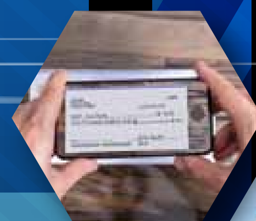
Chino Commercial Bancorp

Annual Report 2019

20th Anniversary



We've got you covered!

2010 2011 2012 2013 2014 2015 2016 2017 2018 2019

CORPORATE PROFILE

Chino Commercial Bank (CCB) has become one of the Inland Empire's leading community banks, with four full-service banking offices operating in the diverse and growing economic regions of Chino, Ontario, Rancho Cucamonga and Upland, 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

	2019	2018	2017
	As of and For the Years Ended December 31, (Dollars in Thousands, except per share data)		
SELECTED BALANCE SHEET DATA:			
Total assets	$ 229,507	$ 201,988	$ 192,801
Loans receivable	141,558	129,536	120,143
Deposits	180,151	171,020	149,126
Non-interest bearing deposits	88,413	83,237	74,767
Subordinated notes payable to subsidiary trust	3,093	3,093	3,093
Shareholders' equity	24,373	21,709	19,504
SELECTED OPERATING DATA:			
Interest income	$ 8,160	$ 7,326	$ 6,353
Net income	2,554	2,231	1,571
Basic income per share	1.14	1.20	1.17
Diluted income per share	1.14	1.20	1.17
PERFORMANCE RATIOS			
Return on average assets	1.17%	1.16%	0.84%
Return on average equity	11.03%	10.83%	9.85%
Equity to total assets at the end of the period	10.62%	10.75%	10.12%
Core efficiency ratio	64.62%	63.23%	62.92%
Non-interest expense to average assets	2.97%	2.91%	2.66%
REGULATORY RATIOS			
Average equity to average assets	10.57%	10.67%	8.55%
Leverage capital	13.74%	14.80%	13.41%
Tier I Risk-based	20.16%	20.93%	19.76%
Risk-based capital	18.30%	19.19%	18.43%
Common Tier 1 (CET 1)	20.16%	20.93%	19.76%

TO OUR SHAREHOLDERS

We are very pleased to present you with Chino Commercial Bancorp and Chino Commercial Bank's annual report, for the year 2019.

This year marks the 20th anniversary of the Bank, which opened on September 1, 2000. Having been here since the start, I can tell you 20 years does not take as long as you might think. Twenty years ago, Amazon was a small online used bookseller. The Internet was just getting popular, and dial-up connections were the way we went online. There was a hotly contested Presidential election that year, which came down to George W. Bush and Al Gore. The smartphone would not be invented for another seven years. Some things have changed significantly, and some things haven't changed much at all.

As you will read, this last year was a very good year for the Company and the Bank, which posted record levels of Deposits, Loans, Revenue, and Net Profits.

During 2019 the Bank was again recognized by the American Bankers Association in their annual ranking of the **Top 200 Publicly Traded Community Banks** in the United States.

The Bank was also recognized by the Findley Reports on Financial Institutions by receiving Findley's highest rating of **"Super Premier Performing Bank"** based upon the financial results of the Bank for the previous year.

Similarly, the Bank also received the highest rating of **"Five Star"** from Bauer Financial, an independent Bank and Credit Union rating service.

In 2019 the Company was also able to pay out another **20% stock dividend** to its shareholders.
With this last stock dividend, combined with previous stock splits and dividends, an original purchase of 100 shares of stock in our Initial Public Offering in 2000 would have increased to approximately 319 shares today.

During 2019 the Bank's Total Assets increased by 14%, to its highest level of $229 million. During that same time, total Deposits increased by 6% to $182 million; and total loans increased by 9% to $144 million. Perhaps equally important was the level of Loan quality attained, with the Bank having no credit losses during the year and ending the year with no loan delinquency and no foreclosed properties.

Similar to the increase in Assets, the Bank's revenue also increased by $1.7 million, or 18%, up to $11.4 million, yielding a record net after tax profit of $2.5 million or $1.14 per basic and diluted share.

Looking forward, the Bank continues to develop innovation in the delivery of financial services. Increasingly, the traditional method of paying for things in cash or by check, are being replaced by electronic payment channels, such as debit, credit, and ACH. Going to a bank branch is being replaced by Online Banking systems; and over the next two years, we are anticipating moving to a "real-time" ACH payment system, which will allow payments and receipt of funds to occur real-time, rather than settling in days.

TOTAL ASSETS
(in millions)

During this next year the Bank is planning to introduce its own **Credit Card program**, for consumers and businesses, which offers ease, convenience, and redeemable rewards. Also, over the next year, we plan to begin offering **Merchant Services**, which will allow our customers to accept debit and credit cards for customer purchases.

TOTAL LOANS
(in millions)

Despite all of the changes taking place in the financial services industry, we believe that the Bank's value proposition of providing excellent customer service, coupled with leading technology, is more compelling today than it was 20 years ago. Many banks offer online banking and access through mobile devices; however, very few banks offer a direct phone number and a person to call if things are not working as they should. It is this combination of warm and friendly personal service, coupled with excellent technology that makes Chino Commercial Bank the right choice.

TOTAL DEPOSITS
(in millions)

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

Sincerely,

Dann H. Bowman
President and Chief Executive Officer

SHAREHOLDERS' EQUITY
(in millions)

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BOARD OF DIRECTORS

Dann H. Bowman
President and
Chief Executive Officer

Bernard Wolfswinkel
Chairman of the Board
Retired

Richard G. Malooly
Real Estate Professional
Retired

Linda M. Cooper
President, Inland Empire
Escrow

Jeanette L. Young
Corporate Secretary
Realtor, Windermere Real Estate
Southern California

