

BANK OF RIO VISTA
Rio Vista, California

FINANCIAL STATEMENTS
December 31, 2016 and 2015

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INDEPENDENT AUDITOR'S REPORT

The Shareholders and
Board of Directors
Bank of Rio Vista
Rio Vista, California

Report on the Financial Statements

We have audited the accompanying financial statements of Bank of Rio Vista, which comprise the balance sheets as of December 31, 2016 and 2015 and the related statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bank of Rio Vista as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
April 19, 2017

BANK OF RIO VISTA
BALANCE SHEETS
December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and due from banks	\$ 4,357,494	\$ 5,716,483
Federal funds sold	<u>-</u>	<u>11,658,000</u>
Total cash and cash equivalents	4,357,494	17,374,483
Available-for-sale investment securities	121,453,211	114,890,651
Loans, less allowance for loan losses of \$1,449,066 and \$1,289,077 at December 31, 2016 and 2015, respectively	75,144,492	65,942,235
Premises and equipment, net	1,453,046	1,562,402
Cash surrender value of life insurance	5,708,886	5,513,193
Other real estate owned	1,019,672	1,279,672
Accrued interest receivable and other assets	<u>5,657,479</u>	<u>4,893,513</u>
Total assets	<u>\$ 214,794,280</u>	<u>\$ 211,456,149</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	\$ 53,988,354	\$ 52,600,377
Interest bearing	<u>134,162,475</u>	<u>131,701,412</u>
Total deposits	188,150,829	184,301,789
Accrued interest payable and other liabilities	<u>696,223</u>	<u>1,273,921</u>
Total liabilities	<u>188,847,052</u>	<u>185,575,710</u>
Shareholders' equity:		
Common stock, \$100 par value; 5,000 shares authorized; 4,000 and 4,000 shares issued and outstanding at December 31, 2016 and 2015, respectively	400,000	400,000
Additional paid-in-capital	1,600,000	1,600,000
Retained earnings	24,859,515	23,697,426
Accumulated other comprehensive (loss) income	<u>(912,287)</u>	<u>183,013</u>
Total shareholders' equity	<u>25,947,228</u>	<u>25,880,439</u>
Total liabilities and shareholders' equity	<u>\$ 214,794,280</u>	<u>\$ 211,456,149</u>

See accompanying notes to financial statements.

BANK OF RIO VISTA
STATEMENTS OF INCOME
For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Interest income:		
Interest and fees on loans	\$ 3,769,380	\$ 3,097,637
Interest on Federal funds sold	21,496	14,451
Interest on Money Market Account	19,013	-
Interest on investment securities:		
Taxable	2,375,632	2,097,320
Exempt from Federal income taxes	<u>338,844</u>	<u>376,191</u>
Total interest income	<u>6,524,365</u>	<u>5,585,599</u>
Interest expense:		
Interest on deposits	301,328	285,061
Interest on borrowings	<u>30</u>	<u>4,098</u>
Total interest expense	<u>301,358</u>	<u>289,159</u>
Net interest income	6,223,007	5,296,440
Reversal of provision for loan losses	<u>(566,486)</u>	<u>(77,257)</u>
Net interest income after reversal of provision for loan losses	<u>6,789,493</u>	<u>5,373,697</u>
Non-interest income:		
Service charges	371,235	452,338
Other fee income	606,589	532,650
Gain on sale of investment securities	-	67,369
Gain on sale of other real estate owned	<u>-</u>	<u>1,166,542</u>
Total non-interest income	<u>977,824</u>	<u>2,218,899</u>
Non-interest expenses:		
Salaries and employee benefits	2,999,725	2,820,290
Occupancy and equipment	446,834	425,700
Other expenses	<u>2,352,295</u>	<u>2,201,529</u>
Total non-interest expenses	<u>5,798,854</u>	<u>5,447,519</u>
Income before provision for income taxes	1,968,463	2,145,077
Provision for income taxes	<u>566,374</u>	<u>673,824</u>
Net income	<u>\$ 1,402,089</u>	<u>\$ 1,471,253</u>

See accompanying notes to financial statements.

BANK OF RIO VISTA
STATEMENTS OF COMPREHENSIVE INCOME
Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Net income	\$ 1,402,089	\$ 1,471,253
Other comprehensive loss:		
Unrealized loss on securities:		
Unrealized holding losses arising during the period	(1,861,169)	(352,456)
Reclassification adjustment for gains included in net income	-	(67,369)
Tax effect	<u>765,869</u>	<u>172,758</u>
Total other comprehensive loss	<u>(1,095,300)</u>	<u>(247,067)</u>
Comprehensive income	<u>\$ 306,789</u>	<u>\$ 1,224,186</u>

See accompanying notes to financial statements.

BANK OF RIO VISTA
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Years Ended December 31, 2016 and 2015

	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Compre- hensive Income (Loss)</u>	<u>Total</u>
Balance, January 1, 2015	\$ 400,000	\$ 1,600,000	\$ 22,294,173	\$ 430,080	\$ 24,724,253
Dividends			(68,000)		(68,000)
Net income			1,471,253		1,471,253
Other comprehensive loss			-	(247,067)	(247,067)
Balance, December 31, 2015	\$ 400,000	\$ 1,600,000	\$ 23,697,426	\$ 183,013	\$ 25,880,439
Dividends			(240,000)		(240,000)
Net income			1,402,089		1,402,089
Other comprehensive loss				(1,095,300)	(1,095,300)
Balance, December 31, 2016	<u>\$ 400,000</u>	<u>\$ 1,600,000</u>	<u>\$ 24,859,515</u>	<u>\$ (912,287)</u>	<u>\$ 25,947,228</u>

See accompanying notes to financial statements.

