GOLDEN VALLEY BANK
Chico, California

FINANCIAL STATEMENTS
December 31, 2014 and 2013

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INDEPENDENT AUDITOR'S REPORT

The Shareholders and Board of Directors
Golden Valley Bank
Chico, California

Report on the Financial Statements

We have audited the accompanying financial statements of Golden Valley Bank, which comprise the balance sheets as of December 31, 2014 and 2013, and the related statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Golden Valley Bank as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
March 26, 2015

GOLDEN VALLEY BANK
BALANCE SHEETS
December 31, 2014 and 2013

	2014	2013
ASSETS		
Cash and due from banks	$ 3,710,879	$ 4,500,766
Interest-bearing deposits in other financial institutions	7,245,263	14,980,816
Total cash and cash equivalents	10,956,142	19,481,582
Interest-bearing deposits in other financial institutions	16,896,000	8,680,000
Available-for-sale investment securities (Notes 2 and 3)	32,077,000	23,812,000
Loans, less allowance for loan losses of $1,791,858 in 2014 and $1,688,005 in 2013 (Notes 2, 4, 9 and 12)	101,960,804	94,559,207
Bank premises and equipment, net (Note 5)	585,742	624,514
Bank-owned life insurance (Note 13)	1,093,622	1,064,185
Accrued interest receivable and other assets (Note 8)	2,185,856	2,261,670
Total assets	$ 165,755,166	$ 150,483,158
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits (Note 12):		
Noninterest-bearing	$ 42,580,971	$ 38,450,316
Interest bearing (Note 6)	95,683,649	93,300,817
Total deposits	138,264,620	131,751,133
Federal Home Loan Bank borrowings (Note 7)	7,000,000	-
Accrued interest payable and other liabilities (Note 8)	1,582,179	1,230,008
Total liabilities	146,846,799	132,981,141
Commitments and contingencies (Note 9)		
Shareholders' equity (Notes 10 and 11):		
Preferred stock – no par value; 5,000,000 shares authorized, none outstanding	-	-
Common stock – no par value; 50,000,000 shares authorized; shares issued and outstanding 1,978,422 in 2014 and 1,992,722 in 2013	15,718,208	15,839,392
Retained earnings	2,959,138	1,841,524
Accumulated other comprehensive income (loss), net of taxes (Note 3)	231,021	(178,899)
Total shareholders' equity	18,908,367	17,502,017
Total liabilities and shareholders' equity	$ 165,755,166	$ 150,483,158

See accompanying notes to the financial statements.

GOLDEN VALLEY BANK
STATEMENTS OF INCOME
For the Years Ended December 31, 2014 and 2013

	2014	2013
Interest income:		
Interest and fees on loans	$ 5,146,242	$ 4,796,229
Interest on deposits in other financial institutions	161,712	137,388
Interest on tax exempt investment securities	437,479	161,748
Interest on taxable investment securities	362,241	221,801
Total interest income	6,107,674	5,317,166
Interest expense:		
Interest on deposits (Note 6)	142,411	160,583
Interest on borrowings	20,252	6
Total interest expense	162,663	160,589
Net interest income before provision for loan losses	5,945,011	5,156,577
Provision for loan losses (Note 4)	-	70,000
Net interest income after provision for loan losses	5,945,011	5,086,577
Non-interest income:		
Service charges and fees	179,756	169,331
Loan packaging fees	127,095	447,911
Gain on sale of available-for-sale investment securities (Note 3)	110,027	-
Other	39,867	38,323
Total non-interest income	456,745	655,565
Non-interest expense:		
Salaries and employee benefits (Notes 4, 10 and 13)	2,335,046	2,227,773
Occupancy and equipment (Notes 5 and 9)	350,938	329,776
Other (Note 14)	1,388,259	1,050,029
Total non-interest expense	4,074,243	3,607,578
Net income before provision for income taxes	2,327,513	2,134,564
Provision for income taxes (includes $45,276 income tax expense from reclassification items) (Note 8)	814,000	788,000
Net income	$ 1,513,513	$ 1,346,564
Basic income per share (Note 11)	$ 0.76	$ 0.67
Diluted income per share (Note 11)	$ 0.67	$ 0.67
Cash dividends per common share	$ 0.20	$ 0.20

See accompanying notes to the financial statements.

GOLDEN VALLEY BANK
STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2014 and 2013

	2014	2013
Net income	$ 1,513,513	$ 1,346,564
Other comprehensive (loss) income:		
Unrealized holding gains (losses) arising during the year on available-for-sale investment securities	805,947	(640,524)
Less reclassification adjustment for gains included in net income	(110,027)	-
Tax effect	(286,000)	273,000
Total other comprehensive income (loss)	409,920	(367,524)
Total comprehensive income	$ 1,923,433	$ 979,040

See accompanying notes to the financial statements.

GOLDEN VALLEY BANK
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Years Ended December 31, 2014 and 2013

	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance, January 1, 2013	2,016,111	$ 16,023,109	$ 894,099	$ 188,625	$ 17,105,833
Net income	-	-	1,346,564	-	1,346,564
Other comprehensive loss:					
Net change in unrealized gains on available-for-sale investment securities, net of $273,000 in tax benefit (Note 3)	-	-	-	(367,524)	(367,524)
Share-based expense (Note 10)	-	9,321	-	-	9,321
Repurchase and retirement of common stock	(23,389)	(193,038)	-	-	(193,038)
Cash dividend ($0.20 per common share)	-	-	(399,139)	-	(399,139)
Balance, December 31, 2013	1,992,722	15,839,392	1,841,524	(178,899)	17,502,017
Net income	-	-	1,513,513	-	1,513,513
Other comprehensive income:					
Net change in unrealized gains on available-for-sale investment securities, net of $(286,000) in tax effect (Note 3)	-	-	-	409,920	409,920
Share-based expense (Note 10)	-	68,433	-	-	68,433
Exercise of stock options	10,000	75,000	-	-	75,000
Repurchase and retirement of common stock	(24,300)	(264,617)	-	-	(264,617)
Cash dividend ($0.20 per common share)	-	-	(395,899)	-	(395,899)
Balance, December 31, 2014	1,978,422	$ 15,718,208	$ 2,959,138	$ 231,021	$ 18,908,367

See accompanying notes to financial statements.

