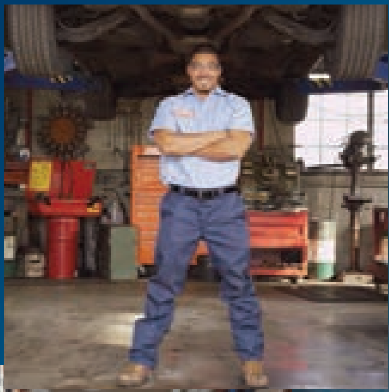
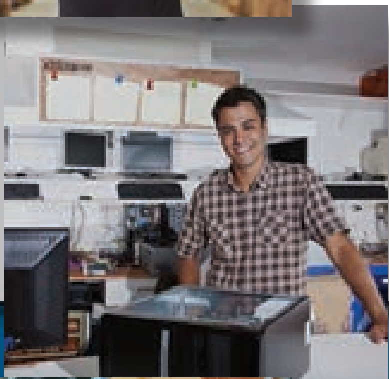
CHINO COMMERCIAL BANCORP





2013 ANNUAL REPORT

Working For Your Business

Corporate Profile

Chino

Ontario

Rancho Cucamonga

Chino Commercial Bank (CCB) has become one of the Inland Empire's leading community banks, with three full-service banking offices operating in the diverse and growing economic regions of Chino, Ontario and Rancho Cucamonga, California. CCB provides small businesses and individuals with high-quality banking products and an unmatched personalized level of service.

Founded in September 2000, Chino Commercial Bank was established with an emphasis on the value of local ownership, community involvement and commitment to excellent personal service. The Bank's remarkable growth is a testimony to the broad acceptance of CCB's way of doing business. In 2006, Chino Commercial Bancorp was formed as the holding company of Chino Commercial Bank. The holding company's reorganization was completed in order to allow for more alternatives for raising capital and access to debt markets as well as increased structural alternatives for acquisitions, and greater flexibility with respect to engaging in non-banking activities.

At Chino Commercial Bank our goal is to provide customer service that sets us apart from other banks. The Bank has established standards that focus on an unsurpassed level of customer service, which help to achieve financial performance objectives that enhance shareholder value. In the future, the Bank will continue to implement new technologies, and increase collective knowledge, and thereby be able to maintain and expand a distinct competitive advantage.

The common stock of Chino Commercial Bancorp is traded on the Over-the-Counter Markets (OTC Markets) under the stock symbol "CCBC".

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Financial Highlights

	As of and For the Years Ended December 31,		
	2013	*2012*	*2011*
	(Dollars in Thousands, except per share data)		
Selected Balance Sheet Data:			
Total assets	**$ 123,126**	$ 114,635	$ 109,706
Loans receivable	**64,260**	61,790	56,774
Deposits	**109,604**	102,151	98,104
Non-interest bearing deposits	**56,566**	48,823	47,189
Subordinated notes payable to subsidiary trust	**3,093**	3,093	3,093
Shareholders' equity	**9,676**	8,722	7,472
Selected Operating Data:			
Interest income	**4,402**	4,057	4,319
Net income	**$ 941**	$ 590	$ 441
Basic income per share	**$ 1.13**	$ 0.72	$ 0.59
Diluted income per share	**$ 1.13**	$ 0.72	$ 0.59
Performance Ratios:			
Return on average assets	**0.80%**	0.53%	0.41%
Return on average equity	**10.28%**	7.07%	6.10%
Equity to total assets at the end of the period	**7.86%**	7.61%	6.81%
Core efficiency ratio	**73.02%**	80.96%	82.20%
Non-interest expense to average assets	**3.46%**	3.65%	3.83%
Regulatory Ratios:			
Average equity to average assets	**7.75%**	7.52%	6.73%
Leverage capital	**10.69%**	9.86%	9.19%
Tier I risk-based	**17.08%**	15.95%	14.26%
Risk-based capital	**18.18%**	17.50%	16.44%

To Our Shareholders

We are again very pleased to present you with Chino Commercial Bancorp's annual report, for the year 2013. As you will read, the Company had a truly outstanding year, posting an increase in net earnings of 59% over last year, in addition to the Bank setting record levels for Deposits and Loans. Perhaps equally important, was the level of Loan quality attained during the year, with the Bank having no credit losses, and ending the year with no loan delinquency and no foreclosed properties.

In 2013, we also enjoyed significant growth in the Company's stock price, which grew from $10.50 per share in January 2013 to $15.90 in December, or an increase of 51%. Basic and Diluted earnings per share rose by 57% in 2013, increasing to $1.13 per share as compared with $0.71 per share for the previous year.

There has been a great deal of discussion lately regarding the potential for interest rates to increase, and the potential negative effects it may have on the banking industry. Fortunately, at year-end the Bank had $43 million dollars or 39.7% of its earning assets in liquid – short term investments. As a result, the Bank's net earnings are actually enhanced by moderate increases in interest rates, rather than reduced.

The Bank's tag line of ***"Working for your business"*** is more than an advertising slogan, it is what we really do. During this time when some very large banks are becoming "one-size fits all" we feel we have a competitive advantage in being able to have a personal one-on-one relationship with our customers. We like to meet with our customers at their place of business and get to learn firsthand how their business works. By making loans in our local area, to borrowers we know and can visit, it allows the Bank to provide unique financial solutions to achieve our customers' goals.

Chino Commercial Bank was recently recognized by Bauer Financial Inc., with their highest rating of ***"5-Star"*** for financial performance during 2013. According to Bauer, this recognition places our Bank among the strongest in the nation.

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 growth and earnings.

In the long run, the key strength of Chino Commercial Bank is its connection to the communities we serve, and the stability of our leadership. Your Board of Directors will continue to play an important role in guiding the Company as well as retaining and attracting new customers. Similarly, the Banks Management and Staff are focused on building a solid foundation for the future growth of the Bank, through the principles of aggressive marketing efforts, sound, conservative credit policies and innovative solutions to our customers' needs. We believe that these business relationships and core values allow Chino Commercial Bancorp and Chino Commercial Bank to have a competitive advantage.

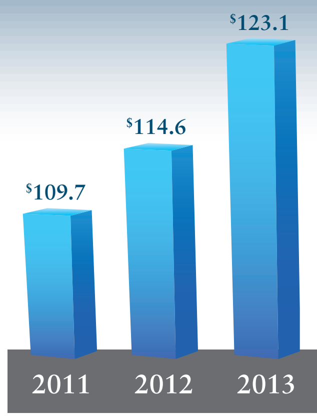
As a locally owned, locally managed independent bank, we feel that Chino Commercial Bank is truly a benefit to not only our customers, but also our shareholders and the community as a whole.

On behalf 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.

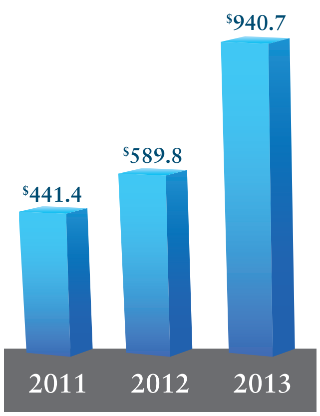
Sincerely,

Dann H. Bowman

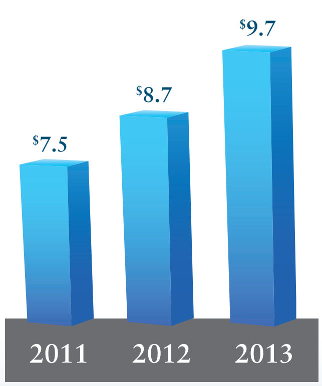
Dann H. Bowman
President and Chief Executive Officer



TOTAL ASSETS
(in millions)



CONSOLIDATED NET PROFIT
(in thousands)



SHAREHOLDERS' EQUITY
(in millions)

Board of Directors

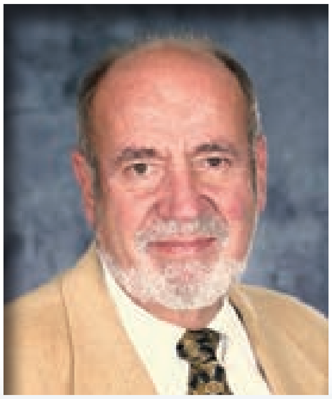
Dann H. Bowman
President and
Chief Executive Officer

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, Windermere Real Estate
Southern California

Linda M. Cooper
President, Inland Empire Escrow



Richard G. Malooly
Principal, RE/MAX Realty 100

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

Michael Di Pietro, C.P.A.