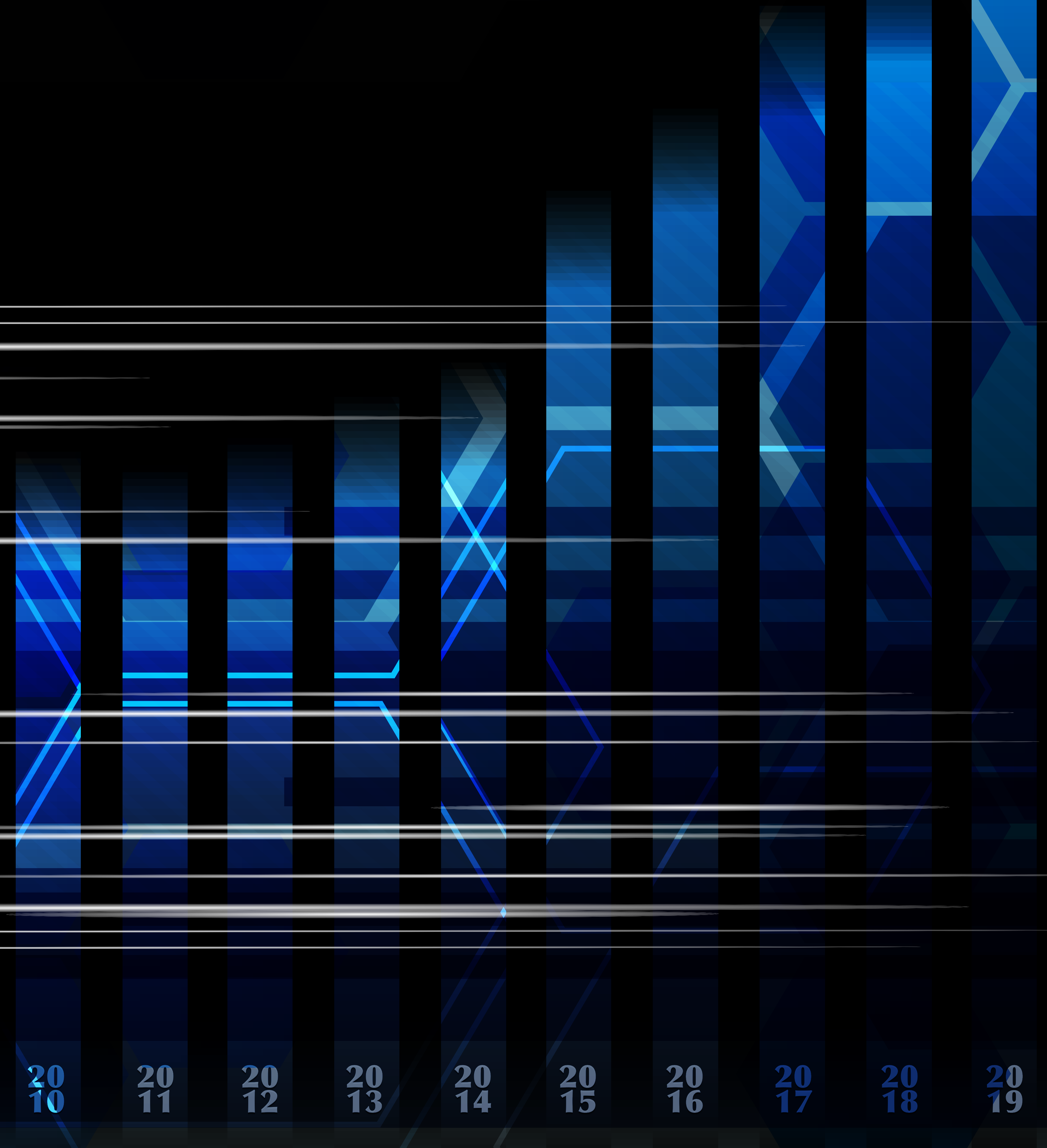
Julio Cardenas
President, Century 21 King
Realtors

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

Kenneth McElvany
Insurance Executive
Retired

Chino Commercial Bancorp

Financial Statements - Annual Report 2019



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CPAs & BUSINESS ADVISORS

Board of Directors and Shareholders of
Chino Commercial Bancorp
Chino, California

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Chino Commercial Bancorp and Subsidiary (the Company), which comprise the consolidated statement of financial position as of December 31, 2019, and the related consolidated statements of net income, comprehensive income, changes in shareholders' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from 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 consolidated financial position of the Company, Inc. as of December 31, 2019, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of the Company as of and for the year ended December 31, 2018, were audited by Vavrinek, Trine, Day & Company, LLP, who joined Eide Bailly LLP on July 22, 2019, and whose report dated March 6, 2019, expressed an unmodified opinion on those statements.

Eide Bailly LLP

Rancho Cucamonga, California
February 25, 2020

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CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2019 AND 2018

	2019	2018
ASSETS		
Cash and due from banks	$ 4,363,753	$ 25,451,866
Federal funds sold	32,415,000	-
Cash and cash equivalents	36,778,753	25,451,866
Interest-bearing deposits in other banks	496,000	1,988,000
Investment securities available for sale (note 3)	7,977,936	5,914,736
Investment securities held-to-maturity (note 3)	28,367,056	26,623,343
Loans held for investment, net of allowance for loan losses of $2,391,765 in 2019, and $2,292,478 in 2018, (note 5)	141,558,351	129,536,355
Fixed assets, net (Note 6)	6,401,773	6,063,350
Accrued interest receivable	619,856	585,506
Stock investments, restricted, at cost (note 4)	1,440,900	1,248,400
Bank owned life insurance	4,595,584	3,484,885
Other assets	1,270,936	1,091,805
Total assets	$ 229,507,145	$ 201,988,246
LIABILITIES		
Deposits		
Noninterest-bearing	$ 88,412,668	$ 83,237,014
Interest-bearing	91,738,674	87,782,807
Total deposits	180,151,342	171,019,821
Federal Home Loan Bank advances	20,000,000	5,000,000
Subordinated notes payable to subsidiary trust (note 8)	3,093,000	3,093,000
Accrued interest payable	203,246	64,794
Other liabilities	1,686,979	1,101,417
Total liabilities	205,134,567	180,279,032
Commitments and Contingent Liabilities (notes 13 and 14)	-	-
SHAREHOLDERS' EQUITY		
Common stock, no par value, 10,000,000 shares authorized 2,230,808 and 1,857,132 shares issued and outstanding at December 31, 2019 and December 31, 2018, respectively	10,502,557	10,502,557
Retained earnings	13,803,528	11,251,915
Accumulated other comprehensive income (loss)	66,493	(45,258)
Total shareholders' equity	24,372,578	21,709,214
Total liabilities and shareholders' equity	$ 229,507,145	$ 201,988,246

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF NET INCOME

YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
INTEREST INCOME		
Interest and fees on loans	$ 7,884,573	$ 7,012,709
Interest on federal funds sold and FRB deposits	510,650	422,577
Interest on time deposits in other financial institutions	35,077	27,899
Interest on investment securities	1,078,908	659,707
Total interest income	9,509,208	8,122,892
INTEREST EXPENSE		
Interest on deposits	935,215	612,912
Interest on borrowings	413,749	183,636
Total interest expense	1,348,964	796,548
Net interest income	8,160,244	7,326,344
Provision for loan losses (Note 5)	28,200	145,500
Net interest income after provision for loan losses	8,132,044	7,180,844
NONINTEREST INCOME		
Service charges on deposit accounts	1,285,992	1,032,817
Other miscellaneous income	435,428	316,326
Dividend income from restricted stock	88,281	115,362
Income from bank-owned life insurance	110,699	98,130
Total noninterest income	1,920,400	1,562,635
NONINTEREST EXPENSE		
Salaries and employee benefits	3,941,211	3,568,823
Occupancy and equipment	632,502	522,459
Other expenses	1,939,980	1,528,942
Total noninterest expense	6,513,693	5,620,224
Income before income tax expense	3,538,751	3,123,255
Provision for income taxes	984,794	892,659
Net Income	$ 2,553,957	$ 2,230,596
Basic earnings per share	$ 1.14	$ 1.00
Diluted earnings per share	$ 1.14	$ 1.00

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
NET INCOME	$ 2,553,957	$ 2,230,596
Other comprehensive income (loss), net of tax effects		
Net unrealized holding income (loss) on securities available-for-sale during the period (net of tax effects of $43,783 and $8,379 in 2019 and 2018, respectively)	111,751	(21,988)
Total comprehensive income	$ 2,665,708	$ 2,208,608