GOLDEN VALLEY BANK
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Net income	$ 1,513,513	$ 1,346,564
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	-	70,000
Depreciation and amortization	251,506	198,498
Deferred loan origination fees, net	(125,730)	(99,809)
Gain on sale of available-for-sale investment securities	(110,027)	-
Share-based expense	68,433	9,321
Increase in cash surrender value of bank-owned life insurance, net	(29,437)	(30,322)
Decrease (increase) in accrued interest receivable and other assets	(79,986)	175,614
Increase in accrued interest payable and other liabilities	352,886	268,977
Provision for deferred taxes	(58,000)	(142,000)
Net cash provided by operating activities	1,783,158	1,796,843
Cash flows from investing activities:		
Change in interest-bearing deposits in other financial institutions	(8,216,000)	2,802,000
Purchase of available-for-sale investment securities	(21,431,038)	(13,287,874)
Proceeds from sales and calls of available-for-sale investment securities	12,311,811	3,000,000
Proceeds from principal payments on available-for-sale investment securities	1,502,850	943,985
Net increase in loans	(7,275,867)	(12,204,681)
Purchase of Federal Home Loan Bank stock	(72,200)	(14,700)
Purchase of premises and equipment, net	(55,410)	(37,439)
Net cash used in investing activities	(23,235,854)	(18,798,709)
Cash flows from financing activities:		
Increase in demand, interest bearing and savings deposits, net	6,243,177	22,630,856
Decrease in time deposits, net	270,310	(1,035,103)
Increase in short-term borrowings	3,500,000	-
Increase in long-term borrowings	3,500,000	-
Cash dividend paid	(396,614)	(299,503)
Proceeds from exercised options	75,000	-
Repurchase and retirement of common stock	(264,617)	(193,038)
Net cash provided by financing activities	12,927,256	21,103,212
(Decrease) increase in cash and cash equivalents	(8,525,440)	4,101,346
Cash and cash equivalents at beginning of year	19,481,582	15,380,236
Cash and cash equivalents at end of year	$ 10,956,142	$ 19,481,582

(Continued)

GOLDEN VALLEY BANK
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2014 and 2013

	2014	2013
Supplemental disclosure of cash flow information:		
Cash paid during the year:		
Interest expense	$ 166,990	$ 175,991
Income taxes	825,000	902,000

See accompanying notes to the financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General: The Bank was approved as a state-chartered member bank on April 24, 2006 and is subject to regulation by the California Department of Business Oversight (the "DBO") and the Federal Deposit Insurance Corporation (the "FDIC"). The Bank is headquartered in Chico, California with a loan production office in Redding, California and provides products and services to customers who are predominately small to middle-market businesses, professionals and not-for-profit organizations located in Butte and surrounding counties.

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

Subsequent Events: The Bank has evaluated subsequent events for recognition and disclosure through March 26, 2015, the date the financial statements were available to be issued.

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

Reclassifications: Certain reclassifications have been made to prior year's balances to conform to classifications in 2014. Reclassifications had no effect on prior year net income or shareholders' equity.

Cash and Cash Equivalents: For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and due from banks, federal funds sold and deposits with other financial institutions with original maturities of less than three months. Generally, Federal funds are sold for one day periods.

Interest-Bearing Deposits in Other Financial Institutions: Interest-bearing deposits in other financial institutions mature within one year and are carried at cost.

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

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

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

Management determines the appropriate classification of its investments at the time of purchase and may only change the classification in certain limited circumstances. All transfers between categories are accounted for at fair value.

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

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Federal Home Loan Bank (FHLB) Stock: The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on their level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost and is redeemable at par with certain restrictions. Both cash and stock dividends are reported as income.

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

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at principal balances outstanding. Substantially all loan origination fees, commitment fees, direct loan origination costs and purchase premiums and discounts on loans are deferred and recognized as an adjustment of yield, to be amortized to interest income over the contractual term of the loan. The unamortized balance of deferred fees and costs is reported as a component of net loans.

Interest income on all loans is discontinued at the time the loan is 90 days delinquent unless the loan is well-secured and in process of collection. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. A loan is moved to non-accrual status in accordance with the Bank's policy, typically after 90 days of non-payment.

All interest accrued but not received for loans placed on nonaccrual, is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

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

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

The Bank maintains a separate allowance for each portfolio class (loan type). These portfolio classes include real estate construction, commercial real estate, residential real estate, commercial and consumer and other loans. The allowance for loan losses attributable to each portfolio class, which includes both impaired loans and loans that are collectively evaluated for impairment, is combined to determine the Bank's overall allowance, which is included on the balance sheets.

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

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

Special Mention – A special mention loan has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or in the Bank's credit position at some future date. Special Mention loans are not adversely classified and do not expose the Bank to sufficient risk to warrant adverse classification.

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

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Doubtful – Loans classified doubtful have all the weaknesses inherent in those classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable.

