2018 | Annual Report

cbb Bancorp

Dear Valued Shareholders and Customers,

CBB Bancorp, Inc. and its wholly-owned subsidiary, Commonwealth Business Bank, (collectively, the "Company" and individually "CBB Bancorp" and the "Bank") achieved strong growth in 2018 and continued to strengthen the Company's infrastructure for the future expansion.

We ended 2018 with assets totaling $1.16 billion, a 7.6 % annual increase, while loan and deposits grew 11.2% and 12.6%, respectively, since December 31, 2017. Our net interest margin for 2018 was 4.30% which compares favorably with that of 4.17% in the same period last year.

Additionally, we reported net income of $16.7 million or $1.60 per diluted share for the year 2018, which is an increase of 38.2% from the $12.1 million or $1.16 per diluted share of net income for the same period in 2017. On October 2, 2018, the announcement of 10% stock dividend to our shareholders reflected continued confidence in our current and future financial performance. We are committed to make CBB Bank the leader among the Korean-American banks, not by size but with core confidences, and to provide the best return to our loyal shareholders.

While growing our assets to become a billion-dollar bank, we have invested heavily in people, in building appropriate infrastructure and upgrading our core processing system. We now have a management team who possesses a wealth of knowledge and experience to carry out the strategies to make us a financially sound and profitable company, and corporate infrastructures to support planned growth and manage complex risks. We are focusing on building strong bank's fundamentals including robust risk management in all business areas and upgrading our programs to prepare to deal with the potential future challenges.

We are also seeing heightened competition in deposit pricing. To address this, we are taking steps to broaden and diversify our funding sources including more emphasis on savings and money market accounts and less emphasis on short term certificates of deposit.

Increasing shareholder value is our ultimate goal. After forming the bank holding company in 2017 to increase our flexibility and access to the capital markets, we will focus on executing all prerequisite work that is required to become a Nasdaq listed public company in the plan period. We certainly believe market will reward us as we continuously deliver solid financial results while focusing on building safe and sound banking fundamentals.

Our focus for 2019 is on creating value for our customers, shareholders, and employees, and increasing our core deposit growth while remaining the top-performing bank amongst our peers. We will continue to strengthen our infrastructure and expand our market presence by targeting specific industries and expertise, while we leverage our improved internal processes to establish a reputation as the bank that is "fast, flexible and friendly." In the near-term, our initiatives include:

- Providing flexible, responsive banking solutions that combine our business expertise with our competitive products;
- Growing a balanced loan portfolio of the highest asset quality;
- Growing deposit relationships and core deposits; and
- Executing our plans to meet the increased regulatory requirements for banks with total assets of $1 billion in a timely and effective manner.

We are committed to improving the value of our products and service through our core values – *Professional* knowledge and expertise, *Personal* touch and customized service, *Principled* and ethical actions, *Passionate* enthusiasm in serving our customers, and *Proud* to be our customers' banker of choice.

On behalf of the entire Board of Directors, we would like to express our deepest appreciation to our shareholders for your trust, guidance and support. We also thank our employees, management, and the Board of Directors for their relentless efforts and commitment to meet the needs of our customers and shareholders and to building a strong foundation for our continued profitability and growth.

Soon Han Pak	Joanne Kim
Chairwoman of the Board	President & CEO

March 28, 2019

cbb Bancorp

FINANCIAL STATEMENTS

December 31, 2018 and 2017

CBB BANCORP, INC.
Los Angeles, California

FINANCIAL STATEMENTS
December 31, 2018 and 2017

CONTENTS

Report of Independent Registered Public Accounting Firm

Shareholders and the Board of Directors of CBB Bancorp, Inc.
Los Angeles, California

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated statements of financial condition of CBB Bancorp, Inc. (the "Company") as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the years then ended, and the related notes to consolidated financial statements (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with auditing standards generally accepted in the United States of America, the Company's internal control over financial reporting as of December 31, 2018 based on criteria established in Internal Control – Integrated Framework: (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 28, 2019 expressed an unmodified opinion.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB and 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 of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Crowe LLP

Crowe LLP

We have served as the Company's auditor since 2009.

Los Angeles, California
March 28, 2019

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
December 31, 2018 and 2017

	2018	2017
ASSETS		
Cash and due from banks	$ 11,028,540	$ 9,352,643
Interest-earning balances due from the Federal Reserve Bank ("FRB") and the Federal Home Loan Bank ("FHLB")	94,018,422	99,706,402
Total cash and cash equivalents	105,046,962	109,059,045
Interest-earning deposits with other banks	3,193,000	3,685,000
Securities available for sale, at fair value	96,694,092	115,655,336
Securities held to maturity, at amortized cost (fair value of $7,481,195 and $7,924,000 at December 31, 2018 and 2017, respectively)	7,736,613	8,001,800
Loans held for sale, at the lower of cost or fair value	45,665,053	28,346,035
Loans receivable, net of allowance for loan losses of $10,023,140 and $8,652,672 at December 31, 2018 and 2017, respectively	865,773,664	778,746,344
Premises and equipment, net	5,232,524	6,109,181
Other real estate owned ("OREO"), net	25,000	-
Loan servicing rights	10,541,230	11,377,338
Accrued interest receivable	4,311,366	3,457,110
Restricted securities, at cost	7,878,500	6,260,300
Other assets	8,975,573	8,156,354
Total assets	$1,161,073,577	$1,078,853,843
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Noninterest-bearing	$ 206,763,502	$ 203,641,326
Savings	19,101,842	15,875,591
Money market and others	175,843,173	169,710,166
Time deposits of $250,000 or less	432,136,650	331,078,789
Time deposits greater than $250,000	174,748,484	175,415,236
Total deposits	1,008,593,651	895,721,108
FHLB advances	10,000,000	60,000,000
Accrued interest payable	4,246,952	2,063,863
Other liabilities	6,320,664	5,890,552
Total liabilities	1,029,161,267	963,675,523
Commitments and contingent liabilities		
Shareholders' equity		
Common stock, $0.001 par value; 30,000,000 shares authorized; 10,102,161 shares and 10,033,110[1] shares issued and outstanding at December 31, 2018 and 2017, respectively	10,102	9,121
Additional paid-in capital	82,994,570	69,347,357
Retained earnings	49,885,003	46,037,615
Accumulated other comprehensive loss, net of tax	(977,365)	(215,773)
Total shareholders' equity	131,912,310	115,178,320
Total liabilities and shareholders' equity	$1,161,073,577	1,078,853,843

[1] Restated for a 10% stock dividend declared on October 2, 2018.

CONSOLIDATED STATEMENTS OF INCOME
For the Years Ended December 31, 2018 and 2017

	2018	2017
Interest and dividend income		
Interest and fees on loans	$ 54,847,206	$ 44,053,691
Interest on investment securities	2,575,248	1,450,850
Interest on interest-earning deposits	1,416,620	789,251
Dividends on FRB and FHLB stock	508,425	409,329
Total interest income	59,347,499	46,703,121
Interest expense		
Interest on deposits	12,853,788	7,441,013
Interest on FHLB advances and other borrowings	333,929	238,624
Total interest expense	13,187,717	7,679,637
Net interest income before provision for loan losses	46,159,782	39,023,484
Provision for loan losses	1,370,000	514,000
Net interest income after provision for loan losses	44,789,782	38,509,484
Noninterest income		
Service charges on deposit accounts	1,015,216	919,507
Gain on sales of loans	7,847,079	9,320,595
Gain/(loss) on OREO	(42,671)	103,370
Loan service fee income, net	378,222	1,871,923
Other income	1,140,961	1,328,273
Total noninterest income	10,338,807	13,543,668
Noninterest expense		
Salaries and employee benefits	19,604,772	17,846,201
Occupancy and equipment	3,445,453	2,901,483
Data processing and communication	1,427,475	1,262,710
Directors' expenses	455,430	412,307
Professional fees	2,592,829	1,462,423
Business development	176,079	142,906
Advertising and promotion	1,301,093	1,137,607
Postage and supplies	215,157	221,263
Regulatory assessment	407,470	393,956
Other operating expenses	2,411,462	2,582,966
Total noninterest expense	32,037,220	28,363,822
Income before income tax expense	23,091,369	23,689,330
Income tax expense	6,433,131	11,638,959
Net income	$ 16,658,238	$ 12,050,371
Earnings per common share:		
Basic	$ 1.66	$ 1.20[1]
Diluted	1.60	1.16[1]
Weighted-average common shares outstanding:		
Basic	10,051,485	10,014,986[1]
Diluted	10,412,833	10,404,915[1]

[1]Restated for a 10% stock dividend declared on October 2, 2018.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2018 and 2017

	2018	2017
Net income	$ 16,658,238	$ 12,050,371
Other comprehensive income		
Unrealized losses on securities		
Unrealized holding gain/(loss) on available for sale securities	(994,414)	841,422
Tax effect	279,297	(346,166)
Total other comprehensive gain/(loss)	(715,117)	495,256
Comprehensive income	$ 15,943,121	$ 12,545,627

CONSOLDIATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Years Ended December 31, 2018 and 2017