CHINO COMMERCIAL BANCORP

ANNUAL REPORT

Financial Statements

Independent Auditors' Report

HUTCHINSON and BLOODGOOD LLP
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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Glendale, CA 91203
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To the Board of Directors and Stockholders of
Chino Commercial Bancorp
Chino, California

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Chino Commercial Bancorp and subsidiary (the Company), which consist of the consolidated statements of financial condition as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Chino Commercial Bancorp and subsidiary as of December 31, 2013, and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Hutchinson and Bloodgood LLP

March 5, 2014

Consolidated Statements of Financial Condition

December 31, 2013 and 2012

	2013	2012
ASSETS		
Cash and due from banks	$ 25,538,999	$ 19,937,743
Federal funds sold	50,773	50,537
CASH AND CASH EQUIVALENTS	25,589,772	19,988,280
Interest bearing deposits in other financial institutions	18,990,000	17,417,000
Investment securities available for sale (Note 3)	1,887,251	2,349,320
Investment securities held to maturity (fair value approximates $3,195,000 in 2013 and $4,796,000 in 2012) (Note 3)	3,095,803	4,606,626
Loans held for investment, net of allowance for loan losses of $1,496,995 in 2013 and $1,438,797 in 2012 (Note 5)	62,763,342	60,351,125
Premises and equipment, net (Note 7)	6,140,958	6,258,728
Accrued interest receivable	270,106	286,812
Stock investments, restricted, at cost (Note 4)	605,400	623,200
Bank-owned life insurance	2,976,477	1,887,304
Other assets	806,682	866,516
TOTAL ASSETS	$ 123,125,791	$ 114,634,911
LIABILITIES		
Deposits		
Noninterest-bearing	$ 56,565,703	$ 48,822,963
Interest-bearing	53,038,158	53,327,671
TOTAL DEPOSITS	109,603,861	102,150,634
Accrued interest payable	28,367	35,674
Other liabilities	724,120	633,705
Subordinated note payable to subsidiary trust (Note 9)	3,093,000	3,093,000
TOTAL LIABILITIES	113,449,348	105,913,013
COMMITMENTS AND CONTINGENT LIABILITIES (NOTES 14 AND 15)		
STOCKHOLDERS' EQUITY		
Common stock, no par value, 10,000,000 shares authorized, 833,280 and 829,602 shares issued and outstanding at December 31, 2013 and 2012, respectively	3,463,912	3,429,254
Retained earnings	6,162,103	5,221,375
Accumulated other comprehensive income	50,428	71,269
TOTAL STOCKHOLDERS' EQUITY	9,676,443	8,721,898
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 123,125,791	$ 114,634,911

The Notes to Consolidated Financial Statements are an integral part of these consolidated statements.

Consolidated Statements of Income

December 31, 2013 and 2012

	2013	2012
INTEREST INCOME		
Interest and fees on loans	$ 4,081,506	$ 3,660,419
Interest on federal funds sold and FRB deposits	51,713	43,781
Interest on time deposits in banks	97,374	88,916
Interest and dividends on investment securities	171,250	263,597
TOTAL INTEREST INCOME	4,401,843	4,056,713
INTEREST EXPENSE		
Interest on deposits	249,378	334,424
Interest on borrowings	59,493	68,283
TOTAL INTEREST EXPENSE	308,871	402,707
NET INTEREST INCOME	4,092,972	3,654,006
Provision for loan losses (Note 5)	756	120,272
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	4,092,216	3,533,734
Noninterest income		
Service fees and charges on deposit accounts	1,299,700	1,151,235
Customer fees and miscellaneous income	73,874	100,235
Gain on sale of foreclosed assets	–	93,871
Dividend income from restricted stock	34,348	23,083
Income from bank-owned life insurance	89,172	68,113
TOTAL NONINTEREST INCOME	1,497,094	1,436,537
NONINTEREST EXPENSES		
Salaries and employee benefits	2,231,308	2,178,453
Occupancy and equipment	412,043	428,676
Other operating expenses (Note 24)	1,438,686	1,438,040
TOTAL NONINTEREST EXPENSES	4,082,037	4,045,169
INCOME BEFORE INCOME TAX EXPENSE	1,507,273	925,102
Provision for income taxes (Note 13)	566,545	335,336
NET INCOME	$ 940,728	$ 589,766
Basic income per share	$ 1.13	$ 0.72
Diluted income per share	$ 1.13	$ 0.72

The Notes to Consolidated Financial Statements are an integral part of these consolidated statements.

Consolidated Statements of Comprehensive Income

December 31, 2013 and 2012

	2013	2012
NET INCOME	$ 940,728	$ 589,766
Other comprehensive loss, net of tax effects		
Net unrealized holding losses on securities available for sale (tax effects of ($14,571) and ($5,830) for the years ended December 31, 2013 and 2012, respectively	(20,841)	(8,335)
TOTAL COMPREHENSIVE INCOME	$ 919,887	$ 581,431

The Notes to Consolidated Financial Statements are an integral part of these consolidated statements.

Consolidated Statements of Changes in Stockholders' Equity

December 31, 2013 and 2012

	Number of Shares	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance at December 31, 2011	749,540	$ 2,760,813	$ 4,631,609	$ 79,604	$ 7,472,026
Net income	–	–	589,766	–	589,766
Other comprehensive loss	–	–	–	(8,335)	(8,335)
Secondary stock offering (Note 22)	80,062	668,441	–	–	668,441
Balance at December 31, 2012	829,602	3,429,254	5,221,375	71,269	8,721,898
Net income	–	–	940,728	–	940,728
Other comprehensive loss	–	–	–	(20,841)	(20,841)
Exercise of stock options, Including tax benefit	3,678	34,658	–	–	34,658
Balance at December 31, 2013	833,280	$ 3,463,912	$ 6,162,103	$ 50,428	$ 9,676,443

The Notes to Consolidated Financial Statements are an integral part of these consolidated statements.

Consolidated Statements of Cash Flows

December 31, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 940,728	$ 589,766
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	756	120,272
Depreciation and amortization	211,201	227,727
Amortization of deferred loan costs (fees)	(70,730)	(6,169)
Net accretion of discount and amortization of premium on securities available for sale	38,153	61,611
Loss on disposition of equipment	–	385
Deferred income taxes	28,264	161,365
Gain on sale of foreclosed assets	–	(93,871)
Change in:		
Accrued interest receivable	16,705	(10,836)
Other assets	(40,262)	239,466
Accrued interest payable	(7,307)	(103,972)
Other liabilities	90,415	(29,804)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,207,923	1,155,940
CASH FLOWS FROM INVESTING ACTIVITIES		
Net change in interest bearing deposits in bank	(1,573,000)	(4,077,748)
Loan originations and principal collections, net	(2,342,243)	(5,029,911)
Purchases of premises and equipment	(93,431)	(43,387)
Proceeds from sale of premises and equipment	–	300
Proceeds from principal payments received and maturities of available-for-sale securities	426,494	609,467
Proceeds from principal payments received and maturities of securities held to maturity	1,472,833	4,983,860
Redemptions of stock investments, restricted	17,800	44,500
Purchase of bank-owned life insurance	(1,000,000)	–
Proceeds from sale of foreclosed assets	–	105,688
NET CASH USED IN INVESTING ACTIVITIES	(3,091,547)	(3,407,231)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	7,453,227	4,047,076
Cash received from exercise of options	31,889	–
Proceeds from stock offering, net of capital raising costs	–	668,441
NET CASH USED IN FINANCING ACTIVITIES	7,485,116	4,715,517
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,601,492	2,464,226
CASH AND CASH EQUIVALENTS, beginning of year	19,988,280	17,524,054
CASH AND CASH EQUIVALENTS, end of year	$ 25,589,772	$ 19,988,280
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	$ 316,178	$ 506,679
Income taxes	$ 495,000	$ 280,000
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Loan to facilitate sale of foreclosed asset	$ –	$ 427,500

The Notes to Consolidated Financial Statements are an integral part of these consolidated statements.