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

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

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

Real estate – construction – Construction loans generally possess a higher inherent risk of loss than other real estate portfolio classes. A major risk arises from the necessity to complete projects within specified cost and time lines. Trends in the construction industry significantly impact the credit quality of these loans, as demand drives construction activity. In addition, trends in real estate values significantly impact the credit quality of these loans, as property values determine the economic viability of construction projects.

Real estate – commercial – Commercial real estate mortgage loans generally possess a higher inherent risk of loss than other real estate portfolio classes, except land and construction loans. Adverse economic developments or an overbuilt market impact commercial real estate projects and may result in troubled loans. Trends in vacancy rates of commercial properties impact the credit quality of these loans. High vacancy rates reduce operating revenues and the ability for properties to produce sufficient cash flow to service debt obligations.

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

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

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

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Credit Losses on Off-Balance-Sheet Credit Exposures: The Bank maintains a separate allowance for losses related to off-balance-sheet exposures. Management estimates the amount of probable losses by applying a loss factor and utilization assumptions to the available portion of undisbursed lines of credit. This allowance of $38,000 is included in accrued interest payable and other liabilities on the balance sheets at December 31, 2014 and 2013, respectively.

Other Real Estate: Real estate properties acquired through, or in lieu of, loan foreclosure are expected to be sold and are initially recorded at the fair value of the property, less estimated costs to sell. The excess, if any, of the loan amount over the fair value is charged to the allowance for loan losses. Subsequent declines in the fair value of other real estate, along with related revenue and expenses from operations, are charged to noninterest expense as incurred. The Bank did not have any other real estate as of December 31, 2014 and 2013.

Bank Premises and Equipment: Bank premises and equipment are carried at cost less accumulated depreciation. Depreciation is determined using the straight-line method over the estimated useful lives of the related assets. The useful lives of furniture, fixtures and equipment are estimated to be three to seven years. Leasehold improvements are amortized over 20 years, which represents the lease term, including renewal periods that are reasonably assured. Leased equipment, meeting certain capital lease criteria, is capitalized and the present value of the related lease payments is recorded as a liability. Amortization of capital leases is computed using a straight-line method over the shorter of the estimated useful life of the equipment or the initial lease term.

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

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

Income Taxes: Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax basis of assets and liabilities, computed using enacted tax rates. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized. The realization of deferred income tax assets is assessed and a valuation allowance is recorded if it is "more likely than not" that all or a portion of the deferred tax asset will not be realized. "More likely than not" is defined as greater than a 50% chance. Based upon their analysis of available evidence, management determined that it is “more likely than not” that all of the deferred income tax assets as of December 31, 2014 and 2013 will be fully realized and therefore no valuation allowance was recorded. Interest and/or penalties related to income tax matters are recognized in income tax expense.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting for Uncertainty in Income Taxes: The Bank uses a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return. A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The Bank does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months.

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

Advertising: Advertising costs are charged to expense in the period incurred and totaled $43,553 and $37,235 for the years ended December 31, 2014 and 2013, respectively.

Share-Based Compensation: The Bank has one share-based payment plan, the Golden Valley Bank Equity Incentive Plan (the "Plan"), which is described more fully in Note 10. The Bank accounts for share-based expense using a fair-value based method and requires that share-based expense be recorded for all stock options that are ultimately expected to vest as the requisite service is rendered. The expense related to restricted stock is based on the value of the stock at the grant date and is expensed over the vesting period.

Management estimates the fair value of each option award as of the date of grant using a Black-Scholes-Merton option pricing formula and the following assumptions. Expected volatility is based on historical volatility of similar entities over a preceding period commensurate with the expected term of the option because the Bank's common stock has been publicly traded for a shorter period than the expected term for the options. A simplified method is used to determine the expected term of the Bank’s options due to the lack of sufficient data. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant with substantially the same remaining term as the term of the option. In addition to these assumptions, management makes estimates regarding pre-vesting forfeitures that will impact total compensation expense recognized under the Plan.

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income or loss. Other comprehensive income or loss includes unrealized gains and losses on securities available for sale and is recognized as a separate component of shareholders’ equity.

Fair Value and Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 2. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

Operating Segments: While the chief decision-makers monitor the revenue streams of the various products and services, operations are managed and financial performance is evaluated on a Bank-wide basis. Operating segments are aggregated into one as operating results for all segments are similar. Accordingly, all of the financial service operations are considered by management to be aggregated in one reportable operating segment.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of New Accounting Standards: In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. Under this Update, FASB created a new Topic 606 which is in response to a joint initiative of FASB and the International Accounting Standards Board to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP and international financial reporting standards that would:

- Remove inconsistencies and weaknesses in revenue requirements.
- Provide a more robust framework for addressing revenue issues.
- Improve comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets.
- Provide more useful information to users of financial statements through improved disclosure requirements.
- Simplify the preparation of financial statements by reducing the number of requirements to which an entity must refer.

The amendments in this Update are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. The Bank is currently evaluating the impact that this update will have on its financial statements.

