RIVER VALLEY COMMUNITY BANK

FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2010 AND 2009

AND FOR THE YEARS THEN ENDED

AND

INDEPENDENT AUDITOR'S REPORT

PERRY-SMITH
THE POWER OF CONFIDENCE

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INDEPENDENT AUDITOR'S REPORT

The Shareholders and
Board of Directors
River Valley Community Bank

We have audited the accompanying balance sheet of River Valley Community Bank as of December 31, 2010 and 2009 and the related statements of income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of River Valley Community Bank as of December 31, 2010 and 2009 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.

Perry-Smith LLP

March 15, 2011

RIVER VALLEY COMMUNITY BANK

BALANCE SHEET

December 31, 2010 and 2009

	2010	2009
ASSETS		
Cash and due from banks	$ 4,299,235	$ 7,454,130
Federal funds sold	19,214,838	
Total cash and cash equivalents	23,514,073	7,454,130
Interest bearing deposits in other banks	747,000	1,983,000
Available-for-sale investment securities (Note 2)	64,801,749	51,281,946
Loans, less allowance for loan losses of $1,438,518 in 2010 and $1,135,459 in 2009 (Notes 3, 8 and 11)	42,022,373	44,245,958
Premises and equipment, net (Note 4)	2,252,405	2,311,903
Accrued interest receivable and other assets	2,832,600	2,183,439
	$ 136,170,200	$ 109,460,376
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	$ 26,514,715	$ 21,645,280
Interest bearing (Note 5)	92,896,193	71,724,970
Total deposits	119,410,908	93,370,250
Accrued interest payable and other liabilities	435,414	647,337
Total liabilities	119,846,322	94,017,587
Commitments and contingencies (Note 8)		
Shareholders' equity (Notes 9 and 10):		
Preferred stock – no par value; 5,000,000 shares authorized, none outstanding	-	-
Common stock – no par value; 50,000,000 shares authorized; issued and outstanding – 1,716,785 shares in 2010 and 1,715,360 in 2009	14,198,837	14,106,842
Retained earnings	1,505,964	463,841
Accumulated other comprehensive income, net (Note 2)	619,077	872,106
Total shareholders' equity	16,323,878	15,442,789
Total liabilities and shareholders' equity	$ 136,170,200	$ 109,460,376

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

RIVER VALLEY COMMUNITY BANK

STATEMENT OF INCOME

For the Years Ended December 31, 2010 and 2009

	2010	2009
Interest income:		
Interest and fees on loans	$ 2,547,301	$ 2,264,899
Interest on Federal funds sold	21,887	17,680
Interest on certificates of deposit with other banks	9,539	44,417
Interest on investment securities:		
Taxable	1,915,804	2,008,864
Exempt from Federal income taxes	364,994	181,753
Total interest income	4,859,525	4,517,613
Interest expense:		
Interest on deposits (Note 5)	598,926	846,385
Net interest income	4,260,599	3,671,228
Provision for loan losses (Note 3)	600,000	595,500
Net interest income after provision for loan losses	3,660,599	3,075,728
Non-interest income:		
Service charges and fees	138,395	103,042
Gain on sale of investments (Note 2)	98,552	151,813
Other	17,653	34,398
Total non-interest income	254,600	289,253
Non-interest expense:		
Salaries and employee benefits (Notes 9 and 12)	1,421,338	1,274,375
Occupancy and equipment (Note 4)	171,753	197,733
Other (Note 13)	911,264	869,695
Total non-interest expense	2,504,355	2,341,803
Net income before provision for income taxes	1,410,844	1,023,178
Provision for income taxes (Note 7)	368,721	355,613
Net income	$ 1,042,123	$ 667,565
Basic income per share	$ 0.61	$ 0.39
Diluted income per share	$ 0.58	$ 0.38

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

RIVER VALLEY COMMUNITY BANK

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the Years Ended December 31, 2010 and 2009

	Common Stock		Retained Earnings (Accum-ulated Deficit)	Accum-ulated Other Compre-hensive Income, Net	Total Share-holders' Equity	Compre-hensive Income
	Shares	Amount				
Balance, January 1, 2009	1,715,360	$ 13,990,608	$ (203,724)	$ 468,297	$ 14,255,181	
Net income			667,565		667,565	$ 667,565
Other comprehensive income:						
Change in unrealized gain on available-for-sale investment securities, net of taxes (Note 2)				403,809	403,809	403,809
Total comprehensive income						$ 1,071,374
Share-based payments (Note 10)		116,234			116,234	
Balance, December 31, 2009	1,715,360	14,106,842	463,841	872,106	15,442,789	
Net income			1,042,123		1,042,123	$ 1,042,123
Other comprehensive income:						
Change in unrealized gain on available-for-sale investment securities, net of taxes (Note 2)				(253,029)	(253,029)	(253,029)
Exercise of stock options	1,425	12,857			12,857	
Fractional share cost of 5 for 4 stock split		(206)			(206)	
Total comprehensive income						$ 789,094
Share-based payments (Note 10)		79,344			79,344	
Balance, December 31, 2010	1,716,785	$ 14,198,837	$ 1,505,964	$ 619,077	$ 16,323,878	

