RIVER VALLEY COMMUNITY BANK

Yuba City, California

FINANCIAL STATEMENTS
December 31, 2015 and 2014

Contents

Crowe Horwath LLP
Independent Member Crowe Horwath International

INDEPENDENT AUDITOR'S REPORT

The Shareholders and
Board of Directors
River Valley Community Bank
Yuba City, California

Report on the Financial Statements

We have audited the accompanying financial statements of River Valley Community Bank, which comprise the balance sheets as of December 31, 2015 and 2014 and the related statements of income and comprehensive income, shareholders' equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of River Valley Community Bank as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
March 15, 2016

River Valley Community Bank
Balance Sheets
December 31, 2015 and 2014

	2015	2014
Assets		
Cash and due from banks	$ 9,084,318	$ 7,065,554
Interest bearing deposits in banks	12,650,000	28,770,000
Total cash and cash equivalents	21,734,318	35,835,554
Interest bearing deposits in banks	8,436,752	3,231,000
Investment securities available-for-sale (Notes 2 and 6)	92,916,694	83,369,867
Loans:		
Agriculture	2,733,132	3,223,652
Commercial	11,639,611	11,032,548
Commercial real estate	48,388,600	36,750,726
Other real estate	43,818,020	30,087,990
Consumer and other	502,692	826,164
Total loans, gross (Notes 3, 6, 8, and 12)	107,082,055	81,921,080
Deferred loan fees, net	(107,823)	(55,505)
Allowance for loan losses (Note 3)	(1,801,804)	(1,586,204)
Total loans, net	105,172,428	80,279,371
Premises and equipment, net (Note 4)	2,076,889	2,182,041
Cash surrender value of life insurance	4,390,243	4,277,380
Accrued interest receivable and other assets (Notes 7 and 11)	2,567,650	1,738,762
Total assets	$ 237,294,974	$ 210,913,975
Liabilities and Shareholders' Equity		
Liabilities:		
Demand deposits - noninterest bearing	$ 75,796,584	$ 59,044,465
Demand deposits - interest bearing	32,602,525	27,936,776
Money market and savings deposits	93,718,398	90,128,366
Time deposits - under $250,000 (Note 5)	6,978,345	4,457,964
Time deposits - $250,000 or more (Note 5)	4,137,146	7,858,271
Total deposits	213,232,998	189,425,842
Accrued interest payable and other liabilities (Note 11)	629,195	359,903
Total liabilities	213,862,193	189,785,745
Commitments and contingencies (Note 8)		
Shareholders' equity (Notes 9 and 10):		
Preferred stock – no par value; 5,000,000 shares authorized; no shares outstanding	-	-
Common stock – no par value; 50,000,000 shares authorized; 2,354,913 and 2,216,170 shares issued and outstanding in 2015 and 2014, respectively	15,946,552	15,075,273
Retained earnings	7,176,909	5,447,059
Accumulated other comprehensive income	309,320	605,898
Total shareholders' equity	23,432,781	21,128,230
Total liabilities and shareholders' equity	$ 237,294,974	$ 210,913,975

See accompanying notes to financial statements.

River Valley Community Bank
Statements of Income and Comprehensive Income
Years Ended December 31, 2015 and 2014

	2015	2014
Interest income:		
Interest and fees on loans	$ 4,486,314	$ 3,377,949
Interest on taxable investment securities	1,216,347	837,156
Interest on investment securities exempt from Federal taxes	626,287	627,044
Interest on interest bearing deposits in banks and other	97,889	128,266
Total interest income	6,426,837	4,970,415
Interest expense:		
Interest on demand deposits	9,473	8,229
Interest on money market and savings deposits	148,419	143,402
Interest on time deposits	56,752	60,602
Total interest expense	214,644	212,233
Net interest income	6,212,193	4,758,182
Provision for loan losses (Note 3)	210,000	12,500
Net interest income after provision for loan losses	6,002,193	4,745,682
Noninterest income:		
Service charges and fees	282,435	265,708
Earnings on cash surrender value of life insurance	112,864	116,524
Gain on sale of investment securities	63,296	47,985
Other	35,707	20,403
Total noninterest income	494,302	450,620
Noninterest expense:		
Salaries and employee benefits (Notes 3, 9, and 13)	2,201,002	2,123,982
Data processing and information technology	445,479	419,804
Occupancy and equipment (Note 4)	316,794	318,940
Insurance and assessments	174,124	140,168
Professional fees	164,683	132,834
Directors expense	97,531	90,398
Other	512,133	475,720
Total noninterest expense	3,911,746	3,701,846
Income before income tax expense	2,584,749	1,494,456
Income tax expense (Note 7)	854,899	383,917
Net income	$ 1,729,850	$ 1,110,539
Earnings per share - basic	$ 0.76	$ 0.51
Earnings per share - diluted	$ 0.73	$ 0.48
Comprehensive income:		
Net income	$ 1,729,850	$ 1,110,539
Other comprehensive (loss) income:		
Investment securities available-for-sale:		
Unrealized (losses) gains arising during the year	(431,009)	738,982
Reclassification adjustments for net gains in earnings	(63,296)	(47,985)
Income tax benefit (expense)	197,727	(276,399)
Total other comprehensive (loss) income	(296,578)	414,598
Total comprehensive income	$ 1,433,272	$ 1,525,137

See accompanying notes to financial statements.

River Valley Community Bank
Statements of Shareholders' Equity
Years Ended December 31, 2015 and 2014

	Common Stock		Retained	Accumulated Other Compre-	Total Shareholders'
	Shares	Amount	Earnings	hensive Income	Equity
Balance, January 1, 2014	2,168,091	$ 14,630,069	$ 4,944,286	$ 191,300	$ 19,765,655
Net income	-	-	1,110,539	-	1,110,539
Other comprehensive income	-	-	-	414,598	414,598
Cash dividend	-	-	(607,766)	-	(607,766)
Stock options exercises	48,079	335,094	-	-	335,094
Stock options expense	-	110,110	-	-	110,110
Balance, December 31, 2014	2,216,170	15,075,273	5,447,059	605,898	21,128,230
Net income	-	-	1,729,850	-	1,729,850
Other comprehensive income	-	-	-	(296,578)	(296,578)
Stock options exercises	138,743	783,338	-	-	783,338
Stock options expense	-	87,941	-	-	87,941
Balance, December 31, 2015	2,354,913	$ 15,946,552	$ 7,176,909	$ 309,320	$ 23,432,781

See accompanying notes to financial statements.