NOTE 2 – FAIR VALUE

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

Fair Value Hierarchy

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

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

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

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

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

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

(Continued)

NOTE 2 – FAIR VALUE (Continued)

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

December 31, 2014	Carrying Amount	Fair Value Measurements at Using: Level 1	Level 2	Level 3	Total
Financial assets:					
Cash and due from banks	$ 3,710,879	$ 3,710,879	$ -	$ -	$ 3,710,879
Interest-bearing deposits in other financial institutions	24,141,263	5,502,263	19,741,737	-	25,244,000
Available-for-sale securities	32,077,000	-	32,077,000	-	32,077,000
Loans, net	101,960,804	-		104,058,000	104,058,000
FHLB stock	576,300	N/A	N/A	N/A	N/A
Accrued interest receivable	500,761	500,761	-	-	500,761
Financial liabilities:					
Deposits	$ 138,264,620	$ 121,419,000	$ 15,742,000	$	$ 137,161,000
Short term borrowings	3,500,000	3,500,000			3,500,000
Other borrowings	3,500,000		3,490,000		3,490,000
Accrued interest payable	21,429	21,429	-	-	21,429

December 31, 2013	Carrying Amount	Fair Value Measurements at Using: Level 1	Level 2	Level 3	Total
Financial assets:					
Cash and due from banks	$ 4,500,766	$ 4,500,766	$ -	$ -	$ 4,500,766
Interest-bearing deposits in other financial institutions	23,660,816	11,464,184	13,237,816	-	24,702,000
Available-for-sale securities	23,812,000	-	23,812,000	-	23,812,000
Loans, net	94,559,207	-	-	95,937,000	95,937,000
FHLB stock	504,100	N/A	N/A	N/A	N/A
Accrued interest receivable	458,991	458,991	-	-	458,991
Financial liabilities:					
Deposits	$ 131,751,133	$ 115,631,000	$ 15,480,000	$ -	$ 131,111,000
Accrued interest payable	25,756	25,756	-	-	25,756

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

The following methods and assumptions were used by the Bank to estimate the fair values of its financial instruments at December 31, 2014 and December 31, 2013:

Cash and due from banks: The carrying amounts of cash and short-term instruments approximate fair values and are classified as Level 1.

(Continued)

NOTE 2 – FAIR VALUE (Continued)

Interest-bearing deposits in other financial institutions: The carrying amounts of interest-bearing deposits approximate fair values are classified as Level 1. Fair values for fixed rate deposits are estimated using a discounted cash flow calculation that applies interest rates currently being offered on similar fixed rate deposits to a schedule of aggregated expected monthly maturities on deposits resulting in a Level 2 classification.

Available-for-sale securities: For investment securities, fair values are estimated using quoted market prices for similar securities and model-based valuation techniques for which all significant assumptions are observable and are classified as Level 2 classification.
Loans: Fair values of loans, excluding certain impaired loans, are estimated as follows: For variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values resulting in a Level 3 classification. Fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality also resulting in a Level 3 classification. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price.

FHLB stock: It is not practicable to determine the fair value of FHLB stock due to restrictions placed on its transferability.

Deposits: The fair values disclosed for demand deposits are, by definition, equal to the amount payable on demand at the reporting date (i.e. their carrying amount) resulting in a Level 1 classification. Fair values for fixed rate time deposits are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits resulting in a Level 2 classification.

Short-Term Borrowings: The carrying amounts of short-term borrowings under the secured borrowings arrangement with the Federal Home Loan Bank, approximate fair values resulting in a Level 1 classification.

Other Borrowings: The fair values of the Company's long-term borrowings are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 2 classification.

Accrued interest receivable and payable: The carrying amount of accrued interest receivable and payable approximates fair value resulting in a Level 1 classification.

The fair values of commitments to extend credit and standby letters of credit are estimated using the fees currently charged to enter into similar agreements and are not significant and, therefore, not included in the above table.

(Continued)

NOTE 2 – FAIR VALUE (Continued)

Fair Value Measurements

Assets Recorded at Fair Value

The following tables present information about the Bank's assets and liabilities measured at fair value on a recurring and nonrecurring basis as of December 31, 2014 and 2013:

Recurring Basis

	December 31, 2014			
Description	Fair Value	Level 1	Level 2	Level 3
Debt securities:				
U.S. Government-sponsored entities	$ 4,011,000	$	$ 4,011,000	$
Government guaranteed residential mortgage-backed securities	10,629,000		10,629,000	
Municipal securities	15,415,000		15,415,000	
Corporate debt securities	2,022,000		2,022,000	
Total assets measured at fair value	$32,077,000	$	$32,077,000	$

	December 31, 2013			
Description	Fair Value	Level 1	Level 2	Level 3
Debt securities:				
U.S. Government-sponsored entities	$ 6,233,000	$ -	$ 6,233,000	$ -
Government guaranteed residential mortgage-backed securities	3,087,000	-	3,087,000	-
Municipal securities	13,445,000	-	13,445,000	-
Corporate debt securities	1,047,000	-	1,047,000	-
Total assets measured at fair value	$23,812,000	$ -	$23,812,000	$ -

Fair values for Level 2 available-for-sale investment securities are based on quoted market prices for similar securities and model-based valuation techniques for which all significant assumptions are observable. During the years ended December 31, 2014 and 2013, there were no transfers in or out of Levels 1 and 2.

Non-recurring Basis

The Bank may be required, from time to time, to measure certain assets at fair value on a non-recurring basis. These include assets that are measured at the lower of cost or market value that were recognized at fair value which was below cost at the reporting date. The Bank did not have any asset measured on a non-recurring basis as of December 31, 2014.

(Continued)

NOTE 2 – FAIR VALUE (Continued)

The following table represents assets measured on a non-recurring basis as of December 31, 2013.

	December 31, 2013				
Description	Fair Value	Level 1	Level 2	Level 3	Total Losses
Impaired loans:					
Real estate – construction	$ 59,535	$ -	$ -	$ 59,535	$ -
Total assets measured at fair value on a non-recurring basis	$ 59,535	$ -	$ -	$ 59,535	$ -

Impaired loans are collateral dependent and have been adjusted to fair value based on the estimated fair value of the underlying collateral, less estimated selling costs. If the Bank determines that the value of an impaired loan is less than the recorded investment in the loan, the carrying value is adjusted through a charge-off recorded through the allowance for loan losses. There were no losses recorded in 2014 and 2013.