	Number of Shares Outstanding	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Shareholders' Equity
Balance, January 1, 2017	9,095,159	$ 9,095	$ 68,752,908	$ 33,987,244	$ (711,029)	$ 102,038,218
Exercise of stock options	25,850	26	184,475	-	-	184,501
Share-based compensation expense	-	-	409,974	-	-	409,974
Net income	-	-	-	12,050,371	-	12,050,371
Other comprehensive gain/(loss), net of tax	-	-	-	-	495,256	495,256
Balance, December 31, 2017	9,121,009	$ 9,121	$ 69,347,357	$ 46,037,615	$ (215,773)	$ 115,178,320
Exercise of stock options	62,795	63	386,933	-	-	386,996
Share-based compensation expense	-	-	404,210	-	-	404,210
Tax benefit from share-based compensation plan	-	-	-	-	-	-
10% stock dividend	918,357	918	12,856,070	(12,857,325)	-	(337)
Net income	-	-	-	16,658,238	-	16,658,238
Reclassification of stranded tax effects	-	-	-	46,475	(46,475)	-
Other comprehensive gain/(loss), net of tax	-	-	-	-	(715,117)	(715,117)
Balance, December 31, 2018	10,102,161	$ 10,102	$ 82,994,570	$ 49,885,003	$ (977,365)	$ 131,912,310

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Net income	$ 16,658,238	$ 12,050,371
Adjustments to reconcile net income to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	1,064,153	844,698
Net amortization of investment securities	1,489,962	1,347,270
Provision for loan losses	1,370,000	514,000
Share-based compensation expense	404,210	409,974
Gain on sales of loans	(7,847,079)	(9,320,595)
(Gain)/loss on OREO	42,671	(103,370)
Deferred income tax expense	41,590	590,108
Origination of loans held for sale	(148,952,583)	(137,984,734)
Proceeds from sale and pay downs of loans held for sale	135,913,334	133,056,755
Amortization of loan servicing rights	3,508,863	2,329,630
Impairment of loan servicing rights	894,555	-
Increase in accrued interest receivable	(854,256)	(726,436)
Increase/(decrease) in other assets	(581,512)	692,884
Increase/(decrease) in accrued interest payable	2,183,089	710,034
Increase in other liabilities	430,112	1,193,063
Net cash and cash equivalents provided by operating activities	5,765,347	5,603,652
Cash flows from investing activities		
Proceeds from principal paydowns on securities available for sale	15,742,055	8,825,049
Proceeds from matured or called securities available for sale	1,000,000	-
Purchases of available for sale securities	-	(50,320,763)
Purchases of held to maturity securities	-	(7,435,879)
Net increase in loans receivable	(88,464,991)	(91,574,234)
Proceeds from sale of OREO	-	1,258,948
Decrease/(increase) in interest-earning deposits with other banks	492,000	(735,000)
Purchase of FRB stock	-	(29,550)
Purchase of FHLB stock	(618,200)	(593,500)
Purchase of CDFI stock	(1,000,000)	-
Purchase of premises and equipment	(187,496)	(2,978,513)
Net cash and cash equivalents used in investing activities	(73,036,632)	(143,583,442)
Cash flows from financing activities		
Net increase in deposits	112,872,543	100,616,899
(Decrease)/increase in FHLB advances	(50,000,000)	50,000,000
Payment of cash in lieu of stock dividends	(337)	-
Proceeds from exercise of stock options	386,996	184,501
Net cash and cash equivalents provided by financing activities	63,259,202	150,801,400
Net change in cash and cash equivalents	(4,012,083)	12,821,610
Beginning cash and cash equivalents	109,059,045	96,237,435
Ending cash and cash equivalents, end of year	$ 105,046,962	$ 109,059,045
Supplemental cash flow information		
Interest paid	$ 11,004,628	$ 6,969,603
Income taxes paid	$ 6,926,752	$ 8,447,000
Non-cash activities:		
Transfer of loans to OREO	$ 67,671	$ -

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Principles of Consolidation: CBB Bancorp, Inc. ("CBB" on a parent-only basis and the "Company" on a consolidated basis) (OTCQB: CBBI), is a Delaware corporation headquartered in Los Angeles, California and is the holding company for Commonwealth Business Bank (the "Bank"). CBB commenced operations effective September 1, 2017 and all of the shares of the Bank's stock were exchanged for shares of CBB stock on a 1-for-1 basis. This transaction was treated as an internal reorganization as all shareholders of the Bank became the shareholders of CBB. CBB has no operations other than the ownership of the Bank. The consolidated financial statements include CBB and the Bank, with all intercompany transactions and balances eliminated in consolidation.

The Bank is a California-chartered corporation and operates 8 full-service branch offices in Southern California and Dallas, Texas and five loan production offices in the states of Colorado, Georgia, Texas, Utah, and Washington. The Bank is a single operating segment that provides a wide range of banking products and services to predominately small and midsize businesses. The Bank's revenues are primarily derived from providing financing for commercial real estate and business customers, as well as investing activities. Funding for lending and investing activities is obtained through acceptance of customer deposits and other borrowing activities.

Basic Presentation: To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ.

Cash Flows: Cash and cash equivalents include cash and due from banks, deposits with other financial institutions which have original maturities of less than 90 days and interest-bearing balances at the FRB in excess of the reserve requirement. Net cash flows are reported for customer loan and deposit transactions and interest-earning deposits with other banks with maturities greater than 90 days that are carried at cost. The Federal Reserve Act requires banks to maintain a certain percentage of their deposits as reserves in cash or on deposit with the FRB. At December 31, 2018 and 2017, the reserve requirement was $8,636,000 and $8,714,000 respectively.

Investment Securities: Securities are classified into one of two categories and accounted for as follows:

(i) Securities that the Company has the positive intent and ability to hold to maturity are classified as "held to maturity" and reported at amortized cost.
(ii) Securities not classified as held to maturity securities are classified as "available for sale" and reported at fair value. Unrealized gains and losses are reported as a separate component of shareholders' equity as accumulated other comprehensive income, net of taxes.

Interest income includes amortization/accretion of purchase premiums/discounts. Premiums and discounts on securities are amortized/accreted using the level-yield method without anticipating prepayments, except for mortgage-backed securities where prepayments are anticipated. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

On January 1, 2018, the Company adopted the new accounting standard for Financial Instruments, which requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income.

Management evaluates securities for other-than-temporary impairment ("OTTI") on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement and 2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. For equity securities, the entire amount of impairment is recognized through earnings.

Loans Receivable: Loans receivable that the Company has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding principal, reduced by the allowance for loan losses and net of deferred loan fees or costs on originated loans and unamortized premiums or unaccreted discounts on the retained portion of originated loans. Nonrefundable fees and direct costs associated with the origination of loans are deferred and netted against outstanding loan balances. The deferred net loan fees and costs are recognized in interest income as an adjustment to the yield over the loan term using the level yield method without anticipating prepayments.

Interest on loans is calculated using the simple-interest method on daily balances of the principal amount outstanding. Accrual of interest is discontinued on a loan when management believes, after considering economic and business conditions and collection efforts, the borrower's financial condition is such that collection of interest is doubtful. Generally, all loans are placed on nonaccrual status when they become 90 days past due. When interest accrual is discontinued, all unpaid accrued interest is reversed against current earnings. In general, subsequent payments received are applied to the outstanding principal balance of the loan. A loan is returned to accrual status when the borrower has demonstrated a satisfactory payment trend subject to management's assessment of the borrower's ability to repay the loan. When a loan is returned to accrual status, any interest payments which were received and applied to reduce the carrying value of the loan are accounted for as a discount and accreted into interest income over the remaining life of the loan.

Loans Held for Sale: Loans that the Company intends to sell prior to their maturities are designated as held for sale and are carried at the lower of cost or fair value, determined on a pool-level basis. A valuation allowance is established if the market value of such loans is lower than their cost, and operations are charged or credited for valuation adjustments. Origination fees on loans held for sale, net of certain costs of processing and closing the loans, are deferred over the life of the loans and are included in the computation of the gain or loss on the sale of the loans. A portion of the premium on sale of SBA loans is recognized as gains on sales of loans at the time of the sale. The remaining portion of the premium related to the unsold principal of the SBA loans is deferred and amortized over the remaining life of the loans as an adjustment to yield.

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the collectability of a loan balance is confirmed. The allowance is increased by provisions charged to earnings and reduced by charge-offs, net of recoveries. Management estimates the allowance balance required using previous loan loss experience, current economic conditions, volume, growth, and composition of the loan portfolio; including the value of collateral, delinquencies, change in non-performing loans and other relevant factors.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. The general component covers non-impaired loans and are based on historical loss rates for each portfolio segment, adjusted for the effects of qualitative or environmental factors that are likely to cause estimated credit losses as of the evaluation date to differ from the portfolio segment's historical loss experience.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company considers a loan to be impaired when it is probable that all amounts due (principal plus interest) will not be collected in accordance with the contractual terms of the loan agreement. Factors considered by management include payment status, collateral value, and 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.

The allowance for impaired loans is determined based on the present value of the estimated cash flows or on the fair value of the collateral if the loan is collateral dependent, less costs to sell. If the measured fair value is less than the recorded investment in the loan, the deficiency will be charged off against the allowance for loan losses, or alternatively, a specific allocation will be established. Although management uses all available information to recognize credit losses on loans, because of uncertainties associated with local economic conditions, collateral values, and future cash flows on impaired loans, it is reasonably possible that a material change could occur in the allowance for loan losses in the near term.