River Valley Community Bank
Statements of Cash Flows
Years Ended December 31, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Net income	$ 1,729,850	$ 1,110,539
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	210,000	12,500
Depreciation, amortization, and accretion, net	1,111,232	694,582
Earnings on cash surrender value of life insurance	(112,863)	(116,524)
Gain on sale of investment securities	(63,296)	(47,985)
Change in deferred loan fees/costs, net	52,318	(43,165)
Deferred income tax expense	11,896	115,800
Stock options expense	87,941	110,110
Change in accrued interest receivable and other assets	(643,054)	(394,696)
Change in accrued interest payable and other liabilities	269,292	467,338
Net cash from operating activities	2,653,316	1,908,499
Cash flows from investing activities:		
Purchase of interest bearing deposits in banks, net	(5,205,752)	-
Investment securities available-for-sale:		
Purchases	(36,530,397)	(36,213,727)
Maturities and calls	4,480,000	-
Principal payments	11,305,799	7,952,286
Sales	9,787,803	7,032,552
Change in loans, net	(25,155,375)	(18,500,885)
Purchase of premises and equipment	(27,124)	(46,782)
Net cash from investing activities	(41,345,046)	(39,776,556)
Cash flows from financing activities:		
Change in non-time deposits, net	25,007,900	41,417,420
Change in time deposits, net	(1,200,744)	1,643,357
Cash dividend	-	(607,766)
Stock options exercised	783,338	313,474
Net cash from financing activities	24,590,494	42,766,485
Change in cash and cash equivalents	(14,101,236)	4,898,428
Cash and cash equivalents, beginning of year	35,835,554	30,937,126
Cash and cash equivalents, end of year	$ 21,734,318	$ 35,835,554
Supplemental cash flow information:		
Interest paid	$ 215,929	$ 209,253
Income taxes paid	$ 700,000	$ 185,000

See accompanying notes to financial statements.

Note 1. Summary of Significant Accounting Policies

General – River Valley Community Bank (the "Bank") was approved as a state-chartered non-member bank on December 27, 2005 and is subject to regulation by the California Department of Business Oversight (the "DBO") and the Federal Deposit Insurance Corporation (the "FDIC"). The Bank's deposits are insured by the FDIC up to applicable legal limits. The Bank is headquartered in Yuba City, California with branches in Yuba City and Grass Valley, California. The Bank provides products and services to customers who are predominately small to middle-market businesses, professionals and not-for-profit organizations located in Sutter, Yuba, Nevada and surrounding counties.

The accounting and reporting policies of the Bank conform with accounting principles generally accepted in the United States of America and prevailing practices within the banking industry.

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions based on available information. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

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

Cash and cash equivalents – Cash and cash equivalents consist of cash on hand, due from banks and interest bearing deposits in banks that are due on demand.

Interest bearing deposits in banks – Interest bearing deposits in banks not included in cash and cash equivalents have original maturities exceeding ninety days, have remaining maturities through November 2020, and are carried at cost. Interest bearing deposits in banks are fully insured.

Investment securities – Investments securities are classified as available-for-sale and are reported at fair value, with unrealized gains and losses excluded from earnings and reported, net of taxes, as accumulated other comprehensive income. The Bank does not invest in marketable equity securities.

Gains or losses on the sale of investment securities are computed on the specific identification method at the trade date. Interest earned on investment securities is reported in interest income, net of applicable adjustments for accretion of discounts and amortization of premiums.

An investment security is impaired when its amortized cost is greater than its fair value. Investment securities that are impaired are evaluated on at least a quarterly basis and more frequently when economic or market conditions warrant such an evaluation to determine whether such a decline in their fair value is other than temporary. Management utilizes criteria such as the magnitude and duration of the decline and the intent and ability of the Bank to retain its investment in the securities for a period of time sufficient to allow for an anticipated recovery in fair value, in addition to the reasons underlying the decline, to determine whether the loss in value is other than temporary. The term "other than temporary" is not intended to indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value is not necessarily favorable, or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. Once a decline in value is determined to be other than temporary, and management does not intend to sell the security or it is more likely than not that the Bank will not be required to sell the security before recovery, only the portion of the impairment loss representing credit exposure is recognized as a charge to earnings, with the balance recognized as a charge to other comprehensive income. If management intends to sell the security or it is more likely than not that the Bank will be required to sell the security before recovering its forecasted cost, the entire impairment loss is recognized as a charge to earnings.

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Note 1. Summary of Significant Accounting Policies (continued)

Loans – Loans are stated at principal balances outstanding, net of deferred loan fees and costs, and an allowance for loan losses. Loans are grouped into two portfolio segments, commercial and consumer. The segments are further disaggregated into the follow classes: (1) agriculture, (2) commercial, (3) commercial real estate, (4) other real estate, and (5) consumer and other, with the former three and latter two categories representing the commercial and consumer portfolio segments, respectively. Interest is accrued daily based upon outstanding loan balances. However, when, in the opinion of management, loans are considered to be impaired and the future collectibility of interest and principal is in doubt, loans are placed on nonaccrual status and the accrual of interest income is suspended. Interest income on all loans is discontinued at the time the loan is 90 days delinquent, unless the loan is well-secured and in process of collection. Any interest accrued but unpaid is charged against income. Payments received are applied to reduce principal to the extent necessary to ensure collection. Subsequent payments on these loans, or payments received on nonaccrual loans for which the ultimate collectibility of principal is not in doubt, are applied first to earned but unpaid interest and then to principal. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Loan origination fees, net of certain direct loan origination costs, are deferred and recognized as an adjustment of yield, to be amortized to interest income over the contractual term of the loan without anticipating prepayments.

Allowance for loan losses – The allowance for loan losses is an estimate of probable credit losses in the Bank's loan portfolio that have been incurred as of the balance sheet date. The allowance is established through a provision for loan losses, which is charged to expense. Additions to the allowance are expected to maintain the adequacy of the total allowance after credit losses and loan growth. Credit exposures determined to be uncollectible are charged against the allowance. Cash received on previously charged off amounts is recorded as a recovery to the allowance. The overall allowance consists of two primary components, specific reserves related to impaired loans and general reserves for inherent losses related to loans that are collectively evaluated for impairment.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due, including principal and interest, according to the contractual terms of the original agreement. Loans determined to be impaired are individually evaluated for impairment. When a loan is impaired, the Bank measures impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate, except that as a practical expedient, it may measure impairment based on a loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. A loan is collateral dependent if the repayment of the loan is expected to be provided solely by the operation or sale of the underlying collateral.