NOTE 1 Summary of Significant Accounting Policies

Nature of Operations: Chino Commercial Bank, N.A. (the Bank), 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 opened a branch office in Ontario, California in January 2006, and opened a branch office in Rancho Cucamonga, California in April 2010.

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.

Chino Commercial Bancorp (the Company) is a California corporation registered as a bank holding company under the Bank Holding Company Act of 1956, as amended, and is headquartered in Chino, California. The Company was incorporated on March 2, 2006 and acquired all of the outstanding shares of Chino Commercial Bank, N.A. effective July 1, 2006. The Company's principal subsidiary is the Bank, and the Company exists primarily for the purpose of holding the stock of the Bank and of such other subsidiaries it may acquire or establish. The Company's only other direct subsidiary is Chino Statutory Trust I, which was formed on October 25, 2006 solely to facilitate the issuance of capital trust pass-through securities. Chino Commercial Bancorp and the Bank are collectively referred to herein as the Company unless otherwise indicated.

Basis of Presentation and Consolidation: The consolidated financial statements include the accounts of Chino Commercial Bancorp and its subsidiary, Chino Commercial Bank. All significant inter-company balances and transactions have been eliminated in consolidation. The accounting and financial reporting policies the Company follows conform, in all material respects, to accounting principles generally accepted in the United States of America and to general practices within the financial services industry. In consolidating, the Company determines whether it has a controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity or a variable interest entity under accounting principles generally accepted in the United States. Voting interest entities are entities in which the total equity investment at risk is sufficient to enable the entity to finance itself independently and provides the equity holders with the obligation to absorb losses, the right to receive residual returns and the right to make decisions about the entity's activities. The Company consolidates voting interest entities in which it has all, or at least a majority of, the voting interest. As defined in applicable accounting standards, variable interest entities (VIEs) are entities that lack one or more of the characteristics of a voting interest entity. A controlling financial interest in an entity is present when an enterprise has a variable interest, or a combination of variable interests, that will absorb a majority of the entity's expected losses, receive a majority of the entity's expected residual returns, or both. The enterprise with a controlling financial interest, known as the primary beneficiary, consolidates the VIE. The Company's wholly-owned subsidiary, Chino Statutory Trust I, is a VIE for which the Company is not the primary beneficiary. Accordingly, the accounts of this entity are not included in the Company's consolidated financial statements.

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 statement of financial condition 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.

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 Company 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. There were no loans held for sale at December 31, 2013 and 2012.

Loans: The Company 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 Company'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, except that interest is not accrued on loans that are generally 90 days or more past due. Loans are placed on non-accrual or charged off at an earlier date if collection of principal or interest is considered doubtful. Interest income previously accrued on non-accrual loans is reversed against current period interest income. Interest income on non-accrual loans may be recognized only if the loan is deemed to be fully collectible, and only to the extent of interest payments received. Otherwise, any interest payments received are applied against the loan balance. Loans are returned to accrual status after the borrower's financial condition has improved, when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Interest recognition policies apply to all loans.

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 collectability 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 collectability 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 and general components. The specific component relates to loans that are individually evaluated for impairment. For impaired loans, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers unimpaired loans and is based on historical loss experience adjusted for qualitative factors.

A loan is considered impaired when, based on current information and events, it is probable that the Company 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.

Troubled Debt Restructuring: A troubled debt restructuring is a loan which the Company, for reasons related to a borrower's financial difficulties, grants a concession to a borrower that the Company would not otherwise consider. A loan restructuring may take the form of a reduction in the stated interest rate, an extension of the maturity at an interest rate below market, or a reduction in the face amount of the debt or accrued interest, among others. Loans that are renewed at below-market terms are considered to be troubled debt restructurings if the below-market terms represent a concession due to the borrower's troubled financial condition. Troubled debt restructurings are classified as impaired loans and are measured at the present value of estimated future cash flows using the loan's effective rate at inception of the loan. If the loan is considered to be collateral dependent, impairment is measured based on the fair value of the collateral.

Loan Portfolio Segments: Management segregates the loan portfolio into portfolio segments for purposes of developing and documenting a systematic method for determining its allowance for loan losses. The portfolio segments are segregated based on loan types and the underlying risk factors present in each loan type. Such risk factors are periodically reviewed by management and revised as deemed appropriate.

The Company's loan portfolio is segregated into the following portfolio segments.

One to Four Family Residential. This portfolio segment consists of the origination of first mortgage loans and home equity second mortgage loans secured by one-to four-family owner occupied residential properties located in the Company's market area. The Company has experienced no foreclosures on its owner occupied loan portfolio during recent periods and believes this is due mainly to its conservative lending strategies including its non-participation in "interest only", "Option ARM," "sub-prime" or "Alt-A" loans.

Residential Income. This portfolio segment consists of the origination of first mortgage loans secured by non-owner occupied residential properties in its market area. Such lending involves additional risks arising from the use of the properties by non-owners.

Commercial Real Estate Loans. This portfolio segment includes loans secured by commercial real estate, including multi-family dwellings. Loans secured by commercial real estate generally have larger loan balances and more credit risk than one-to four-family mortgage loans. The increased risk is the result of several factors, including the concentration of principal in a limited number of loans and borrowers, the impact of local and general economic conditions on the borrower's ability to repay the loan, and the increased difficulty of evaluating and monitoring these types of loans.

Commercial and Industrial Loans. This portfolio segment includes commercial business loans secured by assignments of corporate assets and personal guarantees of the business owners. Commercial business loans generally have higher interest rates and shorter terms than one- to four-family residential loans, but they also may involve higher average balances, increased difficulty of loan monitoring and a higher risk of default since their repayment generally depends on the successful operation of the borrower's business.

Consumer Loans. This portfolio segment includes loans to individuals for overdraft protection and personal lines of credit.

Installment Loans. This portfolio segment includes loans to individuals for personal purposes, including but not limited to automobile loans.

Credit Quality Indicators: The Company's policies, consistent with regulatory guidelines, provide for the classification of loans and other assets that are considered to be of lesser quality as substandard, doubtful, or loss assets. An asset is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard assets include those assets characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Assets classified as doubtful have all of the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses make collection or liquidation in full highly questionable and improbable, based on currently existing facts, conditions and values. Assets (or portions of assets) classified as loss are those considered uncollectible and of such little value that their continuation as assets is not warranted. Assets that do not expose the Company to risk sufficient to warrant classification in one of the aforementioned categories, but which possess potential weaknesses that deserve close attention, are required to be designated as special mention.

When assets are classified as special mention, substandard or doubtful, the Company allocates a portion of the related general loss allowances to such assets as the Company deems prudent. Determinations as to the classification of assets and the amount of loss allowances are subject to review by regulatory agencies, which can require that we establish additional loss allowances. Management regularly reviews the asset portfolio to determine whether any assets require classification in accordance with applicable regulations.

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 Company, 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 Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Foreclosed Assets: Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net expenses from foreclosed assets.

Company Premises and Equipment: Company 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. Building improvements are amortized over 39 years 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.

