FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2009 AND 2008

AND FOR THE YEARS THEN ENDED

AND

INDEPENDENT AUDITOR'S REPORT





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, 2009 and 2008 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, 2009 and 2008 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.

Pery-Smith LLP

March 16, 2010

BALANCE SHEET

December 31, 2009 and 2008

	2009	2008	
ASSETS			
Cash and due from banks Federal funds sold	\$ 7,454,130	\$ 3,702,804 15,660,000	
Total cash and cash equivalents	7,454,130	19,362,804	
Interest bearing deposits in other banks Available-for-sale investment securities (Note 2) Loans, less allowance for loan losses of \$1,135,459 in	1,983,000 51,281,946	990,000 38,017,000	
2009 and \$539,959 in 2008 (Notes 3, 9 and 11) Premises and equipment, net (Note 4) Accrued interest receivable and other assets	44,245,958 2,311,903 2,183,439	34,874,685 2,406,821 <u>963,456</u>	
	\$ 109,460,376	<u>\$ 96,614,766</u>	
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits: Non-interest bearing Interest bearing (Note 5)	\$ 21,645,280 <u>71,724,970</u>	\$ 14,752,226 67,084,169	
Total deposits	93,370,250	81,836,395	
Accrued interest payable and other liabilities	647,337	523,190	
Total liabilities	94,017,587	82,359,585	
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; 1,372,298 shares issued and outstanding	- 14,106,842	- 13,990,608	
Retained earnings (accumulated deficit) Accumulated other comprehensive income, net (Note 2)	463,841 872,106	(203,724) 468,297	
Total shareholders' equity	15,442,789	14,255,181	
Total liabilities and shareholders' equity	<u>\$ 109,460,376</u>	<u>\$ 96,614,766</u>	

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

STATEMENT OF INCOME

For the Years Ended December 31, 2009 and 2008

		2009		2008
Interest income: Interest and fees on loans Interest on Federal funds sold Interest on certificates of deposit with other banks Interest on investment securities:	\$	2,264,899 17,680 44,417	\$	1,801,982 119,039 103,308
Taxable Exempt from Federal income taxes		2,008,864 181,753		1,747,430
Total interest income		4,517,613		3,771,759
Interest expense: Interest on deposits (Note 5) Interest on borrowings		846,385		964,140 1,567
Total interest expense		846,385		965,707
Net interest income		3,671,228		2,806,052
Provision for loan losses (Note 3)		595,500		265,500
Net interest income after provision for loan losses		3,075,728		2,540,552
Non-interest income: Service charges and fees Gain on sale of investments (Note 2) Other		103,042 151,813 34,398		73,178 24,319 30,085
Total non-interest income		289,253		127,582
Non-interest expense: Salaries and employee benefits (Notes 3, 9 and 12) Occupancy and equipment (Note 4) Other (Note 13)		1,274,375 197,733 869,695		1,184,522 208,494 699,969
Total non-interest expense		2,341,803		2,092,985
Net income before provision for income taxes		1,023,178		575,149
Provision for income taxes (Note 7)	_	355,613		800
Net income	<u>\$</u>	667,56 <u>5</u>	\$	574,349
Basic income per share	<u>\$</u>	0.49	\$	0.42
Weighted average number of shares outstanding		1,372,298		1,372,298
Diluted income per share	<u>\$</u>	0.48	<u>\$</u>	0.41

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

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the Years Ended December 31, 2009 and 2008

	Common Stock Shares Amount		Retained Earnings (Accum- ulated Deficit)	Accum- ulated Other Compre- hensive Income, Net	Total Share- holders' Equity	Compre- hensive Income
	Silares	Amount	<u>Deficit)</u>	income, Net	Equity	<u> IIICOIIIe</u>
Balance, January 1, 2008	1,372,298	\$ 13,864,808	\$ (778,073)	\$ 214,151	\$ 13,300,886	
Net income Other comprehensive income: Change in unrealized gain on available-for-sale investment			574,349		574,349	
securities, net of taxes (Note 2)				254,146	254,146	254,146
Total comprehensive income						<u>\$ 828,495</u>
Share-based payments (Note 10)		125,800			125,800	
Balance, December 31, 2008	1,372,298	13,990,608	(203,724)	468,297	14,255,181	
Net income Other comprehensive income: Change in unrealized gain on available-for-sale investment			667,565		667,565	\$ 667,565
securities, net of taxes (Note 2)				403,809	403,809	403,809
Total comprehensive income						<u>\$ 1,071,374</u>
Share-based payments (Note 10)		116,234			116,234	
Balance, December 31, 2009	1,372,298	<u>\$ 14,106,842</u>	\$ 463,841	<u>\$ 872,106</u>	\$ 15,442,789	