BANK OF RIO VISTA
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Net income	\$ 1,402,089	\$ 1,471,253
Adjustments to reconcile net income to net cash provided by operating activities:		
Reversal of provision for loan losses	(566,486)	(77,257)
Depreciation, amortization and accretion, net	1,086,726	1,118,315
Provision for deferred income taxes	303,480	440,863
Write down of other real estate owned	260,000	-
Net realized gains on sale of investment securities	-	(67,369)
Gains on sale of other real estate owned	-	(1,166,542)
Deferred loan origination fees, net	100,110	9,181
Increase in cash surrender value of life insurance	(195,693)	(192,897)
(Increase) decrease in accrued interest receivable and other assets, net	(198,777)	390,945
(Decrease) increase in accrued interest payable and other liabilities, net	<u>(577,698)</u>	<u>251,742</u>
Net cash provided by operating activities	<u>1,613,751</u>	<u>2,178,234</u>
Cash flows from investing activities:		
Proceeds from maturities and calls of available-for-sale investment securities	855,000	-
Proceeds from pay-downs and sale of available-for-sale investment securities	18,483,843	34,914,074
Purchases of available-for-sale investment securities	(28,679,221)	(42,647,054)
Proceeds on sale of other real estate owned	-	2,352,680
Purchases of FHLB Stock	(102,800)	-
Loan originations and payments, net	(8,735,881)	(4,981,126)
Purchases of premises and equipment	<u>(60,721)</u>	<u>(284,144)</u>
Net cash used in investing activities	<u>(18,239,780)</u>	<u>(10,655,570)</u>
Cash flows from financing activities:		
Net change in deposits	3,849,040	15,203,262
Dividends paid	<u>(240,000)</u>	<u>(68,000)</u>
Net cash provided by financing activities	<u>3,609,040</u>	<u>15,135,262</u>
(Decrease) increase in cash and cash equivalents	(13,016,989)	6,657,926
Cash and cash equivalents at beginning of year	<u>17,374,483</u>	<u>10,716,557</u>
Cash and cash equivalents at end of year	<u>\$ 4,357,494</u>	<u>\$ 17,374,483</u>
Supplemental disclosure of cash flow information:		
Interest paid	\$ 222,384	\$ 289,063
Income taxes paid	455,000	-
Supplemental noncash disclosures:		
Other real estate owned acquired through foreclosure	\$ -	\$ 1,186,138

See accompanying notes to financial statements.

BANK OF RIO VISTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: Bank of Rio Vista (the "Bank") is a California state-chartered bank and has conducted the business of a commercial bank since 1904. The Bank is subject to regulation, supervision and regular examination by the California Department of Business Oversight and the Federal Deposit Insurance Corporation (the "FDIC"). The regulations of these agencies govern most aspects of the Bank's business. The Bank provides commercial, agricultural and other banking services to individuals and businesses through its offices in Rio Vista, Walnut Grove and Lodi.

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

Subsequent Events: In preparing these financial statements, management has evaluated subsequent events through April 19, 2017, the date the financial statements were available to be issued.

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

Cash Flows: Cash and cash equivalents include cash, deposits with other financial institutions with maturities fewer than 90 days, and federal funds sold. Generally, federal funds are sold for a one day period. Net cash flows are reported for customer loan and deposit transactions, interest bearing deposits in other financial institutions, and federal funds purchased and repurchase agreements.

Restrictions on Cash and Due from Banks: Cash and due from banks include amounts the Bank is required to maintain for certain average reserve and compensating balance requirements of the Federal Reserve. The total requirement at December 31, 2016 and 2015 was \$796,000 and \$673,000.

Investment Securities: Investment securities are classified into the following categories:

- Available-for-sale investment 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 investment 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.

Management determines the appropriate classification of its investment securities 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.

The Bank invests in registered warrants issued by local water and reclamation districts. These warrants are debt instruments that can be resold but no formal secondary market exists for them. Management has classified these debt instruments as available-for-sale.

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

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at principal balances outstanding, adjusted for unamortized discounts and premiums and net of deferred loan origination fees and costs, write-downs and the allowance for loan losses. Interest is accrued daily based upon outstanding loan balances. For all loan classes, 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. A loan is moved to non-accrual status in accordance with the Bank’s policy, typically after 90 days of non-payment. 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. Past due status is based on the contractual terms of the loans.

Substantially all 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. The unamortized balance of deferred fees and costs is reported as a component of net loans.

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses. The allowance is established through a provision for loan losses which is charged to expense. Additions or reversals to the allowance are expected to maintain the adequacy of the total allowance after credit losses and loan growth. Credit exposures determined to be uncollectible are charged against the allowance. Cash received on previously charged off amounts is recorded as a recovery to the allowance. The overall allowance consists of two primary components, specific reserves related to impaired loans and general reserves for inherent losses related to loans that are collectively evaluated for impairment.

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

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 determined to be 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 in the portfolio taken as a whole.

The Bank maintains a separate allowance for each portfolio segment (loan type). These portfolio segments include commercial real estate, residential real estate, commercial, agricultural and consumer leases and other 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 sheets and available for all loss exposure.

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 the Bank's 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.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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.