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 2019 AND 2018

	Number of Shares	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2017	1,549,420	$ 10,502,557	$ 9,024,637	$ (23,270)	$ 19,503,924
Net income	-	-	2,230,596	-	2,230,596
Change in unrealized gain on securities available for sale, net of tax	-	-	-	(21,988)	(21,988)
Cash in lieu of fractional stock dividends (note 20)	-	-	(3,318)	-	(3,318)
Stock dividends (note 20)	307,712	-	-	-	-
Balance at December 31, 2018	1,857,132	10,502,557	11,251,915	(45,258)	21,709,214
Net income	-	-	2,553,957	-	2,553,957
Change in unrealized gain on securities available for sale, net of tax	-	-	-	111,751	111,751
Cash in lieu of fractional stock dividends (note 20)	-	-	(2,344)	-	(2,344)
Stock dividends (note 20)	371,676	-	-	-	-
Balance at December 31, 2019	2,228,808	$ 10,502,557	$ 13,803,528	$ 66,493	$ 24,372,578

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
OPERATING ACTIVITIES		
Net income	$ 2,553,957	$ 2,230,596
Adjustments to reconcile net income to net cash from operating activities		
Provision for loan losses	28,200	145,500
Depreciation and amortization	314,062	242,820
Loss on disposition of fixed assets	12,797	211
Amortization of deferred loan fees	195,402	188,511
Net accretion of discount and amortization of premium on securities available-for-sale	221,197	22,253
Income from bank-owned life insurance	(1,110,699)	(98,131)
Deferred income tax	200,381	(28,931)
Net changes in		
Accrued interest receivable	(34,350)	(57,206)
Other assets	(393,068)	(222,750)
Accrued interest payable	138,452	(366)
Other liabilities	585,561	88,881
Net Cash from Operating Activities	2,711,892	2,511,388
INVESTING ACTIVITIES		
Net change in interest-bearing deposits in banks	1,492,000	(748,000)
Loan originations and principal collections, net	(12,245,598)	(9,727,609)
Purchase of fixed assets	(695,507)	(400,775)
Proceeds from principal payments received and maturities of available-for-sale securities	2,202,805	1,185,838
Purchase of securities available-for-sale	(4,162,392)	(4,008,006)
Purchase of securities held-to-maturity	(10,443,333)	(7,970,573)
Proceeds from principal payments received and maturities of securities held-to-maturity	8,530,343	2,722,620
Sales (purchases) of stock investments, restricted	(192,500)	839,200
Net Cash used for Investing Activities	(15,514,182)	(18,107,305)
FINANCING ACTIVITIES		
Net increase in deposits	9,131,521	21,893,433
Increase (decrease) in Federal Home Loan Bank advances	15,000,000	(15,000,000)
Cash paid in lieu of fractional stock dividends	(2,344)	(3,318)
Net Cash from Financing Activities	24,129,177	6,890,115
Net Change in Cash and Cash Equivalents	11,326,887	(8,705,802)
Cash and Cash Equivalents at Beginning of Period	25,451,866	34,157,668
Cash and Cash Equivalents at End of Period	$ 36,778,753	$ 25,451,866
SUPPLEMENTAL DISCLOSURE FOR CASH FLOW INFORMATION		
Cash payments for		
Interest paid	$ 1,210,512	$ 796,914
Income taxes paid	1,186,405	773,991
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Change in unrealized gain on securities available-for-sale	$ (155,534)	$ 30,367

See Notes to Consolidated Financial Statements

NOTE 1 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, a branch office in Rancho Cucamonga, California in April 2010, and a branch office in Upland, California in October 2018.

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 intercompany 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

The Company classifies its debt securities as available-for-sale or held-to-maturity. Securities classified as available-for-sale are recorded at fair value, with unrealized gains and losses excluded from earnings and reported in comprehensive income. Securities, which the Company has the positive intent and ability to hold to maturity, are classified as held-to-maturity and are carried at amortized cost. Equity securities are carried at fair value, with changes in fair value reported in net income. Equity securities without readily determinable fair values are carried at amortized cost and evaluated periodically for impairment.

Purchase premiums and discounts are recognized in interest income using methods approximating the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

The Company follows the accounting guidance related to recognition and presentation of other-than-temporary impairment. This guidance specifies that (a) if a company does not have the intent to sell a debt security prior to recovery and (b) it is more likely than not that it will not have to sell the debt security prior to recovery, the security would not be considered other-than-temporarily impaired unless there is a credit loss. When an entity does not intend to sell the security, and it is more likely than not, the entity will not have to sell the security before recovery of its cost basis, it will recognize the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income. For equity securities, the entire amount of impairment is recognized through earnings.

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. 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, 2019 and 2018.

Loans Held for Investment

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 unfunded loan commitments, 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 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 belowmarket 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-fourfamily 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.

Other Loans

This portfolio segment includes loans to individuals for personal purposes, including but not limited to automobile loans. This portfolio segment also includes loans to individuals for overdraft protection and personal lines of credit.

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.

Transfer 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. Leasehold improvements are amortized over the lesser of the respective lease term (including renewal periods that are reasonably assured) or their useful lives. 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.

FHLB Stock and Other Investments

The Bank is a member of the Federal Home Loan Bank ("FHLB") system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. In addition, the Bank is a member of its regional Federal Reserve Bank ("FRB"). FHLB and FRB stock are carried at cost, classified as a restricted security, and periodically evaluated for impairment based on the ultimate recovery of par value. Both cash and stock dividends are reported as income.

Pursuant to the adoption of ASU 2016-01 on January 1, 2019, the Bank elected the measurement alternative for measuring equity securities without readily determinable fair values at cost less impairment, plus or minus observable price changes in orderly transactions. The carrying amount of equity securities without readily determinable fair values is $144,000 as of December 31, 2019 and $50,000 as of December 31, 2018, and includes investment in Pacific Coast Bankers' Bank ("PCBB"). A $94,000 gain was recorded to income upon adoption the ASU during the year ended December 31, 2019. Adjustments to the carrying value of bankers bank stock is based on observable activity in the stock when available.

Bank Owned Life Insurance

The Company has purchased life insurance policies on certain officers. Company-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, 2019 and 2018, the Company did not have a tax position that failed to meet the more-likely-than-not recognition threshold.

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.

Revenue Recognition – Noninterest Income

The Company adopted the provisions of ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, on January 1, 2018 and all subsequent ASUs that modified Topic 606. Results for reporting periods beginning after December 31, 2017 are presented under Topic 606, while prior period amounts have not been adjusted and continue to be reported in accordance with Topic 605. The Company recognizes revenue as it is earned and noted no impact to its revenue recognition policies as a result of the adoption of ASU 2014-09. All of the Company's revenue from contracts with customers within the scope of ASC 606 is recognized in non-interest income.

In accordance with Topic 606, revenues are recognized when control of promised goods or services is transferred to customers in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. To determine revenue recognition for arrangements that an entity determines are within the scope of Topic 606, the Company performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligation in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligation in the contract; and (v) recognize revenue when (or as) the Company satisfies a performance obligation. The Company only applies the five-step model to contracts when it is probable that the entity will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer. At contract inception, once the contract is determined to be within the scope of Topic 606, the Company/Bank assesses the goods or services that are promised within each contract and identifies those that contain performance obligation, and assesses whether each promised good or service is distinct. The Company then recognizes as revenue the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied.

