

Oak Valley Bancorp
Form 10-K
March 30, 2016

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2015

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

OAK VALLEY BANCORP

(Exact name of registrant as specified in its charter)

California	26-2326676
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

125 North Third Avenue	95361
Oakdale, California	
(Address of principal executive offices)	(Zip Code)

(209) 848-2265

(Registrant's telephone number including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock	The NASDAQ Stock Market, LLC

Securities registered pursuant to Section 12(g) of the Act:

None

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file

such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Non-accelerated filer

Large accelerated filer Accelerated filer (Do not check if a Smaller reporting company
smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of December 31, 2015, the aggregate market value of the registrant’s common stock held by non-affiliates of the registrant, based upon the closing price per share of the registrant’s common stock as reported by the NASDAQ, was approximately \$69 million. As of March 17, 2016, there were 8,088,155 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s Proxy Statement for the Annual Meeting of Shareholders to be held on June 21, 2016 are incorporated by reference into Part III.

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PART I

ITEM 1. BUSINESS OF OAK VALLEY BANCORP

Overview of the Business

Oak Valley Bancorp. Oak Valley Bancorp (the “Company”) was incorporated on April 1, 2008 in California for the purpose of becoming Oak Valley Community Bank’s parent bank holding company. Effective July 3, 2008, Oak Valley Bancorp acquired all of the outstanding capital stock of Oak Valley Community Bank (the “Bank”) (from time to time, the Bank and the Company may be generally referred to as “we”, “us” or “our”). The principal office of Oak Valley Bancorp is located at 125 North Third Avenue, Oakdale, California 95361 and its principal telephone is (209) 848-2265.

The Company is authorized to issue 50,000,000 shares of common stock, without par value, of which 8,078,155 are issued and outstanding at December 31, 2015, and 10,000,000 shares of preferred stock, without par value, of which no shares are issued and outstanding.

The Company is the holding company of the Bank, and its only assets are the outstanding capital stock of the Bank, which the Company wholly owns, cash and income tax benefits receivable classified as other assets.

Oak Valley Community Bank. The Bank commenced operations in May 1991. The Bank is an insured bank under the Federal Deposit Insurance Act and is a member of the Federal Reserve. The Bank is subject to regulation, supervision and regular examination by the California Department of Business Oversight (DBO), the Federal Deposit Insurance Commission (FDIC) and the Federal Reserve Board (FRB). Since its formation, the Bank has provided basic banking services to individuals and business enterprises in Oakdale, California and the surrounding areas. The focus of the Bank is to offer a range of commercial banking services designed for both individuals and small to medium-sized businesses in the two main areas of service of the Bank: the Central Valley and the Eastern Sierras.

The Bank offers a complement of business checking and savings accounts for its business customers. The Bank also offers commercial and real estate loans, as well as lines of credit. Real estate loans are generally of a short-term nature for both residential and commercial lending purposes. Longer-term real estate loans are generally made with adjustable interest rates and contain customary provisions for acceleration. Traditional residential mortgages are available to Bank customers through a third party.

The Bank offers other services for both individuals and businesses including online banking, remote deposit capture, mobile banking, merchant services, night depository, extended hours, wire transfer of funds, note collection, and automated teller machines in a national network. The Bank does not currently offer international banking or trust services although the Bank may make such services available to the Bank's customers through financial institutions with which the Bank has correspondent banking relationships. The Bank does not offer stock transfer services nor does it directly issue credit cards.

On December 23, 2015, the Company completed its acquisition of Mother Lode Bank ("MLB"), a California state-chartered bank headquartered in Sonora, California, in a transaction in which Mother Lode Bank was merged with and into the Bank, with the Bank as the surviving company in the transaction. The purchase price for Mother Lode Bank was approximately \$7.3 million. As of the acquisition date, Mother Lode Bank's total assets were \$78.7 million and total deposits were \$71.1 million.

Expansion

Branch Expansion. Since opening our doors of the main Oakdale branch in 1991, our network of branches and loan production offices have been expanded geographically. As of December 31, 2015, we maintained eighteen full-service branch offices (in addition to our corporate headquarters). Beginning in October 1995, we started our geographic expansion outside of Oakdale, by opening a Loan Production Office in Sonora, California. We subsequently opened a branch in Sonora and two branches in Modesto. In September 2000, we expanded into the Eastern Sierra, opening a branch in Bridgeport, California under the name Eastern Sierra Community Bank. Since that time we have added branches in Mammoth Lakes and Bishop. During 2005 and 2006, we aggressively increased our presence in the Central Valley, by opening branches in Turlock, Stockton, Patterson, Ripon and Escalon. In March 2007, our corporate headquarters expanded by adding an adjacent historical building located in downtown Oakdale to its complex. In 2011, we opened a third branch in Modesto and a branch in Manteca. In 2014, we opened a new branch in Tracy. In 2015, we added a second branch in Sonora. Later in 2015, Mother Lode Bank was merged with and into the Bank, which temporarily added two more branches in Sonora until they were eventually closed in January 2016 decreasing our total number of branches to sixteen, after management determined that our two existing branches would be able to support our new customers. We intend to continue our growth strategy in future years through the opening of additional branches and loan production offices as our needs and resources permit.

Bank Holding Company Reorganization. Effective July 3, 2008, we entered into a bank holding company reorganization, whereby each outstanding share of common stock of the Bank was exchanged into a share of common stock of the Company. Operating our banking business within a holding company structure provides, among other things, greater operating flexibility; facilitates the potential acquisition of related businesses as opportunities may arise from time to time; improves our ability to diversify as needed; enhances our ability to remain competitive in the future with other companies in the financial services industry that are organized in a holding company structure; and improves our ability to raise capital to support growth.

Business Segments

The Bank operates in two primary lines of business: Retail Banking and Commercial Banking, as described in additional detail below. These business lines do not meet the quantitative thresholds for reporting as separate segments and are therefore considered one segment for financial reporting purposes.

Retail Banking. We offer a range of checking and savings accounts, including NOW accounts, money market accounts, overdraft protection, health savings accounts, certificates of deposit, and Individual Retirement Accounts (“IRA”). To satisfy the lending needs of individuals in its service area, we offer real estate and home equity financing, as well as consumer, automobile, and home improvement loans.

Commercial Banking. We offer a range of deposit and lending services to business customers. More specifically, we offer a variety of commercial loans for virtually any business, professional, or agricultural need. These include loans for short-term working capital, operating lines of credit, equipment purchases, leasehold improvements, construction, commercial real estate acquisitions or refinancing. Currently, virtually all of our business relationships are with customers located in the San Joaquin, Stanislaus, Tuolumne, Inyo and Mono Counties, of California.

Primary Market Area

We conduct business from our main office in Oakdale, a city of approximately 21,500 residents located in Stanislaus County, California. Oakdale is approximately 15 miles from Modesto and sits at the foothills of the Sierra Nevada Mountains, at the edge of the California Central Valley agricultural area. Through our branches, we serve customers in the Central Valley, from Fresno to Sacramento, and in foothill locations. We also reach into the Highway 395 corridor in the Eastern Sierras and in the towns of Bishop, Mammoth and Bridgeport. Approximately 87% of our loans and 87% of our deposits are generated from the Central Valley. The Central Valley area includes Stanislaus, San Joaquin and Tuolumne counties and has a total population of over 3 million.

Lending Activities

General. Our loan policies set forth the basic guidelines and procedures by which we conduct our lending operations. These policies address the types of loans available, underwriting and collateral requirements, loan terms, interest rate and yield considerations, compliance with laws and regulations and our internal lending limits. Our Board of Directors reviews and approves our loan policies on an annual basis. We supplement our own supervision of the loan underwriting and approval process with periodic loan audits by experienced external loan specialists who review credit quality, loan documentation and compliance with laws and regulations. We engage in a full complement of lending activities, including:

commercial real estate loans,

commercial business lending and trade finance,

Small Business Administration lending, and

consumer loans, including automobile loans, home mortgages, credit lines and other personal loans.

As part of our efforts to achieve long-term stable profitability and respond to a changing economic environment in the California Central Valley, we constantly evaluate a variety of options to augment our traditional focus by broadening the services and products we provide. Possible avenues of growth include more branch locations, expanded suite of technology based services and new types of lending.

Loan Procedures. Loan applications may be approved by the Director Loan Committee of our Board of Directors, or by our management or lending officers, to the extent of their loan authority. Our Board of Directors authorizes our lending limits. Our President and Chief Credit Officer are responsible for evaluating the authority limits for individual credit officers and recommending lending limits for all other officers to the board of directors for approval.

We grant individual lending authority to our Chief Executive Officer, Chief Credit Officer, Credit Administrator and to some department managers and loan officers. Our highest management lending authority is combined administrative lending authority for unsecured and secured lending of \$2,500,000, which requires the joint approval of either Chief Executive Officer, Chief Credit Officer, Senior Lending Officer and Credit Administrator. Loans for which direct and indirect borrower liability exceeds combined administrative lending authority are referred to our Board of Directors Loan Committee.

At December 31, 2015, the Bank's authorized legal lending limits were \$12.5 million for unsecured loans plus an additional \$8.3 million for specific secured loans. Legal lending limits are calculated in conformance with California law, which prohibits a bank from lending to any one individual or entity or its related interests an aggregate amount which exceeds 15% of primary capital plus the allowance for loan losses on an unsecured basis, plus an additional 10% on a secured basis. The Bank's primary capital plus allowance for loan losses at December 31, 2015 totaled \$81.5 million.

We seek to mitigate the risks inherent in our loan portfolio by adhering to certain underwriting practices. The review of each loan application includes analysis of the applicant's prior credit history, income level, cash flow and financial condition, tax returns, cash flow projections, and the value of any collateral to secure the loan, based upon reports of independent appraisers and audits of accounts receivable or inventory pledged as security. In the case of real estate loans over a specified amount, the review of collateral value includes an appraisal report prepared by an independent, Bank-approved, appraiser.

Real Estate Loans. We offer commercial real estate loans to finance the acquisition of new or the refinancing of existing commercial properties, such as office buildings, industrial buildings, warehouses, hotels, shopping centers, automotive industry facilities and multiple dwellings. At December 31, 2015, real estate loans constituted 84% of our loan portfolio, of which 93% were commercial loans. This includes the real estate loans made by Mother Lode Bank prior to its merger into the Bank in 2015.

Commercial real estate loans typically have 10-year maturities with up to 25-year amortization of principal and interest and loan-to-value ratios of not more than 75% of the appraised value or purchase price, whichever is lower. We usually impose a prepayment penalty during the period within 3 to 5 years of the date of the loan.

Construction loans are comprised of loans on commercial, residential and income producing properties that generally have terms of 1 year, with options to extend for additional periods to complete construction and to accommodate the lease-up period. We usually require 15% equity capital investment by the developer and loan to value ratios of not more than 75% of anticipated completion value.

Miniperm loans finance the purchase and/or ownership of commercial properties, including owner-occupied and income producing properties. We also offer miniperm loans as take-out financing with our construction loans. Miniperm loans are generally made with an amortization schedule ranging from 20 to 25 years, with a lump sum balloon payment due in 3 to 5 years.

Equity lines of credit are revolving lines of credit collateralized by junior deeds of trust on residential real properties. They generally bear a rate of interest that floats with our base rate or the prime rate, and have maturities of 10 years.

We purchase participation interests in loans made by other financial institutions from time to time. These loans are subject to the same underwriting criteria and approval process as loans made directly by us.

Our real estate loans are typically collateralized by first or junior deeds of trust on specific commercial properties and equity lines of credit, and are subject to corporate or individual guarantees from financially capable parties, as available. The properties collateralizing real estate loans are principally located in our primary market areas of the California Central Valley and the Eastern Sierra. Real estate loans typically bear interest rates that float with an established index.

Our real estate portfolio is subject to certain risks, including (i) downturns in the California economy, (ii) significant interest rate fluctuations, (iii) reduction in real estate values in the California Central Valley, (iv) increased competition in pricing and loan structure, and (v) environmental risks, including natural disasters. As a result of the high concentration of the real estate loan in our loan portfolio, potential difficulties in the real estate markets could cause significant increases in nonperforming loans, which would reduce our profits. A decline in real estate values could cause some of our mortgage loans to become inadequately collateralized, which would expose us to a greater risk of loss. Additionally, a decline in real estate values could adversely affect our portfolio of commercial real estate loans and could result in a decline in the origination of such loans. However, we strive to reduce the exposure to such risks and seek to continue to maintain high quality in our real estate loans by (a) reviewing each loan request and each loan renewal individually, (b) using a dual signature approval system for the approval of each loan request for loans over a certain dollar amount, (c) adhering to written loan policies, including, among other factors, minimum collateral requirements, maximum loan-to-value ratio requirements, cash flow requirements and personal guarantees, (d) performing secondary appraisals from time to time, (e) conducting external independent credit review, and (f) conducting environmental reviews, where appropriate. We review each loan request on the basis of our ability to recover both principal and interest in view of the inherent risks. We monitor and stress test our entire portfolio, evaluating debt coverage ratios and loan-to-value ratios, on a quarterly basis. We monitor trends and evaluate exposure derived from simulated stressed market conditions. The portfolio is stratified by owner classification (either owner occupied or non-owner occupied), product type, geography and size.

As of December 31, 2015, the aggregate loan-to-value of the entire commercial real estate portfolio was 50.8%. Historical data suggests that the Company continues to maintain strong LTV, which has served as a cushion against precipitous reductions in real estate values. Non-owner occupied real estate comprises 40.8% of the Company's total commitments, as of December 31, 2015. The loan-to-value on the non-owner occupied segment was 46.6%, as of December 31, 2015. The highest concentration by product type is office buildings, which comprised 27.1% of total CRE loan commitments outstanding, as of December 31, 2015.

Our portfolio diversity in terms of both product types and geographic distribution, combined with strong debt coverage ratios, a low aggregate loan-to-value and a high percentage of owner-occupied properties, significantly mitigate the risks associated with excessive commercial real estate concentration. These elements contribute strength to our overall real estate portfolio despite the current weakness in the real estate market.

Commercial Business Lending. We offer commercial loans to sole proprietorships, partnerships and corporations, with an emphasis on the real estate related industry. These commercial loans include business lines of credit and commercial term loans to finance operations, to provide working capital or for specific purposes, such as to finance the purchase of assets, equipment or inventory. Since a borrower's cash flow from operations is generally the primary source of repayment, our policies provide specific guidelines regarding required debt coverage and other important financial ratios.

Lines of credit are extended to businesses or individuals based on the financial strength and integrity of the borrower and are secured primarily by real estate, accounts receivable and inventory, and have a maturity of one year or less. Such lines of credit bear an interest rate that floats with the prime rate, LIBOR or another established index.

Commercial term loans are typically made to finance the acquisition of fixed assets, refinance short-term debts or to finance the purchase of businesses. Commercial term loans generally have terms from one to five years. They may be collateralized by the asset being acquired or other available assets and bear interest rates, which either floats with the prime rate, LIBOR or another established index or is fixed for the term of the loan.

Our portfolio of commercial loans is also subject to certain risks, including (i) downturns in the California economy, (ii) significant interest rate fluctuations; and (iii) the deterioration of a borrower's or guarantor's financial capabilities. We attempt to reduce the exposure to such risks through (a) reviewing each loan request and renewal individually, (b) requiring a dual signature approval system, (c) mandating strict adherence to written loan policies, and (d) performing external independent credit review. In addition, we monitor loans based on short-term asset values on a monthly or quarterly basis. In general, during the term of the relationship, we receive and review the financial statements of our borrowing customers on an ongoing basis, and we promptly respond to any deterioration that we note.

Small Business Administration Lending Services. Small Business Administration, or SBA, lending, forms an important part of our business. Our SBA lending service places an emphasis on minority-owned businesses. Our SBA market area includes the geographic areas encompassed by our full-service banking offices in the California Central Valley and in the Eastern Sierra. As an SBA lender, we enable borrowers to obtain SBA loans in order to acquire new businesses, expand existing businesses, and acquire locations in which to do business.

Consumer Loans. Consumer loans include personal loans, auto loans, home improvement loans, home mortgage loans, revolving lines of credit and other loans typically made by banks to individual borrowers. We provide consumer loan products in an effort to diversify our product line.

Our consumer loan portfolio is subject to certain risks, including:

amount of credit offered to consumers in the market,

interest rate increases, and

consumer bankruptcy laws which allow consumers to discharge certain debts.

We attempt to reduce the exposure to such risks through the direct approval of all consumer loans by:

reviewing each loan request and renewal individually,

using a dual signature system of approval,

strictly adhering to written credit policies and,

performing external independent credit review.

Deposit Activities and Other Sources of Funds

Our primary sources of funds are deposits and loan repayments. Scheduled loan repayments are a relatively stable source of funds, whereas deposit inflows, outflows and unscheduled loan prepayments (which are influenced significantly by general interest rate levels, interest rates available on other investments, competition, economic conditions and other factors) are not as stable. Customer deposits also remain a primary source of funds, but these balances may be influenced by adverse market changes in the industry. We may resort to other borrowings, on an as needed basis, as follows:

on a short-term basis to compensate for reductions in deposit inflows at less than projected levels, and

on a longer-term basis to support expanded lending activities and to match the maturity of repricing intervals of assets.

We offer a variety of accounts for depositors, which are designed to attract both short-term and long-term deposits. These accounts include certificates of deposit, or “CDs”, regular savings accounts, money market accounts, checking and negotiable order of withdrawal, or “NOW”, accounts, savings accounts, health savings accounts and individual retirement accounts, or “IRAs”. These accounts generally earn interest at rates established by management based on competitive market factors and management’s desire to increase or decrease certain types or maturities of deposits. As needs arise, we augment these customer deposits with brokered deposits. The more significant deposit accounts offered by us are described below:

Certificates of Deposit. We offer several types of CDs with a maximum maturity of five years. The substantial majority of our CDs have a maturity of one to twelve months and pay compounded interest typically credited monthly or at maturity.

Regular Savings Accounts. We offer savings accounts that allow for unlimited ATM and in-branch deposits and withdrawals. Interest is compounded daily and paid monthly.

Money Market Account. Money market accounts pay a variable interest rate that is tiered depending on the balance maintained in the account. Minimum opening balances vary. Interest is compounded daily and paid monthly.

Checking and NOW Accounts. Checking and NOW accounts are generally non-interest and interest bearing accounts, respectively, and may include service fees based on activity and balances. NOW accounts pay interest, but require a higher minimum balance to avoid service charges.

Federal Home Loan Bank Borrowings. To supplement our deposits as a source of funds for lending or investment, we borrow funds in the form of advances from the Federal Home Loan Bank. We regularly make use of Federal Home Loan Bank advances as part of our interest rate risk management, primarily to extend the duration of funding to match the longer term fixed rate loans held in the loan portfolio as part of our growth strategy.

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As a member of the Federal Home Loan Bank system, we are required to invest in Federal Home Loan Bank stock based on a predetermined formula. Federal Home Loan Bank stock is a restricted investment security that can only be sold to other Federal Home Loan Bank members or redeemed by the Federal Home Loan Bank. As of December 31, 2015, we owned \$2,958,000 in FHLB stock.

Advances from the Federal Home Loan Bank are typically secured by our entire real estate loan portfolio, which includes residential and commercial loans. At December 31, 2015, our borrowing limit with the Federal Home Loan Bank was approximately \$198 million.

Internet Banking

Since August 1, 2001, we have offered Internet banking service, which allows our customers to access their deposit accounts through the Internet. Customers are able to obtain transaction history and account information, transfer funds between accounts and make on-line bill payments. We intend to improve and develop our Internet banking products and delivery channels as the need arises and our resources permit.

Other Services

We also offer ATMs located at branch offices as well as seven other ATMs at various off site locations, and customer access to an ATM network.

Marketing

Our marketing relies principally upon local advertising and promotional activity and upon personal contacts by our directors, officers and shareholders to attract business and to acquaint potential customers with our personalized services. We emphasize a high degree of personalized client service in order to be able to provide for each customer's banking needs. Our marketing approach emphasizes the advantages of dealing with an independent, locally managed and state chartered bank to meet the particular needs of consumers, professionals and business customers in the community. Our management continually evaluates all of our banking services with regard to their profitability and efforts and makes determinations based on these evaluations whether to continue or modify our business plan, where appropriate.