The general component covers non-impaired loans and is based on historical loss experience adjusted for the effects of qualitative or environmental factors. The historical loss experience is determined by portfolio segment. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. Risk factors impacting loans in each of the portfolio segments include broad deterioration of property values, reduced consumer and business spending as a result of continued high unemployment and reduced credit availability and lack of confidence in a sustainable recovery. The following portfolio segments have been identified: commercial real estate, construction, commercial, and consumer and other loans.

The Company considers loan performance and collateral values in assessing risk for each segment in the loan portfolio, as follows:

- Commercial real estate loans are affected by the local real estate market, the local economy, and movement in interest rates. The Company evaluates the borrower's repayment ability through a review of credit reports and debt to income ratios. Appraisals are obtained to support the original loan amount. In addition, updated appraisals are obtained on impaired loans.

- Construction loans are dependent on the industries tied to these loans as well as the local commercial real estate market. The loans are secured by real estate, and appraisals are obtained to support the loan amount. An evaluation of the project's cash flows is performed to evaluate the borrower's ability to repay the loan at the time of origination and periodically updated during the life of the loan.

- Commercial loans are dependent on the strength of the industries of the related borrowers and the success of their businesses. Commercial loans are advanced for equipment purchases or to provide working capital or to meet other financing needs of the business. These loans may be secured by accounts receivable, inventory, equipment, or other business assets. Financial information is obtained from the borrower to evaluate the debt service coverage and ability to repay the loans.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- Consumer and other loans are dependent on the local economy. Consumer loans are generally secured by consumer assets, but may be unsecured. The Company evaluates the borrower's repayment ability through a review of credit scores and an evaluation of debt to income ratios.

Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings ("TDRs") and classified as impaired. TDRs are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral.

For TDRs that subsequently default, the Company determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

Credit Risk and Concentrations: A significant portion of the Company's real estate loans are secured by real estate located in California. Declines in the California economy and in real estate values could have a significant effect on the collectability of the Company's loans and on the level of the required allowance for loan losses.

Foreclosed Assets: Foreclosed assets, including OREO, are recorded at fair value less estimated costs to sell when acquired, which establishes a new cost basis. Physical possession of real estate property collateralizing a loan occurs when legal title is obtained upon completion of foreclosure or when the borrower conveys all interest in the property to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Foreclosed assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through other expense along with operating costs. As of December 31, 2018, there were no foreclosed properties sold, while during the year ended December 31, 2017, the Company sold the one foreclosed property with an aggregate carrying value of $1,155,578 for net proceeds of $1,258,948.

Loan Servicing Rights: When loans are sold, servicing rights are initially recorded at fair value with the income statement effect recorded in gains on sales of loans. Fair value is determined at a tranche level, based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, prepayment speeds and default rates and losses. The Company compares the valuation model inputs and results to published industry data in order to validate the model results and assumptions. Servicing rights are subsequently measured using the amortization method which requires servicing rights to be amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans.

Servicing rights are evaluated for impairment based upon the fair value of the rights as compared to carrying amount. Impairment is determined by stratifying servicing rights into groupings based on predominant risk characteristics. Impairment is recognized through a valuation allowance for an individual grouping, to the extent that fair value is less than the carrying amount. If the Company later determines that all or a portion of the impairment no longer exists for a particular grouping, a reduction of the allowance may be recorded as an increase to income. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses.

Fees earned for servicing loans is included in loan service fee income, net. The fees are based on a contractual percentage of the outstanding principal; or a fixed amount per loan and are recorded as income when earned. The amortization of servicing rights and changes in valuation allowances on servicing rights are netted against loan servicing fee income. Late fees and ancillary fees related to loan servicing are not material.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Federal Home Loan Bank Stock: As a member of the FHLB of San Francisco, the Company is required to own common stock in the FHLB of San Francisco based upon the balance of membership asset value and outstanding FHLB advances. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends received are reported as interest income.

Federal Reserve Bank Stock: As a member of the FRB of San Francisco, the Company is required to maintain stock in the FRB of San Francisco based on a specified ratio relative to our capital. FRB stock is carried at cost and classified as a restricted security. Cash dividends received are reported as interest income.

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

Premises and Equipment: Company premises and equipment are stated at cost, less accumulated depreciation. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives. Equipment and furnishings are depreciated over 3 to 10 years and leasehold improvements are amortized over the lesser of the terms of the respective leases or the estimated useful lives. The straight-line method is used for both financial reporting and income tax purposes. Repairs and maintenance are charged to operating expenses as incurred. Costs of improvements are added to the applicable property accounts.

Affordable Housing Investments: The Company has invested in limited partnerships formed to develop and operate affordable housing units for lower income tenants throughout California. These investments, which have a carrying value of $1,863,668 and $1,963,701 as of December 31, 2018 and 2017, are included in other assets in the Company's statement of financial condition. The partnership interests are accounted for utilizing the proportional amortization method with amortization expense and tax benefits recognized through the income tax provision. Total unfunded commitments related to the investments in qualified affordable housing projects totaled $90,208 and $267,991at December 31, 2018 and 2017. The Company expects to fulfill these commitments during the year ending 2025.

Share-Based Compensation: Compensation cost is recognized for stock options and restricted stock issued to employees, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options. Compensation cost is recognized over the required service period, generally defined as the vesting period.

Income Taxes: Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The Company recognizes interest and/or penalties related to income tax matters in income tax expense.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Loan Commitments and Related Financial Instruments: Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Revenue Recognition: The Company accounts for certain of its revenue streams in accordance with ASC 606, "*Revenue from Contracts with Customers*." Revenue streams within the scope of and accounted for under ASC 606 Include: deposit-related fees and transactions, debit card interchange fees, international service charges, and gains and losses from the sale of other real estate owned. ASC 606 requires revenue to be recognized when the Company satisfies related performance obligations by transferring to the customer a good or service. The recognition of revenue under ASC 606 requires the Company to first identify the contract with the customer, identify the performance obligations, determine the transaction price, allocate the transaction price to the performance obligations and finally recognize revenue when the performance obligations have been satisfied and the good or service has been transferred. The majority of the Company's contracts with customers associated with revenue streams that are within the scope of ASC 606 are considered short-term in nature and can be canceled at any time by the customer or thee Bank, such as a deposit account agreement. Other more significant revenue streams for the Company such as interest income on loans and investment securities and gain on sale of loans are specifically excluded from the scope of ASC 606 and are accounted for under other applicable U.S. GAAP.

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized holding gains and losses on securities available for sale which are also recognized as separate components of equity.

Equity: Stock dividends in excess of 20% are reported by transferring the par value of the stock issued from retained earnings to common stock. Stock dividends for 20% or less are reported by transferring the fair value, as of the ex-dividend date, of the stock issued from retained earnings to common stock and additional paid-in capital. Fractional share amounts are paid in cash with a reduction in retained earnings.

Dividend Restriction: Banking regulations require maintaining certain capital levels and may limit the dividends paid by the Bank to CBB or by CBB to shareholders.

Earnings per Common Share ("EPS"): Basic EPS is computed by dividing earnings available to common shareholders by the weighted-average number of common shares outstanding during the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock, or resulted from issuance of common stock that then shared in the earnings of the Company. The EPS is restated for a 10% stock dividend, which was declared on October 2, 2018, through the date of issuance of the Financial Statements.

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the consolidated financial statements.

Fair Value of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent Events: The Company has evaluated subsequent events for recognition and disclosure through March 28, 2019, which is the date the financial statements were available to be issued.

Accounting Pronouncements Adopted: On January 1, 2018, the Company adopted ASU 2014-09, "*Revenue from Contracts with Customers (Topic 606)"* and all subsequent amendments to the ASU (collectively, "ASC 606"), which (i) creates a single framework for recognizing revenue from contracts with customers that fall within its scope and (ii) revises when it is appropriate to recognize a gain (loss) from the transfer of nonfinancial assets, such as OREO. The majority of the Company's revenues come from interest income and other sources, including loans, leases, securities and derivatives, that are outside the scope of ASC 606. The Company's services that fall within the scope of ASC are presented within noninterest income and are recognized as revenue as the Company satisfies its obligation to the customer. Services within the scope of ASC 606 include deposit service charges on deposits, debit card interchange fees, international service charges, and the gains and losses from the sale of OREO. The Company adopted ASC 606 using the modified retrospective method applied to all contracts not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under ASC 606 while prior period amounts continue to be reported in accordance with legacy GAAP. The adoption of ASC 606 did not result in a change to the accounting for any of the in-scope revenue streams; as such, no cumulative effect adjustment was recorded.

In January 2016, the FASB issued ASU 2016-01, *"Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurements of Financial Assets and Financial Liabilities."* The amendments in this ASU require equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; simplifies the impairment assessment of equity investments by requiring a qualitative assessment; eliminates the requirement for public business entities to disclose methods and assumptions for financial instruments measured at amortized cost on the statement of financial condition; requires the exit price notion to be used when measuring the fair value of financial instruments for disclosure purposes; requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability; requires separate presentation of financial assets and liabilities by measurement category; and certain other requirements. This ASU become effective for fiscal years beginning after December 15, 2017. The Company adopted this guidance on January 1, 2018 and the adoption of this ASU did not have an impact on the Company's consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, "*Income Statement-Reporting Comprehensive Income (Topic 220), Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*." The purpose of this update is to allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The update is effective for public business entities for annual periods beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted, including in an interim period. The Company has chosen to early adopt ASU 2018-02 and has elected to reclassify its stranded tax effect totaling $46,475 in accumulated other comprehensive income that resulted from the change in tax rates to retained earnings for the year ended December 31, 2018.