Bank-Owned Life Insurance: The Company has purchased life insurance policies on certain officers. Bank-owned life insurance is recorded at its cash surrender value (or the amount that can be realized).

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.

The Company uses a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Benefits from tax positions are recognized in the financial statements only when it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold are recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold are derecognized in the first subsequent financial reporting period in which that threshold is no longer met. Interest and penalties associated with uncertain tax positions are classified as income tax expense. At December 31, 2013 and 2012, the Company did not have a tax position that failed to meet the more-likely-than-not recognition threshold.

Earnings Per Share: Basic earnings per share represent income available to common shareholders 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 Company 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 ended December 31:

Weighted-average number of shares used in the computation of:	2013	2012
Basic earnings per share	$ 832,786	$ 814,797
Diluted earnings per share	$ 832,786	$ 819,311

Comprehensive Income: Accounting principles generally accepted in the United States of America 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 statement of financial condition, such items, along with net income, are components of comprehensive income.

Subsequent Events: Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued or are available to be issued. The Bank recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Bank's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before financial statements are issued or are available to be issued.

The Bank has evaluated subsequent events through March 5, 2014, which is the date the financial statements were issued or the date the financial statements were available to be issued.

Recently Issued Accounting Pronouncements: Accounting Standards Update (ASU) 2013-12 – *Definition of a Public Business Entity*. This standard amends the Master Glossary of the *FASB Accounting Standards Codification* to include one definition of public business entity for future use in U.S. Generally Accepted Accounting Principles (U.S.GAAP.) The amendment does not affect existing requirements. That definition will be used by FASB, the Private Company Council (PCC), and the Emerging Issues Task Force (EITF) in specifying the scope of future financial accounting and reporting guidance. Since the Company is considered a public entity under both the old definition and the new definition, this standard will not have an impact on the Company's consolidated financial statements.

ASU 2013-11 - *Income Taxes (Topic 740) - Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists* was issued. This standard provides that an unrecognized tax benefit, or a portion thereof, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, as similar tax loss, or a tax credit carryforward, except to the extent that a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date to settle any additional income taxes that would result from disallowance of a tax position, or the tax law does not require the entity to use and the entity does not intend to use, the deferred tax asset for such purpose, then the unrecognized tax benefit should be presented as a liability. This standard is effective for the Company on January 1, 2014 and is not expected to have a material effect on the Company's consolidated financial statements.

ASU 2013-10 - *Derivatives and Hedging (Topic 815) - Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes* was issued. This standard permits the Fed Funds Effective Swap Rate to be used as a U.S. benchmark interest rate for hedge accounting purposes, in addition to U.S. Treasury and LIBOR. The standard also removes the restriction on using different benchmark rates for similar hedges. This standard is not expected to have a material effect on the Company's consolidated financial statements.

ASU 2013-04 - *Liabilities (Topic 405) - Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date* was issued. This standard provides guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance (e.g. debt arrangements, other contractual obligations and settled litigation and judicial rulings) is fixed at the reporting date. This standard is effective for the Company January 1, 2014 and is not expected to have a material effect on the Company's consolidated financial statements.

Adoption of New Accounting Pronouncement: ASU 2013-02, Comprehensive Income (Topic 220) *Reporting Amounts Reclassified out of Accumulated Other Comprehensive Income*. The amendments in this update supersede and replace the presentation requirements for reclassifications out of accumulated other comprehensive income in ASUs 2011-05 (issued in June 2011) and 2011-12 (issued in December 2011) for all public and private organizations. The amendments require an entity to provide additional information about reclassifications out of accumulated other comprehensive income. For public entities, the amendments were effective for reporting periods beginning after December 15, 2012. This standard did not have an effect on the Company's consolidated financial statements.

NOTE 2 *Restrictions on Cash and Amounts Due from Banks*

The Company is required to maintain average cash balances on hand or balances with the Federal Reserve Bank for balances in transaction accounts. The Company was able to maintain sufficient average cash balances to avoid the requirement for a reserve balance with the Federal Reserve Bank at December 31, 2013 and 2012.

Through December 31, 2012, all of the Company's cash was insured by the Federal Deposit Insurance Corporation (FDIC). This unlimited insurance expired on January 1, 2013. The Company maintains cash that may exceed insured limits after December 31, 2012. The Company does not expect to incur losses in its cash accounts.

NOTE 3 *Investment Securities*

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

	2013			
	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale:				
Municipal bonds	$ 743,628	$ 33,677	$ --	$ 777,305
Mortgage-backed	1,057,933	52,013	--	1,109,946
	$ 1,801,561	$ 85,690	$ --	$ 1,887,251
Securities held to maturity:				
Municipal bonds	$ 330,000	$ 581	$ --	$ 330,581
Mortgage-backed	2,765,803	98,273	--	2,864,076
	$ 3,095,803	$ 98,854	$ --	$ 3,194,657

	2012			
	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale:				
Municipal bonds	$ 743,515	$ 53,401	$ --	$ 796,916
Mortgage-backed	1,484,704	67,700	--	1,552,404
	$ 2,228,219	$ 121,101	$ --	$ 2,349,320
Securities held to maturity:				
Municipal bonds	$ 330,000	$ 756	$ --	$ 330,756
Mortgage-backed	4,276,626	188,184	--	4,464,810
	$ 4,606,626	$ 188,940	$ --	$ 4,795,566

The amortized cost and fair value of investment securities as of December 31, 2013 by contractual maturity are shown below:

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within 1 year	$ --	$ --	$ --	$ --
After 1 year through 5 years	--	--	--	--
After 5 years through 10 years	743,628	777,305	330,000	330,581
After 10 years through 17 years	--	--	--	--
Mortgage-backed securities	1,057,933	1,109,946	2,765,803	2,864,076
	$ 1,801,561	$ 1,887,251	$ 3,095,803	$ 3,194,657

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

At December 31, 2013, no securities had unrealized losses.

NOTE 4 *Stock Investments, Restricted*

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

	2013	2012
Federal Reserve Bank stock	$ 165,400	$ 165,400
Federal Home Loan Bank (FHLB) stock	390,000	407,800
Pacific Coast Bankers' Bank stock	50,000	50,000
	$ 605,400	$ 623,200

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 (See Note 11). 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 5 *Loans and Allowance for Loan Losses*

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

	2013	2012
Real estate loans, commercial	$ 47,403,787	$ 47,053,550
Real estate loans, consumer	1,966,635	2,067,859
Commercial loans	14,675,131	12,516,101
Installment loans	313,144	321,502
	64,358,697	61,959,012
Allowance for loan losses	(1,496,995)	(1,438,797)
Unearned income and deferred loan fees, net	(98,360)	(169,090)
Loans held for investment, net	$ 62,763,342	$ 60,351,125

Changes in the allowance for loan losses by loan portfolio segment for the year ended December 31, 2013 are summarized as follows:

	One to Four Residential	Residential Income	Commercial Real Estate	Commercial and Industrial	Consumer	Installment	Other	Total
Beginning balance January 1, 2013	$ 25,394	$ 81,991	$ 1,146,534	$ 175,726	$ 357	$ 8,290	$ 505	$ 1,438,797
Provision for loan losses	(3,997)	81,756	10,184	(84,963)	266	(543)	(1,947)	756
Loans charged off	--	--	--	(79,503)	--	--	--	(79,503)
Recoveries	--	--	25,137	110,000	--	--	1,808	136,945
Ending Balance December 31, 2013	$ 21,397	$ 163,747	$ 1,181,855	$ 121,260	$ 623	$ 7,747	$ 366	$ 1,496,995

Changes in the allowance for loan losses by loan portfolio segment for the year ended December 31, 2012 are summarized as follows:

	One to Four Residential	Residential Income	Commercial Real Estate	Commercial and Industrial	Consumer	Installment	Other	Total
Beginning balance January 1, 2012	$ 44,586	$ 40,438	$ 1,201,839	$ 238,448	$ 976	$11,289	$ 387	$ 1,537,963
Provision for loan losses	(19,192)	41,553	158,683	(62,722)	2,001	(2,999)	2,948	120,272
Loans charged off	--	--	(213,988)	(67,828)	(2,720)	--	(2,830)	(287,366)
Recoveries	--	--	--	67,828	100	--	--	67,928
Ending Balance December 31, 2012	$ 25,394	$ 81,991	$ 1,146,534	$ 175,726	$ 357	$ 8,290	$ 505	$ 1,438,797

The following tables present loans and the allowance for loan losses by segment as of December 31:

Loans and Allowance for Loan Losses (by loan segment) As of December 31, 2013

	One to Four Residential	Residential Income	Commercial Real Estate	Commercial and Industrial	Consumer	Installment	Other	Total
Loans:								
Balance	$ 1,966,635	$ 8,967,370	$ 47,403,787	$ 5,696,650	$ 22,653	$ 290,491	$ 11,111	$ 64,358,697
Individually evaluated for impairment	509,292	207,942	4,305,523	256,917	--	--	--	5,279,674
Collectively evaluated for impairment	1,457,343	8,759,428	43,098,264	5,439,733	22,653	290,491	11,111	59,079,023
Allowance for loan losses:								
Balance	21,397	163,747	1,181,855	121,260	623	7,747	366	1,496,995
Individually evaluated for impairment	4,278	4,824	193,701	27,273	--	--	--	230,076
Collectively evaluated for impairment	17,119	158,923	988,154	93,987	623	7,747	366	1,266,919

Loans and Allowance for Loan Losses (by loan segment) As of December 31, 2012

	One to Four Residential	Residential Income	Commercial Real Estate	Commercial and Industrial	Consumer	Installment	Other	Total
Loans:								
Balance	$ 2,067,859	$ 4,630,908	$ 47,053,549	$ 7,870,083	$ 20,000	$ 301,502	$ 15,111	$ 61,959,012
Individually evaluated for impairment	--	--	3,784,878	1,372,524	--	--	--	5,157,402
Collectively evaluated for impairment	2,067,859	4,630,908	43,268,671	6,497,559	20,000	301,502	15,111	56,801,610
Allowance for loan losses:								
Balance	25,394	81,991	1,146,534	175,726	357	8,290	505	1,438,797
Individually evaluated for impairment	--	--	200,155	54,866	--	--	--	255,021
Collectively evaluated for impairment	25,394	81,991	946,379	120,860	357	8,290	505	1,183,776

The following tables summarize the loan portfolio at December 31, 2013 and 2012 by credit risk profiles based on internally assigned grades. Information has been updated for each credit quality indicator as of December:

Credit Exposure
Credit Risk Profile by Internally Assigned Grade
December 31, 2013

	Grade				
	Pass	Mention	Substandard	Doubtful	Total
One to four residential:					
Closed-end	$ 1,966,635	$ --	$ --	$ --	$ 1,966,635
Residential income	8,759,428	--	207,942	--	8,967,370
Commercial real estate:					
Owner occupied	17,248,404	2,029,057	2,704,191	--	21,981,652
Non-owner occupied	23,820,803	--	1,601,332	--	25,422,135
Commercial and industrial:					
Secured	3,194,014	--	228,543	--	3,422,557
Unsecured	2,245,719	--	28,374	--	2,274,093
Consumer	22,653	--	--	--	22,653
Installment	290,491	--	--	--	290,491
Other	11,111	--	--	--	11,111
Total	$ 57,559,258	$ 2,029,057	$ 4,770,382	$ --	$ 64,358,697

Credit Exposure
Credit Risk Profile by Internally Assigned Grade
December 31, 2012

	Grade				
	Pass	Mention	Substandard	Doubtful	Total
One to four residential:					
Closed-end	$ 2,067,859	$ --	$ --	$ --	$ 2,067,859
Residential income	4,630,908	--	--	--	4,630,908
Commercial real estate:					
Owner occupied	20,559,609	--	1,899,981	--	22,459,590
Non-owner occupied	22,425,018	284,044	1,884,897	--	24,593,959
Commercial and industrial:					
Secured	3,883,709	--	1,228,992	--	5,112,701
Unsecured	2,613,850	--	143,532	--	2,757,382
Consumer	20,000	--	--	--	20,000
Installment	301,502	--	--	--	301,502
Other	15,111	--	--	--	15,111
Total	$ 56,517,566	$ 284,044	$ 5,157,402	$ --	$ 61,959,012

The following tables set forth certain information with respect to the Company's portfolio delinquencies by loan class and amount at December 31:

Age Analysis of Past Due Loans (by Class)
As of December 31, 2013

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90-Days	Total Past Due	Current	Total Loans	Recorded Investment 90 Days or More and Accruing
One to four residential:							
Closed-end	$ --	$ --	$ --	$ --	$ 1,966,635	$ 1,966,635	$ --
Residential income	--	--	--	--	8,967,370	8,967,370	--
Commercial real estate:							
Owner occupied	--	--	--	--	21,981,652	21,981,652	--
Non-owner occupied	--	--	--	--	25,422,135	25,422,135	--
Commercial and industrial:							
Secured	--	--	--	--	3,422,557	3,422,557	--
Unsecured	--	--	--	--	2,274,093	2,274,093	--
Consumer	--	--	--	--	22,653	22,653	--
Installment	--	--	--	--	290,491	290,491	--
Other	30	--	--	30	11,081	11,111	--
Total	$ 30	$ --	$ --	$ 30	$ 64,358,667	$ 64,358,697	$ --

Age Analysis of Past Due Loans (by Class)
As of December 31, 2012

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90-Days	Total Past Due	Current	Total Loans	Recorded Investment 90 Days or More and Accruing
One to four residential:							
Closed-end	$ 517,916	$ --	$ --	$ 517,916	$ 1,549,943	$ 2,067,859	$ --
Residential income	--	--	--	--	4,630,908	4,630,908	--
Commercial real estate:							
Owner occupied	--	--	128,090	128,090	22,331,500	22,459,590	--
Non-owner occupied	--	--	--	--	24,593,959	24,593,959	--
Commercial and industrial:							
Secured	--	--	--	--	5,112,701	5,112,701	--
Unsecured	--	--	--	--	2,757,382	2,757,382	--
Consumer	--	--	--	--	20,000	20,000	--
Installment	--	--	--	--	301,502	301,502	--
Other	--	--	--	--	15,111	15,111	--
Total	$ 517,916	$ --	$ 128,090	$ 646,006	$ 61,313,006	$ 61,959,012	$ --

The following tables are summaries of impaired loans by loan class at December 31:

Impaired Loans (by Class)
For the Year Ended December 31, 2013

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With an allowance recorded:					
One to four residential:					
Closed-end	$ 509,292	$ 509,292	$ 4,278	$ 513,692	$ 32,106
Residential income	207,942	207,942	4,824	226,184	--
Commercial real estate:					
Owner occupied	520,699	520,699	121,659	510,388	28,266
Non-owner occupied	884,861	884,861	72,042	905,557	65,513
Commercial and industrial:					
Secured	--	--	--	288,869	--
Unsecured	--	--	--	190,189	--
Total:					
One to four residential	$ 509,292	$ 509,292	$ 4,278	$ 513,692	$ 32,106
Residential income	$ 207,942	$ 207,942	$ 4,824	$ 226,184	$ --
Commercial real estate	$ 1,405,560	$ 1,405,560	$ 193,704	$ 1,415,945	$ 93,779
Commercial and industrial	$ --	$ --	$ --	$ 479,059	$ --