Real estate – commercial – Commercial real estate mortgage loans generally possess a higher inherent risk of loss than other real estate portfolio segments, except land and construction loans. 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 – residential – The degree of risk in residential real estate lending depends primarily on the loan amount in relation to collateral value, the interest rate and the borrower's ability to repay in an orderly fashion. These loans generally possess a lower inherent risk of loss than other real estate portfolio segments. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate that the borrowers' capacity to repay their obligations may be deteriorating.

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.

Agricultural – Loans secured by crop production, livestock and related real estate are vulnerable to two risk factors that are largely outside the control of the Bank and borrowers: commodity prices and weather conditions.

Consumer Leases and Other – Consumer leases and other loans generally consist of a large number of small loans scheduled to be amortized over a specific period of time. Most installment loans are made directly for consumer purchases such as automobiles. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate that the borrowers' capacity to repay their obligations may be deteriorating.

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.

Allowance for Credit Losses on Off-Balance-Sheet Credit Exposures: The Bank maintains a separate allowance for losses related to off-balance-sheet exposures. Management estimates the amount of probable losses by applying a loss factor to the available portion of undisbursed lines of credit. This allowance of \$48,000 is included in accrued interest payable and other liabilities on the balance sheets at December 31, 2016 and 2015.

(Continued)

BANK OF RIO VISTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Premises and Equipment: Premises and equipment are carried at cost less accumulated depreciation. Depreciation is determined using the straight-line method over the estimated useful lives of the related assets. The useful lives of buildings and improvements are estimated to be thirty-nine years. The useful lives of furniture, fixtures and equipment are estimated to be three to fifteen years. Leasehold improvements are amortized over the life of the asset or the term of the related lease, whichever is shorter.

When assets are sold or otherwise disposed of, the cost and related accumulated depreciation and 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. Management 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.

Certain operating leases contain scheduled and specified rent increases. The scheduled rent increases are recognized on a straight-line basis over the lease term as an increase in the amount of rental expense recognized each period. Amounts accrued in excess of amounts paid related to the scheduled rent increases are included in accrued interest payable and other liabilities on the balance sheets.

Cash Surrender Value of Life Insurance: The Bank has purchased life insurance policies on certain key executives. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Other Real Estate Owned: Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed.

Federal Home Loan Bank (FHLB) and Other Stock: The Bank is a member of the FHLB and other correspondent bank systems. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. The stocks are carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income. FHLB and other stock are included in accrued interest receivable and other assets.

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

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

A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized in the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded.

The Bank recognizes interest and/or penalties related to income tax matters in income tax expense.

(Continued)

BANK OF RIO VISTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

NOTE 2 – AVAILABLE-FOR-SALE INVESTMENT SECURITIES

The amortized cost and estimated fair value of available-for-sale investment securities at December 31, 2016 and 2015 consisted of the following:

	2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Residential mortgage-backed securities	\$ 99,373,393	\$ 212,513	\$ (1,162,104)	\$ 98,423,802
Municipal securities	22,248,405	53,595	(654,191)	21,647,809
Registered warrants	1,381,600	-	-	1,381,600
	\$ 123,003,398	\$ 266,108	\$ (1,816,295)	\$ 121,453,211

(Continued)

BANK OF RIO VISTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 2 – AVAILABLE-FOR-SALE INVESTMENT SECURITIES (Continued)

	2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Residential mortgage-backed securities	\$ 97,410,302	\$ 556,768	\$ (344,064)	\$ 97,623,006
Municipal securities	16,102,119	165,480	(67,202)	16,200,397
Registered warrants	<u>1,067,248</u>	<u>-</u>	<u>-</u>	<u>1,067,248</u>
	<u>\$ 114,579,669</u>	<u>\$ 722,248</u>	<u>\$ (411,266)</u>	<u>\$ 114,890,651</u>

Net unrealized losses on available-for-sale investment securities totaling \$1,550,187 were recorded, net of \$637,902 in tax liabilities, as accumulated other comprehensive income within shareholders' equity at December 31, 2016. No available-for-sale securities were sold during the year ended December 31, 2016.

Net unrealized gains on available-for-sale investment securities totaling \$310,982 were recorded, net of \$127,969 in tax liabilities, as accumulated other comprehensive income within shareholders' equity at December 31, 2015. Total proceeds from the sale of available-for-sale investment securities were \$17,532,240 for the year ended December 31, 2015. Included in total proceeds were gross gains of \$132,100 and gross losses of \$64,731 for the year ended December 31, 2015.

Available-for-sale investment securities with unrealized losses at December 31, 2016 and 2015 are summarized and classified according to the duration of the loss period as follows:

	2016					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Residential mortgage-backed securities	\$ 79,673,693	\$ (1,135,967)	\$ 1,233,720	\$ (26,137)	\$ 80,907,413	\$ (1,162,104)
Municipal securities	<u>16,664,693</u>	<u>(654,191)</u>	<u>-</u>	<u>-</u>	<u>16,664,693</u>	<u>(654,191)</u>
	<u>\$ 96,338,386</u>	<u>\$ (1,790,158)</u>	<u>\$ 1,233,720</u>	<u>\$ (26,137)</u>	<u>\$ 97,572,106</u>	<u>\$ (1,816,295)</u>