The following is a discussion of key revenues within the scope of the new revenue guidance.

- Service Charges and Fees on Deposit Accounts
  The Company earns fees from its deposit customers for account maintenance, transaction-based and overdraft services. Account maintenance fees consist primarily of account fees and analyzed account fees charged on deposit accounts on a monthly basis. The performance obligation is satisfied and the fees are recognized on a monthly basis as the service period is completed. Transaction-based fees on deposits accounts are charged to deposit customers for specific services provided to the customer, such as nonsufficient funds fees, overdraft fees, and wire fees. The performance obligation is completed as the transaction occurs and the fees are recognized at the time each specific service is provided to the customer.

- Interchange Fees
  Interchange fees represents fees earned when a debit card issued by the Company is used. The Company earns interchange fees from debit cardholder transactions through a payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder. The performance obligation is satisfied and the fees are earned when the cost of the transaction is charged to the card. Certain expenses directly associated with the debit card are recorded on a net basis with the fee income.

- Gains/Losses on OREO Sales
  Gains/losses on the sale of OREO are included in non-interest expense and are generally recognized when the performance obligation is complete. This is typically at delivery of control over the property to the buyer at the time of each real estate closing.

Reclassifications

Some items in the prior year financial statements were reclassified to conform to the current presentation. Reclassifications had no effect on prior year net income or shareholder's equity.

Recently Adopted Accounting Pronouncements

The Company adopted ASU 2016-02, Leases (Topic 842) and ASU 2018-11, Leases (Topic 842): Targeted Improvements, referred to herein as Topic 842, effective January 1, 2019. The new guidance establishes the principles to report transparent and economically neutral information about the assets and liabilities that arise from leases. Entities are required to recognize right-of-use assets and lease liabilities that arise from leases in the balance sheet and to disclose qualitative and quantitative information about lease transactions, such as information about variable lease payments and options to renew and terminate leases. Under the amendments in ASU 2018- 11, entities may elect not to recast the comparative periods presented when transitioning to the new leasing standard.

Upon adoption, the Company recorded a right-of-use asset of $202,578 and a lease liability of $202,578 at the date of adoption with no adjustment to opening equity.

Recent Accounting Guidance Not Yet Effective

In June 2016, the FASB issued ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments (Topic 326)*. This ASU significantly changes how entities will measure credit losses for most financial assets and certain other instruments that aren't measured at fair value through net income. In issuing the standard, the FASB is responding to criticism that today's guidance delays recognition of credit losses. The standard will replace today's "incurred loss" approach with an "expected loss" model. The new model, referred to as the current expected credit loss ("CECL") model, will apply to: (1) financial assets subject to credit losses and measured at amortized cost, and (2) certain off-balance sheet credit exposures. This includes, but is not limited to, loans, leases, held-to-maturity securities, loan commitments, and financial guarantees. The CECL model does not apply to available-for-sale ("AFS") debt securities. For AFS debt securities with unrealized losses, entities will measure credit losses in a manner similar to what they do today, except that the losses will be recognized as allowances rather than reductions in the amortized cost of the securities. As a result, entities will recognize improvements to estimated credit losses immediately in earnings rather than as interest income over time, as they do today. The ASU also simplifies the accounting model for purchased credit-impaired debt securities and loans. ASU 2016-13 also expands the disclosure requirements regarding an entity's assumptions, models, and methods for estimating the allowance for loan and lease losses. In addition, public business entities will need to disclose the amortized cost balance for each class of financial asset by credit quality indicator, disaggregated by the year of origination.

ASU No. 2016-13 is effective for interim and annual reporting periods beginning after December 15, 2019, for SEC filers, and is effective for interim and annual reporting periods beginning after December 15, 2022 for all entities other than SEC filers that do not qualify as a Smaller Reporting Company as defined by the SEC. Early adoption is permitted for interim and annual reporting periods beginning after December 15, 2018. Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (i.e., modified retrospective approach). The Company is currently evaluating the provisions of ASU No. 2016-13 for potential impact on its consolidated financial statements and disclosures.

In August 2018, the FASB issued ASU No. 2018-13, *"Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement."* This ASU eliminates, adds and modifies certain disclosure requirements for fair value measurements. Among the changes, entities will no longer be required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, but will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. ASU No. 2018-13 is effective for all entities for interim and annual reporting periods beginning after December 15, 2019. Early adoption is permitted. As ASU No. 2018-13 only revises disclosure requirements, it will not have a material impact on the Company's Consolidated Financial Statements.

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 Company 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 Company's financial statements do not reflect 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 Company has evaluated subsequent events through February 25, 2020, which is the date the financial statements were issued or the date the financial statements were available to be issued.

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, 2019 and 2018.

The Company maintains cash that may exceed the Federal Deposit Insurance Corporation (FDIC) insured limits. The Company does not expect to incur losses in its cash accounts.

Note 3 Investment Securities

The amortized cost and fair values of securities with gross unrealized gains and losses at December 31, 2019 and 2018 are as follows:

December 31, 2019	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available-for-sale				
Federal Agency	$ 2,135,486	$ -	$ (10,233)	$ 2,125,253
Mortgage-backed securities	5,749,906	108,902	(6,125)	5,852,683
	$ 7,885,392	$ 108,902	$ (16,358)	$ 7,977,936
Securities held-to-maturity				
Municipal bonds	$ 330,000	$ 7,155	$ -	$ 337,155
Federal agency	7,769,469	107,215	(19,021)	7,857,663
Mortgage-backed securities	20,267,587	199,009	(36,163)	20,430,433
	$ 28,367,056	$ 313,379	$ (55,184)	$ 28,625,251

December 31, 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available-for-sale				
Federal Agency	$ 2,565,888	$ -	$ (19,783)	$ 2,546,105
Mortgage-backed securities	3,411,838	8,928	(52,135)	3,368,631
	$ 5,977,726	$ 8,928	$ (71,918)	$ 5,914,736
Securities held-to-maturity				
Municipal bonds	$ 330,000	$ 5,792	$ -	$ 335,792
Federal agency	8,416,995	5,376	(250,884)	8,171,487
Mortgage-backed securities	17,876,348	60,175	(351,576)	17,584,947
	$ 26,623,343	$ 71,343	$ (602,460)	$ 26,092,226

Unrealized losses and fair values, aggregated by investment category and length of time that individual securities have been in a continuous loss position, are summarized as follows as of December 31:

	Less than 12 Months		Over 12 Months	
December 31, 2019	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Securities available-for-sale				
Federal agency	$ 833,651	$ (1,338)	$ 1,291,603	$ (8,895)
Mortgage-backed securities	1,741,183	(5,967)	7,525	(158)
	$ 2,574,834	$ (7,305)	$ 1,299,128	$ (9,053)
Securities held to maturity				
Federal agency	$ 1,559,761	$ (19,021)	$ -	$ -
Mortgage-backed securities	2,106,413	(7,720)	3,107,865	(28,443)
	$ 3,666,174	$ (26,741)	$ 3,107,865	$ (28,443)