Impaired Loans (by Class)
For the Year Ended December 31, 2012

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With an allowance recorded:					
One to four residential:					
Closed-end	$ --	$ --	$ --	$ 246,326	$ --
Commercial real estate:					
Owner occupied	128,090	128,090	2,997	318,632	--
Non-owner occupied	--	--	--	720,063	--
Commercial and industrial:					
Unsecured	1,088,163	1,088,163	25,463	1,160,651	--
Total:					
One to four residential	$ --	$ --	$ --	$ 246,326	$ --
Commercial real estate	$ 128,090	$ 128,090	$ 2,997	$ 1,038,695	$ --
Commercial and industrial	$ 1,088,163	$ 1,088,163	$ 25,463	$ 1,160,651	$ --

A summary of nonaccrual loans by loan class at December 31 is as follows:

Loans on Nonaccrual Status (by Class)

	2013	2012
One to four residential:		
Closed-end	$ --	$ --
Commercial real estate:		
Owner occupied	--	128,090
Non-owner occupied	--	--
Commercial and industrial:		
Secured	207,942	1,088,163
Total	$ 207,942	$ 1,216,253

The Company had one loan that was modified in troubled debt restructuring during the year ended December 31, 2013. This loan, whose balance was $19,229 at December 31, 2013, is classified as a troubled debt restructuring because the customer's loan was renewed at below market rates due to the borrower's financial difficulties at the time of renewal. The loan is collateral dependent and a specific reserve of $485 has been established for this loan at this time. The loan has not experienced payment defaults subsequent to renewal through December 31, 2013.

The Company had three loans that were modified in troubled debt restructuring during the year ended December 31, 2012. These loans, whose balances totaled $913,840 as of December 31, 2012, are classified as a troubled debt restructuring because they were renewed at below-market interest rates due to the borrowers' financial difficulties at the time of the renewal. The loans are collateral dependent and have zero impairment; thus, no specific allowance has been established for these loans. The loans have not experienced payment defaults subsequent to renewal through December 31, 2013.

Loans serviced for others are portions of loans participated out to other banks. Loan balances are net of these participated balances. The unpaid principal balance of loans serviced for others was $999,411 and $1,030,197 at December 31, 2013 and 2012, respectively.

NOTE 6 *Foreclosed Assets*

At December 31, 2013 and 2012 the Company had no foreclosed assets. Expenses applicable to foreclosed assets amounted to approximately $4,000 for the year ended December 31, 2012. This amount is included in "other operating expenses" in the consolidated statements of income. Gains of $93,871 were recognized on the sale of foreclosed assets for the year ended December 31, 2012.

NOTE 7 *Premises and Equipment*

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

	2013	2012
Land	$ 1,868,422	$ 1,868,422
Building	3,212,729	3,212,729
Furniture, fixtures and equipment	996,490	1,030,672
Building and Leasehold improvements	1,415,941	1,367,341
Automobile	39,544	39,544
	7,533,126	7,518,708
Less accumulated depreciation and amortization	1,392,168	1,259,980
	$ 6,140,958	$ 6,258,728

Depreciation and amortization expense for years ended December 31, 2013, and 2012 amounted to $211,201, and $227,727 respectively.

NOTE 8 *Deposits*

The aggregate amount of time deposits in denominations of $100,000 or greater at December 31, 2013 and 2012 was $8,415,988 and $10,433,009, respectively.

At December 31, 2013, the scheduled maturities of total time deposits were as follows:

Within 1 year	$ 13,116,230
After 1 year through 3 years	--
	$ 13,116,230

NOTE 9 *Subordinated Notes Payable to Subsidiary Trusts*

On October 25, 2006, Chino Statutory Trust I (the Trust), a newly formed Connecticut statutory business trust and a wholly-owned subsidiary of the Company, issued an aggregate of $3.0 million of principal amount of Capital Securities (the Trust Preferred Securities) and $93,000 in Common Securities. The securities issued by the Trust are fully guaranteed by the Company with respect to distributions and amounts payable upon liquidation, redemption or repayment. The entire proceeds to the Trust from the sale of the Trust Preferred Securities were used by the Trust to purchase $3,000,000 in principal amount of the Junior Subordinated Deferrable Interest Debentures due December 15, 2036 issued by the Company (the Subordinated Debt Securities). The Company issued an additional $93,000 in principal amount of the Junior Subordinated Deferrable Interest Debentures due December 15, 2036, in exchange for its investment in the Trust's Common Securities. During 2006 and 2007 the Company used approximately $522,000 and $2,478,000, respectively, from the proceeds of $3.0 million to repurchase and retire Company stock. There was no cost to the Trust associated with the issuance.

The Subordinated Debt Securities bear interest equal to LIBOR (adjusted quarterly) plus 1.68%. LIBOR at December 15, 2013 was 0.24285% resulting in an interest rate of 1.92285% from December 16, 2013 to March 16, 2014.

As of December 31, 2013 and 2012, accrued interest payable to the Trust amounted to $2,564 and $2,485, respectively. Interest for Trust Preferred Securities amounted to $59,493 and $68,283 respectively, for the years ended December 31, 2013 and 2012. The Company elected to defer three quarterly interest payments beginning with the payment due September 15, 2011, pending the conclusion of the Company's stock offering (see Note 22). Having received funds from the stock offering and approval from FRB, the Company paid the interest current through December 15, 2012.

NOTE 10 *Related Party Transactions*

In the ordinary course of business, the Bank has granted loans to certain officers, directors and companies with which it is 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 as of and for the year ended December 31:

	2013	2012
Balance January 1	$ 975,860	$ 1,177,341
Advances	39,843	9,343
Repayments, net of borrowings	(113,600)	(210,824)
Balance as of December 31	$ 902,103	$ 975,860

Deposits from related parties held by the Bank at December 31, 2013 and 2012 amounted to $7,192,850 and $6,634,005, respectively.

NOTE 11 *Federal Home Loan Bank Borrowings*

As a member of the FHLB, the Bank may borrow funds collateralized by securities or qualified loans up to 25% of its asset base. The Bank has a line of credit of $27,888,500 and $29,770,750 with no advances outstanding at December 31, 2013 or at December 31, 2012, respectively.

On December 21, 2005, the Bank entered into a standby letter of credit with the FHLB for $800,000. This stand-by letter of credit remained in place as collateral for local agency deposits at the Bank. The letter of credit expired January 8, 2014 and was renewed January 8, 2014.

NOTE 12 *Federal Funds Lines of Credit*

The Bank had a total of $5.5 million in Federal funds lines of credit with various banks at December 31, 2013 and 2012. There were no borrowings outstanding at December 31, 2013 and 2012.

NOTE 13 *Income Taxes*

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

	2013	2012
Current tax provision:		
Federal	$ 390,491	$ 123,184
State	147,790	50,787
	538,281	173,971
Deferred tax provision:		
Federal	20,819	101,700
State	7,445	59,665
	28,264	161,365
	$ 566,545	$ 335,336

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

	2013	2012
Statutory federal tax rate	34.0%	34.0%
Increase (decrease) resulting from:		
State taxes, net of federal tax benefit	7.2	7.2
Tax-exempt earnings on life insurance policies	(2.0)	(3.5)
Tax-exempt interest from municipal bonds	(1.0)	(2.4)
Other, net	(0.6)	0.9
Effective tax rate	37.6%	36.2%

The components of the net deferred tax asset, included in other assets on the statements of financial condition, were as follows at December 31:

	2013	2012
Deferred tax assets:		
Allowance for loan losses	$ 467,704	$ 477,143
Start-up expenses	5,597	6,343
State tax	45,218	31,840
Deferred compensation and benefits	189,640	113,051
Non-accrual interest	21,686	110,027
	729,845	738,404
Deferred tax liabilities:		
FHLB stock dividends	(31,963)	(31,963)
Depreciation and amortization	(119,339)	(99,634)
Unrealized gain on securities available for sale	(35,262)	(49,832)
	(186,564)	(181,429)
Net deferred tax asset	$ 543,281	$ 556,975

Tax years ended December 31, 2010 through December 31, 2012 remain subject to examination by the Internal Revenue Service. Tax years ended December 31, 2009 through December 31, 2012 remain subject to examination by the California Franchise Tax Board.