	2015					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Residential mortgage-backed securities	\$ 4,787,932	\$ (283,773)	\$ 4,930,381	\$ (60,291)	\$ 52,809,313	\$ (344,064)
Municipal securities	<u>1,864,703</u>	<u>(19,385)</u>	<u>3,708,737</u>	<u>(47,817)</u>	<u>5,573,440</u>	<u>(67,202)</u>
	<u>\$ 6,652,635</u>	<u>\$ (303,158)</u>	<u>\$ 8,639,118</u>	<u>\$ (108,108)</u>	<u>\$ 58,382,753</u>	<u>\$ (411,266)</u>

(Continued)

BANK OF RIO VISTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 2 – AVAILABLE-FOR-SALE INVESTMENT SECURITIES (Continued)

At December 31, 2016, the Bank held residential mortgage-backed securities with amortized costs of \$99,373,393 of which \$82,069,517 were in a loss position. The unrealized losses on these investments were caused by interest rate fluctuations. The contractual cash flows of these investments are guaranteed by an agency sponsored by the U.S. Government. Because management has the ability and intent to hold these investments to maturity or call, management expects to collect all amounts due and, therefore, does not consider these securities to be other-than-temporarily impaired at December 31, 2016.

At December 31, 2016, the Bank held municipal securities with an amortized cost of \$22,248,405 of which \$17,318,884 were in a loss position. Management believes that the unrealized losses on the Bank's investment in municipal securities were caused by interest rate fluctuations and were not attributable to changes in credit quality. Additionally, because the contractual cash flows of these investments are considered a general obligation of, or supported by specific revenues of, a state or local municipality and management has the ability and intent to hold these investments to maturity or call, management expects to collect all amounts due and, therefore, does not consider these securities to be other-than-temporarily impaired at December 31, 2016.

The amortized cost and estimated fair value of available-for-sale investment securities at December 31, 2016 by contractual maturity are shown below. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separately.

	<u>Amortized Cost</u>	<u>Fair Value</u>
Within one year	\$ 327,758	\$ 334,473
One to five years	524,416	527,186
Five to ten years	9,529,628	9,314,705
Beyond ten years	<u>11,866,603</u>	<u>11,471,445</u>
	22,248,405	21,647,809
Residential mortgage-backed securities	99,373,393	98,423,802
Registered warrants	<u>1,381,600</u>	<u>1,381,600</u>
	<u>\$ 123,003,398</u>	<u>\$ 121,453,211</u>

Securities with amortized costs totaling \$36,885,027 and \$25,977,896 and fair values totaling \$36,666,969 and \$26,158,798 were pledged to secure certain public deposits at December 31, 2016 and 2015, respectively.

No securities were pledged to secure a Federal Discount Window line of credit at December 31, 2016 and 2015. There were no amounts outstanding under this arrangement at December 31, 2016 and 2015.

Securities with amortized costs totaling \$5,842,319 and fair values totaling \$5,779,856 were pledged to secure a Federal Home Loan Bank line of credit at December 31, 2016. Securities with amortized costs totaling \$4,536,943 and fair values totaling \$4,556,360 were pledged to secure a Federal Home Loan Bank line of credit at December 31, 2015. There were no amounts outstanding under this arrangement at December 31, 2016 or 2015.

(Continued)

BANK OF RIO VISTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 3 – LOANS

Outstanding loans at December 31, 2016 and 2015 are summarized as follows:

	<u>2016</u>	<u>2015</u>
Real estate – commercial	\$ 47,292,030	\$ 43,850,460
Real estate – residential	381,551	1,346,332
Commercial	8,410,079	6,702,003
Agricultural	17,048,603	15,111,920
Consumer leases and other	<u>3,461,295</u>	<u>220,597</u>
	76,593,558	67,231,312
Allowance for loan losses	<u>(1,449,066)</u>	<u>(1,289,077)</u>
	<u>\$ 75,144,492</u>	<u>\$ 65,942,235</u>

(Continued)

BANK OF RIO VISTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 3 – LOANS (Continued)

The following table shows the allocation and activity of the allowance for loan losses at and for the year ended December 31, 2016 by portfolio segment and by impairment methodology:

	December 31, 2016					Total
	Real Estate- Commercial	Real Estate - Residential	Commercial	Agricultural	Consumer Leases and Other	
<u>Allowance for Loan Losses</u>						
Beginning balance	\$ 796,412	\$ 19,705	\$ 121,154	\$ 346,509	\$ 5,297	\$ 1,289,077
(Reversal of) provision for loan losses	(147,166)	(555,545)	(110,540)	121,244	125,521	(566,486)
Loans charged-off	(246,717)	-	-	-	(2,734)	(249,451)
Recoveries	246,717	549,120	172,355	-	7,734	975,926
Ending balance allocated to portfolio segments	<u>\$ 649,246</u>	<u>\$ 13,280</u>	<u>\$ 182,969</u>	<u>\$ 467,753</u>	<u>\$ 135,818</u>	<u>\$ 1,449,066</u>
Ending balance: individually evaluated for impairment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Ending balance: collectively evaluated for impairment	<u>\$ 649,246</u>	<u>\$ 13,280</u>	<u>\$ 182,969</u>	<u>\$ 467,753</u>	<u>\$ 135,818</u>	<u>\$ 1,449,066</u>
<u>Loans</u>						
Ending balance	<u>\$ 47,292,030</u>	<u>\$ 381,551</u>	<u>\$ 8,410,079</u>	<u>\$ 17,048,603</u>	<u>\$ 3,461,295</u>	<u>\$ 76,593,558</u>
Ending balance: individually evaluated for impairment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Ending balance: collectively evaluated for impairment	<u>\$ 47,203,030</u>	<u>\$ 381,551</u>	<u>\$ 8,410,079</u>	<u>\$ 17,048,603</u>	<u>\$ 3,461,295</u>	<u>\$ 76,593,558</u>