NOTE 2 – INVESTMENT SECURITIES

The Company's investments consist of U.S. Government sponsored enterprises ("GSEs"), municipal bonds and assets-backed securities.

The following is a summary of investment securities available for sale at:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2018				
Collateralized mortgage obligations	$ 32,419,926	$ -	$ (793,796)	$ 31,626,130
Mortgage-backed securities	22,978,918	-	(225,883)	22,753,035
State and political subdivisions	27,568,827	339,937	(631,905)	27,276,859
Assets-backed securities	15,087,423	36,553	(85,908)	15,038,068
Total	$ 98,055,094	$ 376,490	$(1,737,492)	$ 96,694,092

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2017				
U.S. GSEs	$ 1,000,000	$ -	$ (2,572)	$ 997,428
Collateralized mortgage obligations	32,700,029	-	(347,432)	32,352,597
Mortgage-backed securities	39,252,820	-	(280,050)	38,972,770
State and political subdivisions	27,971,984	655,408	(385,982)	28,241,410
Assets-backed securities	15,097,091	-	(5,960)	15,091,131
Total	$116,021,924	$ 655,408	$(1,021,996)	$115,655,336

The following is a summary of investment securities held to maturity at:

	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
December 31, 2018				
Mortgage-backed securities	$ 7,736,613	$ 1,762	$ (257,180)	$ 7,481,195
December 31, 2017				
Mortgage-backed securities	$ 8,001,800	$ 15,620	$ (93,420)	$ 7,924,000

Accrued interest receivable on investment securities totaled $551,122 and $559,146 at December 31, 2018 and 2017, respectively. There were no sales of securities during 2018 and 2017.

NOTE 2 – INVESTMENT SECURITIES (continued)

The amortized costs and estimated fair values of investment securities at December 31, 2018, and 2017, respectively, by contractual maturities, are shown below:

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
December 31, 2018				
Less than one year	$ -	$ -	$ -	$ -
One to five years	-	-	-	-
Five to ten years	3,465,814	3,302,551	-	-
Beyond ten years	24,103,013	23,974,308	-	-
Collateralized mortgage obligations	32,419,926	31,626,130	-	-
Mortgage-backed securities	22,978,918	22,753,035	7,736,613	7,481,195
Assets-backed securities	15,087,423	15,038,068	-	-
Total	$ 98,055,094	$ 96,694,092	$ 7,736,613	$ 7,481,195

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
December 31, 2017				
Less than one year	$ 1,000,000	$ 997,428	$ -	$ -
One to five years	-	-	-	-
Five to ten years	1,193,547	1,148,870	-	-
Beyond ten years	26,778,437	27,092,540	-	-
Collateralized mortgage obligations	32,700,029	32,352,597	-	-
Mortgage-backed securities	39,252,820	38,972,770	8,001,800	7,924,000
Assets-backed securities	15,097,091	15,091,131	-	-
Total	$116,021,924	$115,655,336	$ 8,001,800	$ 7,924,000

Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Securities with carrying values of $61,661,121 and $79,748,779 as of December 31, 2018 and 2017, respectively, were pledged to secure public deposits, future borrowings, and for other purposes as required or permitted by law.

NOTE 2 – INVESTMENT SECURITIES (continued)

The following table summarizes securities with unrealized and unrecognized losses at December 31, 2018 and December 31, 2017, aggregated by major security type and length of time in a continuous unrealized or unrecognized loss position:

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2018						
Available for sale:						
Collateralized mortgage obligations	$ -	$ -	$ 31,626,130	$ 793,796	$31,626,130	$ 793,796
Mortgage-backed securities	-	-	22,753,035	225,883	22,753,035	225,883
State and political subdivisions	-	-	15,676,696	631,905	15,676,696	631,905
Assets-backed securities	10,025,682	85,908	-	-	10,025,682	85,908
Temporarily impaired securities	$ 10,025,682	$ 85,908	$ 70,055,861	$1,651,584	$80,081,543	$1,737,492
Held to maturity:						
Mortgage-backed securities	$ -	$ -	$ 7,024,776	$ 257,180	$ 7,024,776	$ 257,180
Temporarily impaired securities	$ -	$ -	$ 7,024,776	$ 257,180	$ 7,024,776	$ 257,180
Total impaired securities	$ 10,025,682	$ 85,908	$ 77,080,637	$1,908,764	$87,106,319	$1,994,672

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2017						
Available for sale:						
U.S. GSEs	$ -	$ -	$ 997,428	$ 2,572	$ 997,428	$ 2,572
Collateralized mortgage obligations	25,711,473	205,847	6,641,124	141,585	32,352,597	347,432
Mortgage-backed securities	15,587,425	50,140	23,385,345	229,910	38,972,770	280,050
State and political subdivisions	2,414,580	19,418	11,129,809	366,564	13,544,389	385,982
Assets-backed securities	15,091,131	5,960	-	-	15,091,131	5,960
Temporarily impaired securities	$ 58,804,609	$ 281,365	$ 42,153,706	$ 740,631	$100,958,315	$1,021,996
Held to maturity:						
Mortgage-backed securities	$ 7,332,564	$ 93,420	$ -	$ -	$ 7,332,564	$ 93,420
Temporarily impaired securities	$ 7,332,564	$ 93,420	$ -	$ -	$ 7,332,564	$ 93,420
Total impaired securities	$ 66,137,173	$ 374,785	$ 42,153,706	$ 740,631	$108,290,879	$1,115,416

At December 31, 2018, there were 50 securities available for sale with a carrying value of $70,055,861 with unrealized losses of $1,651,584 that have been in a continuous unrealized loss position for 12 months or longer and there were total 54 securities with a carrying value of $87,106,319 with an unrealized loss of $1,994,672. At December 31, 2017, there were 34 securities available for sale with a carrying value of $42,153,706 with unrealized losses of $740,631 that have been in a continuous unrealized loss position for 12 months or longer and there were total 55 securities with a carrying value of $108,290,879 with an unrealized loss of $1,115,416.

The Company believes that the unrealized losses are temporary, arising mainly from fluctuations in interest rates and did not reflect a deterioration of credit quality of the issuers. In analyzing an issuer's financial condition, the Company may consider whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. The fair value is expected to recover as the securities approach maturity.

NOTE 3 – LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

The following is a summary of loans by segment at December 31:

	2018	2017
Commercial real estate loans	$ 703,087,557	$645,211,212
Construction loans	12,326,619	12,574,972
Commercial loans	152,381,312	122,917,190
Consumer and other loans	5,548,407	4,928,050
Total gross loans	873,343,895	785,631,424
Less: Allowance for loan losses	(10,023,140)	(8,652,672)
Deferred loan costs, net	2,452,909	1,767,592
Loans receivable, net	$ 865,773,664	$ 778,746,344

Allowance for Loan Losses

The activity in the allowances for loan losses for the years ended December 31, is as follows:

	Commercial Real Estate Loans	Construction Loans	Commercial Loans	Consumer and Other Loans	Total
December 31, 2018					
Allowance for loan losses:					
Beginning of year	$ 5,843,207	$ 607,855	$ 2,142,850	$ 58,760	$ 8,652,672
Provision for loan losses	578,890	(564,712)	1,326,291	29,531	1,370,000
Loans charged off	(60,201)	-	(150,648)	-	(210,849)
Recoveries of charge-offs	9,537	-	201,780	-	211,317
Balance, end of year	$ 6,371,433	$ 43,143	$ 3,520,273	$ 88,291	$ 10,023,140
December 31, 2017					
Allowance for loan losses:					
Beginning of year	$ 5,286,363	$ 773,066	$ 2,235,120	$ 161,340	$ 8,455,889
Provision for loan losses	216,006	(165,211)	565,785	(102,580)	514,000
Loans charged off	(107,719)	-	(945,245)	-	(1,052,964)
Recoveries of charge-offs	448,557	-	287,190	-	735,747
Balance, end of year	$ 5,843,207	$ 607,855	$ 2,142,850	$ 58,760	$ 8,652,672

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment as of December 31, 2018 and 2017:

	Loans Individually Evaluated for Impairment	Loans Collectively Evaluated for Impairment	Total
December 31, 2018			
Allowance for loan losses attributable to:			
Commercial real estate loans	$ 581,309	$ 5,790,124	$ 6,371,433
Construction loans	-	43,143	43,143
Commercial loans	1,189,887	2,330,386	3,520,273
Consumer and other loans	-	88,291	88,291
Total	$ 1,771,196	$ 8,251,944	$ 10,023,140

NOTE 3 – LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (continued)

Loans:			
Commercial real estate loans	$ 10,128,840	$ 692,958,717	$ 703,087,557
Construction loans	-	12,326,619	12,326,619
Commercial loans	6,136,463	146,244,849	152,381,312
Consumer and other loans	-	5,548,407	5,548,407
Total	$ 16,265,303	$ 857,078,592	$ 873,343,895