NOTE 14 *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, 2013 and 2012, the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount	
	2013	2012
Undisbursed loans	$ 4,123,739	$ 3,904,855
Letters of credit	--	224,612

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. Included in December 31, 2013 undisbursed commitments were $425,508 of commitments at fixed rates. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the customer. Collateral held varies but may include accounts receivable, inventory, equipment, income-producing commercial properties, residential properties, and properties under construction.

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

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

NOTE 15 *Other Commitments and Contingencies*

Operating Lease Commitments: The Company has no non-cancellable lease agreements on its premises, as all premises are owned.

Employment Agreement: The Company entered into a three-year employment agreement with a key officer expiring in July 2015. 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 16 *Concentration 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 77% and 79% of total loans held for investment at December 31, 2013 and 2012, respectively. The Bank has no concentration of loans with any one customer or industry.

Deposits from escrow companies represented 11% and 12% of total deposits on December 31, 2013 and 2012, respectively. Four escrow companies accounted for 9% of total deposits for each of the years ended December 31, 2013 and 2012.

NOTE 17 *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 100% 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, 2013, and 2012, the Bank matching contributions attributable to the Plan amounted to $56,342, $57,900, respectively.

NOTE 18 *Salary Continuation Agreements*

The Company has entered into salary continuation agreements, which provide for payments to certain officers at the age of retirement. Included in other liabilities at December 31, 2013 and 2012, respectively, is $349,131 and $348,173 of deferred compensation related to these agreements. The plans are funded through life insurance policies that generate a cash surrender value to fund the future benefits.

NOTE 19 *Stock-Based Compensation*

The Company's stock option plan expired on July 13, 2010. The plan allowed the Board to grant incentive stock options and non-qualified stock options to its directors, officers and employees. At December 31, 2012, 12,402 options were outstanding. The Plan provided that the exercise price of these options should 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. All options expired in 2013.

There were no options granted in 2013 and 2012. The most recent grant of options occurred in 2003.

A summary of the status of the Company's stock option plan as of December 31 and changes during the year then ended are as follows:

	2013		2012	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Options outstanding at beginning of year	12,402	$ 10.58	12,402	$ 10.58
Options granted	--	$ --	--	$ --
Options exercised	3,678	$ 8.67	--	$ --
Options forfeited	8,724	$ 11.39	--	$ --
Outstanding at year-end	--	$ --	12,402	$ 10.58
Options exercisable at year-end	--	$ --	12,402	$ 10.58

No options were outstanding at December 31, 2013.

NOTE 20 *Regulatory Matters*

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 Bank has also agreed to the OCC establishing higher than normal capital ratios for the Bank (see Note 21). 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, 2013 and 2012 are also presented in the table. Management believes, as of December 31, 2013 and 2012, that the Bank met all capital adequacy requirements to which it is subject.

As of December 31, 2013, the most recent notification from the OCC 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.

	2013					
	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:						
Consolidated	$ 13,666	18.18%	$ 6,013	8.00%	$ 7,516	10.00%
Bank	$ 13,284	17.70%	$ 6,005	8.00%	$ 7,505	10.00%
Tier 1 capital to risk-weighted assets:						
Consolidated	$ 12,835	17.08%	$ 3,006	4.00%	$ 4,510	6.00%
Bank	$ 12,339	16.44%	$ 3,002	4.00%	$ 4,503	6.00%
Tier 1 capital to average assets:						
Consolidated	$ 12,835	10.69%	$ 4,801	4.00%	$ 6,001	5.00%
Bank	$ 12,339	10.29%	$ 4,797	4.00%	$ 5,996	5.00%

	2012					
	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:						
Consolidated	$ 12,654	17.50%	$ 5,786	8.00%	$ 7,232	10.00%
Bank	$ 12,173	16.75%	$ 5,814	8.00%	$ 7,268	10.00%
Tier 1 capital to risk-weighted assets:						
Consolidated	$ 11,534	15.95%	$ 2,893	4.00%	$ 4,339	6.00%
Bank	$ 11,249	15.48%	$ 2,907	4.00%	$ 4,361	6.00%
Tier 1 capital to average assets:						
Consolidated	$ 11,534	9.86%	$ 4,677	4.00%	$ 5,847	5.00%
Bank	$ 11,249	9.64%	$ 4,670	4.00%	$ 5,837	5.00%

Regulatory Agreements: On April 12, 2011, the Bank entered into a formal written agreement (the Agreement) with the OCC, the Bank's primary regulator. On October 10, 2013, the Formal Agreement was terminated by the OCC.

The Agreement required the Bank to take the following actions: (i) adopt, implement and adhere to a rolling three year strategic plan and capital program; (ii) refrain from paying dividends without prior OCC non-objection; (iii) add a new independent director with banking experience, or similar accounting or regulatory experience, to the Bank Board; (iv) obtain non objection from the OCC before adding any individual to the Bank Board or employing any senior executive officer; (v) obtain a review of insider lending compliance by an independent outside audit firm acceptable to the OCC; (vi) revise, in a manner acceptable to the OCC, the Bank's policies or programs concerning overdrafts, insider lending compliance, credit risk management, credit risk accounting, nonaccrual recognition and concentration risk management; and thereafter implement and adhere to such policies; (vii) protect the Bank's interest in assets criticized by the OCC and take certain actions to reduce the level of criticized assets; (viii) continue to review the adequacy of the Bank's allowance for loan losses and maintain a program acceptable to the OCC to ensure an adequate allowance; (ix) correct each violation of law, rule or regulation cited in the most recent regulatory examination report and implement procedures to avoid future violations; and (x) submit quarterly progress reports to the OCC regarding various aspects of the foregoing actions. The Bank Board appointed a compliance committee to submit such reports and monitor and coordinate the Bank's performance under the Agreement.

The Bank also has agreed to the OCC establishing higher minimum capital ratios for the Bank. Specifically, the Bank is required to maintain a Leverage Capital Ratio of not less than 9.0% and a Total Risk-Based Capital Ratio of not less than 12.0%. The Bank achieved the required capital ratios by May 31, 2011, and maintained the ratios above the required minimums, thereafter. As of December 31, 2013 the Bank's Leverage Capital Ratio was 10.29% and its Total Risk-Based Capital Ratio was 17.70%. Although the formal agreement with the OCC has been terminated, the individual minimum capital ratios remain in place.

On July 21, 2011, Chino Commercial Bancorp entered into a memorandum of understanding (MOU) with the Federal Reserve Bank of San Francisco (the FRB). On November 20, 2013 the FRB terminated the memorandum of understanding. The MOU was an informal administrative agreement pursuant to which Chino Commercial Bancorp agreed, among other things, to (i) take steps to ensure that the Bank complies with the Bank's Agreement; (ii) refrain from paying cash dividends, receiving cash dividends from the Bank, increasing or guaranteeing debt, making any payments on trust preferred securities, making any capital distributions, redeeming or repurchasing its stock, or issuing any additional trust preferred securities, without prior FRB approval; (iii) obtain non-objection from the FRB before adding any individual to the Board or employing any senior executive officer and (iv) submit written quarterly progress reports to the FRB detailing compliance with the MOU.

NOTE 21 *Restrictions on Dividends*

The Company's ability to declare dividends depends primarily upon dividends it receives from the Bank, as a bank holding company that currently has no significant assets other than its equity interest in the Bank. The Bank's dividend practices in turn depend upon legal restrictions, the Bank's earnings, financial position, current and anticipated capital requirements, and other factors deemed relevant by the Bank's Board of Directors at that time.