(Continued)

BANK OF RIO VISTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 3 – LOANS (Continued)

The following table shows the allocation and activity of the allowance for loan losses at and for the year ended December 31, 2015 by portfolio segment and by impairment methodology:

	December 31, 2015					Total
	Real Estate- Commercial	Real Estate - Residential	Commercial	Agricultural	Consumer Leases and Other	
<u>Allowance for Loan Losses</u>						
Beginning balance	\$ 982,323	\$ 40,368	\$ 128,713	\$ 302,380	\$ 6,604	\$ 1,460,388
(Reversal of) provision for loan losses	(304,169)	(20,663)	204,753	44,129	(1,307)	(77,257)
Loans charged-off	-	-	(252,602)	-	-	(252,602)
Recoveries	118,258	-	40,290	-	-	158,548
Ending balance allocated to portfolio segments	<u>\$ 796,412</u>	<u>\$ 19,705</u>	<u>\$ 121,154</u>	<u>\$ 346,509</u>	<u>\$ 5,297</u>	<u>\$ 1,289,077</u>
Ending balance: individually evaluated for impairment	<u>\$ 255,982</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 255,982</u>
Ending balance: collectively evaluated for impairment	<u>\$ 540,430</u>	<u>\$ 19,705</u>	<u>\$ 121,154</u>	<u>\$ 346,509</u>	<u>\$ 5,297</u>	<u>\$ 1,033,095</u>
<u>Loans</u>						
Ending balance	<u>\$ 43,850,460</u>	<u>\$ 1,346,332</u>	<u>\$ 6,702,003</u>	<u>\$ 15,111,920</u>	<u>\$ 220,597</u>	<u>\$ 67,231,312</u>
Ending balance: individually evaluated for impairment	<u>\$ 255,982</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 255,982</u>
Ending balance: collectively evaluated for impairment	<u>\$ 43,594,478</u>	<u>\$ 1,346,332</u>	<u>\$ 6,702,003</u>	<u>\$ 15,111,920</u>	<u>\$ 220,597</u>	<u>\$ 66,975,330</u>

(Continued)

BANK OF RIO VISTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 3 – LOANS (Continued)

The following tables show the loan portfolio allocated by management's internal risk ratings at December 31, 2016 and 2015:

December 31, 2016						
Credit Risk Profile by Internally Assigned Grade						
	Real Estate – Commercial	Real Estate – Residential	Commercial	Agricultural	Consumer Leases and Other	Total
Grade:						
Pass	46,405,581	329,893	8,410,079	16,998,603	3,461,295	75,605,451
Special Mention	318,037	-	-	50,000	-	368,037
Substandard	568,412	51,658	-	-	-	620,070
Total	\$ 47,292,030	\$ 381,551	\$ 8,410,079	\$ 17,048,603	\$ 3,461,295	\$ 76,593,558
December 31, 2015						
Credit Risk Profile by Internally Assigned Grade						
	Real Estate – Commercial	Real Estate – Residential	Commercial	Agricultural	Consumer Leases and Other	Total
Grade:						
Pass	\$ 42,756,937	\$ 1,346,332	\$ 6,702,003	\$ 14,066,613	\$ 220,597	\$ 65,092,482
Special Mention	837,541	-	-	1,045,307	-	1,882,848
Substandard	255,982	-	-	-	-	255,982
Total	\$ 43,850,460	\$ 1,346,332	\$ 6,702,003	\$ 15,111,920	\$ 220,597	\$ 67,231,312

There was one real estate residential loan with the balance of \$51,658 past due over 90 days at December 31, 2016. There were no other loans past due at December 31, 2016. There were no loans past due at December 31, 2015.

The following table presents the recorded investment in nonaccrual by class of loans as of December 31, 2016.

	<u>2016</u>
Real estate – residential	\$ 51,658
	\$ 51,658

Foregone interest on nonaccrual loans was \$1,478 and \$98,498 for the years ended December 31, 2016 and 2015, respectively. There were no loans accruing interest that were over 90 days past due as of December 31, 2016. There were no nonaccrual loans as of December 31, 2015.

(Continued)

BANK OF RIO VISTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 3 – LOANS (Continued)

The following tables show information related to impaired loans at and for the years ended December 31, 2016 and 2015:

	December 31, 2016				
	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
With a related allowance recorded:					
Real estate – commercial	\$ -	\$ -	\$ -	\$ 63,996	\$ -

	December 31, 2015				
	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
With a related allowance recorded:					
Real estate – commercial	\$ 255,982	\$ 255,982	\$ 255,982	\$ 275,127	\$ 11,005

The Bank does not have any impaired loans in which interest income is recognized on a cash basis.

As of December 31, 2016, the Bank had no recorded investment in troubled debt restructurings. Troubled debt restructured loans totaled \$255,982 at December 31, 2015. The Bank has allocated \$255,982 of specific reserves to loans whose terms have been modified in troubled debt restructurings as of December 31, 2015. The Bank has not committed to lend additional amounts to customers with outstanding loans that are classified as troubled debt restructurings as of December 31, 2015.

There were no loans modified as troubled debt restructurings during the year ended December 31, 2016.