The following methods were used to estimate the fair value of each class of assets above:

Impaired Loans – The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

Appraisals for collateral dependent impaired loans are performed by certified appraisers whose qualifications and licenses have been reviewed and verified by the bank. Once received, a member of management reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparison with independent data sources such as recent market data. The Bank periodically compares the actual selling price of collateral that has been sold to the most recent appraised values to determine whether an additional adjustment should be made to appraised values to arrive at fair value. The most recent analysis performed indicated that additional discounts are generally not required for appraisals performed within 12 months of the balance sheet date. Management generally updates appraisals on an annual basis.

There were no liabilities recorded at fair value on a recurring or non-recurring basis at December 31, 2014 or 2013.

(Continued)

NOTE 3 – AVAILABLE-FOR-SALE INVESTMENT SECURITIES

The amortized cost and estimated fair value of available-for-sale investment securities consisted of the following:

	2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Government-sponsored entities	$ 3,976,505	$ 39,761	$ (5,266)	$ 4,011,000
Government guaranteed residential mortgage-backed securities	10,545,308	83,692		10,629,000
Municipal securities	15,176,626	253,962	(15,588)	15,415,000
Corporate debt securities	1,999,540	22,460		2,022,000
	$ 31,697,979	$ 399,875	$ (20,854)	$ 32,077,000

Net unrealized gains on available-for-sale investment securities totaling $379,021 were recorded, net of $148,000 in tax liabilities, as accumulated other comprehensive income within shareholders' equity at December 31, 2014. Proceeds and gross realized gains from the sale of available-for-sale investment securities for the year ended December 31, 2014 totaled $12,311,811 and $110,027 respectively. There were no transfers of available-for-sale investment securities during the year ended December 31, 2014.

	2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Government-sponsored entities	$ 6,163,620	$ 69,380	$ -	$ 6,233,000
Government guaranteed residential mortgage-backed securities	3,179,211	-	(92,211)	3,087,000
Municipal securities	13,780,457	27,980	(363,437)	13,445,000
Corporate debt securities	1,005,611	41,389	-	1,047,000
	$ 24,128,899	$ 138,749	$ (455,648)	$ 23,812,000

Net unrealized losses on available-for-sale investment securities totaling $316,899 were recorded, net of $138,000 in tax benefits, as accumulated other comprehensive loss within shareholders' equity at December 31, 2013. Proceeds from calls of available-for-sale investment securities for the year ended December 31, 2013 totaled $3,000,000. There were no gains or losses from sales or calls recognize during the year ended December 31, 2013. There were no transfers of available-for-sale investment securities during the year ended December 31, 2013.

At December 31, 2014, the Bank held four municipal securities with a value of $2,458,281 that were in a loss position for more than 12 months. Because the decline in market value is attributable to fluctuations in interest rates and not credit quality, and because the Bank does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery, which may be maturity, management does not consider these investments to be other-than-temporarily impaired.

(Continued)

NOTE 3 – AVAILABLE-FOR-SALE INVESTMENT SECURITIES (Continued)

Contractual Maturities: The amortized cost and estimated fair value of available-for-sale investment securities at December 31, 2014, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because the issuers of securities may have the right to call or prepay obligations with or without prepayment penalties.

	Amortized Cost	Estimated Fair Value
Within one year	$ 241,832	$ 242,000
After one year through five years	3,814,440	3,839,000
After five years through ten years	5,008,999	4,987,000
After ten years	11,596,689	11,850,000
	20,661,960	20,918,000
Investment securities not due at a single maturity date:		
Government guaranteed residential mortgage-backed securities	10,545,308	10,629,000
U.S. Government-sponsored entities	490,711	530,000
	$ 31,697,979	$ 32,077,000

The only significant concentration of investment securities (greater than 10% of shareholders' equity) in any individual security issuer at December 31, 2014 is certain Government guaranteed residential mortgage-backed securities issued by the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation.

Investment securities with amortized costs totaling $1,224,225 and $1,688,082 and estimated fair values totaling $1,299,098 and $1,775,000 were pledged to secure borrowing arrangements at December 31, 2014 and 2013, respectively.

NOTE 4 – LOANS AND ALLOWANCE FOR LOAN LOSSES

Outstanding loans at December 31, 2014 and 2013 are summarized below:

	2014	2013
Commercial	$ 20,579,845	$ 23,140,465
Real estate – commercial	50,808,616	48,809,752
Real estate – residential	24,508,118	18,568,052
Real estate – construction	6,760,855	5,369,698
Consumer and other	781,478	171,225
	103,438,912	96,059,192
Deferred loan origination costs (fees), net	313,750	188,020
Allowance for loan losses	(1,791,858)	(1,688,005)
	$ 101,960,804	$ 94,559,207

Salaries and employee benefits totaling $467,221 and $437,494 were deferred as loan origination costs for the years ended December 31, 2014 and 2013, respectively.