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

RIVER VALLEY COMMUNITY BANK

STATEMENT OF CASH FLOWS

For the Years Ended December 31, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Net income	$ 1,042,123	$ 667,565
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	600,000	595,500
Depreciation, amortization and accretion	296,301	17,936
Gain on sale of available-for-sale investment securities	(98,552)	(151,813)
Net (decrease) increase in deferred loan fees	(16,855)	626
Share-based payments	79,344	116,234
Net decrease (increase) in accrued interest receivable and other assets	8,239	(1,219,983)
Net (decrease) increase in accrued interest payable and other liabilities	(211,923)	124,147
Net cash provided by operating activities	1,698,677	150,212
Cash flows from investing activities:		
Net decrease (increase) in interest-bearing deposits in other banks	1,236,000	(993,000)
Purchases of available-for-sale investment securities	(37,403,876)	(31,616,224)
Proceeds from maturities and calls of available-for-sale investment securities	4,161,767	6,000,000
Proceeds from principle payments on available-for-sale investment securities	10,346,325	6,534,273
Proceeds from sales of available-for-sale investment securities	9,003,006	6,456,382
Net decrease (increase) in loans	983,040	(9,967,399)
Purchase of premises and equipment	18,304	(6,730)
Net cash used in investing activities	(11,692,043)	(23,592,698)
Cash flows from financing activities:		
Demand, interest bearing and savings deposits, net	30,829,736	13,628,907
Time deposits, net	(4,789,078)	(2,095,089)
Proceeds from exercise of stock options	12,857	
Repurchase of fractional shares	(206)	
Net cash provided by financing activities	26,053,309	11,533,818
Increase (decrease) in cash and cash equivalents	16,059,943	(11,908,674)
Cash and cash equivalents at beginning of period	7,454,130	19,362,804
Cash and cash equivalents at end of year	$ 23,514,073	$ 7,454,130

(Continued)

RIVER VALLEY COMMUNITY BANK

STATEMENT OF CASH FLOWS
(Continued)
For the Years Ended December 31, 2010 and 2009

	2010	2009
Supplemental cash flow information:		
Interest paid	$ 618,191	$ 867,258
Income taxes paid	$ 530,000	$ 833,000
Supplemental noncash disclosures:		
Net change in unrealized gain on available-for-sale investment securities	$ 253,029	$ 403,809
Transfers from loans to other real estate owned	$ 657,400	$ -

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

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 Financial Institutions (the "DFI") 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 and provides products and services to customers who are predominately small to middle-market businesses, professionals and not-for-profit organizations located in Sutter, Yuba 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. 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.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and due from banks and Federal funds sold. Generally, Federal funds are sold for one day periods.

Interest-Bearing Deposits in Other Banks

Interest-bearing deposits in banks mature within four to nine years and are carried at cost.

Investment Securities

Investments are classified into the following categories:

- Available-for-sale securities reported at fair value, with unrealized gains and losses excluded from earnings and reported, net of taxes, as accumulated other comprehensive income (loss) within shareholders' equity.

- Held-to-maturity securities, which management has the positive intent and ability to hold, reported at amortized cost, adjusted for the accretion of discounts and amortization of premiums.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment Securities (Continued)

Management determines the appropriate classification of its investments at the time of purchase and may only change the classification in certain limited circumstances. All transfers between categories are accounted for at fair value. As of December 31, 2010 and 2009, all of the Bank's investments were classified as available-for-sale and there were no transfers between categories.

Gains or losses on the sale of investment securities are computed on the specific identification method. 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 carrying value 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. There were no investment securities considered to be other than temporarily impaired at December 31, 2010 and 2009.

Loans

Loans are stated at principal balances outstanding. 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 serious doubt, loans are placed on nonaccrual status and the accrual of interest income is suspended. 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans (Continued)

All material loan origination fees, commitment fees, direct loan origination costs and purchase premiums and discounts on loans are deferred and recognized as an adjustment of yield, to be amortized to interest income over the contractual term of the loan. Salaries and employee benefits totaling $67,542 and $77,051 have been deferred as direct loan origination costs for the years ended December 31, 2010 and 2009, respectively.

Allowance for Loan Losses

The allowance for loan losses is an estimate of credit losses inherent 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 not impaired.

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 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses (Continued)

The Bank determines a separate allowance for each portfolio segment (loan type). 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, which is included on the balance sheet.

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 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 sound worth and 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses (Continued)

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 portfolio segment: (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 portfolio segment 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.

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. Commercial real estate loans generally possess a higher inherent risk of loss than other real estate portfolio segments, except land 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.

Real estate – other – These loans include all loans 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses (Continued)

Although management believes the allowance to be adequate, ultimate losses may vary from its estimates. At least quarterly, the Board of Directors reviews 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 Financial Institutions, 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.