The following tables presents loans by class modified as troubled debt restructurings during the year ended December 31, 2015:

	<u>Number of Loans</u>	<u>Pre-Modification Outstanding Recorded Investment</u>	<u>Post-Modification Outstanding Recorded Investment</u>
<u>2015</u>			
Real estate-commercial	<u>1</u>	<u>\$ 255,982</u>	<u>\$ 255,982</u>

(Continued)

BANK OF RIO VISTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 3 – LOANS (Continued)

The restructuring of this loan included the extension of the maturity date up to one year and did not increase the allowance for loan losses or result in any charge-offs.

A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms. During the year ended December 31, 2015, there were no troubled debt restructurings for which there was a payment default within twelve months following the modification.

NOTE 4 – PREMISES AND EQUIPMENT

Premises and equipment at December 31, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Land	\$ 81,009	\$ 81,009
Buildings and improvements	2,171,277	2,171,277
Furniture, fixtures and equipment	<u>2,553,812</u>	<u>2,538,531</u>
	4,806,098	4,790,817
Less accumulated depreciation and amortization	<u>3,353,052</u>	<u>3,228,415</u>
	<u>\$ 1,453,046</u>	<u>\$ 1,562,402</u>

Depreciation and amortization included in occupancy and equipment expense totaled \$170,077 and \$143,339 for the years ended December 31, 2016 and 2015, respectively.

NOTE 5 – INTEREST-BEARING DEPOSITS

Time deposits that meet or exceed the FDIC Insurance limit of \$250,000 at year-end 2016 and 2015 were \$1,615,070 and \$1,700,314.

Interest-bearing deposits at December 31, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Savings	\$ 37,377,851	\$ 34,842,631
NOW accounts	66,809,832	63,983,836
Time	<u>29,974,792</u>	<u>32,874,945</u>
	<u>\$ 134,162,475</u>	<u>\$ 131,701,412</u>

(Continued)

BANK OF RIO VISTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 5 – INTEREST-BEARING DEPOSITS (Continued)

Aggregate annual maturities of time deposits are as follows:

<u>Year Ending December 31,</u>	
2017	\$ 24,688,997
2018	5,088,692
2019	<u>197,103</u>
	<u>\$ 29,974,792</u>

NOTE 6 – BORROWING ARRANGEMENTS

The Bank has federal funds line of credit agreements with other banks. The maximum borrowings available under these lines amounted to \$9,000,000 at December 31, 2016 and 2015. No borrowings were outstanding under these agreements at December 31, 2016 and 2015.

NOTE 7 – INCOME TAXES

The provision for income taxes for the years ended December 31, 2016 and 2015 consisted of the following:

	<u>Federal</u>	<u>State</u>	<u>Total</u>
<u>2016</u>			
Current	\$ 254,944	\$ 7,950	\$ 262,894
Deferred	<u>117,537</u>	<u>185,943</u>	<u>303,480</u>
Provision for income taxes	<u>\$ 372,481</u>	<u>\$ 193,893</u>	<u>\$ 566,374</u>
	<u>Federal</u>	<u>State</u>	<u>Total</u>
<u>2015</u>			
Current	\$ 225,549	\$ 7,412	\$ 232,961
Deferred	<u>233,975</u>	<u>206,888</u>	<u>440,863</u>
Provision for income taxes	<u>\$ 459,524</u>	<u>\$ 214,300</u>	<u>\$ 673,824</u>

(Continued)

BANK OF RIO VISTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 7 – INCOME TAXES (Continued)

Deferred tax assets (liabilities) at December 31, 2016 and 2015 are comprised of the following:

	<u>2016</u>	<u>2015</u>
Deferred tax assets:		
Allowance for loan losses	\$ -	\$ 90,152
Salary continuation	256,867	222,438
Alternative minimum tax credit	1,032,865	745,391
Charitable contributions	-	4,224
Allowance for undisbursed loan commitments	19,754	19,754
Net operating loss	414,284	905,793
Unrealized losses on AFS Securities	637,970	-
Other real estate owned	107,002	-
Other	<u>2,001</u>	<u>7,007</u>
Total deferred tax assets	<u>2,470,743</u>	<u>1,994,759</u>
Deferred tax liabilities:		
Allowance for loan losses	\$ (142,982)	\$ -
Unrealized securities holding gains	-	(127,969)
Depreciation	(31,246)	(36,063)
Accumulated accretion	<u>(3,927)</u>	<u>(612)</u>
Total deferred tax liabilities	<u>(178,155)</u>	<u>(164,644)</u>
Net deferred tax assets	<u>\$ 2,292,588</u>	<u>\$ 1,830,115</u>

The Bank files income tax returns in the United States and California jurisdictions. With few exceptions, the Bank is no longer subject to Federal and state income tax examinations by tax authorities for years before 2013 and 2012, respectively.

The provision for income taxes differs from amounts computed by applying the statutory Federal income tax rates to operating income before income taxes primarily because of California franchise taxes, tax exempt income on municipal securities and increases in cash surrender value of bank-owned life insurance for key-person policies.

At December 31, 2016, the Bank had Federal and state net operating loss carryforwards (NOLs) of \$1,058,548 and \$760,055, respectively. The Federal and State NOLs begin to expire in 2030.

At December 31, 2016, the Bank had Federal and State Alternative Minimum Tax (AMT) credit carryforward of \$1,023,084 and \$15,125, respectively. These credits do not expire.

During the years ended December 31, 2016 and 2015, the Bank did not recognize any interest and penalties related to income tax matters.