We do not currently have any plans to develop any new lines of business, which would require a material amount of capital investment on our part.

Competition

Regional Branch Competition. We consider our primary service area to be composed of the counties of San Joaquin, Stanislaus, Tuolumne, Inyo and Mono Counties, of California. The banking business in California generally, and in our primary service area, specifically, is competitive with respect to both loans and deposits and is dominated by a relatively small number of major banks which have many offices operating over wide geographic areas. These include Wells Fargo Bank, Bank of America, JP Morgan Chase Bank and Bank of the West. We compete for deposits and loans principally with these banks, as well as with savings and loan associations, thrift and loan associations, credit unions, mortgage companies, insurance companies, offerors of money market accounts and other lending institutions.

Among the advantages of these institutions are their ability to finance extensive advertising campaigns and to allocate their investment assets to regions of highest yield and demand, their ability to offer certain services, such as international banking and trust services which are not offered directly by the Company and, the ability by virtue of their greater total capitalization, to have substantially higher lending limits than we do. In addition, as a result of increased consolidation and the passage of interstate banking legislation there is and will continue to be increased competition among banks, savings and loan associations and credit unions for the deposit and loan business of individuals and businesses.

As of June 30, 2015, our primary service areas contained one hundred seventy-four (174) banking offices, with approximately \$13.8 billion in total deposits. As of June 30, 2015, we had total deposits of approximately \$684 million, which represented approximately 5.0% of the total deposits in the Bank's primary service area. There can be no assurance that the Bank will maintain its competitive position against current and potential competitors, especially those with greater resources than the Bank. The deposits of the four (4) largest competing banks averaged approximately \$122 million per office as of June 30, 2015.

In order to compete with major financial institutions in our primary service areas, we use to the fullest extent the flexibility that our independent status permits. This includes an emphasis on specialized services, local promotional activity, and personal contacts by our officers, directors and employees. In the event that there are customers whose needs exceed our lending limits, we may arrange for such loans on a participation basis with other financial institutions. We also assist customers who require other services that we do not offer by obtaining such services from correspondent banks. However, no assurance can be given that our continued efforts to compete with other financial institutions will be successful.

In addition to other banks, our competitors include savings institutions, credit unions, and numerous non-banking institutions, such as finance companies, leasing companies, insurance companies, brokerage firms, and investment banking firms. In recent years, increased competition has also developed from specialized finance and non-finance companies that offer money market and mutual funds, wholesale finance, credit card, and other consumer finance services, including on-line banking services and personal finance software. Strong competition for deposit and loan products affects the rates of those products as well as the terms on which they are offered to customers.

Other Competitive Factors. The more general competitive trends in the industry include increased consolidation and competition. Strong competitors, other than financial institutions, have entered banking markets with focused products targeted at highly profitable customer segments. Many of these competitors are able to compete across geographic boundaries and provide customers increasing access to meaningful alternatives to banking services in nearly all significant products areas. Mergers between financial institutions have placed additional pressure on banks within the industry to streamline their operations, reduce expenses, and increase revenues to remain competitive. Competition has also intensified due to the federal and state interstate banking laws, which permit banking organizations to expand geographically, and the California market has been particularly attractive to out-of-state institutions. The Financial Modernization Act, which has made it possible for full affiliations to occur between banks and securities firms, insurance companies, and other financial companies, is also expected to intensify competitive conditions.

Technological innovations have also resulted in increased competition in the financial services industry. Such innovations have, for example, made it possible for non-depository institutions to offer customers automated transfer payment services that were previously considered traditional banking products. In addition, many customers now expect a choice of several delivery systems and channels, including telephone, mail, home computer, mobile devices, ATMs, self-service branches and/or in-store branches.

Business Concentration. No individual or single group of related accounts is considered material in relation to our total assets or deposits, or in relation to our overall business. However, approximately 84% of our loan portfolio held for investment at December 31, 2015 consisted of real estate-related loans, including construction loans, miniperm loans, real estate mortgage loans and commercial loans secured by real estate. Moreover, our business activities are currently focused primarily in Central California, with the majority of our business concentrated in San Joaquin, Stanislaus, Tuolumne, Inyo and Mono Counties. Consequently, our results of operations and financial condition are dependent upon the general trends in the Central California economies and, in particular, the residential and commercial real estate markets. In addition, the concentration of our operations in Central California exposes us to greater risk than other banking companies with a wider geographic base in the event of catastrophes, such as earthquakes, fires and floods in this region.

Employees

As of December 31, 2015, we had 167 employees (135 full-time employees and 32 part-time employees). None of our employees are currently represented by a union or covered by a collective bargaining agreement. We added 9 employees as a result of the merger of Mother Lode Bank into the Bank.

Economic Conditions and Legislative and Regulatory Developments

As it is the case with financial institutions with our size and scope, our profitability primarily depends on interest rate differentials. Interest rates are highly sensitive to many factors that are beyond our control and cannot be predicted, such as inflation, recession and unemployment, and the impact that future changes in domestic and foreign economic conditions might have on the Company. A more detailed discussion of the Company's interest rate risks and the mitigation of those risks is included in Item 7A. Quantitative and Qualitative Disclosures About Market Risk, in this Annual Report on Form 10-K.

Our business is also influenced by the monetary and fiscal policies of the Federal government and the policies of regulatory agencies. The Federal Reserve Board implements national monetary policies (with objectives such as maintaining price stability, stimulating growth and reducing unemployment) through its open-market operations in U.S. Government securities, by adjusting the required level of reserves for depository institutions subject to its reserve requirements, and by varying the target Federal funds and discount rates applicable to borrowings by depository institutions. The actions of the Federal Reserve Board in these areas influence the growth of bank loans, investments, and deposits and also affect interest earned on interest-earning assets and interest paid on interest-bearing liabilities. The nature and impact of any future changes in monetary and fiscal policies on us cannot be predicted.

From time to time, federal and state legislation is enacted that may have the effect of materially increasing the cost of doing business, limiting or expanding permissible activities, or affecting the competitive balance between banks and other financial services providers. In response to the economic downturn and financial industry instability, legislative and regulatory initiatives were, and are expected to continue to be, introduced and implemented, which substantially intensify the regulation of the financial services industry. Moreover, in light of the economic environment over the last three to five years, bank regulatory agencies have responded to concerns and trends identified in examinations. While their response resulted in the increased issuance and continuation of enforcement actions against financial institutions towards the end of the last decade and into the beginning of this decade, the level of such actions compared to the peak in 2010 has decreased.

Supervision and Regulation in General

The banking and financial services business in which we engage is highly regulated. Such regulation is intended, among other things, to protect depositors insured by the FDIC and the entire banking system. These regulations affect our lending practices, consumer protections, capital structure, investment practices and dividend policy.

The Company is a legal entity separate and distinct from the Bank. The Company and the Bank are each subject to supervision and regulation by a number of federal and state agencies and regulatory bodies, as outlined below.

Upon effectiveness of the bank holding company reorganization on July 2, 2008, the Company became subject to regulation under the Bank Holding Company Act of 1956, as amended (“BHCA”). As a bank holding company, the Company is regulated and is subject to inspection, examination and supervision by the Federal Reserve Board. It is also subject to the California Financial Code, as well as limited oversight by the DBO and the FDIC. Under the Federal Reserve Board’s regulations, a bank holding company is required to serve as a source of financial and managerial strength to its subsidiary banks. The BHCA regulates the activities of holding companies including acquisitions, mergers, and consolidations and, together with the Gramm-Leach Bliley Act of 1999, the scope of allowable banking activities.

As a California-state chartered bank, the Bank is subject to primary supervision, examination and regulation by the DBO and the Federal Reserve Board. The Federal Reserve Board is the primary federal regulator of state member banks. The Bank is also subject to regulation by the FDIC, which insures the Bank’s deposits as permitted by law. If, as a result of an examination of a bank, the Federal Reserve Board determines that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of its operations are unsatisfactory, or that it or its management is violating or has violated any law or regulation, various remedies are available to the Federal Reserve Board. Such remedies include the power to: enjoin “unsafe or unsound” practices; require affirmative action to correct any conditions resulting from any violation or practice; issue an administrative order that can be judicially enforced; direct an increase in capital; restrict growth; assess civil monetary penalties; remove officers and directors; institute a receivership; and, ultimately terminate the bank’s deposit insurance, which would result in a revocation of its charter. The DBO separately holds many of the same remedial powers.

The commercial banking business is also influenced by the monetary and fiscal policies of the federal government and the policies of the Board of Governors of the Federal Reserve System, also known as the FRB or the Federal Reserve Board. As a member of the Federal Reserve System, we are subject to certain regulations of the Board of Governors of the Federal Reserve System. The regulations of these agencies govern most aspects of our business, including the filing of periodic reports, and activities relating to dividends, investments, loans, borrowings, capital requirements, certain check-clearing activities, branching, mergers and acquisitions, reserves against deposits, and numerous other areas. Supervision, legal action and examination of us by the FRB is generally intended to protect depositors and is not intended for the protection of our shareholders. The Federal Reserve Board implements national monetary policies

(with objectives such as curbing inflation and combating recession) by its open-market operations in United States Government securities, by adjusting the required level of reserves for financial intermediaries subject to its reserve requirements and by varying the discount rates applicable to borrowings by depository institutions. The actions of the Federal Reserve Board in these areas influence the growth of bank loans, investments and deposits and affects interest rates charged on loans and paid on deposits. Indirectly such actions may also impact the ability of non-bank financial institutions to compete with us. The nature and impact of any future changes in monetary policies cannot be predicted.

The laws, regulations and policies affecting financial services businesses are continuously under review by Congress and state legislatures and federal and state regulatory agencies. From time to time, legislation is enacted which has the effect of increasing the cost of doing business, limiting or expanding permissible activities or affecting the competitive balance between banks and other financial intermediaries. Proposals to change the laws and regulations governing the operations and taxation of banks, bank holding companies and other financial intermediaries are frequently made in Congress, in the California legislature and by various bank regulatory agencies and other professional agencies. Changes in the laws, regulations or policies that impact us cannot necessarily be predicted, but they may have a material effect on our business and earnings.

The federal and state bank regulatory agencies may respond to concerns and trends identified in examinations by issuing enforcement actions to, and entering into cease and desist orders, consent orders and memoranda of understanding with, financial institutions requiring action by management and boards of directors to address credit quality, liquidity, risk management and capital adequacy concerns, as well as other safety and soundness or compliance issues. Banks and bank holding companies are also subject to examination and potential enforcement actions by their state regulatory agencies.

Bank Holding Company and Bank Regulation

Bank holding companies and their subsidiaries are subject to significant regulation and restrictions by Federal and State laws and regulatory agencies. Federal and State laws, regulations and restrictions, which may affect the cost of doing business, limit permissible activities and expansion or impact the competitive balance between banks and other financial services providers, are intended primarily for the protection of depositors and the FDIC deposit insurance fund (“DIF”), and secondarily for the stability of the U.S. banking system. They are not intended for the benefit of shareholders of financial institutions. The following discussion of key statutes and regulations to which the Company and the Bank are subject is a summary and does not purport to be complete nor does it address all applicable statutes and regulations. This discussion is qualified in its entirety by reference to the statutes and regulations referred to in this discussion.

The wide range of requirements and restrictions contained in both Federal and State banking laws include:

Requirements that bank holding companies serve as a source of strength for their banking subsidiaries. In addition, the regulatory agencies have “prompt corrective action” authority to limit activities and order an assessment of a bank holding company if the capital of a bank subsidiary falls below capital levels required by the regulators.

Limitations on dividends payable to shareholders. A substantial portion of the Company’s funds to pay dividends or to pay principal and interest on our debt obligations is derived from dividends paid by the Bank. The Company’s and the Bank’s ability to pay dividends is subject to legal and regulatory restrictions. The Federal Reserve Board has authority to prohibit bank holding companies from paying dividends if such payment is deemed to be an unsafe or unsound practice.

Limitations on dividends payable by bank subsidiaries. These dividends are subject to various legal and regulatory restrictions. The federal banking agencies have indicated that paying dividends that deplete a depository institution’s capital base to an inadequate level would be an unsafe and unsound banking practice. Moreover, the federal agencies have issued policy statements that provide that bank holding companies and insured banks should generally only pay dividends out of current operating earnings.

Safety and soundness requirements. Banks must be operated in a safe and sound manner and meet standards applicable to internal controls, information systems, internal audit, loan documentation, credit underwriting, interest rate exposure, asset growth and compensation, as well as other operational and management standards. These safety and soundness requirements give bank regulatory agencies significant latitude in exercising their supervisory authority and their authority to initiate informal or formal enforcement action.

Requirements for approval of acquisitions and activities. Prior approval or non-objection of the applicable federal regulatory agencies is required for most acquisitions and mergers and in order to engage in certain non-banking

activities and activities that have been determined by the Federal Reserve to be financial in nature, incidental to financial activities, or complementary to a financial activity. Laws and regulations governing state-chartered banks contain similar provisions concerning acquisitions and activities.

The Community Reinvestment Act (the "CRA"). The CRA requires that banks help meet the credit needs in their communities, including the availability of credit to low and moderate income individuals. If the Company or the Bank fails to adequately serve their communities, penalties may be imposed, including denials of applications for branches, to add subsidiaries and affiliates, or to merge with or purchase other financial institutions.

The Bank Secrecy Act, the USA Patriot Act, and other anti-money laundering laws. These laws and regulations require financial institutions to assist U.S. Government agencies in detecting and preventing money laundering and other illegal acts by maintaining policies, procedures and controls designed to detect and report money laundering, terrorist financing, and other suspicious activity.

Limitations on the amount of loans to one borrower and its affiliates and to executive officers and directors.

Limitations on transactions with affiliates.

Restrictions on the nature and amount of any investments in, and ability to underwrite certain securities.

Requirements for opening of branches intra- and interstate.

Fair lending and truth in lending laws to ensure equal access to credit and to protect consumers in credit transactions.

Provisions of the Gramm-Leach-Bliley Act of 1999 ("GLB Act") and other federal and state laws dealing with privacy for nonpublic personal information of customers.

The following discussion summarizes certain significant laws, rules and regulations affecting both the Company and the Bank. The Bank addresses the many state and federal regulations it is subject to through a comprehensive compliance program that addresses the various risks associated with these issues. The following discussion is not meant to cover all applicable rules and regulations and it is qualified in its entirety by reference to such laws, rules and regulations which may change from time to time.

The Dodd-Frank Wall Street Reform and Consumer Protection Act

The events of the past several years have led to numerous new laws and regulatory pronouncements in the United States and internationally for financial institutions. The Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”), enacted in 2010, is one of the most far reaching legislative actions affecting the financial services industry in decades and significantly restructures the financial regulatory regime in the United States.

The Dodd-Frank Act broadly affects the financial services industry by creating new resolution authorities, requiring ongoing stress testing of capital, mandating higher capital and liquidity requirements, increasing regulation of executive and incentive-based compensation and requiring numerous other provisions aimed at strengthening the sound operation of the financial services sector depending, in part, on the size of the financial institution. Among other things, the Dodd-Frank Act provides for:

capital standards applicable to bank holding companies may be no less stringent than those applied to insured depository institutions;

annual stress tests and early remediation or so-called living wills are required for larger banks with more than \$50 billion of assets as well risk committees of their boards of directors that include a risk expert and such requirements may have the effect of establishing new best practices standards for smaller banks;

trust preferred securities must generally be deducted from Tier 1 capital over a three-year phase-in period ending in 2016, although depository institution holding companies with assets of less than \$15 billion as of year-end 2009 are grandfathered with respect to such securities for purposes of calculating regulatory capital;

the assessment base for federal deposit insurance was changed to consolidated assets less tangible capital instead of the amount of insured deposits, which generally increased the insurance fees of larger banks, but had relatively less impact on smaller banks;

repeal of the federal prohibition on the payment of interest on demand deposits, including business checking accounts, and made permanent the \$250,000 limit for federal deposit insurance;

the establishment of the Consumer Finance Protection Bureau (the “CFPB”) with responsibility for promulgating regulations designed to protect consumers’ financial interests and prohibit unfair, deceptive and abusive acts and practices by financial institutions, and with authority to directly examine those financial institutions with \$10 billion or more in assets for compliance with the regulations promulgated by the CFPB;

limits, or places significant burdens and compliance and other costs, on activities traditionally conducted by banking organizations, such as originating and securitizing mortgage loans and other financial assets, arranging and participating in swap and derivative transactions, proprietary trading and investing in private equity and other funds; and

the establishment of new compensation restrictions and standards regarding the time, manner and form of compensation given to key executives and other personnel receiving incentive compensation, including documentation and governance, proxy access by stockholders, deferral and claw-back requirements.

As required by the Dodd-Frank Act, federal regulators have adopted regulations to (i) increase capital requirements on banks and bank holding companies pursuant to Basel III, and (ii) implement the so-called “Volcker Rule” of the Dodd-Frank Act, which significantly restricts certain activities by covered bank holding companies, including restrictions on proprietary trading and private equity investing.

Many of the regulations to implement the Dodd-Frank Act have not yet been published for comment or adopted in final form and a number of the regulations that have been adopted in final form will take effect over several years, making it difficult to anticipate the overall financial impact on the Company and the Bank, our customers or the financial industry more generally. Individually and collectively, these regulations resulting from the Dodd-Frank Act may materially and adversely affect the Company's and the Bank's business, financial condition, and results of operations. Provisions in the legislation that require revisions to the capital requirements of the Company and the Bank could require the Company and the Bank to seek additional sources of capital in the future.

Volcker Rule

The final rules adopted on December 10, 2013, to implement a part of the Dodd-Frank Act commonly referred to as the "Volcker Rule", prohibit insured depository institutions and companies affiliated with insured depository institutions ("banking entities") from engaging in short-term proprietary trading of certain securities, derivatives, commodity futures and options on these instruments, for their own account. The final rules also impose limits on banking entities' investments in, and other relationships with, hedge funds or private equity funds. These rules became effective on April 1, 2014. Certain collateralized debt obligations ("CDOs"), securities backed by trust preferred securities which were initially defined as covered funds subject to the investment prohibitions, have been exempted to address the concern that many community banks holding such CDOs securities may have been required to recognize significant losses on those securities.

Like the Dodd-Frank Act, the final rules provide exemptions for certain activities, including market making, underwriting, hedging, trading in government obligations, insurance company activities, and organizing and offering hedge funds or private equity funds. The final rules also clarify that certain activities are not prohibited, including acting as agent, broker, or custodian.

The compliance requirements under the final rules vary based on the size of the banking entity and the scope of activities conducted. Banking entities with significant trading operations will be required to establish a detailed compliance program and their CEOs will be required to attest that the program is reasonably designed to achieve compliance with the final rule. Independent testing and analysis of an institution's compliance program will also be required. The final rules reduce the burden on smaller, less-complex institutions by limiting their compliance and reporting requirements. Additionally, a banking entity that does not engage in covered trading activities will not need to establish a compliance program. The Company and the Bank held no investment positions at December 31, 2014 or 2015 that were subject to the final rule. Therefore, while these new rules may require us to conduct certain internal analysis and reporting, we believe that they will not require any material changes in our operations or business.

Capital Adequacy Requirements

Banks and bank holding companies are subject to various capital requirements administered by state and federal banking agencies. Capital adequacy guidelines 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 about components, risk weighting and other factors.

The federal banking agencies have adopted risk-based minimum capital guidelines intended to provide a measure of capital that reflects the degree of risk associated with a banking organization's operations for both transactions reported on the balance sheet as assets and transactions which are recorded as off balance sheet items. Under these guidelines, nominal dollar amounts of assets and credit equivalent amounts of off balance sheet items are multiplied by one of several risk adjustment percentages, which range from 0% for assets with low credit risk, such as federal banking agencies, to 100% for assets with relatively high credit risk. The higher the category, the more risk a bank is subject to and thus the more capital that is required.