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the Bank for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. Restructured workout loans typically present an elevated level of credit risk as the borrowers are not able to perform according to the original contractual terms. Loans that are reported as TDRs are considered impaired and measured for impairment as described above.

The determination of the general reserve for loans that are collectively evaluated for impairment is based on estimates made by management, to include, but not limited to, consideration of historical losses by portfolio segment, internal asset classifications, and qualitative factors to include economic trends in the Bank's service areas, industry experience and trends, geographic concentrations, estimated collateral values, the Bank's underwriting policies, the character of the loan portfolio, and probable losses inherent in the portfolio taken as a whole.

The Bank determines a separate allowance for each portfolio segment. These portfolio segments include agriculture, commercial, commercial real estate, real estate – other, and consumer loans. The allowance for loan losses attributable to each portfolio segment, which includes both impaired loans and loans that are collectively evaluated for impairment, is combined to determine the Bank's overall allowance.

(Continued)

Note 1. Summary of Significant Accounting Policies (continued)

Allowance for loan losses (continued) – The Bank assigns a risk rating to all loans and periodically performs detailed reviews of all such loans over a certain threshold to identify credit risks and to assess the overall collectability of the portfolio. These risk ratings are also subject to examination by independent specialists engaged by the Bank and by the Bank's regulators. During these internal reviews, management monitors and analyzes the financial condition of borrowers and guarantors, trends in the industries in which borrowers operate, and the fair values of collateral securing these loans. These credit quality indicators are used to assign a risk rating to each individual loan. The risk ratings can be grouped into five major categories, defined as follows:

Pass – A pass loan is a strong credit with no existing or known potential weaknesses deserving of management's close attention.

Special Mention – A special mention loan has 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 in the Bank's credit position at some future date. Special Mention loans are not adversely classified and do not expose the Bank to sufficient risk to warrant adverse classification.

Substandard – A substandard loan is not adequately protected by the current paying capacity of the borrower or the value of the collateral pledged, if any. Loans classified as substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. Well defined weaknesses include a project's lack of marketability, inadequate cash flow or collateral support, failure to complete construction on time or the project's failure to fulfill economic expectations. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Doubtful – Loans classified 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 known facts, conditions and values, highly questionable and improbable.

Loss – Loans classified as loss are considered uncollectible and charged off immediately.

The general reserve component of the allowance for loan losses also consists of reserve factors that are based on management's assessment of the following for each class of loan: (1) inherent credit risk, (2) historical losses, and (3) other qualitative factors. These reserve factors are inherently subjective and are driven by the repayment risk associated with each class described below.

Agriculture – Loans secured by crop production and livestock are especially vulnerable to two risk factors that are largely outside the control of Bank and borrowers: commodity prices and weather conditions, including drought conditions that threaten borrowers' ability to obtain adequate water for their crops.

Commercial – Commercial loans generally possess a lower inherent risk of loss than real estate portfolio segments because these loans are generally underwritten to existing cash flows of operating businesses. Debt coverage is provided by business cash flows and economic trends influenced by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans.

Commercial real estate – These loans include acquisition and development, commercial non-owner occupied and construction loans. A major risk arises for acquisition and development as well as construction loans from the necessity to complete projects within specified cost and time lines. Adverse economic developments or an overbuilt market impact commercial real estate projects and may result in troubled loans. Trends in vacancy rates of commercial properties impact the credit quality of these loans. High vacancy rates reduce operating revenues and the ability for properties to produce sufficient cash flow to service debt obligations.

(Continued)

Note 1. Summary of Significant Accounting Policies (continued)

Allowance for loan losses (continued)

Other Real Estate – These loans are secured by real estate directly utilized or occupied by the borrower or related entity. They include agricultural land, commercial owner occupied, home equity lines of credit, residential non-owner occupied, residential construction, and residential owner occupied real estate loans. These loans typically carry lower risk than those classified as commercial real estate, as they are closely tied to the owners and occupants that are servicing the debt. These loans are, however, subject to the same adverse collateral trends that can negatively impact the credit quality, as they are typically relied upon as secondary sources of repayment.

Consumer – Loans made to individuals to provide personal purchases for household and equipment items are impacted by trends in unemployment and income levels. General economic activity and concentrations in various job markets could adversely impact this segment given the loss or relocation of a major employer.

Although management believes the allowance to be adequate, ultimate losses may vary from its estimates. At least quarterly, management and the Board of Directors review the adequacy of the allowance, including consideration of the relative risks in the portfolio, current economic conditions and other factors. If the Board of Directors and management determine that changes are warranted based on those reviews, the allowance is adjusted. In addition, the Bank's primary regulators, the FDIC and the California Department of Business Oversight, as an integral part of their examination process, review the adequacy of the allowance. These regulatory agencies may require additions to the allowance based on their judgment about information available at the time of their examinations.

Allowance for credit losses on off-balance-sheet credit exposures – The Bank also maintains a separate allowance for off-balance-sheet commitments. Management estimates anticipated losses using historical data and utilization assumptions. The allowance for off-balance-sheet commitments is included in accrued interest payable and other liabilities on the balance sheet and is not significant.

Premises and equipment – Premises and equipment are carried at cost, less accumulated depreciation. Depreciation is determined using the straight-line method over the estimated useful lives of the related assets. The useful lives of premises are estimated to be 15 to 39 years. The useful lives of furniture, fixtures and equipment are estimated to be 3 to 10 years.

When assets are sold or otherwise disposed of, the cost and related accumulated depreciation or amortization are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to expense as incurred. The Bank evaluates premises and equipment for financial impairment, as events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable.

Cash surrender value of life insurance – The Bank maintains life insurance policies on certain key executives. Life insurance is recorded at the amounts that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement. The Bank also maintains split dollar life insurance agreements with certain employees, whereby the employees' designated beneficiaries will receive a portion of life insurance benefits upon the employees' death while employed by the Bank. As the benefits do not extend beyond employment, a liability has not been recorded by the Bank.

Federal Home Loan Bank (FHLB) stock – The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is included in accrued interest receivable and other assets on the balance sheet and 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 are reported as income.