STATEMENT OF CASH FLOWS

For the Years Ended December 31, 2009 and 2008

		2009		2008
Cash flows from operating activities: Net income	\$	667,565	\$	574,349
Adjustments to reconcile net income to net cash	Ψ	001,000	Ψ	07 1,0 10
provided by operating activities:				
Provision for loan losses		595,500		265,500
Depreciation, amortization and accretion		17,936		44,072
Gain on sale of available-for-sale investment securities Increase in deferred loan fees and origination		(151,826)		(24,319)
costs, net		626		16,642
Share-based payments		116,234		125,800
Increase in accrued interest receivable and other assets		(1,219,983)		(538,038)
Increase in accrued interest payable and		,		,
other liabilities		124,147		395,340
Net cash provided by operating activities		150,193		859,346
Cash flows from investing activities:				
Net (increase) decrease in interest-bearing deposits in				
other banks		(993,000)		1,188,000
Purchases of available-for-sale investment securities		(31,616,211)		(25,298,347)
Proceeds from maturities and calls of available-for-sale				
investment securities		6,000,000		6,000,000
Proceeds from principle payments on available-for-sale investment securities		6,534,273		2,984,865
Proceeds from sales of available-for-sale investment securities		6,456,382		10,093,683
Net increase in loans		(9,967,399)		(15,329,482)
Purchase of premises and equipment		(6,730)		(14,363)
Net cash used in investing activities		(23,592,685)		(20,375,644)
Cash flows from financing activities:				
Demand, interest bearing and savings deposits, net		13,628,907		18,594,301
Time deposits, net		(2,095,089)		7,423,793
Net cash provided by financing activities		11,533,818		26,018,094
(Decrease) increase in cash and cash equivalents		(11,908,674)		6,501,796
		,		
Cash and cash equivalents at beginning of period		19,362,804		12,861,008
Cash and cash equivalents at end of year	\$	7,454,130	\$	19,362,804
Supplemental disclosure of cash flow information:				
Cash paid during the year for interest expense	\$	867,258	\$	964,081
Non-cash investing activities:				
Net change in unrealized gain on available-for-sale investment securities	\$	403,809	\$	254,146

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

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

<u>General</u>

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 one year 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 to maturity, reported at amortized cost, adjusted for the accretion of discounts and amortization of premiums.

NOTES TO FINANCIAL STATEMENTS

(Continued)

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, 2009 and 2008, 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.

Investment securities are evaluated for impairment on at least a quarterly basis and more frequently when economic or market conditions warrant such an evaluation to determine whether a decline in their 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 management 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 management will be required to sell the security before recovering its 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, 2009 and 2008.

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.

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans (Continued)

An impaired loan is measured based on the present value of expected future cash flows discounted at the loan's effective rate or, as a practical matter, at the loan's observable market price or the fair value of collateral if the loan is collateral dependent. 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 both principal and interest) in accordance with the contractual terms of the loan agreement. Generally, impaired loans include only nonaccrual loans.

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.

Allowance for Loan Losses

The allowance for loan losses 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 (net of recoveries) and loan growth. The allowance for loan losses at December 31, 2009 and 2008 reflects management's estimate of probable losses inherent in the portfolio.

The allowance is maintained to provide for losses related to impaired loans and other losses that are probable and that are estimated to have occurred at the balance sheet date. The determination of the allowance is based on estimates made by management, to include consideration of the character of the loan portfolio, specifically identified problem loans, potential losses inherent in the portfolio taken as a whole and economic conditions in the Bank's service area.

Loans determined to be impaired or classified are individually evaluated by management for specific risk of loss. In addition, reserve factors are assigned to currently performing loans based on management's assessment of the following for each identified loan type: (1) inherent credit risk, (2) historical losses, (3) where the Bank has not experienced losses, the loss experience of peer banks, and (4) qualitative factors such as economic conditions, delinquency trends, levels of concentrations and other factors.