(Continued)

NOTE 4 – LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

The following tables show the allocation and activity of the allowance for loan losses at and for the years ended December 31, 2014 and 2013 by portfolio class and by impairment methodology:

	December 31, 2014						
	Commercial	Real Estate - Construction	Real Estate - Commercial	Real Estate - Residential	Consumer and Other	Unallocated	Total
Allowance for Loan Losses							
Beginning balance	$ 333,276	$ 256,046	$ 631,754	$ 284,662	$ 12,112	$ 170,155	$ 1,688,005
Provision for loan losses	62,506	(154,154)	48,905	23,457	3,868	15,418	-
Loans charged-off					(2,996)		(2,996)
Recoveries	-	105,465	-	927	457	-	106,849
Ending balance allocated to portfolio classes	$ 395,782	$ 207,357	$ 680,659	$ 309,046	$ 13,441	$ 185,573	$ 1,791,858
Ending balance: individually evaluated for impairment	$ 8,000	$ -	$ -	$ -	$ -	$ -	$ 8,000
Ending balance: collectively evaluated for impairment	$ 387,782	$ 207,357	$ 680,659	$ 309,046	$ 13,441	$ 185,573	$ 1,783,858
Loans							
Ending balance	$ 20,579,845	$ 6,760,855	$ 50,808,616	$ 24,508,118	$ 781,478	$ -	$103,438,912
Ending balance: individually evaluated for impairment	$ 137,800	$ -	$ -	$ -	$ -	$ -	$ 137,800
Ending balance: collectively evaluated for impairment	$ 20,442,045	$ 6,760,855	$ 50,808,616	$ 24,508,118	$ 781,478	$ -	$103,301,112

(Continued)

NOTE 4 – LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

	December 31, 2013						
	Commercial	Real Estate - Construction	Real Estate - Commercial	Real Estate - Residential	Consumer and Other	Unallocated	Total
Allowance for Loan Losses							
Beginning balance	$ 333,276	$ 256,046	$ 631,754	$ 283,698	$ 12,554	$ 100,155	$ 1,617,483
Provision for loan losses	-	-	-	-	-	70,000	70,000
Loans charged-off	-	-	-	-	(762)	-	(762)
Recoveries	-	-	-	964	320	-	1,284
Ending balance allocated to portfolio classes	$ 333,276	$ 256,046	$ 631,754	$ 284,662	$ 12,112	$ 170,155	$ 1,688,005
Ending balance: individually evaluated for impairment	$ 20,000	$ -	$ -	$ -	$ -	$ -	$ 20,000
Ending balance: collectively evaluated for impairment	$ 313,276	$ 256,046	$ 631,754	$ 284,662	$ 12,112	$ 170,155	$ 1,668,005
Loans							
Ending balance	$ 23,140,465	$ 5,369,698	$ 48,809,752	$ 18,568,052	$ 171,225	$ -	$ 96,059,192
Ending balance: individually evaluated for impairment	$ 142,150	$ 59,535	$ -	$ -	$ -	$ -	$ 201,685
Ending balance: collectively evaluated for impairment	$ 22,998,315	$ 5,310,163	$ 48,809,752	$ 18,568,052	$ 171,225	$ -	$ 95,857,507

(Continued)

NOTE 4 – LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

The following tables show the loan portfolio allocated by management's internal risk ratings at December 31, 2014 and 2013:

	December 31, 2014					
	Credit Risk Profile by Internally Assigned Grade					
	Commercial	Real Estate – Construction	Real Estate – Commercial	Real Estate – Residential	Consumer and Other	Total
Grade:						
Pass	$ 19,956,284	$ 6,605,728	$ 50,229,438	$ 22,982,478	$ 781,478	$100,555,406
Special Mention	485,761	-	579,178	-	-	1,064,939
Substandard	137,800	155,127	-	1,525,640	-	1,818,567
Total	$ 20,579,845	$ 6,760,855	$ 50,808,616	$ 24,508,118	$ 781,478	$103,438,912

	December 31, 2013					
	Credit Risk Profile by Internally Assigned Grade					
	Commercial	Real Estate – Construction	Real Estate – Commercial	Real Estate – Residential	Consumer and Other	Total
Grade:						
Pass	$ 21,442,288	$ 5,145,309	$ 48,608,275	$ 16,855,062	$ 171,225	$ 92,222,159
Special Mention	1,525,641	-	201,477	-	-	1,727,118
Substandard	172,536	224,389	-	1,712,990	-	2,109,915
Total	$ 23,140,465	$ 5,369,698	$ 48,809,752	$ 18,568,052	$ 171,225	$ 96,059,192

The following tables show an aging analysis of the loan portfolio by the time past due at December 31, 2014 and 2013:

	December 31, 2014						
	30-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total	90 Days and Still Accruing	Nonaccrual
Commercial	$ -	$ -	$ -	$ 20,579,845	$ 20,579,845	$ -	$ 137,800
Real estate – commercial	-	-	-	50,808,616	50,808,616	-	-
Real estate – residential	-	-	-	24,508,118	24,508,118	-	-
Real estate – construction	-	-	-	6,760,855	6,760,855	-	-
Consumer	-	-	-	781,478	781,478	-	-
Total	$	$	$	$103,438,912	$103,438,912	$	$ 137,800

(Continued)

NOTE 4 – LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

	December 31, 2013						
	30-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total	90 Days and Still Accruing	Nonaccrual
Commercial	$ -	$ -	$ -	$ 23,140,465	$ 23,140,465	$ -	$ 142,150
Real estate – commercial	-	-	-	5,369,698	5,369,698	-	-
Real estate – residential	-	-	-	48,809,752	48,809,752	-	-
Real estate – construction	-	59,535	59,535	18,508,517	18,568,052	-	59,535
Consumer	-	-	-	171,225	171,225	-	-
Total	$ -	$ 59,535	$ 59,535	$ 95,999,657	$ 96,059,192	$ -	$ 201,685

The following tables show information related to impaired loans at and for the years ended December 31, 2014 and 2013:

	December 31, 2014				
	. Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Cash Basis Interest Income Recognized
With an allowance recorded:					
Commercial	$ 137,800	$ 150,000	$ 8,000	$ 150,000	$ 4,350
Total:					
Commercial	$ 137,800	$ 150,000	$ 8,000	$ 150,000	$ 4,350

	December 31, 2013				
	. Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Cash Basis Interest Income Recognized
With no related allowance recorded:					
Real estate – construction	$ 59,535	$ 247,535	$ -	$ 247,535	$ -
With an allowance recorded:					
Commercial	$ 142,150	$ 150,000	$ 20,000	$ 150,000	$ 3,350
Total:					
Real estate – construction	$ 59,535	$ 247,535	$ -	$ 247,535	$ -
Commercial	$ 142,150	$ 150,000	$ 20,000	$ 150,000	$ 3,350

For purposes of this disclosure, the unpaid principal balance is not reduced for net charge-offs.