	Loans Individually Evaluated for Impairment	Loans Collectively Evaluated for Impairment	Total
December 31, 2017			
Allowance for loan losses attributable to:			
Commercial real estate loans	$ 158,410	$ 5,684,797	$ 5,843,207
Construction loans	-	607,855	607,855
Commercial loans	89,905	2,052,945	2,142,850
Consumer and other loans	-	58,760	58,760
Total	$ 248,315	$ 8,404,357	$ 8,652,672
Loans:			
Commercial real estate loans	$ 3,906,355	$ 641,304,857	$ 645,211,212
Construction loans	-	12,574,972	12,574,972
Commercial loans	1,910,702	121,006,488	122,917,190
Consumer and other loans	-	4,928,050	4,928,050
Total	$ 5,817,057	$ 779,814,367	$ 785,631,424

Impaired Loans

Individually evaluated impaired loans were as follows:

	2018	2017
Year-end loans with no allocated allowance for loan losses	$ 12,627,578	$ 1,980,774
Year-end loans with allocated allowance for loan losses	3,637,725	3,836,283
Total	$ 16,265,303	$ 5,817,057
Amount of the allowance for loan losses allocated	$ 1,771,196	$ 248,315
Average balance of individually evaluated impaired loans during year	$ 10,539,305	$ 5,830,344

Interest income recognized on impaired loans and cash-basis income recognized on impaired loans was not material for the years ended December 31, 2018 and 2017.

NOTE 3 – LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (continued)

The following table presents loans individually evaluated for impairment by class of loans as of December 31, 2018 and 2017:

	Unpaid Principal Balance	Recorded Investment	Allowance Allocated
December 31, 2018			
With no related allowance recorded:			
Commercial real estate loans	$ 16,158,401	$ 8,458,796	$ -
Commercial loans	5,415,951	4,168,782	-
	21,574,352	12,627,578	-
With an allowance recorded:			
Commercial real estate loans	6,680,178	1,670,044	581,309
Commercial loans	2,323,156	1,967,681	1,189,887
	9,003,334	3,637,725	1,771,196
Total	$ 30,577,686	$ 16,265,303	$ 1,771,196
December 31, 2017			
With no related allowance recorded:			
Commercial real estate loans	$ 3,562,151	$ 1,235,039	$ -
Commercial loans	1,022,955	745,735	-
	4,585,106	1,980,774	-
With an allowance recorded:			
Commercial real estate loans	6,214,960	2,671,316	158,410
Commercial loans	2,028,782	1,164,967	89,905
	8,243,742	3,836,283	248,315
Total	$ 12,828,848	$ 5,817,057	$ 248,315

Past Due and Nonaccrual Loans

The following table represents the aging of the recorded investment in past due loans as of December 31:

	30-59	60-89	Total Accruing Past Due	Nonaccrual	Current	Total
December 31, 2018						
Commercial real estate	$2,230,138	$ 809,773	$3,039,911	$ 255,731	$ 699,791,915	$ 703,087,557
Construction	-	-	-	-	12,326,619	12,326,619
Commercial	1,480,001	-	1,480,001	805,200	150,096,111	152,381,312
Consumer and other loans	-	-	-	-	5,548,407	5,548,407
Total loans	$3,710,139	$ 809,773	$4,519,912	$ 1,060,931	$ 867,763,052	$ 873,343,895

NOTE 3 – LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (continued)

	30-59	60-89	Total Accruing Past Due	Nonaccrual	Current	Total
December 31, 2017						
Commercial real estate	$ -	$ 115,432	$ 115,432	$ 3,572,739	$ 641,523,041	$ 645,211,212
Construction	-	-	-	-	12,574,972	12,574,972
Commercial	15,571	-	15,571	942,891	121,958,728	122,917,190
Consumer and other loans	-	-	-	-	4,928,050	4,928,050
Total loans	$ 15,571	$ 115,432	$ 131,003	$ 4,515,630	$ 780,984,791	$ 785,631,424

At December 31, 2018 and 2017, there were no loans past due over 90 days and still accruing. Nonaccrual loans include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

Troubled Debt Restructurings

TDRs on accrual status at December 31, 2018 consisted of 4 commercial real estate loans totaling $2,380,659 and 8 commercial business loans totaling $2,763,316. TDRs on accrual status at December 31, 2017 consisted of 1 commercial real estate loans totaling $232,345 and 4 commercial business loans totaling $967,811. As of December 31, 2018, and 2017, total non-accruing TDR loans were $255,351 and $2,067,122, respectively.

The Company has allocated $1,249,147 and $194,203 of specific reserves to customers whose loan terms have been modified in TDRs as of December 31, 2018 and 2017, respectively. The Company has not committed to lend additional amounts to customers with outstanding loans that are classified as TDRs.

During the year ended December 31, 2018, there were 8 loans that were modified as TDRs and during the year ended December 31, 2017, there was no loans that were modified as TDRs. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; or a permanent reduction of the recorded investment in the loan.

Modifications involving payment deferrals were for periods six months to one year. Modifications involving a reduction of the stated interest rate of the loan were for periods ranging from five to seven years. Modifications involving an extension of the maturity date were for periods ranging from one to seven years.

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Company's internal underwriting policy.

The following table presents loans by class modified as TDRs that occurred during the year ending December 31, 2018:

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
December 31, 2018			
Commercial real estate loans	1	$ 809,773	$ 809,773
Commercial loans	7	2,282,301	2,224,455
Total	8	$ 3,092,074	$ 3,034,228

NOTE 3 – LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (continued)

During the year ended December 31, 2018, the TDRs described above increased the allowance for loan losses by $1,249,105 with no charge-offs.

The following table presents loans by class modified as TDRs for which there was a payment default within 12 months following the modification during the year ending December 31, 2018:

	Number of Loans	Recorded Investment
December 31, 2018		
Commercial real estate loans	1	$ 809,773
Commercial loans	-	-
Total	1	$ 809,773

A loan is considered to be in payment default once it is 30 days contractually past due under the modified terms. The TDR that subsequently defaulted increased the allowance for loan losses by $349,376 with no charge-offs during the year ending December 31, 2018.

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Company's internal underwriting policy.

Credit Quality Indicators

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis is performed on a quarterly basis. The risk category of homogeneous loans is evaluated when a loan becomes delinquent.

The Company uses the following definitions for risk ratings:

Special Mention – Loans classified as special mention have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard – Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful – Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loss – Loans classified as loss are considered uncollectable and warrant writing off the loan. This classification, however, does not mean that the asset has absolutely no recovery or salvage value but it is not practical to defer writing off this loan even that a partial recovery may occur in the future.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans.

NOTE 3 – LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (continued)

As of December 31, 2018, and 2017, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

December 31, 2018	Pass Rated Loans	Special Mention	Substandard	Doubtful	Loss	Total
Commercial real estate loans	$ 690,026,880	$ 2,724,350	$ 10,336,327	$ -	$ -	$ 703,087,557
Construction loans	12,326,619	-	-	-	-	12,326,619
Commercial loans	145,944,474	789,288	5,647,550	-	-	152,381,312
Consumer and other loans	5,548,407	-	-	-	-	5,548,407
Total	$ 853,846,380	$ 3,513,638	$ 15,983,877	$ -	$ -	$ 873,343,895

December 31, 2017	Pass Rated Loans	Special Mention	Substandard	Doubtful	Loss	Total
Commercial real estate loans	$ 639,220,090	$ 838,258	$ 5,152,864	$ -	$ -	$ 645,211,212
Construction loans	12,574,972	-	-	-	-	12,574,972
Commercial loans	117,966,626	-	4,950,564	-	-	122,917,190
Consumer and other loans	4,928,050	-	-	-	-	4,928,050
Total	$ 774,689,738	$ 838,258	$ 10,103,428	$ -	$ -	$ 785,631,424

NOTE 4 – PREMISES AND EQUIPMENT

The Company's premises and equipment consist of the following at December 31:

	2018	2017
Leasehold improvements	$ 6,587,676	$ 6,447,285
Furniture and fixtures	1,711,232	1,676,634
Equipment and others	2,039,402	1,948,739
Construction in progress	54,206	132,362
Total premises and equipment	10,392,516	10,205,020
Accumulated depreciation and amortization	(5,159,992)	(4,095,839)
Premises and equipment, net	$ 5,232,524	$ 6,109,181

Depreciation and amortization expense included in occupancy and equipment expenses were $1,064,153 and $844,698 for the years ended December 31, 2018 and 2017, respectively.

NOTE 5 – LOAN SERVICING RIGHTS

Changes in loan servicing rights, net of amortization, are as follows for the years ended December 31:

	2018	2017
Loan servicing rights:		
Balance, beginning of year	$ 11,377,338	$ 9,708,502
Additions	3,567,310	3,998,466
Amortization to expense	(3,508,863)	(2,329,630)
Change in valuation allowance	(894,555)	-
Balance, end of year	$ 10,541,230	$ 11,377,338
Valuation allowance:		
Balance, beginning of year	$ -	$ -
Additions expensed	(894,555)	-
Reductions credited to operations	-	-
Direct write-downs	-	-
Balance, end of year	$ (894,555)	$ -

The fair values of loan servicing rights were approximately $10,593,062 and $12,852,878 at December 31, 2018 and 2017, respectively. At December 31, 2018, the fair value of loan servicing rights was determined using a weighted-average discount rate of 11.25% and prepayment speeds ranging from 11.4% and 13.3%. At December 31, 2017, the fair value of loan servicing rights was determined using a weighted-average discount rate of 7.1% and prepayment speed of 9.0%. For purposes of measuring impairment, loan servicing rights are stratified by loan type, and impairment is recognized if the carrying value of loan servicing rights exceeds the fair value of the stratum.