The Bank maintains a separate allowance for losses related to undisbursed loan commitments. Management estimates the amount of probable losses by applying a loss factor to the available portion of undisbursed lines of credit. This allowance is included in accrued interest payable and other liabilities on the balance sheet.

These estimates are particularly susceptible to changes in the economic environment and market conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses, and may require the Bank to make additions to the allowance based on their judgment about information available to them at the time of their examinations.

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses (Continued)

The Bank's Directors' Loan Committee reviewed the adequacy of the allowance for loan losses at December 31, 2009 and 2008. In addition, the Directors' Loan Committee reviews the adequacy of the allowance for loan losses at least quarterly. The allowance is adjusted based on that review if, in the judgment of the Directors' Loan Committee and management, changes are warranted.

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.

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.

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 211,139 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, 2009 and 2008.

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.

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-Based Payments (Continued)

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.

Adoption of New Financial Accounting Standards

FASB Accounting Standards Codification™ (ASC or Codification)

In June 2009, the Financial Accounting Standards Board (FASB) issued new accounting standards ASC 105-10 (previously SFAS No. 168), *The FASB Accounting Standards Codification*TM and the Hierarchy of Generally Accepted Accounting Principles. With the issuance of ASC 105-10, the FASB Accounting Standards Codification ("the Codification" or "ASC") becomes the single source of authoritative U.S. accounting and reporting standards applicable for all nongovernmental entities. This change is effective for financial statements issued for interim or annual periods ended after September 15, 2009. Accordingly, all specific references to generally accepted accounting principles (GAAP) refer to the Codification and not to the pre-Codification literature.

FASB Clarifies Other-Than-Temporary Impairment

In April 2009, the FASB issued ASC No. 320-10-35 (previously FSP 115-2 and 124-2 and EITF 99-20-2), Recognition and Presentation of Other-Than-Temporary-Impairment. This standard (i) changes previously existing guidance for determining whether an impairment to debt securities is other than temporary and (ii) replaces the previously existing requirement that the entity's management assert it has both the intent and ability to hold an impaired security until recovery with a requirement that management assert: (a) it does not have the intent to sell the security; and (b) it is more likely than not it will not have to sell the security before recovery of its cost basis. Under this standard, declines in fair value below cost that are deemed to be other than temporary are reflected in earnings as realized losses to the extent the impairment is related to credit losses for both held-to-maturity and available-for-sale securities. The amount of impairment related to other factors is recognized in other comprehensive income. These changes were effective for interim and annual periods ended after June 15, 2009. The Bank adopted the provisions of this standard on April 1, 2009 and they did not have a material impact on its financial condition, results of operations or cash flows.

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of New Financial Accounting Standards (Continued)

FASB Clarifies Application of Fair Value Accounting

In April 2009, the FASB issued ASC 820-10 (previously FSP FAS 157-4), *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly.* This standard affirms the objective of fair value when a market is not active, clarifies and includes additional factors for determining whether there has been a significant decrease in market activity, eliminates the presumption that all transactions are distressed unless proven otherwise, and requires an entity to disclose a change in valuation technique. This standard was effective for interim and annual periods ended after June 15, 2009. The Bank adopted the provisions of this standard on April 1, 2009 and they did not have a material impact on the financial condition or results of operations.

Subsequent Events

In May 2009, the FASB issued ASC 855-10 (previously SFAS No. 165), *Subsequent Events*, which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The standard was effective on July 1, 2009 and requires the Bank to disclose the date through which subsequent events were evaluated. The adoption of this standard had no effect on the Bank's financial position or results of operations.

The Bank reviewed all events occurring from December 31, 2009 through March 16, 2010, the date the financial statements were available to be issued and no subsequent events occurred requiring accrual or disclosure.

2. AVAILABLE-FOR-SALE INVESTMENT SECURITIES

The amortized cost and estimated fair value of available-for-sale investment securities at December 31, 2009 and 2008 consisted of the following:

	2009					_		
				Gross		Gross		Estimated
		Amortized	ι	Jnrealized	ι	Jnrealized		Fair
	_	Cost		Gains		Losses	_	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
	Φ	40 000 400	ው	4 500 000	Φ	(422.200)	ው	E4 004 04C
	D	49,828,436	Þ	1,586,809	\$	<u>(133,299</u>)	\$	<u>51,281,946</u>