Other Real Estate Owned

Other real estate owned (OREO) is comprised of property acquired through foreclosure proceedings or acceptance of deeds-in-lieu of foreclosure. Losses recognized at the time of acquiring property in full or partial satisfaction of debt are charged against the allowance for loan losses. OREO is initially recorded at fair value less estimated disposition costs. Fair value of OREO is generally based on an independent appraisal of the property. Subsequent to initial measurement, OREO is carried at the lower of the recorded investment or fair value less costs to sell. Revenues and expenses associated with OREO, and subsequent adjustment to the fair value of the property and to the estimated costs of disposal, are realized and reported as a component of noninterest expense when incurred. OREO is reported as a component of other assets on the balance sheet.

At December 31, 2010, the Bank had $657,400 invested in one property acquired through foreclosure. This property is carried at its fair value based on a recently obtained third-party appraisal and is included in other assets on the balance sheet. The Bank had no OREO properties at December 31, 2009.

Premises and Equipment

Premises and equipment are carried at cost. 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Premises and Equipment (Continued)

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.

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 is retroactively adjusted for stock dividends and stock splits for all periods presented.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-Based Payments

The Bank has one share-based compensation plan, the River Valley Community Bank Equity Incentive Stock Option Plan (the "Plan"), which has been approved by its shareholders. Under the Plan, 226,936 shares of common stock are reserved for future grants of awards to employees, directors and consultants under incentive and nonstatutory 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 does not provide for the settlement of awards in cash. 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, 2010 and 2009.

The Bank accounts for share-based compensation using a fair-value based method requiring that share-based compensation expense be recorded for all stock options that are ultimately expected to vest as the requisite service is rendered.

Management estimates the fair value of each option award as of the date of grant using a Black-Scholes-Merton option pricing formula. Expected volatility is based on historical volatility of similar entities over a preceding period commensurate with the expected term of the option because the Bank's common stock has been traded for a shorter period than the expected term for the options. The "simplified" method described in Securities and Exchange Commission (SEC) Staff Accounting Bulletin No. 110 is used to determine the expected term of these options due to the lack of sufficient historical data. The risk-free rate is based on the yield for U.S. Treasury zero-coupon issues with the same term as the expected option term in effect at the time of grant. Expected dividend yield was not considered in the option pricing formula since the Bank has not paid dividends and has no current plans to do so in the future. In addition to these assumptions, management makes estimates regarding pre-vesting forfeitures that will impact total compensation expense recognized under the Plan.

Subsequent Events

The Bank reviewed all events occurring from December 31, 2010 through March 15, 2011, the date the financial statements were available to be issued and no subsequent events occurred requiring accrual or disclosure.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of New Financial Accounting Standards

Transfers of Financial Assets

In June 2009, the Financial Accounting Standards Board ("FASB") issued FASB Accounting Standards Update ("ASU") 2009-16*, Accounting for Transfers of Financial Assets (Statement 166)*, which amends previously issued accounting guidance to enhance accounting and reporting for transfers of financial assets, including securitizations or continuing exposure to the risks related to transferred financial assets. Prior to the issuance of Statement 166, transfers under participation agreements and other partial loan sales fell under the general guidance for transfers of financial assets. Statement 166 introduces a new definition for a participating interest along with the requirement for partial loan sales to meet the definition of a participating interest for sale treatment to occur. If a participation or other partial loan sale does not meet the definition, the portion sold should remain on the books and the proceeds recorded as a secured borrowing until the definition is met. Additionally, existing provisions that require the transferred assets to be isolated from the originating institution (transferor), that the transferor does not maintain effective control through certain agreements to repurchase or redeem the transferred assets and that the purchasing institution (transferee) has the right to pledge or exchange the assets acquired were retained. The new provisions became effective on January 1, 2010 and early adoption was not permitted. The impact of adoption was not material to the Bank's financial position, results of operation or cash flows.

Fair Value Measurements

In January 2010, the FASB issued FASB ASU 2010-06*, Improving Disclosures about Fair Value Measurements,* which amends and clarifies existing standards to require additional disclosures regarding fair value measurements. Specifically, the standard requires disclosure of the amounts of significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for these transfers, the reasons for any transfers in or out of Level 3, and information in the reconciliation of recurring Level 3 measurements about purchases, sales, issuances and settlements on a gross basis. This standard clarifies that reporting entities are required to provide fair value measurement disclosures for each class of assets and liabilities—previously separate fair value disclosures were required for each major category of assets and liabilities. This standard also clarifies the requirement to disclose information about both the valuation techniques and inputs used in estimating Level 2 and Level 3 fair value measurements. Except for the requirement to disclose information about purchases, sales, issuances, and settlements in the reconciliation of recurring Level 3 measurements on a gross basis, these disclosures are effective for the year ended December 31, 2010. With respect to the portions of this ASU that were effective during 2010, the adoption of these requirements did not have a material impact on the Bank's financial position, results of operation or cash flows. The requirement to separately disclose purchases, sales, issuances, and settlements of recurring Level 3 measurements becomes effective for the Bank for the year beginning on January 1, 2011. Management does not believe the adoption of the remaining portion of this ASU will have a material impact on the Bank's financial position, results of operation or cash flows.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of New Financial Accounting Standards (Continued)