NOTE 6 – DEPOSITS

The scheduled maturities of time deposits as of December 31, 2018 are as follows:

2019	$ 571,641,470
2020	33,366,029
2021	1,102,832
2022	99,803
2023	675,000
Total	$ 606,885,134

There are no time deposits maturing after December 31, 2023.

Included in time deposits of greater than $250,000 are $20,000,000 and $71,500,000 in California State Treasurer's deposits at December 31, 2018 and 2017, respectively. The California State Treasurer's deposits are subject to withdrawal based on the State's periodic evaluations. The Company is required to pledge eligible collateral of at least 110% of outstanding deposits.

NOTE 6 – DEPOSITS (continued)

At December 31, 2018, there was no security pledged and at December 31, 2017, securities with carrying values of approximately $997,428 were pledged. In addition, $22,850,000 and $77,950,000 of standby letter of credit issued by the FHLB were pledged as collateral for the California State Treasurer's deposits at December 31, 2018 and 2017 respectively. Also included in the time deposits balance as of December 31, 2018 and 2017 were brokered deposits of $98,812,000 and $78,064,000, respectively.

A summary of interest expense related to deposits for the years ended December 31 follows:

	2018	2017
Interest-bearing demand	$ 7,085	$ 3,063
Money market accounts and savings	2,606,164	1,844,679
Time deposits	10,240,539	5,593,271
Total	$ 12,853,788	$ 7,441,013

NOTE 7 – FHLB ADVANCES AND OTHER BORROWINGS

At year-end, advances from the Federal Home Loan Bank were as follows:

	2018	2017
Maturities at 2020, fixed rate at rates from 1.59% to 1.69%, averaging 1.65%	$ 10,000,000	$ 10,000,000
Maturities in 2018, with a floating rate at 1.37%	-	50,000,000
Total FHLB advances	$ 10,000,000	$ 60,000,000

Each term advances are payable at its maturity date and the Company will incur a penalty if it repays the advance prior to its maturity. Interest expense on FHLB advances including overnight was $333,878 and $237,049 for the year ended December 31, 2018 and 2017, respectively. The Company has pledged loans receivable with outstanding balances of $384,851,153 and $185,850,620 at December 31, 2018 and 2017, respectively, as collateral, and the Company has pledged securities with fair values of $61,348,400 and $78,430,084 at December 31, 2018 and 2017, respectively, as collateral with the FHLB for borrowing facility. The total borrowing capacity available from the collateral that has been pledged was $358,905,397 of which $326,055,397 remained available as of December 31, 2018.

The Company has also pledged loans receivable with outstanding balances of $123,327,005 and $98,098,901 at December 31, 2018 and 2017, respectively, as collateral for the FRB's Discount Window. The total borrowing capacity available from the collateral that has been pledged was $97,808,486 and $81,129,119 at December 31, 2018 and 2017, respectively, of which all was available for use as there were no borrowings.

NOTE 8 – COMMITMENTS AND CONTINGENCIES

Lease Commitments: The Company leases its facilities from nonaffiliated parties, with expiration dates ranging through March 2027. Rental expense recorded under such leases amounted to $1,384,088 and $1,212,697 for the years ended December 31, 2018 and 2017, respectively. Rent commitments related to the lease of the Company's main office and branch facilities, before considering renewal options and additional lessor charges, are as follows:

2019	$ 1,465,090
2020	1,375,104
2021	1,285,518
2022	1,224,401
2023	1,111,355
Thereafter	1,358,548
Total	$ 7,820,016

Off-balance Sheet Credit Risk: The Company is a party to financial instruments with off-balance sheet risk to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit and other commercial letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the statements of financial condition.

The Company's exposure to credit loss in the event of nonperformance by the other party to commitments to extend credit and standby letters of credit and other commercial letters of credit is represented by the contractual notional amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for extending loan facilities to customers. 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 counterparty. Collateral held varies but may include accounts receivable; inventory, property, plant and equipment; and income-producing properties.

Off-balance sheet credit commitments at December 31, 2018 and 2017 consist of the following:

	2018	2017
Commitments to extend credit	$ 110,755,496	$ 115,970,306
Standby letters of credit	1,338,678	1,663,462
Other commercial letters of credit	1,682,854	2,014,702
Others	93,500	94,000
Total	$ 113,870,528	$ 119,742,470

As of December 31, 2018, and 2017, the reserve for unfunded commitments and letters of credit amounted to $597,453 and $1,067,453 respectively. These amounts are included in other liabilities on the statements of financial condition.

NOTE 9 – INCOME TAXES

Income tax expense (benefit) was as follows:

	2018	2017
Current expense:		
Federal	$ 4,219,959	$ 8,490,560
State	2,171,582	2,558,291
	6,391,541	11,048,851
Deferred expense (benefit):		
Federal	99,584	848,717
State	(57,994)	(258,609)
	41,590	590,108
Total Income tax expense	$ 6,433,131	$ 11,638,959

Effective tax rates differ from the federal statutory rate of 21% for 2018 and 35% for 2017 due to the following:

	2018	2017
Federal statutory rate times financial statement income	$ 4,849,188	$ 8,291,266
Effect of:		
State income taxes, net of federal benefit	1,731,905	1,506,539
Nondeductible expenses	157,475	74,626
Effect of Tax Cuts and Jobs Act	(92,557)	2,007,111
Other	(212,880)	(240,583)
Total	$ 6,433,131	$ 11,638,959

The net deferred income tax assets included in the statement of financial condition include the following components at December 31:

	2018	2017
Deferred tax assets:		
Allowance for loan losses	$ 3,025,850	$ 2,634,428
Non-accrual interest income	84,536	399,857
Stock compensation	604,742	543,220
Incentive from lessor	341,615	372,489
Organization and start-up costs	35,393	11,790
Section 475 MTM	854,943	777,927
State income taxes	461,092	536,366
Net unrealized loss on securities available for sale	383,637	104,340
Other	870,340	579,865
	6,662,148	5,960,282
Deferred tax liabilities:		
Property and equipment	(342,861)	(130,331)
Deferred loan cost	(1,358,889)	(1,119,439)
State taxes	(301,178)	(288,999)
	(2,002,928)	(1,538,769)
Net deferred tax assets	$ 4,659,220	$ 4,421,513

NOTE 9 – INCOME TAXES (continued)

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act ("Tax Act"). Among other changes, the Tax Act reduces the U.S. federal corporate tax rate from 35% to 21% effective January 1, 2018. The Company reasonably estimated the effects of the Tax Act and recorded a provisional amount increasing income tax expense by $2,007,111 for the year ended December 31, 2017 in accordance with SEC Staff Accounting Bulletin No. 118 ("SAB 118"). This amount is related to the remeasurement of federal net deferred tax assets resulting from the aforementioned permanent reduction in the U.S. statutory corporate tax rate. As required by SAB 118, the Company continued to reassess and refine the effects of the Tax Act on its deferred tax amounts during 2018. As a result, the Company records an income tax benefit of $92,557 during the year ended December 31, 2018. As of December 31, 2018, the Company has completed the accounting for the income tax effects of the Tax Act.

Valuation Allowance on Deferred Tax Asset

A valuation allowance for deferred tax assets is recorded when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income and tax planning strategies which will create taxable income during the periods in which those temporary differences become deductible. As of December 31, 2018, and 2017, the Company had no valuation allowance.

Unrecognized Tax Benefits

At December 31, 2018 and December 31, 2017, the Company had no unrecognized tax benefits recorded. The Company does not expect the total amount of unrecognized tax benefits to significantly increase or decrease in the next twelve months. The Company is subject to U.S. federal income tax as well as income tax of the states of California, Texas, Utah, Georgia, and Colorado. The tax years 2015-2018 are open to examination by the U.S. taxing authorities. The tax years 2014-2018 are open to examination by the various states.

NOTE 10 – RELATED-PARTY TRANSACTIONS

There were no loans to principal officers, directors, and their affiliates during the year ended December 31, 2018 and 2017.

Deposits from principal officers, directors, and their affiliates at December 31, 2018 and 2017 were $551,027 and $427,321.

NOTE 11 – STOCK OPTION AND RESTRICTED STOCK PLANS

The Company has three stock-based compensation plans currently in effect as of December 31, 2018, as described further below. Total compensation cost that has been charged against earnings for these plans in 2018 and 2017 was $404,210 and $409,974 respectively.

Share-Based Compensation: The Company established the 2004 Stock Option Plan (the "2004 Plan") that provides for incentive and non-qualified stock options for employees, directors and organizers of the Company. The 2004 Plan expired at November 11, 2014 and there were no options available to be granted

NOTE 11 – STOCK OPTION AND RESTRICTED STOCK PLANS (continued)

under the Plan at December 31, 2018. Stock options are issued at the fair value of the Company stock on the date of grant with a three-year or four-year vesting period for directors and employees, respectively. The Company issues new shares upon the exercise of stock options. The total number of outstanding options exercisable under the 2004 Plan was 456,231 at December 31, 2018.