The regulatory agencies' risk-based capital guidelines are based upon capital accords of the internal Basel Committee on Bank Supervision ("Basel Committee"), a committee of central banks and bank supervisors/regulators from the major industrialized countries that develops broad policy guidelines, which each country's supervisors can use to determine the supervisory policies they apply to their home jurisdiction. In December 2010, the Basel Committee released its final framework for strengthening international capital and liquidity regulation, now officially identified as "Basel III." Basel III, when fully phased-in, would require bank holding companies and their bank subsidiaries to maintain substantially more capital than currently required, with a greater emphasis on common equity. The Basel III capital framework, among other things:

- introduces as a new capital measure, Common Equity Tier 1 ("CET1"), more commonly known in the United States as "Tier 1 Common," and defines CET1 narrowly by requiring that most adjustments to regulatory capital measures be made to CET1 and not to the other components of capital, and expands the scope of the adjustments as compared to existing regulations;
- when fully phased in, requires banks to maintain: (i) a newly adopted international standard, a minimum ratio of CET1 to risk-weighted assets of at least 4.5%, plus a 2.5% "capital conservation buffer" (which is added to the 4.5% CET1 ratio as that buffer is phased in, effectively resulting in a minimum ratio of CET1 to risk-weighted assets of at least 7%); (ii) an additional "SIFI buffer" for those large institutions deemed to be systemically important, ranging from 1.0% to 2.5%, and up to 3.5% under certain conditions; (iii) a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer (which is added to the 6.0% Tier 1 capital ratio as that buffer is phased in, effectively resulting in a minimum Tier 1 capital ratio of 8.5% upon full implementation); (iv) a minimum ratio of Total (that is, Tier 1 plus Tier 2) capital to risk-weighted assets of at least 8.0%, plus the capital conservation buffer (which is added to the 8.0% total capital ratio as that buffer is phased in, effectively resulting in a minimum total capital ratio of 10.5% upon full implementation); and (v) as a newly adopted international standard, a minimum leverage ratio of 3%, calculated as the ratio of Tier 1 capital to balance sheet exposures plus certain off-balance sheet exposures (as the average for each quarter of the month-end ratios for the quarter); and

- an additional “countercyclical capital buffer,” generally to be imposed when national regulators determine that excess aggregate credit growth becomes associated with a buildup of systemic risk, that would be a CET1 add-on to the capital conservation buffer in the range of 0% to 2.5% when fully implemented.

In July 2014, the U.S. banking agencies approved the U.S. version of Basel III. The federal bank regulatory agencies adopted version of Basel III revises the risk-based and leverage capital requirements and the method for calculating risk-weighted assets to make them consistent with Basel III and to meet the requirements of the Dodd-Frank Act. Although many of the rules contained in these final regulations are applicable only to large, internationally active banks, some of them will apply on a phased in basis to all banking organizations, including the Company and the Bank. Among other things, the rules establish a new minimum common equity Tier 1 ratio (4.5% of risk-weighted assets), a higher minimum Tier 1 risk-based capital requirement (6.0% of risk-weighted assets) and a minimum non-risk-based leverage ratio (4.00% eliminating a 3.00% exception for higher rated banks). The new additional capital conservation buffer of 2.5% of risk weighted assets over each of the required capital ratios will be phased in from 2016 to 2019 and must be met to avoid limitations on the ability of the Bank to pay dividends, repurchase shares or pay discretionary bonuses. The additional “countercyclical capital buffer” is also required for larger and more complex institutions. The new rules assign higher risk weighting to exposures that are more than 90 days past due or are on nonaccrual status and certain commercial real estate facilities that finance the acquisition, development or construction of real property. The rules also change the permitted composition of Tier 1 capital to exclude trust preferred securities, mortgage servicing rights and certain deferred tax assets and include unrealized gains and losses on available for sale debt and equity securities (with a one-time opt out option for Standardized Banks (banks with less than \$250 billion of total consolidated assets and less than \$10 billion of foreign exposures)). The rules, including alternative requirements for smaller community financial institutions like the Company, would be phased in through 2019. The implementation of the Basel III framework for the Company and the Bank commenced on January 1, 2015.

The Bank is well capitalized. As of December 31, 2015 and 2014, the Bank’s Total Risk-Based Capital Ratio was 12.2% and 14.5%, and our Tier 1 Risk-Based Capital Ratio was 11.1% and 13.2%, respectively. As of December 31, 2015, the Bank’s Common Equity Tier 1 Risk-Based Capital Ratio was 11.1%.

In addition to the risk-based guidelines, federal banking regulators require banking organizations to maintain a minimum amount of Tier 1 capital to total average assets, referred to as the leverage ratio. Banks that have received the highest rating of the five categories used by regulators to rate banks and are not anticipating or experiencing any significant growth must maintain a ratio of Tier 1 capital (net of all intangibles) to adjusted total assets, or “Leverage Capital Ratio”, of at least 3%. All other institutions are required to maintain a leverage ratio of at least 100 to 200 basis points above the 3% minimum, for a minimum of 4% to 5%. Pursuant to federal regulations, banks must maintain capital levels commensurate with the level of risk to which they are exposed, including the volume and severity of problem loans. As of December 31, 2015 and 2014, the Bank’s Leverage Capital Ratios were 9.1% and 10.2%, respectively.

Federal banking regulators may set capital requirements higher than the minimums described above for financial institutions whose circumstances warrant it. For example, a financial institution experiencing or anticipating significant growth may be expected to maintain capital positions substantially above the minimum supervisory levels without significant reliance on intangible assets.

A bank may be treated as though it were in the next lower capital category if, after notice and the opportunity for a hearing, the appropriate federal agency finds an unsafe or unsound condition or practice so warrants, but no bank may be treated as “critically undercapitalized” unless its actual capital ratio warrants such treatment.

At each successively lower capital category, an insured bank is subject to increased restrictions on its operations. For example, a bank is generally prohibited from paying management fees to any controlling persons or from making capital distributions, if to do so would make the Bank “undercapitalized.” Asset growth and branching restrictions apply to undercapitalized banks, which are required to submit written capital restoration plans meeting specified requirements (including a guarantee by the parent holding company, if any). “Significantly undercapitalized” banks are subject to broad regulatory authority, including among other things, capital directives, forced mergers, restrictions on the rates of interest they may pay on deposits, restrictions on asset growth and activities, and prohibitions on paying certain bonuses without FRB approval. Even more severe restrictions apply to critically undercapitalized banks. Most importantly, except under limited circumstances, the appropriate federal banking agency is required to appoint a conservator or receiver for an insured bank not later than 90 days after the Bank becomes critically undercapitalized.

In addition to measures taken under the prompt corrective action provisions, insured banks may be subject to potential actions by federal regulators for unsafe or unsound practices in conducting their businesses or for violations of any law, rule, regulation or any condition imposed in writing by the agency or any written agreement with the agency. Enforcement actions may include the issuance of cease and desist orders, termination of insurance of deposits (in the case of a bank), the imposition of civil money penalties, the issuance of directives to increase capital, formal and informal agreements, or removal and prohibition orders against “institution-affiliated” parties.

Dividends

The payment of cash dividends by the Bank to the Company is subject to restrictions set forth in the California Financial Code (the “Code”). Prior to any distribution from the Bank to the Company, a calculation is made to ensure compliance with the provisions of the Code and to ensure that the Bank remains within capital guidelines set forth by the DBO and the FRB. In the event that the intended distribution from the Bank to the Company exceeds the restriction in the Code, advance approval from FRB is required. Management anticipates that there will be sufficient earnings at the Bank level to provide dividends to the Company to meet its cash requirements for 2016.

Safety and Soundness Standards

Federal banking agencies have also adopted guidelines establishing safety and soundness standards for all insured depository institutions. Those guidelines relate to internal controls, information systems, internal audit systems, loan underwriting and documentation, compensation and interest rate exposure. In general, the standards are designed to assist the federal banking agencies in identifying and addressing problems at insured depository institutions before capital becomes impaired. If an institution fails to meet these standards, the appropriate federal banking agency may require the institution to submit a compliance plan and institute enforcement proceedings, if an acceptable compliance plan is not submitted.

Deposit Insurance and FDIC Insurance Assessments

Our deposits are insured by the FDIC to the maximum amount permitted by law, which is currently \$250,000 per depositor. The Dodd-Frank Act made the deposit insurance coverage permanent at the \$250,000 level retroactive to

January 1, 2008.

On February 7, 2011, as required by the Dodd-Frank Act, the FDIC approved a rule that changes the FDIC insurance assessment base from adjusted domestic deposits to a bank's average consolidated total assets minus average tangible equity, defined as Tier 1 capital. Since the new base is larger than the current base, the new rule lowers assessment rates to between 2.5 and 9 basis points on the broader base for banks in the lowest risk category, and 30 to 45 basis points for banks in the highest risk category. The change was effective beginning with the second quarter of 2011. Since we have a solid core deposit base and do not rely heavily on borrowings and brokered deposits, the benefit of the lower assessment rate (which has dropped by approximately half for us) significantly outweighed the effect of a wider assessment base.

The Dodd-Frank act also provided depositors at all FDIC-insured institutions with unlimited deposit insurance coverage on traditional checking accounts that do not pay interest and Interest on Lawyers Trust Accounts beginning December 31, 2010 through the end of 2012, when this provision expired.

Community Reinvestment Act

We are subject to certain requirements and reporting obligations involving the Community Reinvestment Act, or "CRA". The CRA generally requires federal banking agencies to evaluate the record of financial institutions in meeting the credit needs of local communities, including low and moderate-income neighborhoods. The CRA further requires that a record be kept of whether a financial institution meets its community credit needs, which record will be taken into account when evaluating applications for, among other things, domestic branches, consummating mergers or acquisitions, or holding company formations. In measuring a bank's compliance with its CRA obligations, the regulators now utilize a performance-based evaluation system, which bases CRA ratings on the Company's actual lending service and investment performance, rather than on the extent to which the institution conducts needs assessments, documents community outreach activities or complies with other procedural requirements. In connection with its assessment of CRA performance, the FRB assigns a rating of "outstanding," "satisfactory," "needs to improve" or "substantial noncompliance." Our CRA performance is evaluated by the FRB under the intermediate small bank requirements. The FRB's last CRA performance examination was performed on us and completed in July of 2013 and we received an overall "Satisfactory" CRA Assessment Rating.

Anti-Money Laundering Regulations

A series of banking laws and regulations beginning with the Bank Secrecy Act in 1970 require banks to prevent, detect, and report illicit or illegal financial activities to the federal government to prevent money laundering, international drug trafficking, and terrorism. Under the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, financial institutions are subject to prohibitions against specified financial transactions and account relationships as well as enhanced due diligence and “know your customer” standards in their dealings with high risk customers, foreign financial institutions, and foreign individuals and entities. We have extensive controls to comply with these requirements.

Privacy and Data Security

The Gramm-Leach Bliley Act (“GLBA”) of 1999 imposed requirements on financial institutions with respect to consumer privacy. The GLBA generally prohibits disclosure of consumer information to non-affiliated third parties unless the consumer has been given the opportunity to object and has not objected to such disclosure. Financial institutions are further required to disclose their privacy policies to consumers annually. The GLBA also directs federal regulators to prescribe standards for the security of consumer information. We are subject to such standards, as well as standards for notifying consumers in the event of a security breach. We must disclose our privacy policy to consumers and permit consumers to “opt out” of having non-public customer information disclosed to third parties. We are required to have an information security program to safeguard the confidentiality and security of customer information and to ensure proper disposal. Customers must be notified when unauthorized disclosure involves sensitive customer information that may be misused.

Other Consumer Protection Laws and Regulations

Bank regulatory agencies are increasingly focusing on compliance with consumer protection laws and regulations. Examination and enforcement has become intense, and banks have been advised to monitor compliance carefully with various consumer protection laws and their implementing regulations. For example, the federal Interagency Task Force on Fair Lending issued a policy statement on discrimination in home mortgage lending describing three methods that federal agencies will use to prove discrimination: overt evidence of discrimination, evidence of disparate treatment, and evidence of disparate impact. In addition to CRA and fair lending requirements, we are subject to numerous other federal consumer protection statutes and regulations. Due to heightened regulatory concern related to compliance with consumer protection laws and regulations generally, we may incur additional compliance costs or be required to expend additional funds for investments in the local communities we serve.

Restriction on Transactions between Member Banks and their Affiliates

Transactions between the Company and the Bank are quantitatively and qualitatively restricted under Sections 23A and 23B of the Federal Reserve Act and Federal Reserve Regulation W. Section 23A places restrictions on the Bank's "covered transactions" with the Company, including loans and other extensions of credit, investments in the securities of, and purchases of assets from the Company. Section 23B requires that certain transactions, including all covered transactions, be on market terms and conditions. Federal Reserve Regulation W combines statutory restrictions on transactions between the Bank and the Company with FRB interpretations in an effort to simplify compliance with Sections 23A and 23B.

The Sarbanes-Oxley Act of 2002

On July 30, 2002, President Bush signed into law The Sarbanes-Oxley Act of 2002, or "Sarbanes-Oxley Act". The Sarbanes-Oxley Act addresses accounting oversight and corporate governance matters relating to the operations of public companies. During 2003, the Commission issued a number of regulations under the directive of the Sarbanes-Oxley Act significantly increasing public company governance-related obligations and filing requirements, including:

- the establishment of an independent public oversight of public company accounting firms by a board that will set auditing, quality and ethical standards for and have investigative and disciplinary powers over such accounting firms,

- the enhanced regulation of the independence, responsibilities and conduct of accounting firms which provide auditing services to public companies,

- the increase of penalties for fraud related crimes,

- the enhanced disclosure, certification, and monitoring of financial statements, internal financial controls and the audit process, and

- the enhanced and accelerated reporting of corporate disclosures and internal governance.

Furthermore, in November 2003, in response to the directives of the Sarbanes-Oxley Act, NASDAQ adopted substantially expanded corporate governance criteria for the issuers of securities quoted on the NASDAQ markets. The new NASDAQ rules govern, among other things, the enhancement and regulation of corporate disclosure and internal governance of listed companies and of the authority, role and responsibilities of their boards of directors and, in particular, of “independent” members of such boards of directors, in the areas of nominations, corporate governance, compensation and the monitoring of the audit and internal financial control processes.

The Sarbanes-Oxley Act, the Commission rules promulgated thereunder, and the new NASDAQ governance requirements have required the Company to review its current procedures and policies to determine whether they comply with the new legislation and its implementing regulations. The Company is primarily responsible for ensuring compliance with Sarbanes-Oxley and the NASDAQ governance rules, as applicable.

Securities Laws and Corporate Governance

The Company is subject to the disclosure and regulatory requirements of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, both as administered by the SEC. As a company listed on the NASDAQ Global Select Market, the Company is subject to NASDAQ listing standards for listed companies.

As discussed above, we are also subject to the Sarbanes-Oxley Act of 2002, provisions of the Dodd-Frank Act, and other federal and state laws and regulations which address, among other issues, required executive certification of financial presentations, corporate governance requirements for board audit committees and their members, and disclosure of controls and procedures and internal control over financial reporting, auditing and accounting, executive compensation, and enhanced and timely disclosure of corporate information. NASDAQ has also adopted corporate governance rules, which are intended to allow shareholders and investors to more easily and efficiently monitor the performance of companies and their directors.

Finally, the Company is subject to the provisions of the California General Corporation Law, while the Bank is also subject to the California Financial Code provisions.

Environmental Regulations

In the course of our business, we may foreclose and take title to real estate, and could be subject to environmental liabilities with respect to these properties. We may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination, or may be required to investigate or clean up hazardous or toxic substances, or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, as the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. If we ever become subject to significant environmental liabilities, our business, financial condition, liquidity and results of operations could be materially and adversely affected.

Other Pending and Proposed Legislation

Other legislative and regulatory initiatives which could affect us and the banking industry, in general, are pending and additional initiatives may be proposed or introduced before the United States Congress, the California legislature and other governmental bodies in the future. Such proposals, if enacted, may further alter the structure, regulation and competitive relationship among financial institutions, and may subject us to increased regulation, disclosure and reporting requirements. In addition, the various banking regulatory agencies often adopt new rules and regulations to implement and enforce existing legislation. We cannot predict whether, or in what form, any such legislation or regulations may be enacted or the extent to which our business would be affected thereby.

Available Information

The Company maintains an Internet website at <http://www.ovcb.com>. The Company makes available its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to such reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and other information related to the Company free of charge, through this site as soon as reasonably practicable after it electronically files those documents with, or otherwise furnishes them to, the SEC. The Company's website also contains its Committee Charters, Code of Ethics, Code of Conduct and Corporate Governance Guidelines. The Company's internet website and the information contained therein or connected thereto are not intended to be incorporated into this annual report on Form 10-K.

In addition, copies of our filings are available by requesting them in writing or by phone from:

Corporate Secretary

Oak Valley Bancorp

125 North Third Avenue
Oakdale, California

209-844-7578

ITEM 1A. RISK FACTORS

Not applicable.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our main office is located in a complex at 125 North Third Avenue, Oakdale, CA 95361, in downtown Oakdale and houses our primary loan production, operations, and administrative offices. The building has an automated teller machine and onsite parking. The Company's Oakdale complex includes the adjacent corporate headquarter building and occupies approximately 20,000 square feet of space.

Property Location and Address	Square Footage	Lease Expiration Date	Lease Extension Options
Oakdale, 125 N. 3rd Ave.	9,600	n/a*	n/a*
Oakdale, 338 F Street	9,860	n/a*	n/a*
Sonora, 14580 Mono Way	2,500	4/2018	two, 5-year term extensions
Modesto, 12th & I Street	4,500	3/2021	one, 5-year term extensions
Bridgeport, 166 Main Street	2,875	n/a*	n/a*
Mammoth Lakes, 170 Mountain Blvd.	1,856	n/a*	n/a*
Bishop, 351 North Main Street	3,680	8/2019	one, 5-year term extensions
Modesto, 4120 Dale Road	4,500	3/2021	one, 5-year term extensions
Turlock, 2001 Geer Road	2,400	1/2020	one, 5-year term extensions
Patterson, 20 Plaza Circle	2,100	n/a*	n/a*
Escalon, 1910 McHenry Ave.	3,500	4/2021	two, 5-year term extensions
Ripon, 150 North Wilma Ave.	1,800	12/2020	No remaining extensions
Stockton, 2935 West March Lane	8,000	12/2022	two, 5-year term extensions
Modesto, 3508 McHenry Ave.	5,400	n/a*	n/a*
Manteca, 191 W. North St.	2,800	5/2021	one, 5-year term extensions
Tracy, 1034 N. Central Ave.	5,000	7/2024	two, 5-year term extensions
Sonora, 85 Mono Way	4,000	12/2030	two, 5-year term extensions

* The Company owns this property.

Management has determined that all of its premises are adequate for its present and anticipated level of business.

ITEM 3. LEGAL PROCEEDINGS

From time to time, the Company is a party to claims and legal proceedings arising in the ordinary course of business. Our management evaluates its exposure to these claims and proceedings individually and in the aggregate and provides for potential losses on such litigation if the amount of the loss is estimable and the loss is probable.

To our knowledge, there are no material litigation matters pending at the current time. Although the results of any such litigation matters and claims cannot be predicted with certainty, we believe that the final outcome of any such claims and proceedings will not have a material adverse impact on the Company's financial position, liquidity, or results of operations.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.****Price Range of Common Stock**

Our common stock is traded on the NASDAQ Capital Market under the symbol "OVLY." The following table sets forth the high and low closing bid prices (which reflect prices between dealers and do not include retail markup, markdown or commission and may not represent actual transactions) for the two calendar years ended December 31, 2015 and 2014, respectively. From time to time, during the periods indicated, trading activity in our common stock was infrequent. The source of the quotes is The NASDAQ Stock Market, LLC.

For Calendar Quarter Ended	Closing Sale Price	
	High	Low
March 31, 2014	\$ 12.48	\$ 8.25
June 30, 2014	\$ 10.22	\$ 9.42
September 30, 2014	\$ 10.50	\$ 9.44
December 31, 2014	\$ 10.75	\$ 9.47
March 31, 2015	\$ 11.75	\$ 8.87
June 30, 2015	\$ 10.50	\$ 8.99
September 30, 2015	\$ 10.40	\$ 9.29
December 31, 2015	\$ 11.35	\$ 9.26

On March 18, 2016, the closing price of our common stock was \$9.61 per share; and there were approximately 422 shareholders of record of the common stock and 8,088,155 outstanding shares of common stock.