	Less than 12 Months		Over 12 Months	
December 31, 2018	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Securities available-for-sale				
Federal agency	$ -	$ -	$ 2,546,105	$ (19,783)
Mortgage-backed securities	2,127,455	(51,906)	22,856	(229)
	$ 2,127,455	$ (51,906)	$ 2,568,961	$ (20,012)
Securities held to maturity				
Federal agency	$ 6,175,034	$ (248,526)	$ 980,054	$ (2,358)
Mortgage-backed securities	10,208,579	(340,048)	1,978,661	(11,528)
	$ 16,383,613	$ (588,574)	$ 2,958,715	$ (13,886)

At December 31, 2019, the Company had five available-for-sale (AFS) mortgage-backed securities (MBS) with losses less than 12 months, two AFS MBS with losses greater than 12 months, one AFS federal agency security with losses less than 12 months and two AFS federal agency securities with losses greater than 12 months. Also, in 2019, the Company held four HTM MBS with losses less than 12 months, four HTM MBS with losses greater than 12 months, and one HTM federal agency security with losses less than 12 months. In 2018, the Company had three available-for-sale (AFS) mortgage-backed securities (MBS) with losses less than 12 months, three AFS MBS with losses greater than 12 months, and three AFS federal agency securities with losses greater than 12 months. Also, in 2018, the Company held four held-to-maturity (HTM) federal agency securities and twelve HTM MBS with losses less than 12 months. In addition, in 2018 the Company held one HTM federal agency security and four HTM MBS with losses greater than 12 months.

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.

The unrealized losses at December 31, 2019 and 2018, are attributable to changes in interest rates and not credit quality. The Company has the ability to hold these investments until a recovery of fair value, which may be maturity. Thus, the Company does not consider these investments to be other-than-temporarily impaired as of December 31, 2019 and 2018.

The amortized cost and fair value of investment securities as of December 31, 2019, by contractual maturity are shown below:

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within 1 year	$ -	$ -	$ 1,321,927	$ 1,335,224
After 1 year through 5 years		-	-	-
After 5 years through 10 years	1,300,498	1,291,602	-	-
After 10 years through 17 years	834,988	833,651	6,777,542	6,859,594
Mortgage-backed securities	5,749,906	5,852,683	20,267,587	20,430,433
	$ 7,885,392	$ 7,977,936	$ 28,367,056	$ 28,625,251

Investment securities with amortized cost totaling $22,373,729 and estimated fair values totaling $22,560,308 were pledged to secure borrowings with the Federal Home Loan Bank and the Federal Reserve Bank at December 31, 2019. Investment securities with amortized cost totaling $20,792,135 and estimated fair values totaling $20,281,925 were pledged to secure borrowings with the Federal Home Loan Bank at December 31, 2018.

Note 4 Stock Investments, Restricted

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

	2019	2018
Federal Home Loan (FHLB) stock	$ 1,026,500	$ 928,000
Federal Reserve Bank stock	270,400	270,400
Pacific Coast Banker's Bank stock	144,000	50,000
	$ 1,440,900	$ 1,248,400

NOTE 5 LOANS AND ALLOWANCE FOR LOAN LOSSES

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

	2019	2018
Real estate loans, commercial	$ 115,556,051	$ 106,583,991
Real estate loans, consumer	1,421,412	761,514
Commercial loans	27,162,943	24,559,375
Other loans	248,090	269,006
Total gross loans	144,388,496	132,173,886
Allowance for loan losses	(2,391,765)	(2,292,478)
Unearned income and deferred loan fees, net	(438,380)	(345,053)
Loans held for investment, net	$ 141,558,351	$ 129,536,355

Changes in the allowance for loan losses by loan portfolio segment for the year ended December 31, 2019, are summarized as follows:

	One-to-Four Residential	Residential Income	Commercial Real Estate	Commercial and Industrial	Other	Total
Beginning Balance, January 1, 2019	$ 7,154	$ 122,457	$ 1,900,762	$ 255,955	$ 6,150	$ 2,292,478
Provision (credit) for loan losses	(12,527)	(85,192)	(50,670)	165,063	11,526	28,200
Loans charged off	-	-	-	-	(22,343)	(22,343)
Recoveries	27,578	-	39,482	16,571	9,799	93,430
Ending Balance, December 31, 2019	$ 22,205	$ 37,265	$ 1,889,574	$ 437,589	$ 5,132	$ 2,391,765

Changes in the allowance for loan losses by loan portfolio segment for the year ended December 31, 2018, are summarized as follows:

	One-to-Four Residential	Residential Income	Commercial Real Estate	Commercial and Industrial	Other	Total
Beginning Balance, January 1, 2018	$ 7,491	$ 180,390	$ 1,693,842	$ 206,470	$ 6,530	$ 2,094,723
Provision (credit) for loan losses	(3,587)	(57,933)	176,248	40,651	(9,879)	145,500
Loans charged off	-	-	-	(8,867)	-	(8,867)
Recoveries	3,250	-	30,672	17,701	9,499	61,122
Ending Balance, December 31, 2018	$ 7,154	$ 122,457	$ 1,900,762	$ 255,955	$ 6,150	$ 2,292,478

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

December 31, 2019	One-to-Four Residential	Residential Income	Commercial Real Estate	Commercial and Industrial	Other	Total
Loans						
Collectively evaluated for impairment	$ 1,421,412	$ 5,046,090	$ 114,193,857	$ 22,116,853	$ 248,090	$ 143,026,302
Individually evaluated for impairment	-	-	1,362,194	-	-	1,362,194
Balance	$ 1,421,412	$ 5,046,090	$ 115,556,051	$ 22,116,853	$ 248,090	$ 144,388,496
Allowance for Loan Losses						
Collectively evaluated for impairment	$ 22,205	$ 37,265	$ 1,875,134	$ 437,589	$ 5,132	$ 2,377,325
Individually evaluated for impairment	-	-	14,440	-	-	14,440
Balance	$ 22,205	$ 37,265	$ 1,889,574	$ 437,589	$ 5,132	$ 2,391,765
December 31, 2018						
Loans						
Collectively evaluated for impairment	$ 761,514	$ 2,439,854	$ 105,307,191	$ 22,119,521	$ 269,006	$ 130,897,086
Individually evaluated for impairment	-	-	1,276,800	-	-	1,276,800
Balance	$ 761,514	$ 2,439,854	$ 106,583,991	$ 22,119,521	$ 269,006	$ 132,173,886
Allowance for Loan Losses						
Collectively evaluated for impairment	$ 7,154	$ 122,457	$ 1,878,085	$ 255,955	$ 6,150	$ 2,269,801
Individually evaluated for impairment	-	-	22,677	-	-	22,677
Balance	$ 7,154	$ 122,457	$ 1,900,762	$ 255,955	$ 6,150	$ 2,292,478

The following tables summarize the loan portfolio at December 31, 2019 and 2018, by credit risk profiles based on internally assigned grades. Information has been updated for each credit quality indicator as of December 31, 2019 and 2018:

	Grade				
December 31, 2019	Pass	Special Mention	Substandard	Doubtful	Total
Residential One-to-Four	$ 1,421,412	$ -	$ -	$ -	$ 1,421,412
Residential income	5,046,090	-	-	-	5,046,090
Commercial real estate	112,622,870	1,213,027	1,720,154	-	115,556,051
Commercial and industrial	22,116,853	-	-	-	22,116,853
Other	248,090	-	-	-	248,090
	$ 141,455,315	$ 1,213,027	$ 1,720,154	$ -	$ 144,388,496

December 31, 2018	Pass	Special Mention	Substandard	Doubtful	Total
Residential One-to-Four	$ 761,514	$ -	$ -	$ -	$ 761,514
Residential income	2,439,854	-	-	-	2,439,854
Commercial real estate	105,003,100	-	1,580,891	-	106,583,991
Commercial and industrial	22,119,521	-	-	-	22,119,521
Other	269,006	-	-	-	269,006
	$ 130,592,995	$ -	$ 1,580,891	$ -	$ 132,173,886

The following tables set forth certain information with respect to the Company's portfolio delinquencies by loan class and amount at December 31, 2019 and 2018:

Age Analysis of Past Due Loans (by Class)

The following tables are summaries of impaired loans by loan class at December 31, 2019 and 2018:

December 31, 2019	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90-Days	Total Past Due	Current	Total Loans	Non-accrual
Residential One-to-Four	$ -	$ -	$ -	$ -	$ 1,421,412	$ 1,421,412	$ -
Residential income	-	-	-	-	5,046,090	5,046,090	-
Commercial real estate	-	-	-	-	115,438,847	115,438,847	117,204
Commercial and industrial	-	-	-	-	22,116,853	22,116,853	-
Other	-	-	-	-	248,090	248,090	-
	$ -	$ -	$ -	$ -	$ 144,271,292	$ 144,271,292	$ 117,204
December 31, 2018							
Residential One-to-Four	$ -	$ -	$ -	$ -	$ 761,514	$ 761,514	$ -
Residential income	-	-	-	-	2,439,854	2,439,854	-
Commercial real estate	-	-	-	-	106,583,991	106,583,991	-
Commercial and industrial	-	-	-	-	22,119,521	22,119,521	-
Other	-	-	-	-	269,006	269,006	-
	$ -	$ -	$ -	$ -	$ 132,173,886	$ 132,173,886	$ -

Impaired Loans (by Class)

December 31, 2019	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With an Allowance Recorded					
Commercial real estate	$ 1,362,194	$ 1,362,194	$ 14,440	$ 1,386,943	$ 113,142
December 31, 2018					
With an Allowance Recorded					
Commercial real estate	$ 1,276,800	$ 1,286,800	$ 22,677	$ 1,293,194	$ 81,884

There was one non-accrual loan of $117,204 as of December 31, 2019 and none as of December 31, 2018.

There were no loans serviced for others at December 31, 2019 and 2018.

Certain loans are pledged as collateral for available borrowings with the FHLB. Pledged loans totaled $97,221,136 and $99,447,364 at December 31, 2019 and 2018, respectively.

Troubled Debt Restructurings

No loans were modified in troubled debt restructuring during the years ended December 31, 2019 and 2018.

NOTE 6 FIXED ASSETS

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

	2019	2018
Land	$ 1,868,422	$ 1,868,422
Building	3,212,729	3,212,729
Furniture, fixture and equipment	1,571,501	1,517,668
Building and leasehold improvements	2,242,433	1,674,613
Automobile	53,283	53,283
	8,948,368	8,326,715
Less accumulated depreciation and amortization	2,546,595	2,263,365
Total premises and equipment	$ 6,401,773	$ 6,063,350

Depreciation and amortization expense for years ended December 31, 2019 and 2018, amounted to $314,062 and $242,820, respectively.

NOTE 7 DEPOSITS

Interest-bearing and noninterest-bearing deposits consist of the following:

	2019	2018
NOW accounts	$ 2,872,170	$ 3,182,523
Savings and money market	73,857,498	72,733,825
Time certificate of deposit accounts under $250,000	9,537,555	7,674,742
Time certificate of deposit accounts over $250,000	5,471,451	4,191,717
Total interest-bearing deposits	91,738,674	87,782,807
Total noninterest-bearing deposits	88,412,668	83,237,014
Total Deposits	$ 180,151,342	$ 171,019,821

At December 31, 2019, the scheduled maturities of time deposits were as follows:

	2019
Within 1 year	$ 12,818,028
After 1 year through 3 years	2,190,978
	$ 15,009,006

NOTE 8 SUBORDINATED NOTES PAYABLE TO SUBSIDIARY TRUST

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 $3,000,000 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 $3,000,000 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 percent. At December 15, 2019 LIBOR rate was 1.89 percent, resulting in an interest rate of 3.57 percent from December 16, 2018 to March 14, 2019. At December 15, 2018 LIBOR rate was 2.78 percent, resulting in an interest rate of 4.47 percent from December 16, 2018 to March 14, 2019.

As of December 31, 2019 and 2018, accrued interest payable to the Trust amounted to $4,467 and $5,213, respectively. Interest expense for Trust Preferred Securities amounted to $125,456 and $116,472, for the years ended December 31, 2019 and 2018, respectively.

NOTE 9 RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Company 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 Company's normal lending policies.

Aggregate related party loan transactions were as follows as of and for the years ended December 31:

	2019	2018
Balance, January 1	$ 1,539,410	$ 155,074
Advances	29,587	1,554,522
Repayments, net of borrowings	(50,991)	(170,186)
Reclassified Loans, Reg O status change	(1,511,453)	
Balance as of December 31	$ 6,553	$ 1,539,410

Deposits from related parties held by the Company at December 31, 2019 and 2018, amounted to $9,487,619 and $8,304,381, respectively.

Note 10 Federal Home Loan Bank Borrowings

As a member of the FHLB, the Company may borrow funds collateralized by securities or qualified loans up to 35 percent of its asset base. The Company has a line of credit of $98,981,996 and $65,722,050 at December 31, 2019 and 2018, respectively. Total overnight FHLB advances outstanding at December 31, 2019 were $20,000,000 at a weighted average rate of 2.17 percent. Total overnight FHLB advances outstanding at December 31, 2018 were $5,000,000 at a weighted average rate of 2.53 percent.

Note 11 Federal Funds Line of Credit

The Company had a total of $7.2 million in Federal funds lines of credit with various banks at December 31, 2019 and 2018. There were no borrowings outstanding at December 31, 2019 and 2018.