On June 20, 2008, the Company established the 2008 Stock Option Plan (the "2008 Plan") that provides for incentive and non-qualified stock options for employees, directors, and organizers of the Company. The 2008 Plan expired at June 20, 2018, and there were no options available to be granted under the Plan at December 31, 2018. Stock options are issued with an exercise price equal to the market value of the stock on the date of grant with three-year and four-year vesting periods for directors and employees, respectively. The Company issues new shares upon the exercise of stock options. The total number of outstanding options exercisable under the 2008 Plan was 131,175 at December 31, 2018.

On July 26, 2018, the Company established the 2018 Stock Option Plan (the "2018 Plan") that provides for the issuance of options to purchase up to 459,148 shares to employees, directors, and consultants. Stock options are issued with an exercise price equal to the market value of the stock on the date of grant with four-year vesting periods for directors and employees, respectively. The total number of options available to be granted under the 2018 Plan was 395,148 at December 31, 2018.

A summary of activity for the Company's stock options as of and for the year ended December 31, 2018 is as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
Outstanding at beginning of year	720,600	$ 8.56	6.30 years
10% stock dividend	72,060		
Granted	154,400	14.60	
Forfeited	(31,075)	11.40	
Expired	-	-	
Exercised	(69,075)	5.60	
Outstanding at end of period	846,910	$ 9.07	6.06 years
Vested and expected to vest at year end	587,406	$ 7.52	5.08 years
Exercisable at year end	587,406	$ 7.52	5.08 years

The fair value of each option granted in 2018 and 2017 is estimated on the date of grant using a Black-Scholes valuation model that uses the assumptions noted in the following table. The Company used its historical data for determining the volatility and expected life assumptions in the model. The expected term of options granted was estimated using the historical exercise behavior of employees. The risk-free interest rate for periods within the contractual life of the option is based on the U.S. Treasury strips in effect at the time of grant.

NOTE 11 – STOCK OPTION AND RESTRICTED STOCK PLANS (continued)

	2018	2017
Expected term	5.00 years	5.00 years
Expected volatility	16.17%	20.91%
Expected dividend yield	0%	0%
Risk-free interest rate	2.94%	1.85%

During the years ended December 31, 2018 and 2017, information related to stock options is as follows:

	2018	2017
Weighted-average exercise price of stock options granted during the year	$14.60	$15.15
Weighted-average exercise price of stock options exercised during the year	$ 5.60	$ 7.14
Total intrinsic value of options exercised during the year	$598,006	$244,884
Cash received on option exercises	$386,996	$184,501

As of December 31, 2018, and 2017, unrecognized compensation costs were $531,546 and $576,570, respectively, and the remaining unrecognized compensation cost is expected to be recognized over a weighted average period of 2.39 and 1.71 years, respectively.

NOTE 12 – EMPLOYEE BENEFIT PLAN

On April 1, 2005, the Company established a 401(k)-benefit plan which is open to all eligible employees who are 18 years old or older. The plan provides for the Company's discretionary matching contribution up to 50% of participants' deferral not to exceed 4% of their compensation during the year. The vesting of the employer contribution is based on an employee's years of service, with 33% vesting after one year of service, 66% after two years of service, and 100% vesting after three or more years of service. Total employer contributions to the plan amounted to $443,254 and $351,715 for the years ended December 31, 2018 and 2017, respectively.

NOTE 13 – FAIR VALUE

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

NOTE 13 – FAIR VALUE

Securities Available for Sale: The fair values of securities available for sale are determined by matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

Impaired Loans: The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made, usually every twelve months in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available for similar loan and collateral underlying such loans. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted in accordance with the allowance policy.

Real Estate Owned: Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower or cost or fair value less estimated costs to sell. Fair value is commonly based on recent real estate appraisals which are updated no less frequently than annually. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach with data from comparable properties. Adjustments are routinely made in the appraisal

process by the independent appraisers to adjust for differences between the comparable sales and income data available. Real estate owned properties are evaluated on an annual basis for additional impairment and adjusted accordingly (Level 3 inputs).

Appraisals for collateral-dependent impaired loans are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Company. Once received, a member of management reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparison with independent data sources such as recent market data or industry-wide statistics.

Loan Servicing Rights: On a quarterly basis, loan servicing rights are evaluated for impairment based upon the fair value of the rights as compared to carrying amount. If the carrying amount of an individual tranche exceeds fair value, impairment is recorded on that tranche so that the servicing asset is carried at fair value. Fair value is determined at a tranche level, based on market prices for comparable mortgage servicing contracts (Level 2), when available, or alternatively based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model utilizes interest rate, prepayment speed, and default rate assumptions that market participants would use in estimating future net servicing income and that can be validated against available market data (Level 2 or 3).

NOTE 13 – FAIR VALUE (continued)

Assets and liabilities measured at fair value on a recurring basis are summarized below:

	Fair Value Measurements at December 31, Using		
As of December 31, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:			
Available for sale securities:			
Collateralized mortgage obligation	$ -	$ 31,626,130	$ -
Mortgage-backed securities	-	22,753,035	-
State and political subdivisions	-	27,276,859	-
Assets-backed securities	-	15,038,068	-
Total	$ -	$ 96,694,092	$ -
As of December 31, 2017			
Assets:			
Available for sale securities:			
U.S. GSEs	$ -	$ 997,428	$ -
Collateralized mortgage obligation	-	32,352,597	-
Mortgage-backed securities	-	38,972,770	-
State and political subdivisions	-	28,241,410	-
Assets-backed securities	-	15,091,131	-
Total	$ -	$ 115,655,336	$ -

There were no transfers between Level 1 and Level 2 during 2018 and 2017.

Assets and liabilities measured at fair value on a non-recurring basis are summarized below:

	Fair Value Measurements at December 31, Using		
As of December 31, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:			
Impaired loans:			
Commercial loans	$ -	$ -	$ -
Commercial real estate loans	-	-	860,271
Loan servicing rights	-	10,541,230	-
Total	$ -	$ 10,541,230	$ 860,271

NOTE 13 – FAIR VALUE (continued)

As of December 31, 2017			
Assets:			
Impaired loans:			
Commercial loans	$ -	$ -	$ -
Commercial real estate loans	-	-	1,666,757
Total	$ -	$ -	$ 1,666,757

The following table presents quantitative information about level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis.

	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range
As of December 31, 2018				
Impaired loans:				
Commercial real estate loans	$ 860,271	Gross revenue multiplier	Adjustment for differences between comparable sales and expected sales amount	-17.1% to 32.6%
As of December 31, 2017				
Impaired loans:				
Commercial real estate loans	$ 1,666,757	Sales comparison	Adjustment for differences between comparable sales and expected sales amount	-60.2% to -32.2%

The following represents impairment charges recognized during the period:

At December 31, 2018 and 2017, $860,271 and $1,666,757 respectively, of impaired loans have had charge-offs taken or have a specific reserve allocated to them and are carried at fair value measured on a non-recurring basis. There were $0 and $107,719 gross charge-offs related to these loans for the years ended December 31, 2018 and December 31, 2017 respectively. There were $231,934 and $3,994 taken, respectively, of additional provision for loan losses recorded on impaired loans for the years ended December 31, 2018 and 2017, respectively.

NOTE 13 – FAIR VALUE (continued)

Financial Instruments: The carrying amount and estimated fair values of financial instruments not carried at fair value at December 31, were as follows:

		2018		2017	
	Fair Value	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets					
Cash and cash equivalents	Level 1	$ 105,046,962	$ 105,046,962	$ 109,059,045	$ 109,059,045
Interest-bearing deposits with banks	Level 1	3,193,000	3,193,000	3,685,000	3,685,000
Securities held to maturity	Level 2	7,736,613	7,481,195	8,001,800	7,924,000
Loans held for sale	Level 2	45,665,053	46,350,028	28,346,035	28,657,841
Loan receivable, net	Level 3	865,773,664	841,094,591	778,746,344	788,748,159
Accrued interest receivable	Level 2/3	4,311,366	4,311,366	3,457,110	3,457,110
Liabilities					
Noninterest-bearing deposits	Level 1	206,763,502	206,763,502	203,641,326	203,641,326
Interest-bearing deposits	Level 2	801,830,149	797,116,000	692,079,782	683,670,000
FHLB advances	Level 2	10,000,000	9,880,000	60,000,000	59,873,000
Accrued interest payable	Level 2	4,246,952	4,246,952	2,063,863	2,063,863

NOTE 14 – REGULATORY CAPITAL MATTERS

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by the regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and regulatory framework for prompt corrective actions, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of the Company's and the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's and the Bank's capital amounts and classification are also subject to qualitative judgments by the regulators regarding the components, risk weightings, and other factors.

In 2013, the Federal Reserve, FDIC, and Office of the Comptroller of the Currency ("OCC") issued final rules (the "Basel III Capital Rules") establishing a new comprehensive capital framework for U.S. banking organizations. The rules implement the Basel Committee's December 2010 framework, commonly referred to as Basel III, for strengthening international capital standards, as well as implementing certain provisions of the Dodd-Frank Act.