(Continued)

NOTE 4 – LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

For the years ended December 31, 2014 and 2013, the average recorded investment in impaired loans was $150,000 and $397,535, respectively. The Bank had $8,000 of specific allowance for loan losses on impaired loans with a recorded investment of $150,000 at December 31, 2014 as compared to $20,000 of specific allowance for loan losses on impaired loans with a recorded investment of $150,000 at December 31, 2013. Interest income on a cash basis was not significant. Interest forgone on nonaccrual loans for the years ended December 31, 2014 and 2013 was $4,650 and $20,667, respectively. The Bank had no loans accruing interest that were over 90 days past due as of December 31, 2014 and 2013. At December 31, 2014 and 2013, the Bank had $137,800 and $201,685, respectively, in nonaccrual loans.

Troubled Debt Restructurings: The Bank has allocated $8,000 and $20,000 of specific reserves to loans to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2014 and 2013, respectively. The Bank does not have commitments to lend additional funds to borrowers with loans whose terms have been modified in troubled debt restructurings.

During the year ended December 31, 2014 and 2013, no loans were modified as a troubled debt restructure. There were no troubled debt restructurings for which there was a payment default within twelve months following the modification during the years ended December 31, 2014 and 2013.

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed or the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Bank's internal underwriting policy.

NOTE 5 – BANK PREMISES AND EQUIPMENT

Bank premises and equipment at December 31, 2014 and 2013 consisted of the following:

	2014	2013
Furniture, fixtures and equipment	$ 654,520	$ 608,249
Leasehold improvements	1,031,917	1,022,857
Construction in process	4,431	4,352
	1,690,868	1,635,458
Less accumulated depreciation and amortization	(1,105,126)	(1,010,944)
	$ 585,742	$ 624,514

Depreciation and amortization included in occupancy and equipment expense totaled $94,182 and $90,814 for the years ended December 31, 2014 and 2013, respectively.

(Continued)

NOTE 6 – INTEREST-BEARING DEPOSITS

Time deposits that meet or exceed the FDIC Insurance limit of $250,000 at year-end 2014 and 2013 were $6,567,636 and $6,372,442.

Interest-bearing deposits at December 31, 2014 and 2013 consisted of the following:

	2014	2013
Savings	$ 9,589,790	$ 11,182,402
Money market	54,441,000	53,141,482
Interest-bearing demand accounts	15,905,652	13,500,037
Time	15,747,206	15,476,896
	$ 95,683,648	$ 93,300,817

Aggregate annual maturities of time deposits are as follows:

Year Ending December 31,	
2015	$ 14,605,652
2016	546,456
2017	583,594
2018	11,504
	$ 15,747,206

Interest expense recognized on interest-bearing deposits for the years ended December 31, 2014 and 2013 consisted of the following:

	2014	2013
Savings	$ 7,318	$ 7,757
Money market	82,602	87,581
Interest-bearing demand accounts	13,508	15,038
Time	38,983	50,207
	$ 142,411	$ 160,583

NOTE 7 – BORROWING ARRANGEMENTS

The Bank has two unsecured Federal funds lines of credit with two correspondent banks under which it can borrow up to $4,500,000. There were no borrowings outstanding under these arrangements at December 31, 2014 or 2013.

(Continued)

NOTE 7 – BORROWING ARRANGEMENTS (Continued)

In addition, the Bank has a borrowing arrangement with the Federal Reserve Bank. Borrowings are secured by available-for-sale investment securities pledged by the Bank. The Bank's borrowing capacity varies depending on the type and value of investments pledged. At December 31, 2014 and 2013 there were no outstanding borrowings.

The Bank has a secured borrowing arrangement with the Federal Home Loan Bank of San Francisco (FHLB). At year-end, advances from the Federal Home Loan Bank were as follows:

	2014	2013
Maturity date May 5, 2015, fixed rate of 0.26%	$ 3,500,000	$ -
Maturity date May 5, 2016, fixed rate of 0.62%	3,500,000	-
	$ 7,000,000	$ -

At December 31, 2014 and 2013, the Bank's borrowing capacity under this arrangement was $37,406,636 and $40,173,020, respectively. The Bank is required to pledge available-for-sale investment securities and certain loans to secure any advances under this arrangement. Loans totaling $67,868,167 and $71,775,000 were pledged to secure advances from the FHLB at December 31, 2014 and 2013, respectively.