Dividends

Our ability to pay any cash dividends will depend not only upon our earnings during a specified period, but also on our meeting certain capital requirements.

Dividends the Company declares are subject to the restrictions set forth in the California General Corporation Law (the "Corporation Law"). The Corporation Law provides that a corporation may make a distribution to its shareholders if the corporation's retained earnings equal at least the amount of the proposed distribution. The Corporation Law also provides that, in the event that sufficient retained earnings are not available for the proposed distribution, a corporation may nevertheless make a distribution to its shareholders if it meets two conditions, which generally stated are as follows: (i) the corporation's assets equal at least 1 and 1/4 times its liabilities, and (ii) the corporation's current assets equal at least its current liabilities or, if the average of the corporation's earnings before taxes on income and before interest expenses for the two preceding fiscal years was less than the average of the corporation's interest expenses for such fiscal years, then the corporation's current assets must equal at least 1 and 1/4 times its current liabilities.

Additionally, the Federal Reserve Board has authority to limit the payment of dividends by bank holding companies, such as the Company, in certain circumstances, requiring, among other things, a holding company to consult with the Federal Reserve Board prior to payment of a dividend if the company does not have sufficient recent earnings in excess of the proposed dividend.

The principal source of funds from which the Company may pay dividends is the receipt of dividends from the Bank. The availability of dividends from the Bank is limited by various statutes and regulations. The Bank is subject first to corporate restrictions on its ability to pay dividends. Further, the Bank may not pay a dividend if it would be undercapitalized after the dividend payment is made. The payment of cash dividends by the Bank is subject to restrictions set forth in the California Financial Code (the "Financial Code"). The Financial Code provides that a bank may not make a cash distribution to its shareholders in excess of the lesser of (a) bank's retained earnings; or (b) bank's net income for its last three fiscal years, less the amount of any distributions made by the bank or by any majority-owned subsidiary of the bank to the shareholders of the bank during such period. However, a bank may, with the approval of the DBO, make a distribution to its shareholders in an amount not exceeding the greatest of (a) its retained earnings; (b) its net income for its last fiscal year; or (c) its net income for its current fiscal year. In the event that the DBO determines that the shareholders' equity of a bank is inadequate or that the making of a distribution by the bank would be unsafe or unsound, the DBO may order the bank to refrain from making a proposed distribution. The FDIC may also restrict the payment of dividends if such payment would be deemed unsafe or unsound or if after the payment of such dividends, the bank would be included in one of the "undercapitalized" categories for capital adequacy purposes pursuant to federal law.

While the Federal Reserve Board has no general restriction with respect to the payment of cash dividends by an adequately capitalized bank to its parent holding company, the Federal Reserve Board might, under certain circumstances, place restrictions on the ability of a particular bank to pay dividends based upon peer group averages and the performance and maturity of the particular bank, or object to management fees to be paid by a subsidiary bank to its holding company on the basis that such fees cannot be supported by the value of the services rendered or are not the result of an arm's length transaction.

Shareholders are entitled to receive dividends only when and if dividends are declared by our Board of Directors. Although we have paid dividends in the past, it is no guarantee that we will pay cash dividends in the future. No dividends were paid for the year ended December 31, 2013. During 2014, two cash dividends were paid, a \$0.10 per common share dividend in January and a \$0.065 per common share dividend in July. During 2015, two cash dividends were paid, a \$0.10 per common share dividend in January and a \$0.11 per common share dividend in July.

Equity Compensation Plan Information

The following table provides information as of December 31, 2015 with respect to shares of our common stock that are issued and currently outstanding under the Company's 1998 Restated Stock Option Plan (the "1998 Restated Stock Option Plan"), and the number of shares that are authorized to be issued under the Company's 2008 Equity Plan (the "2008 Equity Plan").

Plan Category	A Number of Securities to be	B Weighted Average	C Number of Securities
	Issued Upon Exercise	Exercise Price of Outstanding Options	Remaining Available for
	of Outstanding Options		Future Issuance Under 2008
			Equity Plan (Excluding Securities

			Reflected in Column A)
Equity Compensation Plans Approved by Shareholders	33,000	\$ 12.13	1,312,820
Equity Compensation Plans Not Approved by Shareholders	0	0	0
Total	33,000	\$ 12.13	1,312,820

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

Not applicable.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

The following discussion of financial condition as of December 31, 2015 and 2014 and results of operations for each of the years in the two-year period ended December 31, 2015 should be read in conjunction with our consolidated financial statements and related notes thereto, included in this report. Average balances, including balances used in calculating certain financial ratios, are generally comprised of average daily balances.

Forward-Looking Statements

This discussion of financial results includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, (the "1933 Act") and Section 21E of the Securities Exchange Act of 1934, as amended, (the "1934 Act"). Those sections of the 1933 Act and 1934 Act provide a "safe harbor" for forward-looking statements to encourage companies to provide prospective information about their financial performance so long as they provide meaningful, cautionary statements identifying important factors that could cause actual results to differ significantly from projected results.

Our forward-looking statements include descriptions of plans or objectives of Management for future operations, products or services, and forecasts of our revenues, earnings or other measures of economic performance. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They often include the words "believe," "expect," "intend," "estimate" or words of similar meaning, or future or conditional verbs such as "will," "would," "should," "could" or "may."

Forward-looking statements are based on Management's current expectations regarding economic, legislative, and regulatory issues that may impact our earnings in future periods. A number of factors - many of which are beyond Management's control - could cause future results to vary materially from current Management's expectations. Such factors include, but are not limited to, general economic conditions, the current financial turmoil in the United States and abroad, changes in interest rates, deposit flows, real estate values and industry competition; changes in accounting principles, policies or guidelines; changes in legislation or regulation; and other economic, competitive, governmental, regulatory and technological factors affecting our operations, pricing, products and services. Forward-looking statements speak only as of the date they are made. We do not undertake to update forward-looking statements to reflect circumstances or events that occur after the date the forward-looking statements are made or to reflect the occurrence of unanticipated events.

Introduction

Our continued focus on responsible community banking fundamentals and our strong customer relationships have enabled us to increase our market presence through growth in our loan portfolio which is primarily funded by steady core deposit growth.

As of December 31, 2015, we had approximately \$897 million in total assets, \$541 million in total gross loans, and \$815 million in total deposits. These figures include \$79 million in total assets, \$43 million in total net loans, and \$71 million in total deposits of Mother Lode Bank that were brought in upon the merger of Mother Lode Bank into the Bank.

We believe the following were key indicators of our performance during 2015:

our total assets increased to \$897 million at the end of 2015, an increase of 19.7%, from \$750 million at the end of 2014. The acquisition of Mother Lode Bank is attributable for \$79 million or 53% of the 2015 growth.

our total deposits increased to \$815 million at the end of 2015, an increase of 21.7%, from \$670 million at the end of 2014. The acquisition of Mother Lode Bank is attributable for \$71 million or 49% of the 2015 growth.

our total net loans increased to \$530 million at the end of 2015, an increase of 18.8%, from \$446 million at the end of 2014. The acquisition of Mother Lode Bank is attributable for \$43 million or 51% of the 2015 growth.

net interest income increased \$116,000 or 0.5% in 2015 compared to 2014, mainly as a result of growth of our loan and investment portfolios. The acquisition of Mother Lode Bank is attributable for \$57,000 or 49% of the 2015 growth.

reversal of provision for loan losses decreased \$1.8 million or 93.3% to a reversal of provision of \$125,000 compared to \$1.9 million in 2014, due to a loan recovery as described below.

our ratio of total non-performing loans to total loans increased to 1.22% at December 31, 2015 from 1.03% at December 31, 2014. Non-performing loans acquired from Mother Lode Bank were 0.62% of the acquired total loans. Management considers that the size of the ratio of non-performing assets to total loans is moderate and manageable, and reserves have been taken appropriately.

total noninterest income increased to \$4.1 million in 2015, an increase of 9.1%, from \$3.8 million in 2014, which is mainly attributable to our growing deposit account base. The acquisition of Mother Lode Bank is attributable for \$7,000 or 2% of the 2015 growth.

total noninterest expense increased from \$20.2 million in 2014 to \$22.7 million in 2015, primarily due to the merger related expenses of \$1.97 million associated with the acquisition of Mother Lode Bank.

These items, as well as other factors, such as the acquisition of Mother Lode Bank, contributed to the decrease in net income for 2015 to \$4.91 million from \$7.12 million in 2014, which translates into \$0.61 per diluted share in 2015 as compared to \$0.89 per diluted share in 2014.

Over the past several years, our network of branches and loan production offices have expanded geographically. We currently maintain sixteen full-service offices. We intend to continue our growth strategy in future years through the opening of additional branches and loan production offices as our needs and resources permit.

2016 Outlook

As we begin our strategic business plan for 2016, we remained focused on relationship based expansion throughout our market area. We will continue to focus on increasing our loan-to-deposit ratio to expand our net interest margin, while attempting to control expenses and credit losses.

The decline of market interest rates to historic lows over the past years, has had a negative impact on net interest income despite the slight increase recognized during 2015, which was primarily due to growth of earning assets. We expect the low interest rate environment could have a similar impact in 2016 unless interest rates begin to increase significantly. The potential compression of net interest income and net interest margin would be a likely outcome if interest rates remain static or decline, given that our balance sheet is asset sensitive to interest rate changes primarily due to the number of variable rate loans and a high level of interest-earning cash balances. This could in turn result in further decrease on the yield of earning assets compared to the cost of deposits and other funds, which have already reached a floor which cannot reasonably be further reduced.

Recent trends in our economy prompted the FOMC to increase the target federal funds by 0.25% in December 2015 and it's likely that interest rates may continue to rise during 2016 at a moderate pace. Given our asset sensitive balance sheet, we expect a favorable impact on net interest income from interest rate increases. If we experience an increase in our yield on earnings assets we could then determine to increase the interest rates we pay on our deposit accounts or change our promotional or other interest rates on new deposits in marketing activation programs to attempt to achieve a certain net interest margin. In light of the current economic environment, it may not be possible to manage the interest margin in this manner, as competitive pressures may dictate that we increase deposit rates at a faster rate than the earning assets increase, thereby offsetting any gains to the net interest margin. Any increases in the rates we charge on accounts could have an effect on our efforts to attract new customers and grow loans, particularly with the continuing competition in the commercial and consumer lending industry. The economies and real estate markets in our primary market areas will continue to be significant determinants of the quality of our assets in future periods and, thus, our results of operations, liquidity and financial condition. While published economic data indicates that the downturn is behind us, it is not clear at what speed the economy will recover.

For 2016, management remains focused on the above challenges and opportunities and other factors affecting the business similar to the factors driving 2015 results as discussed in this section.

Holding Company

Effective July 3, 2008, Oak Valley Community Bank became a subsidiary of Oak Valley Bancorp, a newly established bank holding company. Oak Valley Bancorp operates Oak Valley Community Bank as a community bank in the general commercial banking business, with our primary market encompassing the California Central Valley around Oakdale and Modesto, and the Eastern Sierras. As such, unless otherwise noted, all references are about Oak Valley Bancorp.

In the bank holding company reorganization, all outstanding shares of common stock of the Bank were exchanged for an equal number of shares of common stock of Oak Valley Bancorp, which now owns the Bank as its wholly-owned subsidiary. Management believes that operating the Bank within a holding company structure, among other things:

provides greater operating flexibility than is currently enjoyed by us.

facilitates the acquisition of related businesses as opportunities arise.

improves our ability to diversify.

enhances our ability to remain competitive in the future with other companies in the financial services industry that are organized in a holding company structure.

enhances our ability to raise capital to support growth.

The financial statements and discussion thereof contained in this report for periods subsequent to the reorganization relate to the consolidated financial statements of Oak Valley Bancorp.

Critical Accounting Policies

Critical accounting policies are those that are both most important to the portrayal of our financial condition and results of operations and require management's most difficult, subjective, or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

The discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and judgments that effect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities at the date of our financial statements. Actual results may differ from these estimates under different assumptions or conditions. In addition, GAAP itself may change from one previously acceptable method to another method, although the economics of our transactions would be the same.

Management has determined the following accounting policies to be critical:

Asset Impairment Judgments

Certain of our assets are carried in our consolidated balance sheets at fair value or at the lower of cost or fair value. Valuation allowances are established when necessary to recognize impairment of such assets. We periodically perform analyses to test for impairment of various assets. In addition to our impairment analyses related to loans, another significant impairment analysis relates to other than temporary declines in the value of our securities.

Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired and are carried at fair value or below. Appraisals are done periodically on impaired loans and if required an allowance is established based on the fair value of collateral less the cost related to liquidation of the collateral. In some circumstances, an impaired loan may be charged off to bring the carrying value to fair value.

Other real estate assets (“OREO”) acquired through, or in lieu of, foreclosure are held-for-sale and are initially recorded at the lower of cost or fair value, less selling costs. Any write-downs to fair value at the time of transfer to OREO are charged to the allowance for loan losses, subsequent to foreclosure. Appraisals or evaluations are then done periodically thereafter charging any additional write-downs or valuation allowances to the appropriate expense accounts.

Net realizable value of the underlying collateral is the fair value of the collateral less estimated selling costs and any prior liens. Appraisals, recent comparable sales, offers and listing prices are factored in when valuing the collateral. We review and verify the qualifications and licenses of the certified general appraisers used for appraising commercial properties or certified residential appraisers for residential properties. Real estate appraisals may utilize a combination of approaches including replacement cost, sales comparison and the income approach. Comparable sales and income data are analyzed by the appraisers and adjusted to reflect differences between them and the subject property such as type, leasing status and physical condition. When the appraisals are received, Management reviews the assumptions and methodology utilized in the appraisal, as well as the overall resulting value in conjunction with independent data sources such as recent market data and industry-wide statistics. We generally use a 6% discount for selling costs which is applied to all properties, regardless of size. Appraised values may be adjusted to reflect changes in market conditions that have occurred subsequent to the appraisal date, or for revised estimates regarding the timing or cost of the property sale. These adjustments are based on qualitative judgments made by management on a case-by-case basis.

Our available for sale portfolio is carried at estimated fair value, with any unrealized gains and losses, net of taxes, reported as accumulated other comprehensive income in shareholders' equity. We conduct a periodic review and evaluation of the securities portfolio to determine if the value of any security has declined below its carrying value and whether such decline is other than temporary. If such decline is deemed other than temporary, we would adjust the carrying amount of the security by writing down the security to fair value through a charge to current period income. The fair values of our securities are significantly affected by changes in interest rates.

In general, as interest rates rise, the fair value of fixed-rate securities will decrease; as interest rates fall, the fair value of fixed-rate securities will increase. With significant changes in interest rates, we evaluate our intent and ability to hold the security for a sufficient time to recover the recorded principal balance. Estimated fair values for securities are based on published or securities dealers' market values. Market volatility is unpredictable and may impact such values.

Allowance for Loan Losses

Credit risk is inherent in the business of lending and making commercial loans. Accounting for our allowance for loan losses involves significant judgment and assumptions by management and is based on historical data and management's view of the current economic environment. At least on a quarterly basis, our management reviews the methodology and adequacy of allowance for loan losses and reports its assessment to the Board of Directors for its review and approval.

The allowance for loan losses is an estimate of probable incurred losses with regard to our loans. Our loan loss provision for each period is dependent upon many factors, including loan growth, net charge-offs, changes in the composition of the loans, delinquencies, management's assessment of the quality of the loans, the valuation of problem loans and the general economic conditions in our market area. We base our allowance for loan losses on an estimation of probable losses inherent in our loan portfolio.

Our methodology for assessing loan loss allowances are intended to reduce the differences between estimated and actual losses and involves a detailed analysis of our loan portfolio, in three phases:

the specific review of individual loans,

the segmenting and review of loan pools with similar characteristics, and

our judgmental estimate based on various subjective factors:

The first phase of our methodology involves the specific review of individual loans to identify and measure impairment. We evaluate each loan by use of a risk rating system, except for homogeneous loans, such as automobile loans and home mortgages. Specific risk rated loans are deemed impaired if all amounts, including principal and interest, will likely not be collected in accordance with the contractual terms of the related loan agreement. Impairment for commercial and real estate loans is measured either based on the present value of the loan's expected future cash flows or, if collection on the loan is collateral dependent, the estimated fair value of the collateral, less selling and holding costs.

The second phase involves the segmenting of the remainder of the risk rated loan portfolio into groups or pools of loans, together with loans with similar characteristics, for evaluation. We determine the calculated loss ratio to each loan pool based on its historical net losses and benchmark it against the levels of other peer banks.

In the third phase, we consider relevant internal and external factors that may affect the collectability of loan portfolio and each group of loan pool. The factors considered are, but are not limited to:

concentration of credits,

nature and volume of the loan portfolio,

delinquency trends,

non-accrual loan trend,

problem loan trend,

loss and recovery trend,

quality of loan review,

lending and management staff,

lending policies and procedures,

economic and business conditions, and

other external factors.

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Our management estimates the probable effect of such conditions based on our judgment, experience and known or anticipated trends. Such estimation may be reflected as an additional allowance to each group of loans, if necessary. Management reviews these conditions with our senior credit officers. To the extent that any of these conditions is evidenced by a specifically identifiable problem credit or portfolio segment as of the evaluation date, management's estimate of the effect of such condition may be reflected as a specific allowance applicable to such credit or portfolio segment. Where any of these conditions is not evidenced by a specific, identifiable problem credit or portfolio segment as of the evaluation date, management's evaluation of the inherent loss related to such condition is reflected in the unallocated allowance.

Central to our credit risk management and our assessment of appropriate loss allowance is our loan risk rating system. Under this system, the originating credit officer assigns borrowers an initial risk rating based on a thorough analysis of each borrower's financial capacity in conjunction with industry and economic trends. Approvals are made based upon the amount of inherent credit risk specific to the transaction and are reviewed for appropriateness by senior line and credit administration personnel. Credits are monitored by line and credit administration personnel for deterioration in a borrower's financial condition which may impact the ability of the borrower to perform under the contract. Although management has allocated a portion of the allowance to specific loans, specific loan pools, and off-balance sheet credit exposures (which are reported separately as part of other liabilities), the adequacy of the allowance is considered in its entirety.

It is the policy of management to maintain the allowance for loan losses at a level adequate for risks inherent in the overall loan portfolio, however, the loan portfolio can be adversely affected if the state of California's economic conditions and its real estate market in our general market area were to further deteriorate or weaken. Additionally, further weakness of a prolonged nature in the agricultural and general economy would have a negative impact on the local market. The effect of such economic events, although uncertain and unpredictable at this time, could result in an increase in the levels of nonperforming loans and additional loan losses, which could adversely affect our future growth and profitability. No assurance of the level of predicted credit losses can be given with any certainty.

Non-Accrual Loan Policy

Interest on loans is credited to income as earned and is accrued only if deemed collectible. Accrual of interest is discontinued when a loan is over 90 days delinquent or if management believes that collection is highly uncertain. Generally, payments received on nonaccrual loans are recorded as principal reductions. Interest income is recognized after all principal has been repaid or an improvement in the condition of the loan has occurred that would warrant resumption of interest accruals.

Income Taxes

Deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities. Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled using the liability method. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

The Company files income tax returns in the U.S. federal jurisdiction, and the state of California. With few exceptions, the Company is no longer subject to U.S. federal or state/local income tax examinations by tax authorities for years before 2011.

Fair Value Measurements

We use fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. We base our fair values on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Securities available for sale, derivatives, and loans held for sale, if any, are recorded at fair value on a recurring basis. Additionally, from time to time, we may be required to record certain assets at fair value on a non-recurring basis, such as certain impaired loans held for investment and securities held to maturity that are other-than-temporarily impaired. These non-recurring fair value adjustments typically involve write-downs of individual assets due to application of lower-of-cost or market accounting.

We have established and documented a process for determining fair value. We maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements. Whenever there is no readily available market data, management uses its best estimate and assumptions in determining fair value, but these estimates involve inherent uncertainties and the application of management's judgment. As a result, if other assumptions had been used, our recorded earnings or disclosures could have been materially different from those reflected in these financial statements. For detailed information on our use of fair value measurements and our related valuation methodologies, see Note 16 to the Consolidated Financial Statements in Item 8 of this Form 10-K.