(Continued)

BANK OF RIO VISTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 8 – COMMITMENTS AND CONTINGENCIES

Leases: The Bank leases certain real property for branch and automated teller machine operations under noncancellable operating leases. These leases include various renewal and termination options and rental adjustment provisions. Future minimum lease payments are as follows:

<u>Year Ending December 31,</u>	
2017	\$ 35,809
2018	<u>20,813</u>
	<u>\$ 56,622</u>

Rental expense included in occupancy and equipment expense totaled \$32,551 and \$33,043 for the years ended December 31, 2016 and 2015, respectively.

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 and to reduce its own exposure to fluctuations in interest rates. These financial instruments consist of commitments to extend credit and credit card arrangements. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized on the balance sheets.

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

The following financial instruments represent off-balance-sheet credit risk at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Commitments to extend credit	\$ 9,389,185	\$ 8,210,672
Credit card arrangements	\$ 231,644	\$ 223,550

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 the credit, is based on management's credit evaluation of the borrower. Collateral held relating to these commitments varies, but may include securities, equipment, inventory and real estate properties.

Concentrations of Credit Risk: The Bank's customers are located primarily within the Bank's market area of Rio Vista, Lodi and Walnut Grove and the region around these communities. Although the Bank has a diversified loan portfolio, a significant portion of its customers' ability to repay loans is dependent upon the real estate market and various economic factors within the Bank's service area. The Bank's loan policy requires sufficient collateral, which consists primarily of real estate, be obtained as necessary to meet the Bank's relative risk criteria for each borrower.

(Continued)

NOTE 8 – COMMITMENTS AND CONTINGENCIES (Continued)

A substantial decline in the performance of the economy in general or a continued decline in real estate values in the Bank's primary market area, in particular, could have an adverse impact on collectibility, increase the level of real estate related nonperforming loans, or have other adverse effects which alone or in the aggregate could have a material adverse effect on the financial condition of the Bank.

Contingencies: The Bank is subject to legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to such actions will not materially affect the financial position or results of operations of the Bank.

NOTE 9 – SHAREHOLDERS' EQUITY

Regulatory Capital: The Bank is subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Banks on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. Under the Basel III rules, the Bank must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer is being phased in from 0.0% for 2015 to 2.50% by 2019. The capital conservation buffer for 2016 is 0.625%. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes as of December 31, 2016, the Bank meets all the capital adequacy requirements to which it is subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At December 31, 2016 and 2015, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

(Continued)

BANK OF RIO VISTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 9 – SHAREHOLDERS' EQUITY (Continued)

Actual and required capital amounts (in thousands) and ratios are presented below at year-end:

	<u>2016</u>		<u>2015</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
<u>Tier 1 (Core) Capital to average assets</u>				
Bank of Rio Vista	\$ 25,183	11.52%	\$ 23,946	11.52%
Minimum requirement for "Well-Capitalized" institution	\$ 10,928	5.00%	\$ 10,411	5.00%
Minimum regulatory requirement	\$ 8,743	4.00%	\$ 8,329	4.00%
<u>Common Tier 1 (CET1)</u>				
Bank of Rio Vista	\$ 25,183	21.04%	\$ 23,946	22.09%
Minimum requirement for "Well-Capitalized" institution	\$ 7,778	6.50%	\$ 7,046	6.50%
Minimum regulatory requirement	\$ 5,385	4.50%	\$ 4,878	4.50%
<u>Tier 1 (Core) Capital to weighted assets</u>				
Bank of Rio Vista	\$ 25,183	21.04%	\$ 23,946	21.83%
Minimum requirement for "Well-Capitalized" institution	\$ 9,573	8.00%	\$ 8,775	8.00%
Minimum regulatory requirement	\$ 7,179	6.00%	\$ 6,581	6.00%
<u>Total Capital to risk weighted assets</u>				
Bank of Rio Vista	\$ 26,680	22.30%	\$ 25,270	23.04%
Minimum requirement for "Well-Capitalized" institution	\$ 11,965	10.00%	\$ 10,968	10.00%
Minimum regulatory requirement	\$ 9,573	8.00%	\$ 8,774	8.00%

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 bank in any calendar year to the lesser of (1) the bank's retained earnings or (2) the bank's net income for its last three fiscal years, less distributions made to shareholders during the same three-year period. As of December 31, 2016, the Bank could, without prior approval, declare dividends of approximately \$3,589,889 under these restrictions.

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BANK OF RIO VISTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 10 – OTHER EXPENSES

Other expenses for the years ended December 31, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Data processing	\$ 709,235	\$ 744,969
Contract labor and consulting	116,711	169,562
Professional fees	196,205	165,781
ATM and credit card	150,113	142,228
Office supplies	190,336	171,207
Regulatory assessments	125,452	185,540
Director expense	265,974	192,511
Insurance	71,309	75,155
Advertising and promotion	8,693	14,380
Other	<u>518,267</u>	<u>340,196</u>
	<u>\$ 2,352,295</u>	<u>\$ 2,201,529</u>

NOTE 11 – EMPLOYEE BENEFIT PLANS

The Bank sponsors a Profit Sharing Plan for substantially all full-time employees of the Bank. Participants receive up to two annual employer contributions, one is discretionary and the other is mandatory. The discretionary contributions to the Profit Sharing Plan are determined annually by the Board of Directors. There were no discretionary contributions made for the years ended December 31, 2016 and 2015. The mandatory contributions to the Profit Sharing Plan are made based on 3% of eligible compensation for each participant of the plan. Mandatory contributions net of forfeitures totaled \$61,128 and \$59,472 for the years ended December 31, 2016 and 2015, respectively. Bank employees are permitted, within limitations imposed by tax law, to make pretax contributions to the 401(k) feature of the Profit Sharing Plan.