The Basel III Capital Rules became effective for the Company and the Bank on January 1, 2015 (subject to phase-in periods for some of their components). However, based on recent changes to the Federal Reserve's definition of a "Small Bank Holding Company" that increased the threshold to remain as such to $3 billion in assets, the Company is not currently subject to separate minimum capital measurements. At

NOTE 14 – REGULATORY CAPITAL MATTERS (continued)

such time as the Company reaches the $3 billion asset level, it will again be subject to capital measurements independent of the Bank.

When the capital conservation buffer is fully phased-in in 2019, banks will be required to maintain common equity tier 1, tier 1 risk-based and total risk-based capital ratios that are at least 50 basis points greater than the well-capitalized minimums to avoid the aforementioned limitations on capital distributions.

As indicated below, at December 31, 2018 and 2017 the Company's and the Bank's regulatory capital ratios exceeded the minimums to be categorized as "well capitalized" and its capital conservation buffer exceeded the regulatory minimums.

	Actual		Minimum Regulatory Requirement		Minimum to be Categorized as "Well Capitalized"	
	Amount	Ratio[1]	Amount	Ratio[1]	Amount	Ratio[1]
As of December 31, 2018						
Total capital (to risk-weighted assets)						
Company	$142,928	15.42%	N/A	N/A	N/A	N/A
Bank	$142,592	15.38%	$74,133	8.00%	$92,666	10.00%
Tier I capital (to risk-weighted assets)						
Company	$132,308	14.27%	N/A	N/A	N/A	N/A
Bank	$131,972	14.24%	$55,600	6.00%	$74,133	8.00%
Common equity Tier I capital (to risk-weighted assets)						
Company	$132,308	14.27%	N/A	N/A	N/A	N/A
Bank	$131,972	14.24%	$41,700	4.50%	$60,233	6.50%
Tier I capital (to average assets)						
Company	$132,308	11.39%	N/A	N/A	N/A	N/A
Bank	$131,972	11.36%	$46,441	4.00%	$58,052	5.00%
CBB capital conservation buffer						
Company		7.422%				
Bank		7.387%				
Minimum required capital conservation buffer		1.875%				

[1] Rounded down from 4 decimal places to two or three decimal places, as applicable.

NOTE 14 – REGULATORY CAPITAL MATTERS (continued)

	Actual		Minimum Regulatory Requirement		Minimum to be Categorized as "Well Capitalized"	
	Amount	Ratio[1]	Amount	Ratio[1]	Amount	Ratio[1]
As of December 31, 2017						
Total capital (to risk-weighted assets)						
Company	$124,592	14.78%	$67,399	8.00%	N/A	N/A
Bank	$124,189	14.74%	$67,394	8.00%	$84,242	10.00%
Tier I capital (to risk-weighted assets)						
Company	$114,872	13.63%	$50,549	6.00%	N/A	N/A
Bank	$114,469	13.58%	$50,545	6.00%	$67,394	8.00%
Common equity Tier I capital (to risk-weighted assets)						
Company	$114,872	13.63%	$37,912	4.50%	N/A	N/A
Bank	$114,469	13.58%	$37,909	4.50%	$54,757	6.50%
Tier I capital (to average assets)						
Company	$114,872	11.06%	$41,532	4.00%	N/A	N/A
Bank	$114,469	11.02%	$41,531	4.00%	$51,914	5.00%
CBB capital conservation buffer						
Company		6.788%				
Bank		6.742%				
Minimum required capital conservation buffer		1.250%				

NOTE 15 – EARNINGS PER COMMON SHARE

The following is a reconciliation of the numerators and denominators of the basic and diluted per share computations at December 31, 2018 and 2017.

	Net Income (Numerator)	Weighted Average Common Shares (Denominator)	Per-Share Amount
2018			
Basic EPS – income available to common shareholders	$16,658,238	10,051,485	$ 1.66
Effect of dilutive securities – stock options	-	361,348	0.06
Diluted EPS – income available to common shareholders	$16,658,238	10,412,833	$ 1.60

[1] Rounded down from 4 decimal places to two or three decimal places, as applicable.

NOTE 15 – EARNINGS PER COMMON SHARE (continued)

2017[1]			
Basic EPS – income available to common shareholders	$12,050,371	10,014,986	$ 1.20
Effect of dilutive securities – stock options	-	389,929	0.04
Diluted EPS – income available to common shareholders	$12,050,371	10,404,915	$ 1.16

No stock options or restricted stock were antidilutive and, thus, were not excluded in the computation of diluted earnings per common share for the years ended December 31, 2018 and 2017.

NOTE 16 – PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION

CONDENSED BALANCE SHEET
December 31,

	2018	2017
ASSETS		
Cash and cash equivalents	$ 346,291	$ 333,853
Investment in banking subsidiaries	131,576,696	114,775,742
Other assets	82,364	68,725
Total assets	$ 132,005,351	$ 115,178,320
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accrued expenses and other liabilities	93,041	-
Shareholders' equity	132,912,310	115,178,320
Total liabilities and shareholders' equity	$ 132,005,351	$ 115,178,320

CONDENSED STATEMENT OF INCOME AND COMPREHENSIVE INCOME
December 31,

	2018	2017
Dividends from subsidiary	$ -	$ 500,000
Interest expense	-	1,562
Other expense	1,137,021	359,501
Income/(losses) before income tax and undistributed subsidiary income	(1,137,021)	138,937
Income tax (benefit)	(279,188)	(127,267)
Equity in undistributed subsidiary income	17,516,071	2,281,836
Net income	$16,658,238	$ 2,548,040

[1] Restated for a 10% stock dividend declared on October 2, 2018.

NOTE 16 – PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION (continued)

CONDENSED STATEMENT OF CASH FLOWS
December 31,

	2018	2017
Cash flows from operating activities		
Net income	$16,658,238	$ 2,548,040
Adjustments:		
Equity in undistributed subsidiary income	(17,516,071)	(2,281,836)
Change in other assets	(13,639)	(68,725)
Change in other liabilities	93,041	-
Other	404,210	136,374
Net cash from operating activities	$ (374,221)	$ 333,853
Cash flows from investing activities		
Purchase of investment securities	-	-
Net cash from investing activities	-	-
Cash flows from financing activities		
Net change in short-term borrowings	-	-
Payment of cash in lieu of stock dividends	(337)	-
Proceeds from exercise of stock options	386,996	-
Net cash from financing activities	386,659	-
Net change in cash and cash equivalents	12,438	333,853
Beginning cash and cash equivalents	333,853	-
Ending cash and cash equivalents	$ 346,291	$ 333,853

NOTE 17 – REVENUE FROM CONTRACT WITH CUSTOMERS

The Company's principal source of revenue is interest income on loans, investment securities and other interest earning assets, while the remainder of the Company's revenue is earned from a variety of fees, service charges, gains and losses, and other income, all of which are classified as noninterest income. Revenue from interest on loans and investment securities is accounted for on an accrual basis using the interest method, while revenue from other sources is accounted for under other applicable U.S. GAAP as well as ASC 606, "*Revenue from Contracts with Customers*." Revenue streams within the scope of and accounted for under ASC 606 include: deposit-related fees and transactions, debit card interchange fees, international fees, and gains and losses from the sale of other real estate owned and property. ASC 606 requires revenue to be recognized when the Company satisfies the related performance obligations by transferring to the customer a good or service. The recognition of revenue under ASC 606 requires the Company to first identify the contract with the customer, identify the associated performance obligations, determine the transaction price, allocate the transaction price to the performance obligations and finally recognize revenue when the performance obligations have been satisfied and the good or service has been transferred. The majority of the Company's contracts with customers associated with revenue streams that are within the scope of ASC 606 are considered short-term in nature and can be canceled at any time by the customer or the Company without penalty, such as a deposit account agreement. These revenue streams are included in non-interest income.

NOTE 17 – REVENUE FROM CONTRACT WITH CUSTOMERS (continued)

The following tables presents the Company's sources of noninterest income for the twelve months ended December 31, 2018 and 2017. Items outside the scope of ASC 606 are noted as such.

	2018	2017
Noninterest income		
Service charges on deposit accounts	$ 1,015,216	$ 919,507
Wire transfer fees	214,820	217,691
Other service fees	272,431	247,442
Gain on sales of loans[1]	7,847,079	9,320,595
Gain/(loss) on OREO	(42,671)	103,370
Loan service fee income, net[1]	378,222	1,871,923
Other loan fee income	444,587	517,124
Trade finance fee income	185,937	305,710
Other income	23,186	40,306
Total noninterest income	$ 10,338,807	$ 13,543,668

[1] Not within the scope of ASC 606.

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Soon Han Pak (Chairwoman)
President
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Wonsook A. Chong
President
W&W Concept, Inc. / CJ Alameda, LLC

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Joanne Kim
President & Chief Executive Officer
CBB Bancorp, Inc.

Linda M. Iannone
Retired and former General Counsel and Compliance Officer of Toyota Financial Services

Choong Y. (Chuck) Yea
President & Chief Executive Officer
Commax USA, Inc.

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Long T. Huynh
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Chief Financial Officer &
Corporate Secretary

Alex Choi
Executive Vice President &
Chief Credit Officer

Christopher Barber
Executive Vice President &
Chief Information Officer

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