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

	2008						
	 ۸ مه م سائن ه م ما		Gross		Gross		Estimated
	Amortized Cost		Unrealized Gains	_	nrealized Losses		Fair Value
Debt securities:							
U.S. Government agencies Obligations of states and	\$ 6,000,121	\$	5,879			\$	6,006,000
political subdivisions U.S. Government agencies collateralized by mortgage	2,791,079			\$	(43,079)		2,748,000
obligations	11,858,357		234,643				12,093,000
Mortgage-backed securities	13,605,479		568,521				14,174,000
Other debt securities	 2,981,468		66,802		(52,270)		2,996,000
	\$ 37,236,504	\$	875,845	\$	(95,349)	\$	38,017,000

Net unrealized gains on available-for-sale investment securities totaling \$1,453,510 and \$780,496 are recorded, net of \$581,404 and \$312,199 in tax liabilities as accumulated other comprehensive income within shareholders' equity at December 31, 2009 and 2008, respectively.

Proceeds and gross realized gains on the sale of investment securities available for sale were \$6,456,382 and \$151,826, respectively, for the year ended December 31, 2009. Proceeds and gross realized gains on the sale of investment securities available for sale were \$10,093,683 and \$24,319, respectively, for the year ended December 31, 2008.

The Bank also had securities pledged with amortized costs totaling approximately \$12,500,000 and \$13,100,000 and estimated fair values totaling approximately \$13,100,000 and \$13,900,000 for certain borrowing arrangements with the Federal Home Loan Bank of San Francisco as of December 31, 2009 and 2008, respectively.

There were no investment securities considered to be other-than-temporarily impaired at December 31, 2009 and 2008. At December 31, 2009, the gross unrealized loss and estimated fair value of obligations of state and political subdivision and other debt securities that have been in a continuous loss position for less than twelve months totaled \$133,299. The unrealized losses on the Bank's investments in direct obligations of state and political subdivision and other debt securities 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, 2009.

NOTES TO FINANCIAL STATEMENTS

(Continued)

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

The amortized cost and estimated fair value of available-for-sale investment securities at December 31, 2009 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 After one year through five years After five years through ten years After ten years	\$ 1,992,009 6,707,911 2,252,678 6,933,744	2,278,853
		17,886,342	18,267,504
	Investment securities not due at a single maturity date: U.S. Government agencies collateralized		
	by mortgage obligations Mortgage-backed securities	12,205,045 19,737,049	
3.	LOANS	<u>\$49,828,436</u>	<u>\$51,281,946</u>
	Outstanding loans are summarized below:		
	_	Decemb	er 31,
	_	2009	2008
	Agriculture \$ Commercial Real estate – mortgage Real estate – construction Consumer and other	4,644,248 6,541,425 29,093,987 4,659,525 515,204 45,454,389	\$ 4,348,406 7,077,802 19,494,895 4,506,291 59,596 35,486,990
	Deferred loan fees, net Allowance for loan losses	(72,972) (1,135,459)	(72,346) (539,959)
	<u>\$</u>	44,245,958	\$ <u>34,874,685</u>

NOTES TO FINANCIAL STATEMENTS

(Continued)

3. LOANS (Continued)

Changes in the allowance for loan losses were as follows:

	December 31,				
		2009		2008	
Balance, beginning of year Provision charged to income	\$	539,959 595,500	\$	274,459 265,500	
Balance, end of year	<u>\$</u>	1,135,459	\$	539,959	

The recorded investment in loans that were considered to be impaired was \$799,286 and \$863,618 at December 31, 2009 and 2008, respectively. The related allowance for loan losses for these loans at December 31, 2009 and 2008 was \$93,102 and \$88,494, respectively. The average outstanding balance of impaired loans was \$831,452 and \$71,968 for the years ended December 31, 2009 and 2008, respectively.

Nonaccrual loans total \$799,286 and \$863,618 at December 31, 2009 and 2008, respectively. There were no loans past due 90 days or more and still accruing at December 31, 2009 and December 31, 2008.

Salaries and employee benefits totaling \$77,051 and \$42,477 have been deferred as loan origination costs for the years ended December 31, 2009 and 2008, respectively.

4. PREMISES AND EQUIPMENT

Premises and equipment consisted of the following:

	December 31,			
		2009		2008
Land Premises Furniture, fixtures and equipment	\$	774,631 1,550,724 218,501	\$	774,631 1,550,724 348,284
		2,543,856		2,673,639
Less accumulated depreciation		(231,953)		(266,818)
	<u>\$</u>	2,311,903	<u>\$</u>	2,406,821

Depreciation included in occupancy and equipment expense totaled \$101,685 and \$120,808 for the years ended December 31, 2009 and 2008, respectively.