Disclosures about Credit Quality

In July 2010, the FASB issued FASB ASU 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. ASU 2010-20 requires more robust and disaggregated disclosures about the credit quality of financing receivables (loans) and allowances for loan losses, including disclosure about credit quality indicators, past due information and modifications of finance receivables. The disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on and after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The adoption of this guidance has significantly expanded disclosure requirements related to accounting policies and disclosures related to the allowance for loan losses but did not have an impact on the Bank's financial position, results of operation or cash flows.

2. AVAILABLE-FOR-SALE INVESTMENT SECURITIES

The amortized cost and estimated fair value of available-for-sale investment securities at December 31, 2010 and 2009 consisted of the following:

	2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Government agencies	$ 2,597,658	$ 56,461	$ (11,271)	$ 2,642,848
Obligations of states and political subdivisions	11,119,282	84,554	(90,768)	11,113,068
U.S. Government agencies collateralized by mortgage obligations	14,294,749	318,555	(14,684)	14,598,620
Mortgage-backed securities	27,773,521	706,908	(210,051)	28,270,378
Other debt securities	7,984,744	272,386	(80,295)	8,176,835
	$ 63,769,954	$ 1,438,864	$ (407,069)	$ 64,801,749

2. AVAILABLE-FOR-SALE INVESTMENT SECURITIES (Continued)

	2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Government agencies	$ 3,878,584	$ 29,162	$ (29,436)	$ 3,878,310
Obligations of states and political subdivisions	7,307,838	62,030	(17,321)	7,352,547
U.S. Government agencies collateralized by mortgage obligations	12,205,045	461,132		12,666,177
Mortgage-backed securities	19,737,049	697,758	(86,542)	20,348,265
Other debt securities	6,699,920	336,727		7,036,647
	$ 49,828,436	$ 1,586,809	$ (133,299)	$ 51,281,946

Net unrealized gains on available-for-sale investment securities totaling $1,031,795 and $1,453,510 are recorded, net of $412,718 and $581,404 in tax liabilities as accumulated other comprehensive income within shareholders' equity at December 31, 2010 and 2009, respectively.

Proceeds and gross realized gains on the sale of investment securities available for sale were $9,003,006 and $98,552, respectively, for the year ended December 31, 2010. Proceeds and gross realized gains on the sale of investment securities available for sale were $6,456,382 and $151,813, respectively, for the year ended December 31, 2009.

The Bank also had securities pledged with amortized costs totaling $8,837,720 and $12,507,025 and estimated fair values totaling approximately $9,100,000 and $13,100,000 for certain borrowing arrangements with the Federal Home Loan Bank of San Francisco as of December 31, 2010 and 2009, respectively (see Note 6).

At December 31, 2010 and 2009, there were no securities in a continuous loss position for greater than twelve months. The gross unrealized losses of securities that have been in a continuous loss position for less than twelve months totaled $407,069 and $133,299 at December 31, 2010 and 2009, respectively. The unrealized losses on the Bank's investments were caused by interest rate fluctuations. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Bank does not intend to sell, and it is more likely than not that it will not be required to sell those securities until a recovery of fair value, which may be maturity, the Bank does not consider those investments to be other-than-temporarily impaired at December 31, 2010 and 2009.

2. AVAILABLE-FOR-SALE INVESTMENT SECURITIES (Continued)

The amortized cost and estimated fair value of available-for-sale investment securities at December 31, 2010 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	$ 1,250,000	$ 1,267,600
After one year through five years	2,734,743	2,988,186
After five years through ten years	15,412,300	15,317,737
After ten years	2,304,641	2,359,228
	21,701,684	21,932,751
Investment securities not due at a single maturity date:		
U.S. Government agencies collateralized by mortgage obligations	14,294,749	14,598,620
Mortgage-backed securities	27,773,521	28,270,378
	$ 63,769,954	$ 64,801,749

3. LOANS

Outstanding loans are summarized below:

	December 31,	
	2010	2009
Agriculture	$ 6,037,214	$ 4,636,171
Commercial	4,816,904	6,549,502
Commercial real estate	16,471,151	18,185,634
Real estate – other	15,959,182	15,567,878
Consumer and other	232,557	515,204
	43,517,008	45,454,389
Deferred loan fees, net	(56,117)	(72,972)
Allowance for loan losses	(1,438,518)	(1,135,459)
	$ 42,022,373	$ 44,245,958

3. LOANS (Continued)

Changes in the allowance for loan losses were as follows:

	December 31,	
	2010	2009
Balance, beginning of year	$ 1,135,459	$ 539,959
Provision for loan losses	600,000	595,500
Loans charged-off	(297,631)	
Recoveries	690	
Balance, end of year	$ 1,438,518	$ 1,135,459

The following table shows the allocation of the allowance for loan losses at and for the year ended December 31, 2010 by portfolio segment and by impairment methodology:

	Agriculture	Commercial	Commercial Real Estate	Real Estate – Other	Consumer	Unallocated	Total
Allowance for Credit Losses							
Ending balance allocated to portfolio segments	$ 95,387	$ 144,858	$ 636,713	$ 501,118	$ 6,233	$ 54,209	$ 1,438,518
Ending balance: individually evaluated for impairment	$ -	$ -	$ 149,128	$ -	$ -	$ -	$ 149,128
Ending balance: collectively evaluated for impairment	$ 95,387	$ 144,858	$ 487,585	$ 501,118	$ 6,233	$ 54,209	$ 1,289,390
Loans							
Ending balance	$ 6,037,214	$ 4,816,904	$ 16,471,151	$ 15,959,182	$ 232,557	$ -	$ 43,517,008
Ending balance: individually evaluated for impairment	$ -	$ 4,337	$ 942,973	$ -	$ -	$ -	$ 947,310
Ending balance: collectively evaluated for impairment	$ 6,037,214	$ 4,812,567	$ 15,528,178	$ 15,959,182	$ 232,557	$ -	$ 42,569,698

The following table shows the loan portfolio allocated by management's internal risk ratings at December 31, 2010:

	Commercial Credit Exposure Credit Risk Profile by Internally Assigned Grade					
	Agriculture	Commercial	Commercial Real Estate	Real Estate – Other	Consumer	Total
Grade:						
Pass	$ 6,006,346	$ 3,105,551	$ 11,081,363	$ 13,784,548	$ 228,851	$ 34,206,659
Special Mention	30,868	969,791	2,738,233	252,006		3,990,898
Substandard		741,562	2,651,555	1,922,628	3,706	5,319,451
Doubtful						
Total	$ 6,037,214	$ 4,816,904	$ 16,471,151	$ 15,959,182	$ 232,557	$ 43,517,008

3. LOANS (Continued)

The following table shows an aging analysis of the loan portfolio by the time past due at December 31, 2010:

	30-89 Days Past Due	90 Days and Still Accruing	Nonaccrual	Total Past Due	Current	Total
Agriculture					$ 6,037,214	$ 6,037,214
Commercial			$ 4,337		4,812,567	4,816,904
Commercial real estate					16,471,151	16,471,151
Real estate – other					15,959,182	15,959,182
Consumer					232,557	232,557
Total	$ -	$ -	$ 4,337	$ -	$43,512,671	$43,517,008

The following table shows information related to impaired loans at and for the year ended December 31, 2010:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Agriculture					
Commercial	$ 4,337	$ 103,409		$ 5,300	
Commercial real estate					
Real estate – other					
Consumer					
With an allowance recorded:					
Agriculture					
Commercial					
Commercial real estate	$ 942,973	$ 942,973	$ 149,128	$ 954,473	$ 30,897
Real estate – other					
Consumer					
Total:					
Agriculture					
Commercial	$ 4,337	$ 103,409		$ 5,300	
Commercial real estate	$ 942,973	$ 942,973	$ 149,128	$ 954,473	$ 30,897
Real estate – other					
Consumer					

The Bank does not have commitments to lend additional funds to borrowers with loans whose terms have been modified in troubled debt restructurings.

4. PREMISES AND EQUIPMENT

Premises and equipment consisted of the following:

	December 31,	
	2010	2009
Land	$ 774,631	$ 774,631
Premises	1,550,724	1,550,724
Furniture, fixtures and equipment	227,532	218,501
	2,552,887	2,543,856
Less accumulated depreciation	(300,482)	(231,953)
	$ 2,252,405	$ 2,311,903

Depreciation included in occupancy and equipment expense totaled $77,802 and $101,685 for the years ended December 31, 2010 and 2009, respectively.

5. INTEREST-BEARING DEPOSITS

Interest-bearing deposits consisted of the following:

	December 31,	
	2010	2009
Savings	$ 576,455	$ 661,521
Money market	65,402,910	41,858,204
Interest-bearing demand accounts	9,018,922	6,518,261
Time, under $100,000	2,661,108	3,053,511
Time, $100,000 or more	15,236,798	19,633,473
	$ 92,896,193	$ 71,724,970

Aggregate annual maturities of time deposits are as follows:

Years Ending December 31,	
2011	$ 16,151,567
2012	1,696,339
2013	50,000
	$ 17,897,906

5. INTEREST-BEARING DEPOSITS (Continued)

Interest expense recognized on interest-bearing deposits for the years ended December 31, 2010 and 2009 consisted of the following:

	2010	2009
Savings	$ 4,825	$ 546
Money market	354,125	323,048
Interest-bearing demand accounts	10,763	6,855
Time, $100,000 or more	205,099	472,855
Other time	24,114	43,081
	$ 598,926	$ 846,385

6. BORROWING ARRANGEMENTS

The Bank has unsecured Federal funds lines of credit with correspondent banks under which it can borrow up to $6,000,000. There were no borrowings outstanding under these arrangements at December 31, 2010 and 2009, respectively.