Note 1. Summary of Significant Accounting Policies (continued)

Derivatives – The Bank periodically enters into interest rate swap agreements to offset volatility in earnings created by interest rate floors and caps embedded in certain variable rate loans. The terms of interest rate swap agreements are matched to those of the individual loans being hedged to achieve little to no ineffectiveness. The interest rate swaps are adjusted to fair value on a recurring basis with an offsetting change in fair value of the derivative created by the floors and caps. Net cash settlements related to the interest rate swaps are reported in interest income. Cash flows on derivatives are classified in the cash flow statement similar to the cash flows of the underlying loans.

Income taxes – Deferred tax assets and liabilities are recognized for the tax consequences of temporary differences between the reported amount of assets and liabilities and their tax basis. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. A valuation allowance is recognized if, based on the weight of available evidence, management believes it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The Bank uses a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return. 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.

Interest and penalties associated with unrecognized tax benefits are classified as income tax expense in the statement of operations.

Earnings per share – Basic earnings per share (EPS), which excludes dilution, is computed by dividing net income by the weighted-average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock, such as stock options, result in the issuance of common stock, which shares in the earnings of the Bank. The treasury stock method is applied to determine the dilutive effect of stock options in computing diluted earnings per share. Earnings per share are retroactively restated for stock dividends and stock splits through the date of issuance of the financial statements.

Stock options expense – Compensation cost is recognized for stock options issued to employees and directors based on their grant date fair value. A Black-Scholes model is utilized to estimate the grant date fair value. Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award, which is generally five years.

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

Loss contingencies – Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there are such matters that will have a material effect on the Bank's financial position or results of operations.

Retirement plans – Employee 401(k) expense is the amount of matching contributions provided by the Bank.

(Continued)

Note 1. Summary of Significant Accounting Policies (continued)

Fair value measurements – Fair values 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 these estimates. 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 company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Bank uses the following methods and significant assumptions to estimate fair value:

Cash and Cash Equivalents – The carrying amounts of cash and short-term instruments approximate fair values, resulting in a Level 1 classification.

Interest Bearing Deposits in Banks – Fair values for interest bearing deposits in banks are estimated using a discounted cash flows calculation that applies interest rates currently being offered on instruments with similar remaining maturities, resulting in a Level 2 classification.

Investment Securities – Fair values for investment securities are determined by quotes received from an independent pricing service using matrix pricing, which is a mathematical technique widely used in the industry to value securities without relying exclusively on quoted market prices for the specific securities, but rather by relying on the securities' relationship to other benchmark quoted securities, resulting in a Level 2 classification.

Loans – Fair values of loans are estimated as follows: For variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values, resulting in a Level 2 classification. Fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality resulting in a Level 3 classification.

FHLB Stock – Management determined that it is not practical to determine the fair value of FHLB stock due to restrictions placed on its transferability.

Deposits – The fair values disclosed for demand deposits, including interest and noninterest bearing checking, savings, and money market accounts are, by definition, equal to the amount payable on demand at the reporting date, resulting in a Level 1 classification. Fair values for fixed rate time deposits are estimated using a discounted cash flows calculation that applies interest rates currently being offered on instruments with similar remaining maturities, resulting in a Level 2 classification.

Accrued Interest Receivable and Payable – The carrying amounts of accrued interest approximate fair value, resulting in a Level 2 classification.

(Continued)

Note 1. Summary of Significant Accounting Policies (continued)

Fair value measurements (continued)

Derivatives – The fair values of derivatives are based on valuation models using observable market data as of the measurement date, resulting in a Level 2 classification.

Subsequent events – Management reviewed all events occurring from December 31, 2015 through March 15, 2016, the date the financial statements were available to be issued. No subsequent events require accrual or disclosure in the Bank's financial statements.

Note 2. Investment Securities Available-for-Sale

The amortized cost and estimated fair value of investment securities available-for-sale as of December 31, 2015 and 2014 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2015:				
U.S. Government sponsored entities and agencies	$ 8,028,226	$ 13,848	$ (59,967)	$ 7,982,107
Obligations of states and political subdivisions	26,891,694	819,843	(67,730)	27,643,807
U.S. Government sponsored entities and agencies collateralized by mortgage obligations	18,846,328	76,030	(145,508)	18,776,850
Residential mortgage-backed securities	28,197,473	45,886	(142,639)	28,100,720
Corporate debt securities	10,437,447	17,275	(41,512)	10,413,210
Total	$ 92,401,168	$ 972,882	$ (457,356)	$ 92,916,694
December 31, 2014:				
U.S. Government sponsored entities and agencies	$ 6,000,506	$ 15,337	$ (19,078)	$ 5,996,765
Obligations of states and political subdivisions	20,765,032	869,324	(77,166)	21,557,190
U.S. Government sponsored entities and agencies collateralized by mortgage obligations	18,192,060	37,692	(55,780)	18,173,972
Residential mortgage-backed securities	27,599,535	283,856	(51,401)	27,831,990
Corporate debt securities	9,802,903	42,491	(35,444)	9,809,950
Total	$ 82,360,036	$ 1,248,700	$ (238,869)	$ 83,369,867

(Continued)

Note 2. Investment Securities Available-for-Sale (continued)

The following table summarizes securities with unrealized losses as of December 31, 2015 and 2014, aggregated by major security type and length of time in a continuous unrealized loss position:

	Less Than 12 Months		12 Months or More		Total	
	Estimated Fair Value	**Unrealized Losses**	**Estimated Fair Value**	**Unrealized Losses**	**Estimated Fair Value**	**Unrealized Losses**
December 31, 2015:						
U.S. Government sponsored entities and agencies	$ 4,743,686	$ (32,796)	$ 1,992,509	$ (27,171)	$ 6,736,195	$ (59,967)
Obligations of states and political subdivisions	6,461,798	(66,981)	261,460	(749)	6,723,258	(67,730)
U.S. Government sponsored entities and agencies collateralized by mortgage obligations	18,665,453	(91,961)	3,492,354	(53,547)	22,157,807	(145,508)
Residential mortgage-backed securities	11,120,324	(126,656)	645,505	(15,983)	11,765,829	(142,639)
Corporate debt securities	7,582,527	(41,512)	-	-	7,582,527	(41,512)
Total	$ 48,573,788	$ (359,906)	$ 6,391,828	$ (97,450)	$ 54,965,616	$ (457,356)
December 31, 2014:						
U.S. Government sponsored entities and agencies	$ 1,989,734	$ (7,752)	$ 1,258,646	$ (11,326)	$ 3,248,380	$ (19,078)
Obligations of states and political subdivisions	2,504,225	(6,445)	2,799,743	(70,721)	5,303,968	(77,166)
U.S. Government sponsored entities and agencies collateralized by mortgage obligations	3,662,814	(12,950)	1,791,392	(42,830)	5,454,206	(55,780)
Residential mortgage-backed securities	10,030,044	(30,633)	3,192,515	(20,768)	13,222,559	(51,401)
Corporate debt securities	2,971,360	(30,603)	1,995,160	(4,841)	4,966,520	(35,444)
Total	$ 21,158,177	$ (88,383)	$ 11,037,456	$ (150,486)	$ 32,195,633	$ (238,869)