Lines of Credit	2019	2018
PCBB	$ 3,500,000	$ 3,500,000
Zions	2,000,000	2,000,000
Federal Reserve Bank	1,701,553	-
	$ 7,201,553	$ 5,500,000

Note 12 Income Taxes

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

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

	2019	2018
Currently payable		
Federal	$ 419,141	$ 556,025
State	391,323	365,565
	810,464	921,590
Deferred Taxes		
Federal	130,928	18,593
State	43,402	(47,524)
	174,330	(28,931)
Total provision for income taxes	$ 984,794	$ 892,659

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

	2019	2018
Statutory Federal tax rate	21.0 %	21.0 %
Increase (Decrease) Resulting From		
State taxes, net of Federal tax benefit	8.3	8.6
Tax-exempt earnings on life insurance policies	(0.7)	(0.7)
Tax-exempt interest from municipal bonds	(0.1)	(0.1)
Other, net	(0.7)	(0.2)
Effective Tax Rate	27.8 %	28.6 %

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

	2019	2018
Deferred tax assets		
Allowance for loan losses	$ 478,050	$ 469,713
Start-up expense	805	1,341
State tax	84,133	74,860
Deferred compensation and benefits	80,909	139,180
Nonaccrual interest	2,188	-
Off balance sheet reserve	14,515	11,027
Unrealized loss on securities available for sale	-	17,732
	$ 660,600	$ 713,853
Deferred tax liabilities		
FHLB stock dividends	$ -	$ (9,131)
Depreciation and amortization	(233,820)	(150,122)
Unrealized gain on securities available for sale	(26,051)	-
Deferred loan costs	(91,086)	(85,102)
Other	(86,547)	(28,289)
	(437,504)	(272,644)
Net Deferred Tax Asset	$ 223,096	$ 441,209

The Company records interest and penalties related to uncertain tax positions as part of income tax expense. There was no penalty or interest expense recorded as of December 31, 2019 and 2018. The Company does not expect the total amount of unrecognized tax benefits to significantly increase or decrease within the next twelve months.

Tax years ended December 31, 2016 through December 31, 2018; remain subject to examination by the Internal Revenue Service. Tax years ended December 31, 2015 through December 31, 2018, remain subject to examination by the California Franchise Tax Board.

Note 13 Off Balance Sheet Activities

Credit-Related Financial Instruments

The Company 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, undisbursed 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 Company's exposure to credit loss is represented by the contractual amount of these commitments. The Company uses the same credit policies in making commitments as it does for on-balance-sheet instruments. At December 31, 2019 and 2018, the following financial instruments were outstanding:

	2019	2018
Undisbursed loans	$ 19,610,499	$ 14,883,273

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. Undisbursed commitments included $8,197,416 and $5,350,031 of commitments at fixed rates for the years ended December 31, 2019 and 2018, respectively. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company 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.

Undisbursed 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 Company is committed.

Standby and commercial letters of credit are conditional commitments issued by the Company 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. There were no standby letters of credit at December 31, 2019 and 2018.

Note 14 Other Commitments and Contingencies

Operating Lease Commitments

The Company signed a lease agreement for its Upland branch location on December 15, 2017. The agreement has a commencement date in 2018 and expires in 2023, and contains two 5 year options to renew. Future minimum lease payments are as follows:

Year Ending December 31,	Amount
2020	$ 50,448
2021	59,405
2022	61,187
2023	5,112
Total	$ 176,152

Rental expense, included in occupancy and equipment expense, totaled $52,905 for the year ended December 31, 2019. Rental expense, included in occupancy and equipment expense, totaled $51,679 for the year ended December 31, 2018.

Employment Agreement

The Company entered into a three-year employment agreement with a key officer expiring on June 30, 2021. The agreement provides for an annual base salary plus an incentive bonus equal to 5 percent 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.

Pending Litigation

The Company is involved in various matters of litigation which have arisen in the ordinary course of business and accruals for estimates of potential losses have been provided when necessary and appropriate under generally accepted accounting principles. In the opinion of management, the disposition of such pending litigation will not have a material effect on the Company's financial statements.

Note 15 Concentration Risk

The Company 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 93 percent and 94 percent of total loans held for investment at December 31, 2019 and 2018 respectively. The Company has no concentration of loans with any one customer or industry.

Deposits from escrow companies represented 8 percent of total deposits on December 31, 2019 and 2018. Five escrow companies accounted for 7 percent of total deposits for the year ended December 31, 2019 and 2018.

NOTE 16 EMPLOYEE BENEFIT PLAN

The Company has a 401(k) savings and retirement plan (the Plan) that includes substantially all employees. Employees may contribute up to 100 percent of their compensation subject to certain limits based on Federal tax law. The Company has implemented the Plan based on safe harbor provisions. Under the Plan, the Company will match 100 percent of an employee's contribution up to the first 3 percent of compensation, and 50 percent of an employee's contribution up to the next 2 percent of compensation. Matching contributions will immediately be 100 percent vested. For the years ended December 31, 2019 and 2018, the Company matching contributions attributable to the Plan amounted to $103,193 and $98,979, respectively.

NOTE 17 SALARY CONTINUATION AGREEMENTS

The Company has entered into salary continuation agreements, which provide for payments to certain officers at the age of retirement. At December 31, 2019 and 2018, $352,757 and $348,805, respectively, of deferred compensation related to these agreements were included in other liabilities.

The plans are funded through life insurance policies that generate a cash surrender value to fund the future benefits.

NOTE 18 REGULATORY MATTERS

Minimum Regulatory Requirements - The Company 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 Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Company on January 1, 2015, with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. Under the Basel III rules, the Company must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer is being phased in from 0.0 percent for 2015 to 2.50 percent by 2019. The capital conservation buffer for 2018 is 1.875 percent. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital.

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum capital ratios as set forth in the following table. The Company's actual capital amounts and ratios as of December 31, 2019 and 2018, are also presented in the table. Management believes, as of December 31, 2019 and 2018, that the Company met all capital adequacy requirements to which it is subject.

As of December 31, 2019, the most recent notification from the OCC categorized the Company as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Company 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 Company's category.

Federal and State banking regulations place certain restrictions on dividends and other capital distributions paid to shareholders. The total amount of dividends that may be paid at any date is generally limited to the lesser of the Bank's retained earnings or net income for the last three years, subject to minimum capital requirements.

Capital ratios for December 31, 2019 and 2018, are set forth below:

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in Thousands)			
As of December 31, 2019						
Total Capital to Total Risk-Weighted Assets						
Consolidated	$ 29,414	18.30%	$ 12,861	8.00%	$ 16,076	10.00%
Bank	27,032	16.82%	12,855	8.00%	16,069	10.00%
Tier 1 Capital to Total Risk-Weighted Assets						
Consolidated	$ 32,408	20.16%	$ 9,645	6.00%	$ 12,861	8.00%
Bank	25,019	15.57%	9,641	6.00%	12,855	8.00%
Common Tier 1 (CET1)						
Consolidated	$ 32,408	20.16%	$ 7,234	4.50%	$ 10,449	6.50%
Bank	25,019	15.57%	7,231	4.50%	10,445	6.50%
Tier 1 Capital to Average Assets						
Consolidated	$ 32,408	13.74%	$ 9,432	4.00%	$ 11,790	5.00%
Bank	25,019	10.62%	9,423	4.00%	11,778	5.00%

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in Thousands)			
As of December 31, 2018						
Total Capital to Total Risk-Weighted Assets						
Consolidated	$ 26,587	19.19%	$ 11,085	8.00%	$ 13,856	10.00%
Bank	24,927	17.99%	11,084	8.00%	13,855	10.00%
Tier 1 Capital to Total Risk-Weighted Assets						
Consolidated	$ 29,006	20.93%	$ 8,314	6.00%	$ 11,085	8.00%
Bank	23,188	16.74%	8,313	6.00%	11,084	8.00%
Common Tier 1 (CET1)						
Consolidated	$ 29,006	20.93%	$ 6,235	4.50%	$ 9,006	6.50%
Bank	23,188	16.74%	6,235	4.50%	9,006	6.50%
Tier 1 Capital to Average Assets						
Consolidated	$ 29,006	14.80%	$ 7,837	4.00%	$ 9,796	5.00%
Bank	23,188	11.85%	7,830	4.00%	9,787	5.00%

Note 19 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. There were no common stock equivalents that are dilutive at December 31, 2019 and 2018. The weighted-average number of shares for basic and diluted earnings was 2,230,808 in 2019 and in 2018.