Recently Issued Accounting Standards

In January 2014, the FASB issued ASU No. 2014 – 01, Investments – Equity Method and Joint Ventures (Topic 323), Accounting for Investments in Qualified Affordable Housing Projects. This Update provides guidance on accounting for investments by a reporting entity in flow-through limited liability entities that manage or invest in affordable housing projects that qualify for the low-income housing tax credit. The amendments in this Update permit reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). The amendments in this Update are effective for public business entities for annual periods and interim reporting periods within those annual periods, beginning after December 15, 2014. The adoption of ASU No. 2014-01 did not have a material impact on the Company's consolidated financial statements.

In January 2014, the FASB issued ASU No. 2014 – 04, Receivables – Troubled Debt Restructurings by Creditors. This ASU provides clarification that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The amendments in this ASU are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. The adoption of ASU No. 2014-04 did not have a material impact on the Company's consolidated financial statements.

In August 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-14 *Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40), Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure*. This update addresses classification of

government-guaranteed mortgage loans, including those where guarantees are offered by the Federal Housing Administration (“FHA”), the U.S. Department of Housing and Urban Development (“HUD”), and the U.S. Department of Veterans Affairs (“VA”). Although current accounting guidance stipulates proper measurement and classification in situations where a creditor obtains from a debtor, assets in satisfaction of a receivable (such as through foreclosure), current guidance does not specify how to measure and classify foreclosed mortgage loans that are government-guaranteed. Under the provisions of this update, a creditor would derecognize a mortgage loan that has been foreclosed upon, and recognize a separate receivable if the following conditions are met: (1) the loan has a government guarantee that is not separable from the loan before foreclosure, (2) At the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim, (3) At the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. The amendments within this update are effective for annual and interim periods beginning after December 15, 2014. The adoption of ASU No. 2014-14 did not have a material impact on the Company's consolidated financial statements.

In September, 2015, the FASB issued ASU No. 2015-16, Simplifying the Accounting for Measurement Period Adjustments (Topic 805). This ASU eliminates the requirement to restate prior period financial statements for measurement period adjustments to assets acquired and liabilities assumed in a business combination. The new guidance under this update requires the cumulative impact of measurement period adjustments be recognized in the period the adjustment is determined. This update does not change what constitutes a measurement period adjustment, nor does it change the length of the measurement period. The new standard is effective for interim annual periods beginning after December 15, 2015 and should be applied prospectively to measurement period adjustments that occur after the effective date. The adoption of this update did not have a material impact on the Company's consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments in this ASU make improvements to GAAP related to financial instruments that include the following as applicable to us.

Equity investments, except for those accounted for under the equity method of accounting or those that result in consolidation of the investee, are required to be measured at fair value with changes in fair value recognized in net income. However, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer.

Simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment - if impairment exists, this requires measuring the investment at fair value.

Eliminates the requirement for public companies to disclose the method(s) and significant assumptions used to estimate the fair value that is currently required to be disclosed for financial instruments measured at amortized cost on the balance sheet.

Public companies will be required to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes.

Requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements.

The reporting entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets.

ASU 2016-01 is effective for public business entities for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. This ASU will impact our financial statement disclosures, however, we do not expect this ASU to have a material impact on our financial condition or results of operations.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). This ASU was issued to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities, including leases classified as operating leases under previous GAAP, on the balance sheet and requiring additional disclosures of key information about leasing arrangements. ASU 2016-02 is effective for annual periods, including interim periods within those annual periods beginning after December 15, 2018 and requires a modified retrospective approach to adoption. Early application of the amendments is permitted. We are currently evaluating the provisions of this ASU and will be monitoring developments and additional guidance to determine the potential outcome the amendments will

have on our financial condition and results of operations.

Results of Operations

The Company earns income from two primary sources. The first is net interest income, which is interest income generated by earning assets less interest expense on interest-bearing liabilities. The second is noninterest income, which primarily consists of deposit service charges and fees, the increase in cash surrender value of life insurance and mortgage commissions. The majority of the Company's noninterest expenses are operating costs that relate to providing a full range of banking services to our customers.

Overview

We recorded net income for the year ended December 31, 2015 of \$4,908,000 or \$0.61 per diluted share compared to \$7,122,000 or \$0.89 per diluted share for the year ended December 31, 2014. The decrease in net income for the year ended December 31, 2015 was primarily due to an increase of \$2,441,000 in non-interest expense, mainly from the \$1,971,000 in merger related expenses and an increase in overhead from the new Tracy and Sonora branches that were opened in December 2014 and December 2015, respectively. Contributing to the net income decrease in 2015 was a decrease of \$1,752,000 in reversals of provision for loan losses. Partially offsetting these factors was an increase of \$116,000 in net interest income, an increase in non-interest income of \$343,000 and a decrease in income tax provision of \$1,520,000 due to lower levels of pre-tax earnings.

Highlights of the financial results are presented in the following table:

(Dollars in thousands, except per share data)	As of and for the years ended					
	December 31,					
	2015	2014	2013			
For the period:						
Net income available to common shareholders	\$4,908	\$7,122	\$5,819			
Net income per common share:						
Basic	\$0.61	\$0.90	\$0.75			
Diluted	\$0.61	\$0.89	\$0.74			
Return on average common equity	6.41	% 10.07	% 9.07	%		
Return on average assets	0.63	% 1.03	% 0.90	%		
Common stock dividend payout ratio of earnings during the period	34.54	% 18.54	% 13.51	%		
Efficiency ratio	68.07	% 67.03	% 65.65	%		
At period end:						
Book value per common share	\$9.69	\$9.29	\$8.14			
Total assets	\$897,038	\$749,665	\$671,853			
Total gross loans	\$541,032	\$454,471	\$419,438			
Total deposits	\$814,691	\$669,581	\$602,633			
Net loan-to-deposit ratio	65.10	% 66.68	% 68.23	%		

Net Interest Income and Net Interest Margin

Our primary source of revenue is net interest income, which is the difference between interest and fees derived from earning assets and interest paid on liabilities obtained to fund those assets. Our net interest income is affected by changes in the level and mix of interest-earning assets and interest-bearing liabilities, referred to as volume changes. Our net interest income is also affected by changes in the yields earned on assets and rates paid on liabilities, referred to as rate changes. Interest rates charged on our loans are affected principally by the demand for such loans, the supply of money available for lending purposes and competitive factors. Those factors are, in turn, affected by general economic conditions and other factors beyond our control, such as federal economic policies, the general supply of money in the economy, legislative tax policies, the governmental budgetary matters, and the actions of the Federal Reserve Board.

For a detailed analysis of interest income and interest expense, see the “Average Balance Sheets” and the “Rate/Volume Analysis” below.

(Dollars in Thousands)	Distribution, Yield and Rate Analysis of Net Income					
	For the Years Ended December 31,					
	2015			2014		
	Average	Interest	Avg	Average	Interest	Avg
	Balance	Income/	Rate/	Balance	Income/	Rate/
		Expense	Yield		Expense	Yield
Assets:						
Earning assets:						
Gross loans (1) (2)	\$466,509	\$22,055	4.73 %	\$430,448	\$22,018	5.12 %
Securities of U.S. government agencies	8,287	141	1.70 %	11,139	212	1.90 %
Other investment securities (2)	117,756	4,402	3.74 %	110,261	4,248	3.85 %
Federal funds sold	13,842	34	0.25 %	16,426	38	0.23 %
Interest-earning deposits	111,790	304	0.27 %	65,377	179	0.27 %
Total interest-earning assets	718,184	26,936	3.75 %	633,651	26,695	4.21 %
Total noninterest earning assets	57,356			59,367		
Total Assets	\$775,540			\$693,018		
Liabilities and Shareholders' Equity:						
Interest-bearing liabilities:						
Business Interest DDA	20,587	8	0.04 %	16,338	7	0.04 %
Money market deposits	266,856	283	0.11 %	238,736	277	0.12 %
NOW deposits	112,472	77	0.07 %	97,080	69	0.07 %
Savings deposits	48,130	55	0.11 %	39,820	43	0.11 %
Time certificates over \$250,000	14,564	26	0.18 %	10,141	32	0.32 %
Other time deposits	32,936	166	0.50 %	40,831	219	0.54 %
Other borrowings	12	0	0.00 %	2	0	0.08 %
Total interest-bearing liabilities	495,557	615	0.12 %	442,948	647	0.15 %
Noninterest-bearing liabilities:						
Noninterest-bearing deposits	199,446			175,329		
Other liabilities	3,999			4,047		
Total noninterest-bearing liabilities	203,445			179,376		
Shareholders' equity	76,538			70,694		
Total liabilities and shareholders' equity	\$775,540			\$693,018		
Net interest income		\$26,321			\$26,048	
Net interest spread (3)			3.63 %			4.06 %
Net interest margin (4)			3.66 %			4.11 %

(1) Loan fees have been included in the calculation of interest income.

(2)

Yields on municipal securities and loans have been adjusted to their fully-taxable equivalents (FTE), based on a federal marginal tax rate of 34.0%.

(3) Represents the average rate earned on interest-earning assets less the average rate paid on interest-bearing liabilities.

(4) Represents net interest income as a percentage of average interest-earning assets.

Net interest income, on a fully tax equivalent basis (FTE), increased \$273,000 or 1.1% to \$26,321,000 for the year ended December 31, 2015, compared to \$26,048,000 in 2014. Net interest spread and net interest margin were 3.63% and 3.66%, respectively, for the year ended December 31, 2015, compared to 4.06% and 4.11%, respectively, for the year ended December 31, 2014. Overall, the Company has experienced net interest margin compression since the economic downturn in 2008 for several reasons: 1) deposit interest rates have essentially reached a threshold from which they cannot reasonably be further reduced, 2) competition in the lending market has driven new loan rates down, 3) loan and investment portfolio yields continue to decrease due to contractual repricing and 4) deposit growth has out-paced loan growth and the elevated interest-bearing cash balances, which yield approximately 0.25%, have compressed our net interest margin.

The cost of funds on interest-bearing liabilities decreased 3 basis points in 2015 compared to 2014, due to moderate rate reductions across all deposit products and a shift from high cost CDs into demand deposit and savings accounts. In addition, average non-interest-bearing demand deposit balances increased by \$24,117,000 in 2015 compared to 2014, further reducing our cost of funds.

Our earning asset yield decreased 46 basis points in 2015 compared to 2014. The yield on loans recognized a reduction of 39 basis points for 2015 compared to 2014, which was minimized due to the significant portion of our loans that are at their contractual rate floors. In addition, the large majority of our variable loans are tied to the U.S. Treasury Constant Maturity Indices with repricing intervals between one and five years. This decrease in loan yield was primarily a result of competitive pressure on the pricing of new loan fundings. The drop in loan yield was offset by deploying a portion of the low yielding cash equivalent balances into loan and investment balances which recognized increased average balances of \$36,061,000 and \$4,643,000, respectively, in 2015 as compared to 2014.

Changes in volume resulted in an increase in net interest income (FTE) of \$2,174,000 for the year of 2015 compared to the year 2014, and changes in interest rates and the mix resulted in a decrease in net interest income (FTE) of \$1,901,000 for the year 2015 versus the year 2014. Management closely monitors both total net interest income and the net interest margin.

Market rates are in part based on the Federal Reserve Open Market Committee ("FOMC") target Federal funds interest rate (the interest rate banks charge each other for short-term borrowings). The change in the Federal funds sold and purchased rates is the result of target rate changes implemented by the FOMC. In 2008, there were seven downward adjustments to the target rate totaling 325 basis points, bringing the target interest rate to a historic low with a range of 0% to 0.25% where it remained until December 2015 when the FOMC increased by 0.25% to a range of 0.25% to 0.50%.

Rate/Volume Analysis

The following table below sets forth certain information regarding changes in interest income and interest expense of the Company for the periods indicated. For each category of earning assets and interest bearing liabilities, information is provided on changes attributable to (i) changes in volume (change in average volume multiplied by old rate); and (ii) changes in rates (change in rate multiplied by old average volume). Changes in rate/volume (change in rate multiplied by the change in volume) have been allocated to the changes due to volume and rate in proportion to the absolute value of the changes due to volume and rate prior to the allocation.

Rate/Volume Analysis of Net Interest Income

(Dollars in Thousands)	For the Year Ended December 31, 2015 vs. 2014			For the Year Ended December 31, 2014 vs. 2013		
	Increases (Decreases) Due to Change In			Increases (Decreases) Due to Change In		
	Volume	Rate	Total	Volume	Rate	Total
Interest income:						
Net loans (1)	\$1,845	\$(1,808)	\$37	\$1,807	\$(1,202)	\$605
Securities of U.S. government agencies	(54)	(17)	(71)	(24)	35	11
Other Investment securities	289	(135)	154	324	63	387
Federal funds sold	(6)	2	(4)	13	0	13
Interest-earning deposits	127	(2)	125	(38)	6	(32)
Total interest income	2,201	(1,960)	241	2,082	(1,098)	984
Interest expense:						
Business Interest DDA	\$2	\$(1)	\$1	\$4	\$(10)	\$(6)
Money market deposits	33	(27)	6	0	(47)	(47)
NOW deposits	11	(3)	8	14	(28)	(14)
Savings deposits	9	3	12	7	(15)	(8)
Time certificates over \$250,000	14	(20)	(6)	2	(15)	(13)
Other time deposits	(42)	(11)	(53)	(34)	(59)	(93)
Other borrowings	0	0	0	0	0	0
Total interest expense	27	(59)	(32)	(7)	(174)	(181)
Change in net interest income	\$2,174	\$(1,901)	\$273	\$2,089	\$(924)	\$1,165

(1) Loan fees have been included in the calculation of interest income.

Provision for Loan Losses

Credit risk is inherent in the business of making loans. The Company establishes an allowance for loan losses through charges to earnings, which are shown in the consolidated statements of income as the provision for loan losses. Specifically identifiable and quantifiable losses are promptly charged off against the allowance. The Company maintains the allowance for loan losses at a level that it considers to be adequate to provide for credit losses inherent in its loan portfolio. Management determines the level of the allowance by performing a quarterly analysis that considers concentrations of credit, past loss experience, current economic conditions, the amount and composition of the loan portfolio (including nonperforming and potential problem loans), estimated fair value of underlying collateral, and other information relevant to assessing the risk of loss inherent in the loan portfolio such as for example loan growth, net charge-offs, changes in the composition of the loan portfolio, and delinquencies. As a result of management's analysis, a range of the potential amount of the allowance for loan losses is determined.

Due to a sale of the collateral property and subsequent pay off of an impaired loan and noted trends of improved credit quality, the Company recorded a reversal loan loss provisions of \$125,000 for the year ended December 31, 2015 as compared to reversal of loan loss provisions of \$1,877,000 resulting from a loan settlement of \$2,923,000 for the year ended December 31, 2014. Nonperforming loans were \$5,816,000 at December 31, 2015 and \$4,700,000 at December 31, 2014, or 1.07% and 1.03%, respectively, of total loans. Nonperforming loans are primarily in nonperforming real estate construction and development loans. The allowance for loan losses was \$7,356,000 and \$7,534,000 at December 31, 2015 and 2014, or 1.36% and 1.66%, respectively, of total loans. The decrease in the allowance for loan losses as a percentage of total loans is due to the \$42,831,000 in loans acquired from Mother Lode Bank that are marked to fair value according to purchase accounting rules, and therefore do not require an allowance for loan loss at the time of acquisition. Net charge-offs totaled \$53,000 in 2015, compared to net recoveries of \$1,752,000 in 2014. The increase of the net charge-offs in 2015 compared to 2014 was due to the \$2,923,000 loan settlement which resulted in the recovery of \$1,877,000 in 2014.

The Company will continue to monitor the adequacy of the allowance for loan losses and make additions to the allowance in accordance with the analysis referred to above. Because of uncertainties inherent in estimating the appropriate level of the allowance for loan losses, actual results may differ from management's estimate of credit losses and the related allowance.

Noninterest Income

Noninterest income was \$4,107,000 for the year ended December 31, 2015, compared to \$3,764,000 for the year 2014. In 2015, other income increased by \$465,000, which was attributable to the elimination of our checking rewards program in December 2014, increases in FHLB stock dividends and debit card interchange fee income of \$195,000, \$137,000 and \$96,000, respectively, compared to 2014. Mortgage commissions have decreased by \$9,000 or 5.7% for the year 2015, as compared to 2014, as a result of the slow demand for home purchases and refinancing. Service charge income decreased to \$1,240,000 for the year 2015 compared to \$1,346,000 for the year 2014, as a result of the decrease in overdraft activity and corresponding overdraft fees, despite an increase in the aggregate number of transaction deposit accounts. Earnings on cash surrender value of life insurance and gains on called securities were relatively flat compared to the prior year, as there were no changes to life insurance policies and we recognized comparable one-time gains from called securities. The Mother Lode Bank had a minimal impact of \$7,000 on the non-interest income recognized in 2015, as the Company owned the acquired loans and deposits for the final eight days of 2015. The Company continues to evaluate its deposit product offerings with the intention of continuing to expand its offerings to the consumer and business depositors.

Noninterest Income

(Dollars in thousands)

For the Years Ended December 31,

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	2015		2014	
	(Amount)	(%)	(Amount)	(%)
Service charges on deposit accounts	\$1,240	30.2 %	\$1,346	35.8 %
Earnings on cash surrender value of life insurance	429	10.5 %	433	11.5 %
Mortgage commissions	148	3.6 %	157	4.2 %
Gains on called securities	206	5.0 %	209	5.5 %
Other income	2,084	50.7 %	1,619	43.0 %
Total	\$4,107	100.0 %	\$3,764	100.0 %
Average assets	\$775,540		\$693,018	
Noninterest income as a % of average assets		0.5 %		0.5 %

Noninterest Expense

The following table sets forth a summary of noninterest expenses for the periods indicated:

Noninterest Expense

(Dollars in thousands)

	For the Years Ended December 31,			
	2015		2014	
	(Amount)	(%)	(Amount)	(%)
Salaries and employee benefits	\$11,717	51.7 %	\$11,120	55.0 %
Occupancy expenses	3,009	13.3 %	2,902	14.3 %
Data processing fees	1,466	6.5 %	1,336	6.6 %
Regulatory assessments (FDIC & DBO)	506	2.2 %	459	2.3 %
Other operating expenses	5,977	26.3 %	4,417	21.8 %
Total	\$22,675	100.0 %	\$20,234	100.0 %
Average assets	\$775,540		\$693,018	
Noninterest expenses as a % of average assets		2.9 %		2.9 %

Noninterest expense was \$22,675,000 for the year ended December 31, 2015, an increase of \$2,441,000 or 12.1% compared to \$20,234,000 for the year ended 2014. The acquisition of Mother Lode Bank resulted in merger related expenses of \$1,971,000 recorded in 2015.

Data processing costs increased in 2015 over 2014 by \$130,000, reflecting the additional costs related to the increased number of deposit accounts and the expansion of our products and services. We expect higher data processing costs in 2016 as a result of the servicing costs on the acquired deposits and loans from Mother Lode Bank, but we anticipate cost efficiencies to be gained upon the completion of the data systems conversion scheduled for the second quarter of 2016.

Other operating expenses increased in 2015 by \$1,560,000 compared to 2014, primarily due to the \$1,971,000 in one-time merger related expenses associated with the Mother Lode Bank acquisition. We expect our core operating expenses to increase in 2016 as we continue to integrate the operations of Mother Lode Bank into those of the Bank.

FDIC and DBO (California Department of Business Oversight) regulatory assessments increased by \$47,000 to \$506,000 in 2015 compared to \$459,000 in 2014. The initial base assessment rate for financial institutions varies based on the overall risk profile of the institution as defined by the FDIC. Our risk profile and corresponding assessment rate has remained stable, however the increase in 2015 is the result of the higher deposit balances in 2015, as the FDIC assessment rates are applied to average quarterly total liabilities as the primary basis. We expect further increases in 2016 due to the cost to insure the acquired deposits from Mother Lode Bank.