As of December 31, 2015, the Bank's security portfolio consisted of 56 securities that were in an unrealized loss position, of which only 9 had been in a loss position for greater than 12 months. The majority of unrealized losses are related to the Bank's investment in U.S. Government sponsored entities and agencies, obligations of states and political subdivisions, U.S. Government sponsored entities, and agencies collateralized by mortgage obligations.

Unrealized losses for all securities have not been recognized into income because the issuers bonds are of high credit quality (investment grade or higher), management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates and other market conditions. The fair value is expected to recover as the bonds approach maturity.

(Continued)

Note 2. Investment Securities Available-for-Sale (continued)

The amortized cost and estimated fair value of available-for-sale investment securities as of December 31, 2015 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
Within one year	$ 4,122,537	$ 4,136,009
After one year through five years	30,724,798	31,236,435
After five years through ten years	8,482,146	8,659,855
After ten years	2,027,886	2,006,825
	45,357,367	46,039,124
Investment securities not due at a single maturity date:		
U.S. Government sponsored entities and agencies collateralized by mortgage obligations and residential mortgage-backed securities	47,043,801	46,877,570
Total	$ 92,401,168	$ 92,916,694

Note 3. Loans and the Allowance for Loan Losses

The following table presents the activity in the allowance for loan losses by class for the years ended December 31, 2015 and 2014:

	Agriculture	Commercial	Commercial Real Estate	Other Real Estate	Consumer and Other	Total
December 31, 2015:						
Balance, beginning of year	$ 18,452	$ 110,344	$ 918,097	$ 531,833	$ 7,478	$ 1,586,204
Provision for loan losses	6,416	1,613	(14,425)	218,758	(2,362)	210,000
Loans charged off	-	-	-	-	-	-
Loans recovered	-	5,600	-	-	-	5,600
Total	$ 24,868	$ 117,557	$ 903,672	$ 750,591	$ 5,116	$ 1,801,804
December 31, 2014:						
Balance, beginning of year	$ 33,772	$ 141,671	$ 946,368	$ 445,147	$ 2,146	$ 1,569,104
Provision for loan losses	(15,320)	(35,927)	(28,271)	86,686	5,332	12,500
Loans charged off	-	-	-	-	-	-
Loans recovered	-	4,600	-	-	-	4,600
Total	$ 18,452	$ 110,344	$ 918,097	$ 531,833	$ 7,478	$ 1,586,204

(Continued)

Note 3. Loans and the Allowance for Loan Losses (continued)

The Bank has no past due loans greater than 30 days, nonaccrual loans, or impaired loans and all of the Bank's loans were collectively evaluated for impairment as of December 31, 2015 and 2014.

The following table presents the loan portfolio by class allocated by management's internal risk ratings as of December 31, 2015 and 2014:

	Agriculture	Commercial	Commercial Real Estate	Other Real Estate	Consumer and Other	Total
December 31, 2015:						
Pass	$ 2,698,335	$ 10,859,216	$ 47,014,934	$ 43,720,681	$ 502,692	$ 104,795,858
Special mention	-	-	1,373,666	97,339	-	1,471,005
Substandard	34,797	780,395	-	-	-	815,192
Total	$ 2,733,132	$ 11,639,611	$ 48,388,600	$ 43,818,020	$ 502,692	$ 107,082,055
December 31, 2014:						
Pass	$ 3,188,852	$ 10,878,540	$ 32,646,959	$ 29,989,960	$ 826,164	$ 77,530,475
Special mention	-	110,000	2,644,853	98,030	-	2,852,883
Substandard	34,800	44,008	1,458,914	-	-	1,537,722
Total	$ 3,223,652	$ 11,032,548	$ 36,750,726	$ 30,087,990	$ 826,164	$ 81,921,080

No specific reserves were allocated to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2015 and 2014. The Bank has not committed to lend additional amounts as of December 31, 2015 and 2014 to customers with outstanding loans that are classified as troubled debt restructurings. During the years ended December 31, 2015 and 2014, there were no modifications that were determined to be troubled debt restructurings. 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 Bank's underwriting policy.

Salaries and employee benefits totaling $156,144 and $231,066 have been deferred as direct loan origination costs for the years ended December 31, 2015 and 2014, respectively.

Note 4. Premises and Equipment

Premises and equipment consisted of the following as of December 31, 2015 and 2014:

	2015	2014
Land	$ 774,631	$ 774,631
Building	1,561,211	1,550,724
Furniture, fixtures, and equipment	427,529	425,479
Leasehold improvements	18,526	18,526
	2,781,897	2,769,360
Accumulated depreciation	(705,008)	(587,319)
Total	$ 2,076,889	$ 2,182,041

Depreciation included in occupancy and equipment expense totaled $132,274 and $135,544 for the years ended December 31, 2015 and 2014, respectively.

(Continued)

Note 5. Time Deposits

Aggregate annual maturities of time deposits are as follows for the years ending December 31:

	2015
2016	$ 5,753,614
2017	5,073,950
2018	193,809
2019	58,386
2020	35,732
Total	$ 11,115,491

Note 6. Borrowing Facilities

The Bank has unsecured Federal funds lines of credit with correspondent banks under which it can borrow up to $3,000,000. There were no borrowings outstanding under these arrangements as of December 31, 2015 and 2014, respectively.

In addition, the Bank has an arrangement with the FHLB under which it may borrow an amount not to exceed 25% of total assets, which must be fully secured by qualifying securities and loans. As of December 31, 2015 and 2014, the estimated fair value of investment securities pledged was $44,059,344 and $43,877,792, respectively, and the recorded investment in loans pledged was $20,985,000 and zero, respectively. As of December 31, 2015, available borrowings under this arrangement were approximately $46,614,000. As of December 31, 2015 and 2014, the Bank did not have borrowings outstanding with the FHLB.