In 2005, the Bank established an unfunded salary continuation plan requiring the Bank to pay three key officers specified amounts for specified periods after retirement. If death occurs prior to or during retirement, the Bank will pay the officer's beneficiary or estate the benefits set forth in the plan. A liability is recorded for the estimated present value of future salary continuation benefits. At December 31, 2016 and 2015, the liability recorded for the salary continuation plan totaled \$624,154 and \$540,497, respectively. The amount of expense related to this plan for 2016 and 2015 was \$155,969 and \$152,701, respectively.

In March 2005, May 2006 and November 2014, the Bank purchased single premium life insurance policies in connection with the implementation of the salary continuation plan for the officers. The policies provide protection against the adverse financial effects from the death of a key officer or Director and provide income to offset expenses associated with the plan. The officers are insured under the policies, but the Bank is the owner and beneficiary. The cash surrender value of these policies totaled \$5,708,886 and \$5,513,193 at December 31, 2016 and 2015, respectively.

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BANK OF RIO VISTA
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December 31, 2016 and 2015

NOTE 12 – RELATED-PARTY TRANSACTIONS

Loans to principal officers, directors, and their affiliates during 2016 were as follows:

Balance, January 1, 2016	\$ 3,575,165
New borrowings	686,000
Amounts repaid	(780,993)
Transferred out	-
	<hr/>
Balance, December 31, 2016	<u>\$ 3,480,172</u>
Undisbursed commitments to related parties, December 31, 2016	 <u>\$ -</u>

Deposits from principal officers, directors, and their affiliates at year end 2016 and 2015 were \$3,224,931 and \$2,291,412, respectively.

NOTE 13 – FAIR VALUE MEASUREMENTS

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

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

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

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

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

Investment Securities: The fair values for investment securities are calculated based on market prices of similar securities resulting in a Level 2 fair value classification. There is limited marketability of the Bank's investment in registered warrants and the Bank estimates that the carrying value of the registered warrants approximates their fair value.

(Continued)

BANK OF RIO VISTA
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NOTE 13 – FAIR VALUE MEASUREMENTS (Continued)

Other Real Estate Owned: The fair value of other real estate owned is estimated based on recent third party appraisals. Appraisals conducted on other real estate utilize a market, income, or cost approach or some combination of the three and typically contain unobservable market data. Therefore, such appraisals are classified as Level 3 in the fair value hierarchy. Unobservable market data contained in appraisals often includes adjustments to comparable property sales for such items as location, condition, size and quality. When a new appraisal indicates a decline in fair value from the property's original cost basis, a valuation allowance is established to reduce the carrying value to fair value less estimated costs to sell.

Appraisals for other real estate owned are performed by certified appraisers whose qualifications and licenses have been reviewed and verified by the Bank. Once received, a member of management reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparison with independent data sources such as recent market data or industry-wide statistics. The Bank periodically compares the actual selling price of collateral that has been sold to the most recent appraised value to determine what additional adjustment should be made to the appraisal value to arrive at fair value. The most recent analysis performed indicated that no discount should be applied to properties with appraisals performed within 12 months of the balance sheet date. Management generally updates appraisals on an annual basis.

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

December 31, 2016				
<u>Description</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Available-for-sale investment securities:				
Residential mortgage-backed securities	\$ 98,423,802	\$ -	\$ 98,423,802	\$ -
Municipal securities	21,647,809	-	21,647,809	-
Registered warrants	<u>1,381,600</u>	<u>-</u>	<u>1,381,600</u>	<u>-</u>
Total assets measured at fair value	<u>\$ 121,453,211</u>	<u>\$ -</u>	<u>\$ 121,453,211</u>	<u>\$ -</u>

December 31, 2015				
<u>Description</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Available-for-sale investment securities:				
Residential mortgage-backed securities	\$ 97,623,005	\$ -	\$ 97,623,005	\$ -
Municipal securities	16,200,398	-	16,200,398	-
Registered warrants	<u>1,067,248</u>	<u>-</u>	<u>1,067,248</u>	<u>-</u>
Total assets measured at fair value	<u>\$ 114,890,651</u>	<u>\$ -</u>	<u>\$ 114,890,651</u>	<u>\$ -</u>

(Continued)

BANK OF RIO VISTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 13 – FAIR VALUE MEASUREMENTS (Continued)

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

	Fair Value Measurements Using				<u>Total Losses</u>
	<u>Total at December 31, 2016</u>	<u>Quoted Prices In Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	
Other real estate owned – Commercial	\$ <u>1,019,672</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>1,019,672</u>	\$ <u>260,000</u>
Total assets measured at fair value on a non- recurring basis	\$ <u>1,019,672</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>1,019,672</u>	\$ <u>260,000</u>

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

There were no liabilities recorded at fair value on a non-recurring basis at December 31, 2016 or 2015.

The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at December 31, 2016:

<u>Description</u>	<u>Fair Value</u>	<u>Valuation Techniques</u>	<u>Unobservable Inputs</u>	<u>Range/ Weighted Average</u>
Other real estate owned - commercial	\$ 1,019,672	Sales comparison approach	Adjustment for differences between comparable sales	(23.5%)-10.0% 7.4%
		Income approach	Capitalization rate	7.5%-8.5% 8.0%