Salaries and employee benefits increased by \$597,000 in 2015 to \$11,717,000 compared to the prior year. To support loan and deposit growth and continue our emphasis on superior customer service, we increased our full-time equivalent staff by 10 as of December 31, 2015 compared to last year, which resulted in increased salary expense and group medical insurance benefits. Much of this increase was due to the impact of the Tracy branch opened in December 2014, as well as the added cost of the second Sonora branch opened in December 2015. The staffing increase was a result of the nine employees that were hired from Mother Lode Bank, which we expect will result in higher expenses in 2016.

Occupancy expense realized an increase of \$107,000 in 2015 compared to the prior year, primarily from rent and other overhead expenses from the new Tracy and Sonora branches. The Mother Lode acquisition will have minimal impact on occupancy expense in 2016, as both acquired branches were closed in January 2016.

Management anticipates that noninterest expense will continue to increase as we continue to grow, even though management also estimates that the Company's administration as currently set up may be scalable to handle a larger deposit base of up to around \$1B in deposits. However, management remains committed to cost-control and efficiency, and we expect to keep these increases to a minimum relative to growth.

Provision for Income Taxes

We reported a provision for income taxes of \$2,054,000 and \$3,574,000 for the years 2015 and 2014, respectively. The effective income tax rate on income from continuing operations was 29.5% for the year ended December 31, 2015 compared to 33.4% for the year 2014. These provisions reflect accruals for taxes at the applicable rates for federal income tax and California franchise tax based upon reported pre-tax income, and adjusted for the effects of all permanent differences between income for tax and financial reporting purposes (such as earnings on qualified municipal securities, BOLI and certain tax-exempt loans). The disparity between the effective tax rates in 2015 as compared to 2014 is primarily due to tax credits from California Enterprise Zones and low income housing projects as well as tax free-income on loans within these enterprise zones and municipal securities and loans that comprise a larger proportion of pre-tax income in 2015 as compared to 2014. We have not been subject to an alternative minimum tax ("AMT") during these periods.

Financial Condition

The Company's total assets were \$897,038,000 at December 31, 2015 compared to \$749,665,000 at December 31, 2014, an increase of \$147,373,000 or 19.7%. Net loans increased \$83,902,000, investments increased \$10,269,000, bank premises and equipment increased \$211,000 and interest receivable and other assets increased \$5,494,000, while cash and cash equivalents increased \$46,315,000 for the year ended December 31, 2015 as compared to December 31, 2014. Included in these balance sheet growth totals was the acquisition of Mother Lode Bank which added \$78,717,000 in assets, \$42,831,000 in net loans, \$23,500,000 in cash and \$4,051,000 in interest receivable and other assets.

Loans gross of the allowance for loan losses and deferred fees were \$541,032,000 at December 31, 2015, compared to \$454,471,000 at December 31, 2014, an increase of \$86,561,000 or 19.1%. The increase was primarily due to an increase of \$64,649,000 or 18.0% in commercial real estate loans, an increase of \$9,725,000 or 18.0% in commercial and industrial loans, an increase of \$7,093,000 or 27.0% in consumer loans and consumer residential loans and an increase of \$5,094,000 or 32.3% in agriculture loans. Included in these growth totals is \$45,962,000 in gross loans acquired from Mother Lode Bank. The composition of the loan portfolio categories remained relatively unchanged as a percentage of total loans, with commercial real estate comprising 78% and 79% of the loan portfolio at December 31, 2015 and 2014, respectively.

Deposits increased \$145,110,000 or 21.7% to \$814,691,000 at December 31, 2015 compared to \$669,581,000 at December 31, 2014. Time deposits increased by \$2,178,000, while Demand, NOW, Money Market and Savings increased by \$53,410,000, \$22,300,000, \$35,007,000 and \$32,215,000, respectively, as of December 31, 2015 as compared to December 31, 2014. Included in these growth totals is \$71,125,000 in total deposits acquired from

Mother Lode Bank.

There were no short-term borrowing or long-term debt outstanding balances at December 31, 2015 and 2014. The Company uses short-term borrowings, primarily short-term FHLB advances, to fund short-term liquidity needs and manage net interest margin. Equity increased \$3,222,000 or 4.3% to \$78,263,000 at December 31, 2015, compared to \$75,041,000 at December 31, 2014. The Company did not issue any stock to Mother Lode Bank shareholders as it was paid 100% in cash, and therefore there was no impact to equity other than the merger related expenses and exclusions of goodwill and intangibles, which are excluded from tangible equity.

Investment Activities

Investments are a key source of interest income. Management of our investment portfolio is set in accordance with strategies developed and overseen by our Investment Committee. Investment balances, including cash equivalents and interest-bearing deposits in other financial institutions, are subject to change over time based on our asset/liability funding needs and interest rate risk management objectives. Our liquidity levels take into consideration anticipated future cash flows and all available sources of credits and are maintained at levels management believes are appropriate to assure future flexibility in meeting anticipated funding needs.

Cash Equivalents and Interest-bearing Deposits in other Financial Institutions

The Company holds federal funds sold, unpledged available-for-sale securities and salable government guaranteed loans to help meet liquidity requirements and provide temporary holdings until the funds can be otherwise deployed or invested. As of December 31, 2015, and 2014, we had \$15,825,000 and \$12,210,000, respectively, in federal funds sold.

Investment Securities

Management of our investment securities portfolio focuses on providing an adequate level of liquidity and establishing an interest rate-sensitive position, while earning an adequate level of investment income without taking undue risk. Investment securities that we intend to hold until maturity are classified as held-to-maturity securities, and all other investment securities are classified as available-for-sale. Currently, all of our investment securities are classified as available-for-sale. The carrying values of available-for-sale investment securities are adjusted for unrealized gains or losses as a valuation allowance and any gain or loss is reported on an after-tax basis as a component of other comprehensive income.

Our investment securities holdings increased by \$10,269,000, or 8.5%, to \$131,546,000 at December 31, 2015, compared to holdings of \$121,277,000 at December 31, 2014. Total investment securities as a percentage of total assets decreased to 14.7% as of December 31, 2015 compared to 16.2% at December 31, 2014. As of December 31, 2015, \$65,902,000 of the investment securities were pledged to secure public deposits.

As of December 31, 2015, the total unrealized loss on securities that were in a loss position for less than 12 continuous months was \$352,000 with an aggregate fair value of \$33,307,000. The total unrealized loss on securities that were in a loss position for greater than 12 continuous months was \$433,000 with an aggregate fair value of \$15,349,000.

The following table summarizes the book value and fair value and distribution of our investment securities as of the dates indicated:

Investment Securities Portfolio

Dollars in Thousands	December 31, 2015		December 31, 2014		December 31, 2013	
	Amortized	Market	Amortized	Market	Amortized	Market
	Cost	Value	Cost	Value	Cost	Value
Available-for-Sale:						
U.S. agencies	\$31,815	\$32,868	\$40,316	\$41,930	\$52,540	\$53,116
Collateralized mortgage obligations	2,729	2,719	6,927	7,072	9,580	9,781

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Municipal securities	66,535	68,586	49,396	50,897	42,304	40,269
SBA Pools	811	806	895	892	1,088	1,081
Corporate debt	13,497	13,420	6,726	6,804	4,697	4,825
Asset backed Securities	10,321	10,138	10,766	10,710	5,858	5,856
Mutual fund	3,172	3,009	3,077	2,972	2,975	2,818
Total investment securities	\$128,880	\$131,546	\$118,103	\$121,277	\$119,042	\$117,746

At December 31, 2015, there was one U.S. agency, one collateralized mortgage obligation, 6 municipalities, two SBA pools, three asset backed security, and one mutual fund that comprised the total securities in an unrealized loss position for greater than 12 months and 4 U.S. agencies, 9 municipalities, seven corporate debts, and three asset backed securities that make up the total securities in a loss position for less than 12 months. Management periodically evaluates each available-for-sale investment security in an unrealized loss position to determine if the impairment is temporary or other than temporary. This evaluation encompasses various factors including, the nature of the investment, the cause of the impairment, the severity and duration of the impairment, credit ratings and other credit related factors such as third party guarantees and volatility of the security's fair value. Management has determined that no investment security is other than temporarily impaired. The unrealized losses are due primarily to interest rate changes and the Company does not intend to sell the securities and it is not likely that we will be required to sell the securities before the earlier of the forecasted recovery or the maturity of the underlying investment security. As of December 31, 2015, we did not have any investment securities that constituted 10% or more of the stockholders' equity of any third party issuer.

The following table summarizes the maturity and repricing schedule of our investment securities at their amortized cost and their weighted average yields at December 31, 2015:

Investment Maturities and Repricing Schedule

(Dollars in Thousands)	Within One		After One But		After Five But		After Ten		Total	
	Year		Years		Years		Years			
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Available-for-sale:										
U.S. agencies	\$4,999	1.02 %	\$8,140	4.24 %	\$1,648	3.56 %	\$17,028	2.75 %	\$31,815	2.90 %
Collateralized mortgage obligations	0	0.00 %	0	0.00 %	0	0.00 %	2,729	2.06 %	2,729	2.06 %
Municipalities	2,524	5.30 %	27,841	2.57 %	32,037	2.97 %	4,133	3.93 %	66,535	2.95 %
SBA Pools	0	0.00 %	0	0.00 %	0	0.00 %	811	0.58 %	811	0.58 %
Corporate debt	2,000	2.24 %	4,172	2.36 %	4,825	2.58 %	2,500	4.00 %	13,497	2.72 %
Asset Backed Securities	0	0.00 %	0	0.00 %	9,869	2.33 %	452	1.42 %	10,321	2.29 %
Mutual Fund	0	0.00 %	0	0.00 %	0	0.00 %	3,172	0.00 %	3,172	0.00 %
Total Investment Securities	\$9,523	1.94 %	\$40,153	2.89 %	\$48,379	2.08 %	\$30,825	2.58 %	\$128,880	2.44 %

Yields in the above table have not been adjusted to a fully tax equivalent basis. Securities are reported at the earliest possible call, repricing or maturity date.

Loans

The following table sets forth the amount of total loans outstanding (excluding unearned income) and the percentage distributions in each category, as of the dates indicated.

(Dollars in Thousands)	YEARS ENDED DECEMBER 31,				
	2015	2014	2013	2012	2011
Commercial real estate	\$423,047	\$358,398	\$332,874	\$316,075	\$330,045
Commercial and industrial	63,776	54,051	48,787	36,529	32,018
Consumer	774	805	883	1,096	1,213
Consumer residential	32,588	25,464	25,623	25,659	23,871

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Agriculture	20,847	15,753	11,272	11,628	9,056
Unearned income	(3,282)	(446)	(624)	(600)	(634)
Total Loans, net of unearned income	\$537,750	\$454,025	\$418,815	\$390,387	\$395,569
Participation loans sold and serviced by the Bank	\$19,848	\$16,243	\$11,733	\$8,045	\$7,929
Commercial real estate	78.7 %	78.9 %	79.5 %	80.9 %	83.5 %
Commercial and industrial	11.9 %	11.9 %	11.6 %	9.4 %	8.1 %
Consumer	0.1 %	0.2 %	0.2 %	0.3 %	0.3 %
Consumer residential	6.1 %	5.6 %	6.1 %	6.6 %	6.0 %
Agriculture	3.9 %	3.5 %	2.7 %	3.0 %	2.3 %
Unearned income	-0.6 %	-0.1 %	-0.1 %	-0.2 %	-0.2 %
Total Loans, net of unearned income	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %

Commercial real estate loans increased \$64,649,000 in 2015 as compared to 2014, as a result of the increased demand by qualified borrowers in our serving area. The acquisition of Mother Lode Bank was attributable for \$22,089,000 of the commercial real estate loan growth. Of the commercial real estate loans at December 31, 2015, 44.3% are non-owner occupied and 55.7% are owner occupied. Our commercial real estate loan portfolio is weighted towards term loans for which the primary source of repayment is cash flow from net operating income of the real estate property.

Commercial and industrial loans increased \$9,725,000 in 2015 as compared to 2014, as a result of the \$13,667,000 in commercial and industrial loans acquired from Mother Lode Bank. We have historically targeted well-established local businesses with strong guarantors that have proven to be resilient in periods of economic stress.

Our residential loan portfolio includes no sub-prime loans, nor is it our normal practice to underwrite loans commonly referred to as "Alt-A mortgages", the characteristics of which are loans lacking full documentation, borrowers having low FICO scores or collateral compositions reflecting high loan-to-value ratios. Substantially all of our residential loans are indexed to Treasury Constant Maturity Rates and have provisions to reset five years after their origination dates.

The following table summarizes our commercial real estate loan portfolio by the geographic location in which the property is located as of December 31, 2015 and 2014:

Commercial Real Estate Loans Outstanding by Geographic Location

(Dollars in Thousands)	December 31, 2015		December 31, 2014		
Commercial real estate loans by geographic location (County)	Amount	% of Commercial Real Estate Loans	Amount	% of Commercial Real Estate Loans	
Stanislaus	\$141,694	33.5	% \$142,293	39.7	%
San Joaquin	91,323	21.6	% 67,486	18.8	%
Tuolumne	36,733	8.7	% 24,854	6.9	%
Fresno	19,836	4.7	% 15,566	4.3	%
Merced	13,903	3.3	% 11,384	3.2	%
Alameda	13,030	3.1	% 19,216	5.4	%
Madera	10,233	2.4	% 7,452	2.1	%
Sacramento	9,397	2.2	% 4,348	1.2	%
San Luis Obispo	8,911	2.1	% 9,098	2.5	%

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Mono	8,060	1.9	%	8,543	2.4	%
Calaveras	7,474	1.8	%	3,863	1.1	%
Sonoma	6,898	1.6	%	5,988	1.7	%
Inyo	6,511	1.5	%	3,295	0.9	%
Contra Costa	5,756	1.4	%	5,915	1.7	%
Marin	5,681	1.3	%	6,749	1.9	%
Santa Clara	4,328	1.0	%	3,393	0.9	%
Butte	4,319	1.0	%	3,796	1.1	%
Solano	4,168	1.0	%	4,318	1.2	%
Other	24,792	5.9	%	10,841	3.0	%
Total	\$423,047	100.0	%	\$358,398	100.0	%

Construction and land loans are classified as commercial real estate loans and increased \$9.8 million in 2015 as compared to 2014. The table below shows an analysis of construction loans by type and location. Non-owner-occupied land loans of \$10.2 million at December 31, 2015 included loans for lands specified for commercial development of \$8.8 million and for residential development of \$1.4 million, the majority of which are located in Stanislaus County.

Construction and Land Loans Outstanding by Type and Geographic Location

(Dollars in Thousands)	December 31, 2015		December 31, 2014		
	Amount	% of Construction and Land Loans	Amount	% of Construction and Land Loans	
Single family non-owner-occupied		\$1,985		6.7	% \$0
Single family owner-occupied	1,056	3.6	% 354	1.8	%
Commercial non-owner-occupied	11,043	37.3	% 1,045	5.3	%
Commercial owner-occupied	5,279	17.8	% 7,782	39.3	%
Land non-owner-occupied	10,239	34.6	% 10,620	53.6	%
Total	\$29,602	100.0	% \$19,801	100.0	%

Construction and land loans by geographic location (County)	Amount	% of Construction and Land Loans		Amount	% of Construction and Land Loans	
Stanislaus	\$10,731	36.3	%	\$11,490	58.0	%
Fresno	4,974	16.8	%	0	0.0	%
San Joaquin	2,593	8.8	%	815	4.1	%
Mono	2,350	7.9	%	2,700	13.6	%
Los Angeles	2,150	7.3	%	0	0.0	%
Tuolumne	2,031	6.9	%	0	0.0	%
San Bernardino	1,822	6.1	%	0	0.0	%
Nevada	1,051	3.5	%	0	0.0	%
Calaveras	655	2.2	%	0	0.0	%
Contra Costa	370	1.3	%	370	1.9	%
Amador	309	1.0	%	0	0.0	%
Inyo	113	0.4	%	164	0.9	%
Merced	0	0.0	%	4,254	21.5	%
Other	453	1.5	%	8	0.0	%
Total	\$29,602	100.0	%	\$19,801	100.0	%

Loan Maturities

The following table shows the contractual maturity distribution and repricing intervals of the outstanding loans in our portfolio, as of December 31, 2015. In addition, the table shows the distribution of such loans between those with variable or floating interest rates and those with fixed or predetermined interest rates. The large majority of the variable rate loans are tied to independent indices (such as the Wall Street Journal prime rate or a Treasury Constant Maturity Rate). Substantially all loans with an original term of more than five years have provisions for the fixed rates to reset, or convert to a variable rate, after one, three or five years.

Loan Maturities and Repricing Schedule

At December 31, 2015

(Dollars in thousands)	Within One Year	After One But Within Five Years	After Five Years	Total
Commercial real estate	\$81,785	\$219,008	\$122,254	\$423,047
Commercial & industrial	39,847	17,907	6,022	63,776
Consumer	309	412	53	774
Consumer residential	1,479	9,863	21,246	32,588
Agriculture	18,366	1,929	552	20,847
Unearned income	(860)	(1,511)	(911)	(3,282)
Total loans, net of unearned income	\$140,926	\$247,608	\$149,216	\$537,750
Loans with variable (floating) interest rates	\$129,724	\$202,923	\$80,769	\$413,416
Loans with predetermined (fixed) interest rates	\$11,202	\$44,685	\$68,446	\$124,334

The majority of the properties taken as collateral are located in Northern California. We employ strict guidelines regarding the use of collateral located in less familiar market areas. The recent decline in Northern California real estate value is offset by the low loan-to-value ratios in our commercial real estate portfolio and high percentage of owner-occupied properties.

Nonperforming Assets

Financial institutions generally have a certain level of exposure to credit quality risk, and could potentially receive less than a full return of principal and interest if a debtor becomes unable or unwilling to repay. Since loans are the most significant assets of the Company and generate the largest portion of its revenues, the Company's management of credit quality risk is focused primarily on loan quality. Banks have generally suffered their most severe earnings declines as a result of customers' inability to generate sufficient cash flow to service their debts and/or downturns in national and regional economies which have brought about declines in overall property values. In addition, certain debt securities that the Company may purchase have the potential of declining in value if the obligor's financial capacity to repay deteriorates.

Nonperforming assets consist of loans on non-accrual status, loans 90 days or more past due and still accruing interest, loans restructured, where the terms of repayment have been renegotiated resulting in a reduction or deferral of interest or principal and other real estate owned ("OREO").

Loans are generally placed on non-accrual status when they become 90 days past due, unless management believes the loan is adequately collateralized and in the process of collection. The past due loans may or may not be adequately collateralized, but collection efforts are continuously pursued. Loans may be restructured by management when a borrower has experienced some changes in financial status, causing an inability to meet the original repayment terms, and where we believe the borrower will eventually overcome those circumstances and repay the loan in full. OREO consists of properties acquired by foreclosure or similar means and which management intends to offer for sale.

The Company had nonperforming loans of \$5.82 million at December 31, 2015, as compared to \$4.70 million at December 31, 2014, \$2.34 million at December 31, 2013, \$6.92 million at December 31, 2012 and \$7.23 million at December 31, 2011. The ratio of nonperforming loans over total loans was 1.07%, 1.03%, 0.56%, 1.77% and 1.83% at December 31, 2015, 2014, 2013, 2012 and 2011, respectively.

In addition, the Company held five OREO properties with outstanding balances of approximately \$2.1 million as of December 31, 2015, one of which consisted of residential land acquired through foreclosure that was written down to a zero balance because the public utilities have not been obtainable rendering these land lots unmarketable at this time. One of these properties was acquired from Mother Lode Bank with a balance of \$275,000. The Company held three of these same properties with balances of approximately \$884,000 and \$916,000 as of December 31, 2014 and 2013, respectively. The Company held only the one zero-balance property as of December 31, 2012 as compared to two properties with a market value of \$0.2 million as of December 31, 2011.

Management believes that the reserve provided for nonperforming loans, together with the tangible collateral, were adequate as of December 31, 2015. See "Allowance for Loan Losses" below for further discussion. Except as disclosed above, as of December 31, 2015, management was not aware of any material credit problems of borrowers that would cause it to have serious doubts about the ability of a borrower to comply with the present loan payment terms. However, no assurance can be given that credit problems may exist that may not have been brought to the attention of management, or that credit problems may arise.