NOTE 22 *Secondary Stock Offering*

On September 16, 2011, the Company filed a registration statement on Form S-1 with the SEC in connection with a rights offering to existing stockholders which commenced in the fourth quarter of 2011. Pricing for the offering was set at $10.50 per share plus certain bonus shares to be issued to holders of subscription rights for no additional consideration. The rights offering to existing stockholders expired on February 22, 2012 and the public offering was extended to and expired on July 15, 2012. The Company generated $819,158 in capital from the offering, representing gross proceeds from stockholder rights subscriptions totaling $435,068, and subscriptions from investors in the public offering totaling $384,090. Net proceeds of $668,441 after deduction of offering expenses was booked to capital.

NOTE 23 *Termination of Registration*

On April 23, 2013, the Company voluntarily de-registered its common stock under Section 12(g) of the Securities Exchange Act of 1934 pursuant to the provisions of the Jumpstart Our Business Startups Act. As of that date, the Company no longer has periodic reporting obligations with the Securities and Exchange Commission.

NOTE 24 *Other Operating Expenses*

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

	2013	2012
Data processing fees	$ 408,109	$ 359,818
Deposit products and services	83,016	98,315
Professional fees	215,411	272,897
Regulatory assessments	218,269	222,917
Advertising and marketing	69,554	51,766
Directors' fees and expenses	112,117	107,802
Other operating expense	332,210	324,525
	$ 1,438,686	$ 1,438,040

NOTE 25 *Fair Value Measurements*

Fair Value Measurements Using Fair Value Hierarchy: Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The tables below present information about the Company's assets measured at fair value on a recurring and non-recurring basis as of December 31, 2013 and 2012, and indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value. No liabilities were measured at fair value at December 31, 2013 and 2012.

The fair value hierarchy is as follows:

Level 1 Inputs - Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 Inputs - inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 Inputs - Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

The following section describes the valuation methodologies used for assets measured at fair value on a recurring basis, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Financial assets measured at fair value on a recurring basis include the following:

Securities Available for Sale. The securities classified as available for sale at December 31, 2013, are reported at fair value utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things.

The table below presents the balance of investment securities available for sale at December 31 the fair value of which is measured on a recurring basis:

	Fair Value Measurements Using			
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Securities Available for Sale				
At December 31, 2013				
Municipal bonds	$ --	$ 777,305	$ --	$ 777,305
Mortgage-backed securities	--	1,109,946	--	1,109,946
Total	$ --	$ 1,887,251	$ --	$ 1,887,251
At December 31, 2012				
Municipal bonds	$ --	$ 796,916	$ --	$ 796,916
Mortgage-backed securities	--	1,552,404	--	1,552,404
Total	$ --	$ 2,349,320	$ --	$ 2,349,320

Certain assets are measured at fair value on a nonrecurring basis; that is, the assets are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The following table presents such assets carried on the balance sheet by caption and by level within the valuation hierarchy:

	Fair Value Measurements Using			
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
At December 31, 2013				
Collateral-dependent impaired loans	$ --	$ 1,848,725	$ --	$ 1,848,725
Total	$ --	$ 1,848,725	$ --	$ 1,848,725
At December 31, 2012				
Collateral-dependent impaired loans	$ --	$ 1,438,534	$ --	$ 1,438,534
Total	$ --	$ 1,438,534	$ --	$ 1,438,534

Impaired Loans: Collateral-dependent impaired loans are carried at the fair value of the collateral less estimated costs to sell. The fair value of collateral is determined based on appraisals. In some cases, adjustments are made to the appraised values for various factors including age of the appraisal, age of comparables included in the appraisal, and known changes in the market and in the collateral. When significant adjustments were based on unobservable inputs, the resulting fair value measurement has been categorized as a Level 3 measurement. Otherwise, collateral-dependent impaired loans are categorized under Level 2.

At December 31, 2013, the Company had seven collateral-dependent impaired loans that are measured for impairment on a non-recurring basis. Management measured for impairment using the fair value of the collateral for collateral dependent loans, which had a carrying amount of $1,926,800, with a valuation allowance of $78,075 at December 31, 2013.

At December 31, 2012, collateral-dependent impaired loans had a carrying amount of $1,497,868, with a valuation allowance of $59,334.

Impaired loans that are not collateral-dependent are carried at the present value of expected future cash flows discounted at the loan's effective interest rate. Troubled debt restructurings are also carried at the present value of expected future cash flows. However, expected cash flows for troubled debt restructurings are discounted using the loan's original effective interest rate rather than the modified interest rate. Since cash flows are not discounted to present value using a market interest rate, the measurement of impairment for these loans is not a fair value measurement.

Foreclosed Assets: Assets acquired through foreclosure or other proceedings are initially recorded at fair value at the date of foreclosure less estimated costs of disposal, which establishes a new cost. After foreclosure, valuations are periodically performed, and foreclosed assets held for sale are carried at the lower of cost or fair value, less estimated costs of disposal. The fair values of real properties initially are determined based on appraisals. In some cases, adjustments were made to the appraised values for various factors including age of the appraisal, age of comparables included in the appraisal, and known changes in the market or in the collateral. Subsequent valuations of the real properties are based on management estimates or on updated appraisals. Foreclosed assets are categorized under Level 3 when significant adjustments are made by management to appraised values based on unobservable inputs. Otherwise, foreclosed assets are categorized under Level 2 if their values are based solely on current appraisals.

At December 31, 2013 and 2012, the Company has no foreclosed assets.

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 Company'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 Company. Accordingly, the fair value estimates may not be realized in the immediate settlement of the instrument. Accounting Standards Codification (ASC) 825, Financial Instruments, 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 Company.

The following methods and assumptions were used by the Company 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 Company'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 Company 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 Company 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 Company's financial instruments at December 31 are as follows:

	Carrying Value	Fair Value Measurements at December 31, 2013 Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Financial assets:					
Cash and cash equivalents	$ 25,589,772	$ 25,589,772	$ --	$ --	$ 25,589,772
Interest-bearing deposits with other banks	18,990,000	--	18,894,099	--	18,984,099
Investment securities:					
Available for sale	1,887,251	--	1,887,251	--	1,887,251
Held to maturity	3,095,803	--	3,194,657	--	3,194,657
Stock investments	605,400	--	--	605,400	605,400
Loans, net	62,763,342	--	1,848,725	61,167,899	63,016,624
Accrued interest receivable	270,106	--	270,106	--	270,106
Bank owned life insurance	2,976,477	--	2,976,477	--	2,976,477
Trups common securities	93,000	--	93,000	--	93,000
Financial liabilities:					
Deposits					
Non-interest bearing demand	$ 56,565,703	$ 56,565,703	$ --	$ --	$ 56,565,703
Interest-bearing	53,038,158	--	53,041,116	--	53,041,116
Accrued interest payable	28,367	--	28,367	--	28,367
Subordinated debentures	3,093,000	--	3,093,000	--	3,093,000

	Carrying Value	Fair Value Measurements at December 31, 2012 Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Financial assets:					
Cash and cash equivalents	$ 19,988,280	$ 19,988,280	$ --	$ --	$ 19,988,280
Interest-bearing deposits with other banks	17,417,000	--	17,165,033	--	17,165,033
Investment securities:					
Available for sale	2,349,320	--	2,349,320	--	2,349,320
Held to maturity	4,606,626	--	4,795,566	--	4,795,566
Stock investments	623,200	--	--	623,200	623,200
Loans, net	60,351,125	--	1,438,534	59,267,904	60,706,438
Accrued interest receivable	286,812	--	286,812	--	286,812
Bank owned life insurance	1,887,304	--	188,734	--	1,887,304
Trups common securities	93,000	--	93,000	--	93,000
Financial liabilities:					
Deposits					
Non-interest bearing demand	$ 48,822,963	$ 48,822,963	$ --	$ --	$ 48,822,963
Interest-bearing	53,327,671	--	53,336,948	--	53,336,948
Accrued interest payable	35,674	--	35,674	--	35,674
Subordinated debentures	3,093,000	--	3,093,000	--	3,093,000

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