NOTES TO FINANCIAL STATEMENTS

(Continued)

5. INTEREST-BEARING DEPOSITS

Interest-bearing deposits consisted of the following:

	_	December 31,				
	_	2009		2008		
Savings Money market Interest-bearing demand accounts Time, under \$100,000 Time, \$100,000 or more	\$	661,521 41,858,204 6,518,261 3,053,511 19,633,473	\$	425,892 36,201,311 5,674,929 1,884,504 22,897,533		
	<u>\$</u>	71,724,970	\$	67,084,169		

Aggregate annual maturities of time deposits are as follows:

Years Ending December 31,	
2010 2011	\$ 22,659,821 <u>27,163</u>
	\$ 22,686,984

Interest expense recognized on interest-bearing deposits for the years ended December 31, 2009 and 2008 consisted of the following:

		2009	 2008
Savings	\$	546	\$ 621
Money market		323,048	354,347
Interest-bearing demand accounts		6,855	9,890
Time, \$100,000 or more		472,855	548,140
Other time		43,081	 51,142
	<u>\$</u>	846,385	\$ 964,140

6. BORROWING ARRANGEMENTS

The Bank has an unsecured Federal funds line of credit with a correspondent bank under which it can borrow up to \$3,000,000. There were no borrowings outstanding under this arrangement at December 31, 2009 and 2008, respectively.

NOTES TO FINANCIAL STATEMENTS

(Continued)

6. BORROWING ARRANGEMENTS (Continued)

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, 2009, the fair value of investment securities pledged was approximately \$13,100,000 and the amount of borrowings available under this arrangement was approximately \$12,400,000. As of December 31, 2009 and 2008, the Bank did not have borrowings outstanding with the FHLB.

7. INCOME TAXES

Income taxes for the years ended December 31, 2009 and 2008 consisted of the following:

		2009	 2008
Current Deferred Reversal of valuation allowance	\$	437,313 (81,700)	\$ 327,800 (63,000) (264,000)
Income tax expense	<u>\$</u>	355,613	\$ 800

Deferred tax assets (liabilities) consisted of the following:

	 December 31,			
	 2009		2008	
Deferred tax assets: State net operating losses Organization costs Allowance for loan losses Share-based payments Other	\$ 60,900 103,700 492,800 93,900 900	\$	60,900 112,800 225,800 69,000 5,300	
Total deferred tax assets	 752,200		473,800	
Deferred tax liabilities: Accrual to cash conversion Future liability of state deferred tax asset Unrealized gain on available-for-sale investment securities Other	 (276,200) (53,900) (581,400) (13,400)	_	(133,300) (3,500) (312,200) (10,000)	
Total deferred tax liabilities	 (924,900)		(459,000)	
Net deferred tax asset (liability)	\$ (172,700)	\$	14,800	

NOTES TO FINANCIAL STATEMENTS

(Continued)

7. **INCOME TAXES** (Continued)

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,					
		2009	<u> </u>	2008		
		Amount	Rate %	Amount		Rate %
Federal income tax expense at						
statutory rates	\$	347,881	34.0	\$	195,552	34.0
State franchise tax expense, net of federal tax benefit		32,317	3.2		45,800	8.0
Tax exempt investment security		(=0 1 10)	(- -)			
income, net		(58,140)	(5.7)		(000, 404)	(45.0)
Change in valuation allowance Non-deductible stock option					(263,481)	(45.8)
expense		20,669	2.0		21,113	3.7
Other		12,886	1.3		1,816	0.2
Total income tax						
expense	\$	355,613	34.8	\$	800	0.1

Management of the Bank annually assesses the need for a valuation allowance on the Bank's net deferred tax asset. During 2008, management concluded that a valuation allowance was no longer necessary as the Bank has become profitable and that it is more likely than not the Bank's deferred tax assets will be realized.

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, 2009, the Bank had California net operating loss carryforwards (NOLs) of approximately \$560,000 available to offset future California income. The State of California has suspended the Bank's ability to utilize these NOLs in 2009; however, the suspension also provides the Bank with additional time to utilize them. These NOLs currently begin to expire in 2019.