The following table provides information with respect to the components of our nonperforming assets as of the dates indicated. (The figures in the table are net of the portion guaranteed by the U.S. Government):

(Dollars in Thousands)	At December 31,				
	2015	2014	2013	2012	2011
Nonaccrual loans(1)					
Commercial real estate	\$2,790	\$4,363	\$2,322	\$5,891	\$7,129
Commercial and industrial	322	337	18	21	104
Consumer	0	0	0	0	0
Consumer residential	0	0	0	1,011	0
Agriculture	2,704	0	0	0	0
Total	\$5,816	\$4,700	\$2,340	\$6,923	\$7,233
Loans 90 days or more past due and still accruing (as to principal or interest):					
Commercial real estate	\$0	\$0	\$0	\$0	\$0
Commercial and industrial	0	0	0	0	0
Consumer	0	0	0	0	0
Consumer residential	0	0	0	0	0
Agriculture	0	0	0	0	0
Total	0	0	0	0	0
Total nonperforming loans	5,816	4,700	2,340	6,923	7,233
Other real estate owned	2,066	884	916	0	244
Total nonperforming assets	\$7,882	\$5,584	\$3,256	\$6,923	\$7,477
Accruing restructured loans (2)					
Commercial real estate	\$0	\$0	\$0	\$0	\$0
Commercial and industrial	0	0	0	0	0
Consumer	0	0	0	0	0
Consumer residential	0	0	0	0	0
Agriculture	0	0	0	0	0
Total	0	0	0	0	0
Total impaired loans	\$5,816	\$4,700	\$2,340	\$6,923	\$7,233
Nonperforming loans as a percentage of total loans	1.07 %	1.03 %	0.56 %	1.77 %	1.83 %
Nonperforming assets as a percentage of total loans and other real estate owned	1.45 %	1.23 %	0.77 %	1.77 %	1.89 %
Allowance for loan losses as a percentage of nonperforming loans	126.48 %	160.30 %	327.37 %	115.19 %	119.03 %

(1) During the fiscal year ended December 31, 2015 and 2014, no interest income related to these loans was included in net income while on nonaccrual status. Additional interest income of approximately \$376,000 and \$321,000 would

have been recorded during the year ended December 31, 2015 and 2014, respectively, if these loans had been paid in accordance with their original terms.

(2) A “restructured loan” is one the terms of which were renegotiated to provide a concession because of deterioration in the financial position of the borrower.

Allowance for Loan Losses

In anticipation of credit risk inherent in our lending business, we set aside allowances through charges to earnings. Such charges are not only made for the outstanding loan portfolio, but also for off-balance sheet items, such as commitments to extend credits or letters of credit. The charges made for the outstanding loan portfolio are credited to the allowance for loan losses, whereas charges for off-balance sheet items are credited to the reserve for off-balance sheet items, which is presented as a component of other liabilities. The provision for loan losses is discussed in the section entitled "Provision for Loan Losses" above.

The balance of our allowance for loan losses is Management's best estimate of the remaining losses inherent in the portfolio. The ultimate adequacy of the allowance is dependent upon a variety of factors beyond our control, including the real estate market, changes in interest rate and economic and political environments.

Historically, over the past five years, due to the economic downturn's effect on the financial stability of certain borrowers, we set aside more reserves for probable loan losses. However, in 2015, amid signs of credit quality improvement, the allowance for loan losses decreased by 2.4%, or \$178,000, to \$7.36 million at December 31, 2015 as compared with \$7.53 million at December 31, 2014. Such allowances were \$7.66 million, \$7.98 million and \$8.61 million at December 31, 2013, 2012 and 2011, respectively. In 2015, the allowance for loan losses as a percentage of total loans decreased corresponding to our improved credit quality, as reflected in the ratios of 1.36%, 1.66%, 1.83%, 2.04% and 2.17%, at the end of 2015, 2014, 2013, 2012 and 2011, respectively. The decrease to 1.36% at the end of 2015 is due in part to the acquisition of \$42,831,000 in loans from Mother Lode Bank which are recorded at fair value and therefore do not require a loan loss reserve. Based on the current conditions of the loan portfolio, management believes that the \$7.36 million allowance for loan losses at December 31, 2015 is adequate to absorb losses inherent in our loan portfolio. No assurance can be given, however, that adverse economic conditions or other circumstances will not result in increased losses in the portfolio.

Diversification, low loan-to-values, strong credit quality and enhanced credit monitoring contribute to a reduction in the portfolio's overall risk, and help to offset the economic risk. The impact of the stagnant economic environment will continue to be monitored, and adjustments to the provision for loan loss will be made accordingly. During 2015, the Company recognized net loan charge-offs of \$53,000 as compared to net loan recoveries of \$1,752,000 in 2014, primarily from one loan for which we received a net settlement of \$2,923,000, resulting in a recovery of \$1,877,000. In prior years, the weak business climate adversely impacted the financial conditions of some of our clients and resulted in net loan charge-offs of \$616,000, \$1,784,000 and \$1,146,000 in 2013, 2012 and 2011, respectively.

Management reviews these conditions with our senior credit officers. To the extent that any of these conditions is evidenced by a specifically identifiable problem credit or portfolio segment as of the evaluation date, management's estimate of the effect of such condition may be reflected as a specific allowance applicable to such credit or portfolio segment. Where any of these conditions is not evidenced by a specific, identifiable problem credit or portfolio

segment as of the evaluation date, management’s evaluation of the inherent loss related to such condition is reflected in the unallocated allowance. Although management has allocated a portion of the allowance to specific loan categories, the adequacy of the allowance is considered in its entirety.

Although management believes the allowance at December 31, 2015 was adequate to absorb losses from any known and inherent risks in the portfolio, no assurance can be given that economic conditions which adversely affect our service areas or other variables will not result in increased losses in the loan portfolio in the future.

As of December 31, 2015, our allowance for loan losses consisted of amounts allocated to three phases of our methodology for assessing loan loss allowances, as follows (see details of methodology for assessing allowance for loan losses in the section entitled “Critical Accounting Policies”):

(Dollars in Thousands)

Phase of Methodology	Years Ended December		
	2015	2014	2013
Specific review of individual loans	\$722	\$993	\$392
Review of portfolio based on loss trends and current economic climate	4,423	4,388	5,362
Review of portfolio based on inherent risk and other subjective factors	2,211	2,153	1,905
	\$7,356	\$7,534	\$7,659

The Components of the Allowance for Loan Losses

As stated previously in "Critical Accounting Policies," the overall allowance consists of a specific allowance for individually identified impaired loans, an allowance factor for categories of credits with similar characteristics and trends, and an allowance for changing environmental factors.

The first component, the specific allowance, results from the analysis of identified problem credits and the evaluation of sources of repayment including collateral, as applicable. Through Management's ongoing loan grading process, individual loans are identified that have conditions that indicate the borrower may be unable to pay all amounts due under the contractual terms. These loans are evaluated individually by Management and specified allowances for loan losses are established when the discounted cash flows of future payments or collateral value of collateral-dependent loans are lower than the recorded investment in the loan. Generally with problem credits that are collateral-dependent, we obtain appraisals of the collateral at least annually. We may obtain appraisals more frequently if we believe the collateral value is subject to market volatility, if a specific event has occurred to the collateral (e.g. tentative map has been filed), or if we believe foreclosure is imminent. Impaired loan balances increased from \$4.7 million at December 31, 2014 to \$6.1 million at December 31, 2015. The specific allowance totaled \$722,000 and \$993,000 at December 31, 2015 and 2014, respectively, as we charge off substantially all of our estimated losses related to specifically identified impaired loans as the losses are identified.

The second component, the allowance factor, is an estimate of the probable inherent losses in each loan pool stratified by major categories or loans with similar characteristics in our loan portfolio. This analysis encompasses segmenting and reviewing historical losses, loan grades by pool and current general economic and business conditions. Confirmation of the quality of our grading process is obtained by independent reviews conducted by consultants specifically hired for this purpose and by various bank regulatory agencies. This analysis covers our entire loan portfolio but excludes any loans that were analyzed individually for specific allowances as discussed above. There are limitations to any credit risk grading process. The number of loans makes it impractical to review every loan every quarter. Therefore, it is possible that in the future some currently performing loans not recently graded will not be as strong as their last grading and an insufficient portion of the allowance will have been allocated to them. Grading and loan review often must be done without knowing whether all relevant facts are at hand. Troubled borrowers may deliberately or inadvertently omit important information from reports or conversations with lending officers regarding their financial condition and the diminished strength of repayment sources.

The total amount allocated for the second component is determined by applying loss estimation factors based on loss history to outstanding loans. At December 31, 2015 and 2014, the allowance allocated by categories of credits totaled \$4.4 million.

The third component of the allowance for loan losses is an economic and qualitative component that is intended to absorb losses caused by portfolio trends, concentration of credit, growth, and economic trends, as stated previously in

"Critical Accounting Policies". At December 31, 2015 and 2014, the general valuation allowance, including the economic component, totaled \$2.2 million. Starting in late 2008, we witnessed financial difficulties experienced by borrowers in our market, where real estate sale prices declined and holding periods increased. In the past several years, while published economic data indicates that the downturn is behind us, it is not clear at what speed the economy will recover. In response to this, we have been proactive in evaluating reserve percentages for economic and other qualitative loss factors used to determine the adequacy of the allowance for loan losses. The increase to the third component of the allowance for loan losses reflected such evaluation.

The table below summarizes, for the periods indicated, loan balances at the end of each period, the daily averages during the period, changes in the allowance for loan losses arising from loans charged off, recoveries on loans previously charged off, additions to the allowance and certain ratios related to the allowance for loan losses:

Allowance for Loan Losses

(Dollars in thousands)	2015	2014	2013	2012	2011
Balances:					
Average total loans outstanding during period	\$466,509	\$430,448	\$396,953	\$390,856	\$394,130
Total loans outstanding at end of period	\$541,032	\$454,471	\$419,438	\$390,986	\$396,202
Allowance for loan losses:					
Balances at beginning of period	\$7,534	\$7,659	\$7,975	\$8,609	\$8,255
Actual charge-offs:					
Commercial real estate	0	103	436	1,663	1,108
Commercial and Industrial	32	0	0	0	44
Consumer	30	40	22	26	7
Consumer Residential	0	0	178	150	38
Agriculture	0	0	0	0	0
Total charge-offs	62	143	636	1,839	1,197
Recoveries on loans previously charged off:					
Commercial real estate	5	1,882	8	35	30
Commercial and Industrial	0	0	0	1	14
Consumer	4	2	3	4	6
Consumer Residential	0	11	9	15	1
Agriculture	0	0	0	0	0
Total recoveries	9	1,895	20	55	51
Net loan charge-offs (recoveries)	53	(1,752)	616	1,784	1,146
(Reversal of) provision for loan losses	(125)	(1,877)	300	1,150	1,500
Balance at end of period	\$7,356	\$7,534	\$7,659	\$7,975	\$8,609
Ratios:					
Net loan charge-offs (recoveries) to average total loans	0.01	% -0.41	% 0.16	% 0.46	% 0.29
Allowance for loan losses to total loans at end of period	1.36	% 1.66	% 1.83	% 2.04	% 2.17
Net loan charge-offs (recoveries) to allowance for loan losses at end of period	0.72	% -23.25	% 8.04	% 22.37	% 13.31
Net loan charge-offs to provision for loan losses	N/A	N/A	205.33	% 155.13	% 76.40

The table below summarizes the allowance for loan loss balance by type of loan balance at the end of each period (See “Loan Portfolio” above for a description of each type of loan balance):

Allocation of the Allowance for Loan Losses

(Dollars in thousands)	Amount Outstanding as of December 31,				
	2015	2014	2013	2012	2011
Applicable to:					
Commercial real estate	\$5,920	\$5,963	\$6,248	\$6,571	\$6,969
Commercial and Industrial	627	720	663	474	606
Consumer	38	42	47	50	65
Consumer Residential	426	388	440	384	348
Agriculture	309	286	217	286	363
Unallocated	36	135	44	210	258
Total Allowance	\$7,356	\$7,534	\$7,659	\$7,975	\$8,609

Other Earning Assets

For various business purposes, we make investments in earning assets other than the interest-earning securities and loans discussed above. Before 2007, the only other earning assets held by us were insignificant amounts of Federal Home Loan Bank stock, Federal Reserve Bank stock and the cash surrender value on the Company Owned Life Insurances (“BOLI”).

During 2007, we invested in a low-income housing tax credit funds (“LIHTCF”) to promote our participation in CRA activities. We committed to invest \$1 million over a three year period, which was fully funded by the year 2009. We receive the return in the form of tax credits and tax deductions which began in 2007 and are expected to continue through the year 2022. The \$1 million contribution is being amortized to other expenses over a term of 15 years, commensurate with the benefits received.

The balances of other earning assets as of December 31, 2015 and December 31, 2014 were as follows:

(Dollars in Thousands)	December 31, 2015	December 31, 2014
BOLI	\$ 13,747	\$ 13,545
LIHTCF	\$ 388	\$ 455
Federal Reserve Bank Stock	\$ 758	\$ 758
Federal Home Loan Bank Stock	\$ 2,958	\$ 2,517

Deposits and Other Sources of Funds

Deposits

Total deposits at December 31, 2015 and 2014 were \$814,691,000 and \$669,581,000, respectively, representing an increase of \$145,110,000 or 21.7% in 2015. The Mother Lode Bank acquisition added total deposits of \$71,125,000. The average deposits for the year ended December 31, 2015 increased \$76,716,000 or 12.4% to \$694,991,000 compared to \$618,275,000 at December 31, 2014. The Mother Lode Bank acquired deposits had a minimal impact of \$1,372,000 on the 2015 average balance.

Deposits are the Company's primary source of funds. Due to strategic emphasis by management, core deposits (based on definition provided by FDIC's Uniform Bank Performance Report) increased by \$141 million or 21.4% in 2015 to \$798.6 million at December 31, 2015. Included in these totals, is core deposits acquired from Mother Lode Bank totaling \$70.4 million. The percentage of core deposits to total deposits decreased slightly to 98.0% at December 31, 2015 as compared to 98.2% at December 31, 2014. The average rate paid on time deposits in denominations of over \$250,000 was 0.18% and 0.32% for the years ended December 31, 2015 and 2014, respectively. The composition and cost of the Company's deposit base are important components in analyzing the Company's net interest margin and balance sheet liquidity characteristics, both of which are discussed in greater detail in other sections herein. See "Net Interest Income and Net Interest Margin" for further discussion.

The Company's liquidity is impacted by the volatility of deposits or other funding instruments or, in other words, by the propensity of that money to leave the institution for rate-related or other reasons. Deposits can be adversely affected if economic conditions in California and the Company's market area in particular, continue to weaken. Potentially, the most volatile deposits in a financial institution are jumbo certificates of deposit, meaning time deposits with balances that equal or exceed \$250,000, as customers with balances of that magnitude are typically more rate-sensitive than customers with smaller balances.

The following tables summarize the distribution of average daily deposits and the average daily rates paid for the periods indicated:

Distribution of Average Daily Deposits

(Dollars in Thousands)	Average Deposits							
	2015		2014		2013			
	Average	Average	Average	Average	Average	Average	Average	
	Balance	Rate	Balance	Rate	Balance	Rate		
Demand	\$220,033	0.00	% \$191,667	0.00	% \$169,229	0.00	%	
Money market	266,856	0.11	% 238,736	0.12	% 238,956	0.14	%	
NOW	112,472	0.07	% 97,080	0.07	% 83,268	0.10	%	
Savings	48,130	0.11	% 39,820	0.11	% 35,162	0.15	%	
Time certificates of deposit over \$250,000	14,564	0.18	% 10,141	0.32	% 9,752	0.46	%	
Other time deposits	32,936	0.50	% 40,831	0.54	% 45,620	0.68	%	
Total deposits	\$694,991	0.17	% \$618,275	0.20	% \$581,987	0.27	%	

The scheduled maturities of our time deposits in denominations of more than \$250,000 at December 31, 2015 are, as follows:

**Maturities of Time Deposits over
\$250,000**

(Dollars in Thousands)

Three months or less	\$	5,019
Over three months through six months		2,237
Over six months through twelve months		4,860
Over twelve months		2,976
Total	\$	15,092

Because our client base is comprised primarily of commercial and industrial accounts, individual account balances are generally higher than those of consumer-oriented banks. Four of our clients carry deposit balances of more than 1% of our total deposits, one of which had a deposit balance of more than 3% of total deposits at December 31, 2015.

The Company had \$1.0 million and \$1.9 million in brokered deposits as of December 31, 2015 and 2014, respectively. The only brokered deposits the Company holds are from CDARS and ICS, a certificate of deposit and money market account program, respectively, that exchanges funds with other network banks to offer full FDIC insurance coverage to the customer.

FHLB Borrowings

Although deposits are the primary source of funds for our lending and investment activities and for general business purposes, we may obtain advances from the Federal Home Loan Bank of San Francisco (“FHLB”) as an alternative to retail deposit funds. Our outstanding FHLB advances were fully paid off during 2012, leaving no outstanding balances as of December 31, 2014 and 2015. See “Liquidity Management” below for the details on the FHLB borrowings program.

The following table is a summary of FHLB borrowings for fiscal years 2015 and 2014:

Dollars in Thousands	2015	2014
Balance at year-end	\$0	\$0
Average balance during the year	\$12	\$1
Maximum amount outstanding at any month-end	\$0	\$0
Average interest rate during the year	N/A	N/A
Average interest rate at year-end	N/A	N/A

Return on Equity and Assets

The following table sets forth certain information regarding our return on equity and assets for the periods indicated:

	Year Ended	
	December 31,	
	2015	2014
Return on average assets	0.63 %	1.03 %
Return on average common equity	6.41 %	10.07 %
Dividend payout ratio	34.54 %	18.54 %
Equity to assets ratio	8.72 %	10.01 %

Deferred Compensation Obligations

We maintain a nonqualified, unfunded deferred compensation plan for certain key management personnel. Under this plan, participating employees may defer compensation, which will entitle them to receive certain payments upon retirement, death, or disability. The plan provides for payments commencing upon retirement and reduced benefits upon early retirement, disability, or termination of employment. At December 31, 2015 and 2014, our aggregate payment obligations under this plan totaled \$7.7 million and \$7.8 million, respectively.

Off-Balance Sheet Arrangements

During the ordinary course of business, we provide various forms of credit lines to meet the financing needs of our customers. These commitments, which represent a credit risk to us, are not represented in any form on our balance sheets.

As of December 31, 2015, and 2014, we had commitments to extend credit of \$91.7 million and \$84.8 million, respectively. Obligations under standby letters of credit were \$1.6 million and \$1.1 million at December 31, 2015 and 2014, respectively, and there were no obligations under commercial letters of credit for either period.

The effect on our revenues, expenses, cash flows and liquidity from the unused portion of the commitments to provide credit cannot be reasonably predicted because there is no guarantee that the lines of credit will be used. For more information regarding our off balance sheet arrangements, see Note 14- Commitments and Other Contingencies- to our 2015 year-end consolidated financial statements located elsewhere in this report.

Contractual Obligations

The following chart summarizes certain contractual obligations of the Company as of December 31, 2015 (dollars in thousands):

Contractual Obligations	Less than 1 Year	1-3 years	3-5 years	More than 5 years	Total
Operating lease obligations	\$911	\$1,660	\$1,431	\$2,453	\$6,455
Supplemental retirement plans	60	134	280	1,966	2,440
Time deposit maturities	38,295	12,279	0	0	50,574
Total	\$39,266	\$14,073	\$1,711	\$4,419	\$59,469

As permitted or required under California law and to the maximum extent allowable under that law, we have certain obligations to indemnify our current and former officers and directors for certain events or occurrences while the officer or director is, or was serving, at our request in such capacity. These indemnification obligations are valid as long as the director or officer acted in good faith and in a manner the person reasonably believed to be in, or not opposed to, our best interests, and with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful. The maximum potential amount of future payments we could be required to make under these indemnification obligations is unlimited; however, we have a director and officer insurance policy that mitigates our exposure and enables us to recover a portion of any future amounts paid. We believe the estimated fair value of these indemnification obligations is minimal.

Liquidity and Asset/Liability Management

Management seeks to ascertain optimum and stable utilization of available assets and liabilities as a vehicle to attain our overall business plans and objectives. In this regard, management focuses on measurement and control of liquidity risk, interest rate risk and market risk, capital adequacy, operation risk and credit risk.