In addition, the Bank has an arrangement with the Federal Home Loan Bank (FHLB) under which it may borrow an amount not to exceed 15% of total assets which must be fully secured by qualifying securities. At December 31, 2010 and 2009, the fair value of investment securities pledged was approximately $9,121,000 and $13,100,000, respectively, and the amount of borrowings available under this arrangement was approximately $8,665,000 and $12,400,000. As of December 31, 2010 and 2009, the Bank did not have borrowings outstanding with the FHLB.

7. INCOME TAXES

Income taxes for the years ended December 31, 2010 and 2009 consisted of the following:

	2010	2009
Current	$ 662,621	$ 437,313
Deferred	(293,900)	(81,700)
Income tax expense	$ 368,721	$ 355,613

7. INCOME TAXES (Continued)

Deferred tax assets (liabilities) consisted of the following:

	December 31,	
	2010	2009
Deferred tax assets:		
State net operating losses	$ 76,000	$ 60,900
Organization costs	94,600	103,700
Allowance for loan losses	621,100	492,800
Share-based payments	108,200	93,900
Other real estate owned	34,300	
Other	19,679	900
Total deferred tax assets	953,900	752,200
Deferred tax liabilities:		
Accrual to cash conversion	(208,900)	(276,200)
Future liability of state deferred tax asset	(25,200)	(53,900)
Unrealized gain on available-for-sale investment securities	(412,700)	(581,400)
Other	(17,200)	(13,400)
Total deferred tax liabilities	(664,000)	(924,900)
Net deferred tax asset (liability)	$ 289,900	$ (172,700)

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 consisted of the following:

	Year Ended December 31,			
	2010		2009	
	Amount	Rate %	Amount	Rate %
Federal income tax expense at statutory rates	$ 479,687	34.0	$ 347,881	34.0
State franchise tax expense, net of federal tax benefit	8,004	0.6	32,317	3.2
Tax exempt investment security income, net	(121,036)	(8.6)	(58,140)	(5.7)
Non-deductible stock option expense	16,148	1.1	20,669	2.0
Other	(14,082)	(1.0)	12,886	1.3
Total income tax expense	$ 368,721	26.1	$ 355,613	34.8

7. INCOME TAXES (Continued)

The Bank is subject to U.S. federal income tax as well as California state franchise tax. Federal and California state franchise tax returns for 2008, 2007 and 2006 are currently open for examination.

At December 31, 2010, the Bank had California net operating loss carryforwards (NOLs) of approximately $700,000 available to offset future California income. The State of California has suspended the Bank's ability to utilize these NOLs in 2010; however, the suspension also provides the Bank with additional time to utilize them. These NOLs currently begin to expire in 2016.

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:

	December 31,	
	2010	2009
Commitments to extend credit	$ 12,003,851	$ 8,882,244

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.

8. COMMITMENTS AND CONTINGENCIES (Continued)

Financial Instruments With Off-Balance-Sheet Risk (Continued)

Commercial loan commitments represent approximately 25% 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 23% of total commitments and are generally secured by crop assignments, accounts receivable and farm equipment and have variable interest rates. Real estate loan commitments represent approximately 31% of total commitments and are generally secured by property with a loan-to-value ratio not to exceed 75%. The majority of real estate commitments also have variable interest rates. Home equity lines of credit represent the remaining 21% 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 and surrounding counties. Although the Bank intends to have a diversified loan portfolio, a substantial portion of its portfolio is secured by commercial and residential real estate at December 31, 2010.

In management's judgment, a concentration of loans exists in real estate related loans with approximately 75% 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 represent 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 represent approximately 31% of the Bank's deposits at December 31, 2010. These relationships are primarily with related parties (see Note 11). The loss of one or more of these deposit relationships could have a material impact on the Bank's operations and liquidity. However, management mitigates this risk by ensuring that these deposit relationships are fully developed through ongoing contact with both executive management and account officers and by maintaining sufficient liquidity to manage fluctuations in account balances within these larger relationships.

Correspondent Banking Agreements

The Bank maintains funds on deposit with other federally insured financial institutions under correspondent banking agreements. There were no uninsured deposits at December 31, 2010.

9. SHARE-BASED PAYMENTS

A summary of option activity under the Plan for the year ended December 31, 2010 is presented below:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
Outstanding at beginning of year	250,688		
Granted	41,562		
Forfeited	(4,575)		
Exercised	(1,425)		
Outstanding at December 31, 2010	286,250	$ 8.68	6.24 years
Exercisable at December 31, 2010	191,600	$ 8.01	5.66 years

As of December 31, 2010, the unrecognized compensation cost related to non-vested stock option awards totaled $259,626. That cost is expected to be amortized on a straight-line basis over a weighted average period of two years and will be adjusted for subsequent changes in estimated forfeitures.