NOTES TO FINANCIAL STATEMENTS

(Continued)

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:

	 Decemb	er 31,
	 2009	2008
Commitments to extend credit	\$ 8,882,244	\$ 7,004,731

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 23% 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 9% 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 18% of total commitments and are generally secured by property with a loan-to-value ratio not to exceed 80%. The majority of real estate commitments also have variable interest rates. Home equity lines of credit represent the remaining 50% 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, 2009.

NOTES TO FINANCIAL STATEMENTS

(Continued)

8. **COMMITMENTS AND CONTINGENCIES** (Continued)

Concentrations of Credit Risk (Continued)

In management's judgment, a concentration of loans exists in real estate related loans with approximately 64% 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 41% of the Bank's deposits at December 31, 2009. 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, 2009.

9. SHARE-BASED PAYMENTS

A summary of option activity under the Plan for the year ended December 31, 2009 is presented below:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at beginning of year	200,150			
Granted Forfeited	3,250 (2,850)			
Outstanding at December 31, 2009	200,550	<u>\$ 10.02</u>	6.58 years	\$ 296,814
Vested or expected to vest at December 31, 2009	198,544	\$ 10.00	6.58 years	<u>\$ 297,816</u>
Exercisable at December 31, 2009	118,170	<u>\$ 10.00</u>	6.45 years	<u>\$ 177,255</u>

NOTES TO FINANCIAL STATEMENTS

(Continued)

9. SHARE-BASED PAYMENTS (Continued)

As of December 31, 2009, the unrecognized compensation cost related to non-vested stock option awards totaled \$201,002. 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, 2009 and 2008:

	2009	2008
Weighted average grant date fair value per share of options granted	\$2.93	\$2.91
Significant fair value assumptions:	Ψ2.00	Ψ2.01
Expected term in years	6.5 years	6.5 years
Expected annual volatility	35.65%	18.92%
Expected annual dividend yield	N/A	N/A
Risk-free interest rate	2.70%	3.64%
Total compensation cost (included in salaries and employee benefits and other expense)	\$116,234	\$125,800

10. SHAREHOLDERS' EQUITY

<u>Dividends</u>

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, 2009, retained earnings of \$463,861 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 iudgments 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, 2009.

NOTES TO FINANCIAL STATEMENTS

(Continued)

10. SHAREHOLDERS' EQUITY (Continued)

Regulatory Capital (Continued)

During its first three 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.

	2009	<u> </u>	2008			
	Amount	Ratio	Amount	Ratio		
Leverage Ratio						
River Valley Community Bank	\$ 14,571,000	13.7%	\$ 13,787,000	16.7%		
Minimum requirement for "Well-Capitalized" institution Minimum regulatory requirement	\$ 5,306,850 \$ 4,245,480	5.0% 4.0%	+ , - ,	5.0% 4.0%		
Tier 1 Risk-Based Capital Ratio						
River Valley Community Bank	\$ 14,571,000	21.8%	\$ 13,787,000	26.9%		
Minimum requirement for "Well-Capitalized" institution Minimum regulatory requirement	\$ 4,019,520 \$ 2,679,680	6.0% 4.0%	\$ 3,079,260 \$ 2,052,840	6.0% 4.0%		
Total Risk-Based Capital Ratio						
River Valley Community Bank	\$ 15,412,000	23.0%	\$ 14,347,000	28.0%		
Minimum requirement for "Well-Capitalized" institution Minimum regulatory requirement	\$ 6,699,200 \$ 5,359,360	10.0% 8.0%	\$ 5,132,100 \$ 4,105,760	10.0% 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, 2009:

Beginning balance	\$	5,298,743
Disbursements Amounts repaid		3,406,815 (3,313,263)
Balance, December 31, 2009	<u>\$</u>	5,392,295
Undisbursed commitments to related parties, December 31, 2009	<u>\$</u>	<u>425,957</u>

NOTES TO FINANCIAL STATEMENTS

(Continued)

11. **RELATED PARTY TRANSACTIONS** (Continued)

At December 31, 2009 the Bank's deposits from related parties totaled \$33,230,045 or 36% 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 \$27,588 was made for the year ended December 31, 2009. The Bank did not make any contributions to the Plan for the year ended December 31, 2008.