Note 7. Income Taxes

Income taxes for the years ended December 31, 2015 and 2014 consist of the following:

	2015	2014
Current	$ 843,003	$ 268,117
Deferred	11,896	115,800
Income tax expense	$ 854,899	$ 383,917

(Continued)

Note 7. Income Taxes (continued)

Deferred tax assets and liabilities as of December 31, 2015 and 2014 consist of the following:

	2015	2014
Deferred tax assets:		
Allowance for loan losses	$ 763,224	$ 669,100
Stock options expense	82,511	133,300
Organization costs	49,207	58,300
Total	894,942	860,700
Deferred tax liabilities:		
Accrual to cash conversion	(220,013)	(160,900)
Unrealized gain on investment securities available-for-sale	(216,873)	(414,600)
Future liability of state deferred tax asset	(47,028)	(49,800)
Other	(128,797)	(139,000)
Total	(612,711)	(764,300)
Deferred tax asset, net	$ 282,231	$ 96,400

The provision for income taxes differs from amounts computed by applying the statutory federal income tax rate to operating income before income taxes. The significant items comprising these differences consist of the following for the years ended December 31, 2015 and 2014:

	2015		2014	
	Amount	Rate	Amount	Rate
Federal income tax at statutory rates	$ 878,814	34.0%	$ 508,115	34.0%
State franchise tax, net of Federal benefit	184,361	7.1%	108,420	7.3%
Tax exempt investment securities, net	(211,057)	-8.2%	(210,969)	-14.1%
Non-deductible stock options expense	22,595	0.9%	30,944	2.1%
Bank owned life insurance	(38,374)	-1.5%	(39,618)	-2.7%
Enterprise zone State tax credits	(18,188)	-0.7%	(22,735)	-1.5%
Other	36,748	1.5%	9,760	0.6%
Total	$ 854,899	33.1%	$ 383,917	25.7%

The Bank is subject to U.S. Federal income tax and California state franchise tax. Federal tax returns for 2014, 2013 and 2012 are currently open for examination. California state franchise tax returns for 2014, 2013, 2012 and 2011 are currently open for examination. The Bank currently has no tax returns under examination.

(Continued)

Note 8. Commitments and Contingencies

Financial instruments with off-balance-sheet risk – The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business in order to meet the financing needs of its customers. These financial instruments consist of the following as of December 31, 2015 and 2014:

	2015	2014
Commitments to extend credit	$ 26,861,336	$ 25,514,889

The Bank's exposure to credit loss in the event of nonperformance by the other party for commitments to extend credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments as it does for loans included on the balance sheet.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but may include accounts receivable, inventory, and deeds of trust on residential real estate and income-producing commercial properties.

Commercial loan commitments represent approximately 26% of total commitments and are generally unsecured or secured by collateral other than real estate and have variable interest rates. Agricultural loan commitments represent approximately 15% of total commitments and are generally secured by crop assignments, accounts receivable and farm equipment and have variable interest rates. Commercial real estate loan commitments represent approximately 10% of total commitments and are generally secured by property with a loan-to-value ratio not to exceed 75%. The majority of commercial real estate commitments also have variable interest rates. Other real estate loan commitments, primarily home equity lines of credit, represent 48% of total commitments and are generally secured by residential real estate and have both variable and fixed interest rates.

Concentrations of credit risk – The Bank grants real estate mortgage, real estate construction and commercial loans to customers in Sutter, Yuba, Nevada and surrounding counties. Although the Bank intends to have a diversified loan portfolio, a substantial portion of its portfolio is secured by commercial real estate as of December 31, 2015.

In management's judgment, a concentration of loans exists in real estate related loans with approximately 86% of the Bank's loans being real estate related. Although management believes the loans within this concentration have no more than the normal risk of collectibility, a substantial decline in the performance of the economy in general or a decline in real estate values in the Bank's primary market area, in particular, could have an adverse impact on the collectibility of these loans. Personal and business income represents the primary source of repayment for a majority of these loans.

Deposit concentration – The Bank has a limited number of deposit relationships that in the aggregate represents approximately 24% of the Bank's deposits as of December 31, 2015. These relationships are with related parties (see Note 12). The loss of these deposit relationships could have a material impact on the Bank's operations and liquidity. However, management mitigates this risk by maintaining sufficient liquidity to manage fluctuations in account balances.

Correspondent banking arrangements – The Bank maintains funds on deposit with other federally insured financial institutions under correspondent banking agreements. The Bank held $12,650,000 in overnight funds at the Federal Reserve Bank as of December 31, 2015.

(Continued)

Note 9. Stock Options

The Bank has one stock compensation plan, the River Valley Community Bank Equity Incentive Stock Option Plan (the "Plan"), which was approved by its shareholders. Under the Plan, a total of 643,264 shares of common stock (adjusted for stock dividends and splits) are reserved for grants of awards to employees, directors and consultants under incentive and non-statutory stock option agreements. The Plan is designed to attract and retain employees and directors. The amount, frequency, and terms of share-based awards may vary based on competitive practices, the Bank's operating results and government regulations. Generally, stock options vest over a five year term and expire ten years after the date of grant. New shares are issued upon option exercise or restricted share grants. The Plan requires that the option price may not be less than the fair market value of the stock at the date the option is granted, and that the stock must be paid in full at the time the option is exercised.

Restricted stock awards are grants of shares of common stock that are subject to forfeiture until specific conditions or goals are met. Conditions may be based on continuing employment or achieving specified performance goals. During the period of restriction, participants holding restricted stock may have full voting and dividend rights. The restrictions lapse in accordance with a schedule or with other conditions determined by the Board of Directors. No awards of restricted stock were made during the years ended December 31, 2015 and 2014.