The following stock option information is for years ended December 31, 2010 and 2009:

	2010	2009
Weighted average grant date fair value per share of options granted	$2.75	$2.93
Significant fair value assumptions:		
Expected term in years	6.3 years	6.5 years
Expected annual volatility	39.28%	35.65%
Expected annual dividend yield	N/A	N/A
Risk-free interest rate	2.48%	2.70%
Total compensation cost (included in salaries and employee benefits and other expense)	$79,344	$116,234

10. SHAREHOLDERS' EQUITY

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. At December 31, 2010, retained earnings of $1,505,964 were free of such restrictions.

10. SHAREHOLDERS' EQUITY (Continued)

Five for Four Stock Split

On June 15, 2010, the Board of Directors approved a five for four stock split of its shares of common stock, effective at the close of business on July 30, 2010 (the "Effective Date"). As of the Effective Date, each four outstanding shares of common stock were exchanged without further action, into five shares of common stock. The stock split increased the number of issued and outstanding shares of common stock from 1,373,438 shares to 1,716,785 shares. The primary purpose of the stock split was to enhance the liquidity of the stock by making more shares available to each shareholder. All share and per share data has been retroactively restated to reflect the stock split.

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.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total and Tier 1 capital to risk-weighted assets and of Tier 1 capital to average assets. Each of these components is defined in the regulations. Management believes that the Bank meets all its capital adequacy requirements as of December 31, 2010.

During its first four years, the Bank is required to maintain a minimum leverage ratio of 8%. In addition, to be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth below.

	2010		2009	
	Amount	Ratio	Amount	Ratio
Leverage Ratio				
River Valley Community Bank	$ 15,705,000	12.5%	$ 14,571,000	13.7%
Minimum requirement for "Well-Capitalized" institution	$ 6,265,559	5.0%	$ 5,306,850	5.0%
Minimum regulatory requirement	$ 5,012,447	4.0%	$ 4,245,480	4.0%
Tier 1 Risk-Based Capital Ratio				
River Valley Community Bank	$ 15,705,000	21.5%	$ 14,571,000	21.8%
Minimum requirement for "Well-Capitalized" institution	$ 4,381,020	6.0%	$ 4,019,520	6.0%
Minimum regulatory requirement	$ 2,920,680	4.0%	$ 2,679,680	4.0%

10. SHAREHOLDERS' EQUITY (Continued)

Regulatory Capital (Continued)

	2010		2009	
	Amount	Ratio	Amount	Ratio
Total Risk-Based Capital Ratio				
River Valley Community Bank	$ 16,624,000	22.8%	$ 15,412,000	23.0%
Minimum requirement for "Well-Capitalized" institution	$ 7,301,700	10.0%	$ 6,699,200	10.0%
Minimum regulatory requirement	$ 5,841,360	8.0%	$ 5,359,360	8.0%

11. RELATED PARTY TRANSACTIONS

During the normal course of business, the Bank enters into transactions with related parties, including Directors and executive officers. These transactions include borrowings from the Bank with substantially the same terms, including rates and collateral, as loans to unrelated parties. The following is a summary of the aggregate activity involving related party borrowers for the year ended December 31, 2010:

Beginning balance	$ 5,392,295
Disbursements	409,597
Amounts repaid	(892,800)
Balance, December 31, 2010	$ 4,909,092
Undisbursed commitments to related parties, December 31, 2010	$ 116,801

At December 31, 2010 the Bank's deposits from related parties totaled $40,021,702 or 34% of the Bank's total deposits. These related parties include Directors, executive officers and their affiliates. These depositors have strong relationships and connections with management. As a result, management believes these circumstances mitigate the risk of unexpected volatility of their deposits.

12. EMPLOYEE BENEFIT PLAN

Profit Sharing Plan

In 2006, the Bank adopted the River Valley Community Bank 401(k) Profit Sharing Plan and Trust. 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. The Bank may make additional contributions to the plan at the discretion of the Board of Directors. Bank contributions vest at a rate of 20% annually for all employees. A contribution of $27,821 was made for the year ended December 31, 2010. A contribution of $27,588 was made for the year ended December 31, 2009.