13. OTHER NON-INTEREST EXPENSES

Other expenses for the years ended December 31, 2009 and 2008 consisted of the following:

		2009		2008
Data processing and software amortization Professional fees, auditing and legal Directors share-based compensation AMT/EFT and internet banking Stationery and supplies Assessments and FDIC insurance Insurance Advertising and marketing Dues/Memberships Postage and courier Other	\$	220,749 132,946 62,195 90,740 39,272 167,935 25,427 29,922 21,153 19,310 60,046	\$	218,981 93,089 63,703 87,950 43,916 69,637 25,568 19,722 19,752 15,954 41,697
	<u>\$</u>	869,695	<u>\$</u>	699,969

NOTES TO FINANCIAL STATEMENTS

(Continued)

14. FAIR VALUE MEASUREMENTS

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

	December 31, 2009					December 31, 2008			
		Estimated						Estimated	
		Carrying		Fair		Carrying		Fair	
	_	Amount	_	Value	Amount			<u>Value</u>	
Financial assets:									
Cash and due from banks	\$	7,454,130	\$	7,454,130	\$	3,702,804	\$	3,702,804	
Federal funds sold				. ,		15,660,000		15,660,000	
Interest bearing deposits in									
banks		1,983,000		1,983,000		990,000		990,000	
Available-for-sale investment									
securities		51,281,946		51,281,946		38,017,000		38,017,000	
Loans, net		44,245,958		44,074,359		34,874,685		35,389,064	
Accrued interest receivable		588,102		588,102		372,726		372,726	
Financial liabilities:									
	\$	93,370,250	\$	93,371,980	\$	81,836,395	\$	82,101,455	
Deposits Accrued interest payable	Φ	42.046	Φ	42.046	Φ	62.916	Φ	62,916	
Accided interest payable		42,040		42,040		02,910		02,910	

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.

NOTES TO FINANCIAL STATEMENTS

(Continued)

14. FAIR VALUE MEASUREMENTS (Continued)

Fair Value Hierarchy (Continued)

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.

Recurring Basis

The following tables present information about the Bank's assets and liabilities measured at fair value on a recurring basis:

		Fair Value Measurements at December 31, 2009				
		Quoted Prices in Active Markets for	Other	Significant		
Description	Fair Value December 31, 2009	Identical Assets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)		
Available-for-sale securities	<u>\$ 51,281,946</u>	\$ 3,771,565	<u>\$ 47,510,381</u>	<u>\$ - </u>		
		Fair Value Measurements at December 31, 2008				
		Quoted Prices in Active				
	Fair Value December 31,	Markets for Identical Assets	Other Observable Inputs	Significant Unobservable Inputs		
<u>Description</u>	2008	(Level 1)	(Level 2)	(Level 3)		
Available-for-sale securities	<u>\$ 38,017,000</u>	\$ -	\$ 38,017,000	<u>\$ - </u>		

Fair values for available-for-sale investment securities, which include debt securities of U.S. Governmental agencies and obligations of states and political subdivisions, are based on quoted market prices for the same or similar securities.

NOTES TO FINANCIAL STATEMENTS

(Continued)

14. FAIR VALUE MEASUREMENTS (Continued)

Fair Value Hierarchy (Continued)

Non-recurring Basis

Assets measured at fair value on a non recurring basis and the total losses from these fair value adjustments are summarized below:

		Fair ' at [
		Quoted Prices in Active	,		
	□=:×\/=!	Markets for	Other	Significant	
	Fair Value December 31,	Identical Assets	Observable Inputs	Unobservable Inputs	Total
Description	2009	(Level 1)	(Level 2)	(Level 3)	Losses
Impaired loans	\$ 706,184	<u>\$ -</u>	<u>\$ - </u>	\$ 706,184	<u>\$ 4,608</u>
		Fair '	Value Measurer	nents	
			December 31, 2	800	
		Quoted Prices in Active			
		Markets for	Other	Significant	
	Fair Value	Identical	Observable	Unobservable	T-4-1
Description	December 31, 2008	Assets (Level 1)	Inputs (Level 2)	Inputs (Level 3)	Total Losses
Description	2000	(Level I)	(LEVELZ)	(Level 3)	LUSSES
Impaired loans	\$ 775,506	\$ -	\$ 6,256	\$ 769,250	\$ 88,494

The losses on impaired loans disclosed above represents the amount of specific reserve recorded during the year and is included in the provision for loan losses.

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. 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.