, when, in management's opinion, foreclosure upon the collateral is unlikely, by discounting future cash flows using rates that take into account management's estimate of excess credit risk.

Commitments to Extend Credit and Standby Letters of Credit - The Bank does not generally enter into long-term fixed rate commitments or letters of credit. These commitments are generally at prices that are at currently prevailing rates. These rates are generally variable and, therefore, there is no interest rate risk exposure. Accordingly, the fair market value of these instruments is equal to the carrying amount of their net deferred fees. The net deferred fees associated with these instruments are not material. The Bank has no unusual credit risk associated with these instruments.

Deposits - The fair value of deposits is determined as follows: (i) for saving accounts, money market accounts and other deposits with no defined maturity, fair value is the amount payable on demand; (ii) for variable-rate term deposits, fair value is considered to be the same as book value; and (iii) for fixed-rate term deposits, fair value is estimated by discounting future cash flows using current offering rates for deposits with similar characteristics.

Accrued Interest - The carrying amounts of accrued interest approximate fair value.

The estimated fair values and related carrying amounts of the Bank's financial instruments at December 31 are as follows:

	2005	
	Carrying Amount	Fair Value
Financial assets:		
Cash and cash equivalents	$ 16,698,842	$ 16,698,842
Interest-bearing deposits in other banks	6,030,000	6,011,750
Investment securities available for sale	16,311,377	16,311,377
Investment securities held to maturity	5,850,687	5,764,134
Stock investments	572,200	572,200
Loans, net	41,806,807	41,649,206
Accrued interest receivable	314,849	314,849
Financial liabilities:		
Deposits	84,021,943	84,018,150
Accrued interest payable	28,858	28,858

	2004	
	Carrying Amount	Fair Value
Financial assets:		
Cash and cash equivalents	$ 13,299,688	$ 13,299,688
Interest-bearing deposits in other banks	6,271,000	6,271,000
Investment securities available for sale	15,562,826	15,562,826
Investment securities held to maturity	4,801,024	4,859,395
Stock investments	493,100	493,100
Loans, net	34,397,314	34,653,000
Accrued interest receivable	258,528	258,528
Financial liabilities:		
Deposits	70,741,132	70,748,000
Accrued interest payable	20,642	20,642

Chino Commercial Bank N.A.

FORM 10-KSB

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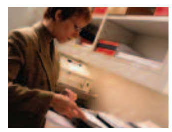

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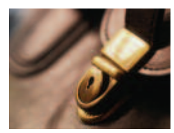

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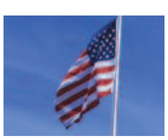

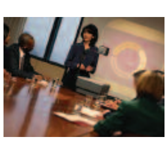

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