13. OTHER NON-INTEREST EXPENSES

Other expenses for the years ended December 31, 2010 and 2009 consisted of the following:

	2010	2009
Data processing and software amortization	$ 212,947	$ 220,749
Assessments and FDIC insurance	188,481	167,935
Professional fees, auditing and legal	117,179	132,946
AMT/EFT and internet banking	108,402	90,740
Stationery and supplies	45,351	39,272
Directors share-based compensation	31,850	62,195
Advertising and marketing	28,228	29,922
Directors fees	24,500	6,750
Postage and courier	20,482	19,310
Insurance	19,306	25,427
Education and training	16,155	3,917
Dues/Memberships	15,654	21,153
Other real estate owned	10,439	-
Other	72,290	49,379
	$ 911,264	$ 869,695

14. FAIR VALUE MEASUREMENTS

The estimated carrying and fair values of the Bank's financial instruments are as follows:

	December 31, 2010		December 31, 2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash and due from banks	$ 4,299,235	$ 4,299,235	$ 7,454,130	$ 7,454,130
Federal funds sold	19,214,838	19,214,838		
Interest bearing deposits in banks	747,000	747,000	1,983,000	1,983,000
Available-for-sale investment securities	64,801,749	64,801,749	51,281,946	51,281,946
Loans, net	42,022,373	41,982,430	44,245,958	44,074,359
Accrued interest receivable	618,002	618,002	588,102	588,102
Financial liabilities:				
Deposits	$ 119,410,908	$ 119,446,061	$ 93,370,250	$ 93,371,980
Accrued interest payable	22,779	22,779	42,046	42,046

14. FAIR VALUE MEASUREMENTS (Continued)

These estimates do not reflect any premium or discount that could result from offering the Bank's entire holdings of a particular financial instrument for sale at one time, nor do they attempt to estimate the value of anticipated future business related to the instruments. In addition, the tax ramifications related to the realization of unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of these estimates.

The following methods and assumptions were used to estimate the fair value of financial instruments. For cash and due from banks, Federal funds sold, interest-bearing deposits in banks, variable-rate loans and leases, accrued interest receivable and payable, demand deposits and short-term borrowings, the carrying amount is estimated to be fair value. For investment securities, fair values are based on quoted market prices, quoted market prices for similar securities and indications of value provided by brokers. The fair values for fixed-rate loans and leases are estimated using discounted cash flow analyses, using interest rates currently being offered at each reporting date for loans with similar terms to borrowers of comparable creditworthiness. Fair values for fixed-rate certificates of deposit are estimated using discounted cash flow analyses using interest rates offered at each reporting date by the Bank for certificates with similar remaining maturities. The fair values of commitments are not significant.

Fair Value Hierarchy

The Bank measures the estimated fair value of its assets and liabilities in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. Valuations within these levels are based upon:

Level 1 – Quoted market prices for identical instruments traded in active exchange markets.

Level 2 – Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable or can be corroborated by observable market data.

Level 3 – Model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect the Bank's estimates of assumptions that market participants would use on pricing the asset or liability. Valuation techniques include management judgment and estimation which may be significant.

Management monitors the availability of observable market data to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

14. FAIR VALUE MEASUREMENTS (Continued)

Fair Value Hierarchy (Continued)

Management evaluates the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total assets, total liabilities or total earnings.

The following tables present information about the Bank's assets and liabilities measured at fair value on a recurring and nonrecurring basis as of December 31, 2010 and 2009:

Recurring Basis

	December 31, 2010			
Description	Fair Value	Level 1	Level 2	Level 3
Debt securities:				
U.S. Government agencies	$ 2,642,848		$ 28,270,378	
Obligations of state and political subdivisions	11,113,068		11,113,068	
U.S. Government agencies collateralized by mortgage obligations	14,598,620		14,598,620	
Mortgage-backed securities	28,270,378		28,270,378	
Other debt securities	8,176,835		8,176,835	
Total assets measured at fair value	$ 64,801,749	$ -	$ 64,801,749	$ -

	December 31, 2009			
Description	Fair Value	Level 1	Level 2	Level 3
Debt securities:				
U.S. Government agencies	$ 3,878,310		$ 3,878,310	
Obligations of state and political subdivisions	7,352,547		7,352,547	
U.S. Government agencies collateralized by mortgage obligations	12,666,177		12,666,177	
Mortgage-backed securities	20,348,265		20,348,265	
Other debt securities	7,036,647		7,036,647	
Total assets measured at fair value	$ 51,281,946	$ -	$ 51,281,946	$ -

Fair values for available-for-sale investment securities are based on quoted market prices for similar securities. During the year ended December 31, 2010, there were no significant transfers in or out of Levels 1 and 2.

14. FAIR VALUE MEASUREMENTS (Continued)

Fair Value Hierarchy (Continued)

Non-recurring Basis

	December 31, 2010			
Description	Fair Value	Level 1	Level 2	Level 3
Impaired loans	$ 795,605	$ -	$ -	$ 795,605

	December 31, 2009			
Description	Fair Value	Level 1	Level 2	Level 3
Impaired loans	$ 706,184	$ -	$ -	$ 706,184

The fair value of impaired loans is based on the fair value of the collateral for all collateral dependent loans and for other impaired loans is estimated using a discounted cash flow model. At December 31, 2010 and 2009, impaired loans were determined to be collateral dependent and categorized as Level 3 due to ongoing real estate market conditions resulting in inactive market data, which in turn required the use of unobservable inputs and assumptions in fair value measurements.