A summary of stock option activity under the Plan for the year ended December 31, 2015 is presented below:

	Shares	Weighted Avg. Exercise Price	Weighted Avg. Remaining Contract Term
Outstanding, beginning of year	$ 375,702	$ 7.63	
New grants	10,000	$ 10.04	
Exercises	(150,904)	$ 6.55	
Forfeitures	(46,315)	$ 7.01	
Outstanding, end of year	$ 188,483	$ 8.77	3.93
Exercisable, end of year	$ 143,608	$ 8.32	2.85

Information related to stock options granted during the years ended December 31, 2015 and 2014 and total compensation cost recognized for all outstanding stock options during the same periods is as follows:

	2015	2014
Weighted average grant date fair value per share	$ 4.21	$ 5.27
Significant fair value assumptions:		
Expected term	6.5 years	6.5 years
Expected annual volatility	39.3%	40.7%
Expected annual dividend yield	0.0%	0.0%
Risk-free interest rate	1.8%	2.0%
Total compensation cost included in salaries and employee benefits	$ 87,941	$ 110,110

(Continued)

Note 9. Stock Options (continued)

Information related to stock options exercised during the years ended December 31, 2015 and 2014 is as follows:

	2015	2014
Intrinsic value	$ 611,512	$ 215,949
Cash received	783,338	313,474

As of December 31, 2015, the unrecognized compensation cost related to non-vested stock option awards totaled $144,313, which is expected to be amortized on a straight-line basis over a weighted average period of 2.0 years and will be adjusted for subsequent changes in estimated forfeitures.

Note 10. Shareholders' Equity

Earnings per share – During 2015, the Board of Directors of the Bank declared and paid a 5 for 4 stock split. All outstanding shares reported for the year ended December 31, 2014 have been retroactively restated to reflect the impact of the stock split. A reconciliation of the numerators and denominators of the basic and diluted earnings per share computations for the years ended December 31, 2015 and 2014 is as follows:

	Net Income Available to Common Shareholders	Weighted Average Shares Outstanding	Earnings per Common Share
December 31, 2015:			
Basic earnings per share	$ 1,729,850	2,282,677	$ 0.76
Dilution effect of stock options	-	74,342	(0.03)
Diluted earnings per share	$ 1,729,850	2,357,019	$ 0.73
December 31, 2014:			
Basic earnings per share, previous	$ 1,110,539	1,739,746	$ 0.64
Adjustment for 2015 stock split	-	434,937	(0.13)
Basic earnings per share, restated	$ 1,110,539	2,174,683	$ 0.51
Basic earnings per share, previous	$ 1,110,539	1,739,746	$ 0.64
Dilution effect of stock options, previous		130,233	(0.05)
Diluted earnings per share, previous	1,110,539	1,869,979	0.59
Adjustment for 2015 stock split		467,495	(0.11)
Diluted earnings per share, restated	$ 1,110,539	2,337,474	$ 0.48

Shares of common stock issuable under stock options for which the exercise prices are greater than average market prices are not included in the computation of diluted earnings per share due to their antidilutive effect. For the years ended December 31, 2015 and 2014, 26,562 and zero stock options were excluded.

(Continued)

Note 10. Shareholders' Equity (continued)

Dividends – Upon declaration by the Board of Directors, all shareholders of record will be entitled to receive dividends. The California Financial Code restricts the total dividend payment of any state banking association in any calendar year to the lesser of (1) the bank's retained earnings or (2) the bank's net income for its last three fiscal years, less distributions made to shareholders during the same three-year period. As of December 31, 2015, retained earnings of $3,479,103 were free of such restrictions.

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

In 2013, the Board of Governors of the Federal Reserve System, the FDIC, and the Office of the Comptroller of the Currency issued final rules under Basel III (the "Basel III Capital Rules"), establishing a new comprehensive framework for regulatory capital for U.S. banking organizations. These rules implement the Basel Committee's December 2010 proposed framework, certain provisions of the Dodd-Frank Act, and revise the risk-based capital requirements applicable to bank-holding companies and depository institutions, including the Bank. These rules became effective for the Bank on January 1, 2015, and are subject to phase-in periods for certain of their components. The significant changes outlined under the Basel III Capital Rules that are applicable to the Bank include:

- A new Common Equity Tier I ("Tier 1 Common") capital measure, with a minimum ratio requirement of 4.5% for Tier 1 Common to risk-weighted assets, and for Prompt Corrective Action purposes 6.5% or greater to generally be considered "well-capitalized".
- A capital conservation buffer in addition to Tier 1 Common of 0.625% for 2016, 1.25% for 2017, 1.875% for 2018, and 2.5% for 2019. The capital conservation buffer begins phasing in on January 1, 2016.
- Changes to the calculation of risk-weighted assets from the current four categories (0%, 20%, 50% and 100%) to a much broader and risk-sensitive number of categories.
- The inclusion of certain changes in accumulated other comprehensive income ("AOCI") in the determination of regulatory capital measures; however, "non-advanced approaches banking organizations", including the Bank, were able to make a one-time permanent election, as of January 1, 2015, to exclude these changes in AOCI from the determination of regulatory capital. The Bank has made this election.
- An exclusion from Tier 1 Common of certain items on a phased-in basis, such as deferred tax assets and intangible assets.

When Basel III Capital Rules are fully phased-in on January 1, 2019, the Bank will also be required to maintain a 2.5% "capital conservation buffer", which is designed to absorb losses during periods of economic stress. This capital conservation buffer will be comprised entirely of Tier 1 Common, and will be in addition to minimum risk-weighted asset ratios outlined under the Basel III Capital Rules. If a banking organization fails to hold capital above minimum capital ratios, including the capital conservation buffer, it will be subject to certain restrictions on capital distributions and discretionary bonus payments.

Capital amounts and ratios as of December 31, 2014 are calculated using Basel I rules. As of December 31, 2015 and 2014, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank's category.

(Continued)

Note 10. Shareholders' Equity (continued)

Regulatory capital (continued) – Actual and required capital amounts and ratios as of December 31, 2015 and 2014 are as follows:

	2015 (BASEL III)		2014 (BASEL I)	
	Amount	Ratio	Amount	Ratio
Tier 1 capital to average assets:				
The Bank	$ 23,124,000	9.8%	$ 20,512,000	9.9%
Minimum to be "Well-Capitalized"	$ 11,796,650	5.0%	$ 10,309,300	5.0%
Minimum regulatory requirement	$ 9,437,320	4.0%	$ 8,247,400	4.0%
Tier 1 common to risk weighted assets:				
The Bank	$ 23,124,000	15.2%	N/A	N/A
Minimum to be "Well-Capitalized"	$ 9,909,770	6.5%	N/A	N/A
Minimum regulatory requirement	$ 6,860,610	4.5%	N/A	N/A
Tier 1 capital to risk weighted assets:				
The Bank	$ 23,124,000	15.2%	$ 20,512,000	15.8%
Minimum to be "Well-Capitalized"	$ 12,196,640	8.0%	$ 7,804,100	6.0%
Minimum regulatory requirement	$ 9,147,480	6.0%	$ 5,202,800	4.0%
Total capital to risk weighted assets:				
The Bank	$ 24,996,000	16.4%	$ 22,138,000	17.0%
Minimum to be "Well-Capitalized"	$ 15,245,800	10.0%	$ 13,006,900	10.0%
Minimum regulatory requirement	$ 12,196,640	8.0%	$ 10,405,500	8.0%