NOTE 20 DIVIDENDS

During 2019, the Board of Directors declared and the Company issued a 20 percent stock dividend to shareholders of record on June 14, 2019. As a matter of accommodation, cash dividends were issued to holders of fractional shares. The stock dividend consisted of 371,676 shares of stock issued on May 16, 2019, at which time the trading price was $15.50 per share. The 20 percent stock dividend was treated as a split for reporting purposes. During 2018, the Board of Directors declared and the Company issued a 20 percent stock dividend to shareholders of record on June 29, 2018. As a matter of accommodation, cash dividends were issued to holders of fractional shares. The stock dividend consisted of 307,712 shares of stock issued on June 15, 2018, at which time the trading price was $18.16 per share. The 20 percent stock dividend was treated as a split for reporting purposes.

Banking regulations require maintaining certain capital levels and may limit the dividends paid by the bank to the holding company or by the holding company to shareholders.

NOTE 21 OTHER OPERATING EXPENSES

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

	2019	2018
Data processing fees	$ 301,724	$ 270,300
Deposit products and services	140,545	129,350
Professional fees	430,050	150,218
Regulatory assessments	81,578	135,419
Advertising and marketing	97,035	90,359
Directors' fees and expenses	137,142	117,710
Other expenses	751,906	635,586
Total non-interest expenses	$ 1,939,980	$ 1,528,942

NOTE 22 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, 2019 and 2018, 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, 2019 and 2018.

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 - 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 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, 2019 and 2018, the fair value of which is measured on a recurring basis:

	Fair Value Measurements Using			
December 31, 2019	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				
Federal Agency	$ -	$ 2,125,253	$ -	$ 2,125,253
Mortgage-backed securities	-	5,852,683	-	5,852,683
Total	$ -	$ 7,977,936	$ -	$ 7,977,936
December 31, 2018				
Securities Available-for-Sale				
Federal Agency	$ -	$ 2,546,105	$ -	$ 2,546,105
Mortgage-backed securities	-	3,368,631	-	3,368,631
Total	$ -	$ 5,914,736	$ -	$ 5,914,736

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). There were no assets measured at fair value on a non-recurring basis as of December 31, 2019 and 2018.

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.

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.

There was one collateral dependent impaired loan at December 31, 2019 of $117,204 and none as of December 31, 2018.

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 - Fair values of loans are based on the exit price notion set forth by ASU 2016-01 effective January 1, 2018 and estimated using discounted cash flow analyses. The estimation of fair values of loans results in a Level 3 classification as it requires various assumptions and considerable judgement to incorporate factors relevant when selling loans to market participants, such as funding costs, return requirements of likely buyers and performance expectations of the loans given the current market environment and quality of loans. Estimated fair value of loans carried at cost at December 31, 2017 were based on an entry price notion. 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.

Bank Owned Life Insurance - The fair values are based on current cash surrender values at each reporting date provided by the insurers.

Trups Common Securities - Included in other assets are certain long-term investments carried at cost, which approximates estimated fair value, unless an impairment analysis indicates the need for adjustments.

Commitments to Extend Credit and Standby Letters of Credit - The Company does not generally enter into longterm 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.

FHLB Advances - The fair value of long-term debt is based on rates currently available to the Bank for debt with similar terms and remaining maturities.

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

Subordinated Debentures - The fair values of subordinated debentures are determined based on the current market value for like instruments of a similar maturity and structure.

The estimated fair values and related carrying amounts of the Company's financial instruments at December 31, 2019, are as follows:

	Carrying Value	Fair Value Measurements at December 31, 2019			
		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	$ 36,778,753	$ 36,778,753	$ -	$ -	$ 36,778,753
Interest-bearing deposits with other banks	496,000	-	496,000	-	496,000
Investment securities available-for-sale	7,977,936	-	7,977,936	-	7,977,936
Investment securities held-to-maturity	28,367,056	-	28,625,251	-	28,625,251
Stock investments	1,440,900	-	-	1,440,900	1,440,900
Loans, net	141,558,351	-	-	142,914,235	142,914,235
Accrued interest receivable	619,856	-	619,856	-	619,856
Bank owned life insurance	4,595,584	-	4,595,584	-	4,595,584
Trups common securities	93,000	-	93,000	-	93,000
Financial Liabilities					
Deposits					
Noninterest-bearing demand deposits	$ 88,412,668	$ 88,412,668	$ -	$ -	$ 88,412,668
Interest-bearing deposits	91,738,674	-	87,496,000	-	87,496,000
FHLB advances	20,000,000	-	20,000,000	-	20,000,000
Accrued interest payable	203,246	-	203,246	-	203,246
Subordinated notes payable	3,093,000	-	3,093,000	-	3,093,000

The estimated fair values and related carrying amounts of the Company's financial instruments at December 31, 2018, are as follows:

		Fair Value Measurements at December 31, 2018			
	Carrying Value	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	$ 25,451,866	$ 25,451,866	$ -	$ -	$ 25,451,866
Interest-bearing deposits with other banks	1,988,000	-	1,988,000	-	1,988,000
Investment securities available-for-sale	5,914,736	-	5,914,736	-	5,914,736
Investment securities held-to-maturity	26,623,343	-	26,092,226	-	26,092,226
Stock investments	1,248,400	-	-	1,248,400	1,248,400
Loans, net	129,356,355	-	-	129,271,522	129,271,522
Accrued interest receivable	585,506	-	585,506	-	585,506
Bank owned life insurance	3,484,885	-	3,484,885	-	3,484,885
Trups common securities	93,000	-	93,000	-	93,000
Financial Liabilities					
Deposits					
Noninterest-bearing demand deposits	$ 83,237,014	$ 83,237,014	$ -	$ -	$ 83,237,014
Interest-bearing deposits	87,782,807	-	82,141,000	-	82,141,000
FHLB advances	5,000,000	-	5,000,000	-	5,000,000
Accrued interest payable	64,794	-	64,794	-	64,794
Subordinated notes payable	3,093,000	-	3,093,000	-	3,093,000

BRANCH LOCATIONS

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STOCK SYMBOL: "CCBC"
Common Stock (OTC Markets)

CHINO COMMERCIAL BANCORP

Chino Commercial Bank N.A.

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2000 2001 2002 2003 2004 2005 2006 2007 2008 2009