Liquidity

Liquidity to meet borrowers' credit and depositors' withdrawal demands is provided by maturing assets, short-term liquid assets that can be converted to cash and the ability to attract funds from depositors. Additional sources of liquidity may include institutional deposits, advances from the FHLB and other short-term borrowings, such as federal funds purchased.

Since our deposit growth strategy emphasizes core deposit growth we have avoided relying on brokered deposits as a consistent source of funds. The only brokered deposit the Company holds are from CDARS and ICS, a certificate of deposit and money market program, respectively, that exchanges funds with other network banks to offer full FDIC insurance coverage to the customer. The Company had \$1.0 million and \$1.9 million in brokered deposits as of December 31, 2015 and 2014, respectively.

As a secondary source of liquidity, we rely on advances from the FHLB to supplement our supply of lendable funds and to meet deposit withdrawal requirements. Advances from the FHLB are typically secured by a portion of our loan portfolio and stock issued by the FHLB. The FHLB determines limitations on the amount of advances by assigning a percentage to each eligible loan category that will count towards the borrowing capacity. At December 31, 2015 and 2014, the Company had no FHLB advances outstanding and had sufficient collateral to borrow an additional \$198.4 million and \$176.7 million, respectively. In addition, the Company had lines of credit with its correspondent banks to purchase overnight federal funds totaling \$25 million at December 31, 2015 and 2014. No advances were made on these lines of credit as of December 31, 2015 and December 31, 2014.

The Company's liquidity depends primarily on dividends paid to it as sole shareholder of the Bank. The Bank's ability to pay dividends to the Company will depend on whether the Bank will be in a position to pay dividends based on regulatory requirements and the performance of the Bank.

Maintenance of adequate liquidity requires that sufficient resources be available at all time to meet our cash flow requirements. Liquidity in a banking institution is required primarily to provide for deposit withdrawals and the credit needs of its customers and to take advantage of investment opportunities as they arise. Liquidity management involves our ability to convert assets into cash or cash equivalents without incurring significant loss, and to raise cash or maintain funds without incurring excessive additional cost. For this purpose, we maintain a portion of our funds in cash and cash equivalents, loans and securities available for sale. Our liquid assets at December 31, 2015 and 2014 totaled approximately \$269.3 million and \$223.5 million, respectively. The acquisition of Mother Lode Bank resulted in additional liquid assets of \$23.5 million, net of aggregate cash consideration of \$7.3 million paid to Mother Lode Bank shareholders. Our liquidity level measured as the percentage of liquid assets to total assets was 30.0% and 29.8% at December 31, 2015, and 2014, respectively.

Capital Resources and Capital Adequacy Requirements

In the past two years, our primary source of capital has been internally generated operating income through retained earnings. At December 31, 2015, total shareholders' equity increased to \$78.3 million, representing an increase of \$3.2 million from December 31, 2014. The increase was due to the increase in retained earnings of \$4.9 million, offset by a comprehensive loss of \$0.3 million due to the negative effect that rising treasury yields had on the unrealized market value adjustment of our available for sale investment portfolio, and by the common stock dividend payments totaling \$1.7 million during 2015. The Company did not issue any stock to Mother Lode Bank shareholders, as they were paid 100% in cash, and therefore there was no impact to equity other than the merger related expenses and exclusions of goodwill and intangibles, which are excluded from tangible equity.

As of December 31, 2015, we had no material commitments for capital expenditures.

We are subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can trigger regulatory actions that could have a material adverse effect on our financial statements and operations. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, we must meet specific capital guidelines that rely on quantitative measures of our assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. Our capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. (See "Description of Business-Regulation and Supervision-Capital Adequacy Requirements" herein for exact definitions and regulatory capital requirements.)

As of December 31, 2015, we were qualified as a "well capitalized institution" under the regulatory framework for prompt corrective action. The following table presents the regulatory standards for well-capitalized institutions, compared to the Bank's capital ratios as of the dates specified:

	Regulatory		December		December	
	Well-		31, 2015		31, 2014	
	Capitalized					
	Standards					
Total capital to risk-weighted assets	10.0	%	12.2	%	14.5	%
Tier I capital to risk-weighted assets	8.0	%	11.1	%	13.2	%
Common equity tier 1 risk-weighted assets	6.5	%	11.1	%	N/A	
Tier I capital to average assets	5.0	%	9.1	%	10.1	%

Market Risk

Market risk is the risk of loss of future earnings, fair values, or future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in interest rates, foreign currency exchange rates, commodity prices, equity prices and other market changes that affect market risk sensitive instruments. Market risk is attributed to all market risk sensitive financial instruments, including securities, loans, deposits and borrowings, as well as the Company's role as a financial intermediary in customer-related transactions. The objective of market risk management is to avoid excessive exposure of the Company's earnings and equity to loss and to reduce the volatility inherent in certain financial instruments.

Interest Rate Management

Market risk arises from changes in interest rates, exchange rates, commodity prices and equity prices. The Company's market risk exposure is primarily that of interest rate risk, and it has established policies and procedures to monitor and limit earnings and balance sheet exposure to changes in interest rates. The Company does not engage in the trading of financial instruments, nor does the Company have exposure to currency exchange rates.

The principal objective of interest rate risk management (often referred to as "asset/liability management") is to manage the financial components of the Company in a manner that will optimize the risk/reward equation for earnings and capital in relation to changing interest rates. The Company's exposure to market risk is reviewed on a regular basis by the Asset/Liability Committee. Interest rate risk is the potential of economic losses due to future interest rate changes. These economic losses can be reflected as a loss of future net interest income and/or a loss of current fair market values. The objective is to measure the effect on net interest income and to adjust the balance sheet to minimize the inherent risk while at the same time maximizing income. Management realizes certain risks are inherent, and that the goal is to identify and manage the risks. Management uses two methodologies to manage interest rate risk: (i) a standard GAP analysis; and (ii) an interest rate shock simulation model.

The planning of asset and liability maturities is an integral part of the management of an institution's net interest margin. To the extent maturities of assets and liabilities do not match in a changing interest rate environment, the net interest margin may change over time. Even with perfectly matched repricing of assets and liabilities, risks remain in the form of prepayment of loans or securities or in the form of delays in the adjustment of rates of interest applying to either earning assets with floating rates or to interest bearing liabilities. The Company has generally been able to control its exposure to changing interest rates by maintaining primarily floating interest rate loans and a majority of its time certificates with relatively short maturities.

Interest rate changes do not affect all categories of assets and liabilities equally or at the same time. Varying interest rate environments can create unexpected changes in prepayment levels of assets and liabilities, which may have a significant effect on the net interest margin and are not reflected in the interest sensitivity analysis table. Because of these factors, an interest sensitivity gap report may not provide a complete assessment of the exposure to changes in interest rates.

The Company uses modeling software for asset/liability management in order to simulate the effects of potential interest rate changes on the Company's net interest margin, and to calculate the estimated fair values of the Company's financial instruments under different interest rate scenarios. The program imports current balances, interest rates, maturity dates and repricing information for individual financial instruments, and incorporates assumptions on the characteristics of embedded options along with pricing and duration for new volumes to project the effects of a given interest rate change on the Company's interest income and interest expense. Rate scenarios consisting of key rate and yield curve projections are run against the Company's investment, loan, deposit and borrowed funds portfolios. These

rate projections can be shocked (an immediate and parallel change in all base rates, up or down) and ramped (an incremental increase or decrease in rates over a specified time period), based on current trends and econometric models or stable economic conditions (unchanged from current actual levels).

The Company applies a market value ("MV") methodology to gauge its interest rate risk exposure as derived from its simulation model. Generally, MV is the discounted present value of the difference between incoming cash flows on interest-earning assets and other investments and outgoing cash flows on interest-bearing liabilities and other liabilities. The application of the methodology attempts to quantify interest rate risk as the change in the MV which would result from a theoretical 200 basis point (1 basis point equals 0.01%) change in market interest rates. Both a 200 basis point increase and a 200 basis point decrease in market rates are considered for the purpose of the table below. Additionally, management evaluates shocked and ramped scenarios for interest rate changes up to 400 basis points.

At December 31, 2015, it was estimated that the Company's MV would decrease 12.8% in the event of an immediate 200 basis point increase in market interest rates. The Company's MV at the same date would decrease 25.8% in the event of an immediate 200 basis point decrease in applicable interest rates.

Presented below, as of December 31, 2015 and 2014, is an analysis of the Company's interest rate risk as measured by changes in MV for instantaneous and sustained parallel shifts of applicable interest rates:

Shock Scenario	December 31, 2015			December 31, 2014			December 31, 2014		
	Market Value as a % of		Present Value of Assets	Market Value as a % of		Present Value of Assets	Market Value as a % of		Present Value of Assets
\$ Change in Market Value	% Change in Market Value	MV Ratio		\$ Change in Market Value	% Change in Market Value		MV Ratio	\$ Change in Market Value	
	(Dollars in Thousands)								
+200 bp	\$(22,458)	(12.88)%	17.47%	(181)	(12.82)%	18.28%	\$(19,562)	(12.82)%	(100)
+100 bp	\$(10,089)	(5.79)%	18.53%	(75)	(5.47)%	19.41%	\$(8,356)	(5.47)%	13
0 bp	\$0	0.00%	19.28%	0	0.00%	20.12%	\$0	0.00%	0
-100 bp	\$(20,851)	(11.96)%	16.67%	(261)	(10.54)%	17.69%	\$(16,087)	(10.54)%	(159)
-200 bp	\$(50,759)	(29.12)%	13.31%	(597)	(25.78)%	14.56%	\$(39,357)	(25.78)%	(472)

Management believes that the MV methodology overcomes three shortcomings of the typical maturity gap methodology. First, it does not use arbitrary repricing intervals and accounts for all expected future cash flows. Second, because the MV method projects cash flows of each financial instrument under different interest rate environments, it can incorporate the effect of embedded options on an institution's interest rate risk exposure. Third, it allows interest rates on different instruments to change by varying amounts in response to a change in market interest rates, resulting in more accurate estimates of cash flows.

However, as with any method of gauging interest rate risk, there are certain shortcomings inherent to the MV methodology. The model assumes interest rate changes are instantaneous parallel shifts in the yield curve. In reality, rate changes are rarely instantaneous. The use of the simplifying assumption that short-term and long-term rates change by the same degree may also misstate historic rate patterns, which rarely show parallel yield curve shifts. Further, the model assumes that certain assets and liabilities of similar maturity or period to repricing will react in the same way to changes in rates. In reality, certain types of financial instruments may react in advance of changes in market rates, while the reaction of other types of financial instruments may lag behind the change in general market rates. When interest rates change, actual loan prepayments and actual early withdrawals from certificates may deviate significantly from the assumptions used in the model. Finally, this methodology does not measure or reflect the impact that higher rates may have on adjustable-rate loan clients' ability to service their debt. All of these factors are

considered in monitoring the Company's exposure to interest rate risk.

Impact of Inflation; Seasonality

Inflation primarily impacts us by its effect on interest rates. Our primary source of income is net interest income, which is affected by changes in interest rates. We attempt to limit the impact of inflation on our net interest margin through management of rate-sensitive assets and liabilities and the analysis of interest rate sensitivity. The effect of inflation on premises and equipment as well as noninterest expenses has not been significant for the periods covered in this report. Our business is generally not seasonal.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not required.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our consolidated financial statements and the Independent Auditors' Report appear on pages F-1 through F-49 of this Report and are incorporated into this Item 8 by reference.

INDEX TO FINANCIAL STATEMENTS

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We conducted an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, or persons performing similar functions, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) or 15d-15(e) under the Exchange Act of 1934 (the “Act”)) as of December 31, 2015. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2015.

The term disclosure controls and procedures means controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Act (15 U.S.C. 78a et seq.) is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Act is accumulated and communicated to our Management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

There are inherent limitations to the effectiveness of any system of disclosure controls and procedures. These limitations include the possibility of human error, the circumvention or overriding of the controls and procedures and reasonable resource constraints. In addition, because we have designed our system of controls based on certain assumptions, which we believe are reasonable, about the likelihood of future events, our system of controls may not achieve its desired purpose under all possible future conditions. Accordingly, our disclosure controls and procedures provide reasonable assurance, but not absolute assurance, of achieving their objectives.

Management's Annual Report on Internal Control over Financial Reporting

Our Management's report on Internal Control over Financial Reporting is set forth in Item 8 and is incorporated herein by reference.

Our internal control over financial reporting is designed to provide reasonable, but not absolute, assurance regarding the financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles. There are inherent limitations to the effectiveness of any system of internal control over financial reporting. These limitations include the possibility of human error, the circumvention or overriding of the system and reasonable resource constraints. Because of its inherent limitations, our internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

This annual report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the quarter ended December 31, 2015 that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information required by this Item is incorporated by reference from our Proxy Statement to be filed prior to the 2016 Annual Meeting of Shareholders. The Company and the Company have adopted a Code of Ethics that applies to all staff including the Chief Executive Officer, and the Chief Financial Officer. A copy of the Code of Ethics will be provided to any person, without charge, upon written request to Corporate Secretary, Oak Valley Bancorp, 125 North Third Avenue, Oakdale, CA 95361.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's officers and directors, and persons who own more than 10% of a registered class of the Company's equity securities, to file reports of ownership and changes in ownership with the FDIC. Officers, directors and greater than 10% shareholders are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file.

Based solely on its review of the copies of such forms received by it, or written representations from certain reporting persons that no Forms 4 and 5 were required for those persons, the Company believes that for the 2015 fiscal year the officers and directors of the Company complied with all applicable filing requirements, except for the late filings for the directors in the table below:

Name	Form	Transaction Type	Transaction Date	# of Shares
Terry Withrow	4	Purchase	11/6/2014	1,330
Terry Withrow	4	Purchase	11/7/2014	1,500
Terry Withrow	4	Purchase	12/1/2014	170
Tom Haidlen	4/A	Adjustment (1)	12/31/2014	10,300
Tom Haidlen	4/A	Adjustment (2)	12/31/2014	(17,837)
Tom Haidlen	4	Purchase (3)	1/30/2015	158
Tom Haidlen	4	Sale	2/6/2015	(1,107)
Tom Haidlen	4	Sale	2/6/2015	(192)
Tom Haidlen	4	Sale	2/6/2015	(96)
Tom Haidlen	4	Sale	2/6/2015	(96)
Tom Haidlen	4	Sale	2/6/2015	(48)
Tom Haidlen	4	Sale	2/6/2015	(190)
Tom Haidlen	4	Sale	2/6/2015	(109)

Tom Haidlen	4	Sale	2/6/2015	(96)
Tom Haidlen	4	Purchase (3)	7/30/2015	159
Jay Gilbert	4	Purchase (3)	7/31/2015	301

- (1) Adjustment to holdings for shares held by Mr. Haidlen's spouse.
- (2) Adjustment to holdings for shares previously reported in retirement plan for which Mr. Haidlen is the trustee, but not the beneficial owner.
- (3) Automatic Reinvestment of Cash Dividend

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference from our Proxy Statement to be filed prior to the 2016 Annual Meeting of Shareholders.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item is incorporated by reference from our Proxy Statement to be filed prior to the 2016 Annual Meeting of Shareholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item is incorporated by reference from our Proxy Statement to be filed prior to the 2016 Annual Meeting of Shareholders.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item is incorporated by reference from our Proxy Statement to be filed prior to the 2016 Annual Meeting of Shareholders.

PART IV

ITEM 15 — EXHIBITS, FINANCIAL STATEMENT SCHEDULES

Documents Filed as Part of this Report:

(a)(1) Financial Statements

The Financial Statements of the Company and the Report of Independent Registered Public Accounting Firm are set forth on pages F-1 through F-49.

(a)(2) Financial Statement Schedules

All schedules to the Financial Statements are omitted because of the absence of the conditions under which they are required or because the required information is included in the Financial Statements or accompanying notes.

(a)(3) Exhibits

The exhibit list required by this Item is incorporated by reference to the Exhibit Index included in this report. The warranties, representations and covenants contained in any of the agreements included herein or which appear as exhibits hereto should not be relied upon by buyers, sellers or holders of the Company's securities and are not intended as warranties, representations or covenants to any individual or entity except as specifically set forth in such agreement

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in Oakdale, California on March 29, 2016.

OAK VALLEY BANCORP

a California
corporation

By: /s/ CHRISTOPHER
M. COURTNEY
Christopher M.
Courtney, *President
and Chief Executive
Officer*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each of the undersigned officers and directors of the registrant hereby constitutes and appoints Christopher M. Courtney and Jeffrey A. Gall, and each of them, as lawful attorney-in-fact and agent for each of the undersigned (with full power of substitution and resubstitution, for and in the name, place and stead of each of the undersigned officers and directors), to sign and file with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, any and all amendments, supplements and exhibits to this report and any and all other documents in connection therewith, hereby granting unto said attorneys-in-fact, and each of them, full power and authority to do and perform each and every act and thing necessary or desirable to be done in order to effectuate the same as fully and to all intents and purposes as each of the undersigned might or could do if personally present, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or any of their substitutes, may do or cause to be done by virtue hereof.

Signature

Title Date

/s/ DONALD L. BARTON
Donald Barton

Director March 29, 2016

/s/ CHRISTOPHER M. COURTNEY Director March 29, 2016
Christopher M. Courtney

/s/ JAMES L. GILBERT Director March 29, 2016
James L. Gilbert

/s/ THOMAS A. HAIDLEN Director March 29, 2016
Thomas A. Haidlen

/s/ MICHAEL Q. JONES Director March 29, 2016
Michael Q. Jones

/s/ DANIEL J. LEONARD Director March 29, 2016
Daniel J. Leonard

/s/ RONALD C. MARTIN Director March 29, 2016
Ronald C. Martin

/s/ JANET S. PELTON Director March 29, 2016
Janet S. Pelton

/s/ DANNY L. TITUS Director March 29, 2016
Danny L. Titus

/s/ TERRANCE P. WITHROW Director March 29, 2016
Terrance P. Withrow

MANAGEMENT'S ASSESSMENT OF INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed under the supervision of the Company's Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

As of December 31, 2015, management assessed the effectiveness of the Company's internal control over financial reporting based on the criteria for effective internal control over financial reporting established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 COSO) and guidance issued by the Securities and Exchange Commission. Based on the assessment, management determined that the Company maintained effective internal control over financial reporting as of December 31, 2015, based on those criteria.

The Company's management, including its Chief Executive Officer and Chief Financial Officer, does not expect that its disclosure controls and procedures, or its internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefit of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected.

/s/ CHRISTOPHER M. COURTNEY

Christopher M. Courtney, President and Chief Executive Officer

/s/ JEFFREY A. GALL

Jeffrey A. Gall, Chief
Financial Officer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders

Oak Valley Bancorp

We have audited the accompanying consolidated balance sheets of Oak Valley Bancorp and subsidiary (the “Company”) as of December 31, 2015 and 2014 and the related consolidated statements of income, comprehensive income, shareholders’ equity, and cash flows for the years ended December 31, 2015 and 2014. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Oak Valley Bancorp and subsidiary as of December 31, 2015 and 2014, and the consolidated results of their operations and their cash flows for the years ended December 31, 2015 and 2014 in conformity with accounting principles generally accepted in the United States of America.

/s/ Moss Adams LLP

Stockton, California

March 30, 2016

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OAK VALLEY BANCORP**CONSOLIDATED BALANCE SHEETS**

(dollars in thousands)	December 31, 2015	December 31, 2014
ASSETS		
Cash and due from banks	\$ 174,778	\$ 132,078
Federal funds sold	15,825	12,210
Cash and cash equivalents	190,603	144,288
Securities available for sale	131,546	121,277
Loans, net of allowance for loan loss of \$7,356 and \$7,534 at December 31, 2015 and 2014, respectively	530,394	446,492
Bank premises and equipment, net	14,277	14,066
Other real estate owned	2,066	884
Interest receivable and other assets	28,152	22,658
	\$ 897,038	\$ 749,665
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits	\$ 814,691	\$ 669,581
Interest payable and other liabilities	4,084	5,043
Total liabilities	818,775	674,624