Note 11. Derivatives

The notional amount of the interest rate swaps does not represent amounts exchanged by the parties involved. The amount exchanged is determined by reference to the notional amount and the other terms of the individual interest rate swap agreements. The Bank has five and four interest rate swap agreements as of December 31, 2015 and 2014, respectively. Summary information about these interest-rate swaps is as follows:

	2015	2014
Total notional amounts	$ 3,679,575	$ 3,090,489
Weighted average maturity	14.7 years	15.6 years
Total fair value of interest rate swaps, net	$ (151,427)	84,027

The fair value of interest rate swaps as of December 31, 2015 and 2014 is reflected in accrued interest payable and other liabilities and accrued interest receivable and other assets, respectively, with changes in fair value recorded in noninterest income. Changes in the fair value of interest rate swaps are offset by contrasting changes in the fair value of derivatives created by interest rate floors and caps embedded in the loans being hedged, which are reflected in accrued interest receivable and other assets and accrued interest payable and other liabilities as of December 31, 2015 and 2014, respectively. The offsetting changes in fair value result in little to no impact on noninterest income.

(Continued)

Note 12. Related Party Transactions

During the normal course of business, the Bank enters into transactions with related parties, including Directors and executive officers. The following is a summary of the aggregate activity involving related party borrowers for the years ended December 31, 2015 and 2014:

	2015	2014
Related party loans, beginning of year	$ 4,180,267	$ 4,673,571
Advances	5,372,514	2,032,918
Payments	(1,266,796)	(2,526,222)
Related party loans, end of year	$ 8,285,985	$ 4,180,267
Undisbursed commitments to related parties, end of year	$ 1,046,381	$ 2,871,904

As of December 31, 2015 and 2014 the Bank's deposits from related parties were approximately $50,260,000 or 24% and $47,569,000 or 25% of the Bank's total deposits, respectively. These related parties include Directors, executive officers and their affiliates. These depositors have strong relationships and connections with the Bank. As a result, management believes these circumstances mitigate the risk of unexpected volatility in deposit balances.

Note 13. Employee Benefit Plan

Profit Sharing Plan: The Bank has a 401(k) profit sharing plan. All employees 18 years of age or older with 30 days of service are eligible to participate in the plan. Eligible employees may elect to make tax deferred contributions up to the maximum amount allowed by law. Bank contributions vest at a rate of 25% annually for all employees. Safe harbor contributions of $54,432 and $38,143 were made for the years ended December 31, 2015 and 2014, respectively.

(Continued)

Note 14. Fair Value Measurements

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2015 and 2014 and the level input used to determine the estimated fair value are summarized below:

	Level 1	Level 2	Level 3	Total
December 31, 2015:				
Investment securities available-for-sale:				
U.S. Government sponsored entities and agencies	$ -	$ 7,982,107	$ -	$ 7,982,107
Obligations of states and political subdivisions	-	27,643,807	-	27,643,807
U.S. Government sponsored entities and agencies collateralized by mortgage obligations	-	18,776,850	-	18,776,850
Residential mortgage-backed securities	-	28,100,720	-	28,100,720
Corporate debt securities	-	10,413,210	-	10,413,210
Total investment securities	$ -	$ 92,916,694	$ -	$ 92,916,694
Derivative asset	$ -	$ 151,427	$ -	$ 151,427
Derivative liability	$ -	$ (151,427)	$ -	$ (151,427)
December 31, 2014:				
Investment securities available-for-sale:				
U.S. Government sponsored entities and agencies	$ -	$ 5,996,765	$ -	$ 5,996,765
Obligations of states and political subdivisions	-	21,557,190	-	21,557,190
U.S. Government sponsored entities and agencies collateralized by mortgage obligations	-	18,173,972	-	18,173,972
Residential mortgage-backed securities	-	27,831,990	-	27,831,990
Corporate debt securities	-	9,809,950	-	9,809,950
Total investment securities	$ -	$ 83,369,867	$ -	$ 83,369,867
Derivative asset	$ -	$ 84,027	$ -	$ 84,027
Derivative liability	$ -	$ (84,027)	$ -	$ (84,027)

There were no assets measured at fair value on a non-recurring basis as of December 31, 2015 and 2014.

(Continued)

Note 14. Fair Value Measurements (continued)

The carrying amounts and estimated fair values of financial instruments as of December 31, 2015 and December 31, 2014 and the level input used to determine the estimated fair value are summarized below:

	Carrying	Estimate Fair Value			
	Amount	Level 1	Level 2	Level 3	Total
December 31, 2015:					
Financial assets:					
Cash and due from banks	$ 9,084,318	$ 9,084,318	$ -	$ -	$ 9,084,318
Interest bearing deposits in banks	21,086,752	12,650,000	8,436,752	-	21,086,752
Investment securities available-for-sale	92,916,694	-	92,916,694	-	92,916,694
Loans, net	105,172,428	-	-	105,861,000	105,861,000
Accrued interest receivable	841,731	-	841,731	-	841,731
FHLB stock	N/A	N/A	N/A	N/A	N/A
Derivative	151,427	-	151,427	-	151,427
Financial liabilities:					
Deposits	213,232,998	202,117,507	11,096,000	-	213,213,507
Accrued interest payable	9,602	-	9,602	-	9,602
Derivative	151,427	-	151,427	-	151,427
December 31, 2014:					
Financial assets:					
Cash and due from banks	$ 7,065,554	$ 7,162,817	$ -	$ -	$ 7,162,817
Interest bearing deposits in banks	32,001,000	28,770,000	3,231,000	-	32,001,000
Investment securities available-for-sale	83,369,867	-	83,369,867	-	83,369,867
Loans, net	80,279,371	-	-	82,274,240	82,274,240
Accrued interest receivable	667,191	-	667,191	-	667,191
FHLB stock	689,800	N/A	N/A	N/A	N/A
Derivative	84,027	-	84,027	-	84,027
Financial liabilities:					
Deposits	189,425,842	177,109,607	12,316,438	-	189,426,045
Accrued interest payable	10,887	-	10,887	-	10,887
Derivative	84,027	-	84,027	-	84,027

(Continued)