NOTE 8 – INCOME TAXES

Income taxes for the years ended December 31, 2014 and 2013 consisted of the following:

	Federal	State	Total
2014			
Current	$ 610,000	$ 262,000	$ 872,000
Deferred	(50,000)	(8,000)	(58,000)
Income tax expense	$ 560,000	$ 254,000	$ 814,000
2013			
Current	$ 717,000	$ 213,000	$ 930,000
Deferred	(115,000)	(27,000)	(142,000)
Income tax expense	$ 602,000	$ 186,000	$ 788,000

(Continued)

NOTE 8 – INCOME TAXES (Continued)

Deferred tax assets (liabilities) at December 31, 2014 and 2013 consisted of the following:

	2014	2013
Deferred tax assets:		
Allowance for loan losses	$ 642,999	$ 642,999
Deferred compensation	495,811	407,078
Stock-based expense	203,614	217,647
Organization costs	89,201	103,966
Unrealized loss on AFS securities	-	138,000
Premises and equipment	87,471	77,803
Other	19,624	33,252
Total deferred tax assets	1,538,720	1,620,745
Deferred tax liabilities:		
Unrealized gain on available-for-sale securities	(148,000)	-
Loan origination costs	(314,154)	(261,808)
Future liability of state deferred tax asset	(9,596)	(29,285)
Other	(35,847)	(70,529)
Total deferred tax liabilities	(507,597)	(361,622)
Net deferred tax assets	$ 1,031,123	$ 1,259,123

The effective tax rate at December 31, 2014 and 2013, as a percentage of income before income taxes, differs from the statutory Federal income tax rate as follows:

	2014	2013
Federal income tax expense, at statutory rate	34.0%	34.0%
State franchise tax, net of Federal tax effect	7.2	5.8
Tax-exempt income from life insurance policies	(0.4)	(0.5)
Tax exempt income	(6.3)	(2.5)
Stock based compensation	0.5	0.1
Effective tax rate	35.0%	36.9%

The Bank files income tax returns in the U.S. Federal and California jurisdictions. There are currently no pending U.S. Federal or State income tax or non-U.S. income tax examinations by tax authorities. With few exceptions, the Bank is no longer subject to tax examinations by U.S. Federal taxing authorities for years ended before December 31, 2011 and by state and local taxing authorities for years ended before December 31, 2010.

As of December 31, 2014, there were no unrecognized tax benefits or interest and penalties related to tax matters accrued by the Bank.

(Continued)

NOTE 9 – COMMITMENTS AND CONTINGENCIES

Operating Leases: The Bank leases its administrative office and branch in Chico, California under a non-cancelable operating lease. The lease expires on June 30, 2016 and has two five-year renewal options. The lease includes rent adjustment provisions of four percent every other year during the initial lease term and the renewal periods.

Additionally, the Bank leases equipment under operating leases that have noncancelable lease terms in excess of one year at December 31, 2014. These leases expire in 2015.

Future minimum lease payments, which include the option periods, are as follows:

Year Ending December 31,	Operating Leases
2015	$ 132,765
2016	127,472
2017	128,129
2018	131,086
2019	129,474
Thereafter	850,972
	$ 1,499,898

Rental expense included in occupancy and equipment expense totaled $145,340 and $137,899 for the years ended December 31, 2014 and 2013, respectively. Accrued lease payable of $100,550 and $97,749 is recorded as of the years ended December 31, 2014 and 2013, respectively, to reflect the cumulative effect of known rent escalations over the life of the Chico lease.

Financial Instruments With Off-Balance-Sheet Risk: The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business in order to meet the financing needs of its customers. These financial instruments consist of commitments to extend credit totaling $34,167,000 and $29,051,000 at December 31, 2014 and 2013, respectively. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized on the balance sheet.

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

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

(Continued)

NOTE 9 – COMMITMENTS AND CONTINGENCIES (Continued)

Commercial loan commitments represent approximately 44% of total commitments and are generally unsecured or secured by collateral other than real estate and have variable interest rates. Commercial real estate and construction loan commitments represent approximately 20% of total commitments and are generally secured by property with a loan-to-value ratio not to exceed 80%. The majority of real estate commitments also have variable interest rates. Home equity lines of credit represent 20% of total commitments and are generally secured by residential real estate and have variable interest rates. Consumer loans represent 14% of total commitments and are generally unsecured. Agricultural loans represent 2% of total commitments and are generally secured by farmland and have fixed interest rates.

Concentrations of Credit Risk: The Bank grants real estate mortgage, real estate construction and commercial loans to customers in Butte, Shasta and surrounding counties. Although the Bank intends to continue to diversify its loan portfolio, a substantial portion of its portfolio is secured by commercial and residential real estate at December 31, 2014 and 2013.

In management's judgment at December 31, 2014, a concentration of loans exists in real estate commercial, mortgage and non-real estate commercial related loans which represented approximately 49%, 24% and 20% of the Bank's loans, respectively. In management's judgment at December 31, 2013, a concentration of loans existed in real estate commercial, mortgage and construction related loans which represented approximately 51%, 19% and 6% of the Bank's loans, respectively. A substantial decline in the performance of the economy in general or a confirmed decline in real estate values in the Bank's primary market area, in particular, could have an adverse impact on the collectability of these loans.

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

NOTE 10 – SHARE-BASED COMPENSATION

The Golden Valley Bank Equity Incentive Plan has been approved by its shareholders and permits the grant of stock options and restricted stock for up to 615,580 shares of the Bank's common stock. Under this Plan, the Bank had 267,429 shares reserved for future grants at December 31, 2014. The Plan is designed to retain employees, directors and founders who are advisory group members. The amount, frequency, and terms of share-based awards may vary based on competitive practices, the Bank's operating results and government regulations. New shares are issued upon option exercise or restricted share grants. The Plan does not provide for the settlement of awards in cash. The Plan requires that the option price may not be less than the fair market value of the stock at the date the option is granted, and that the stock must be paid in full at the time the option is exercised. All options expire on a date determined by the Board of Directors but not later than ten years from the date of grant. The vesting period for stock options and restricted stock is determined by the Board of Directors and is generally over a three to five year period.

(Continued)

NOTE 10 – SHARE-BASED COMPENSATION (Continued)

Stock Option Awards: A summary of option activity under the Plan for the years ended December 31, 2014 and 2013 is presented below:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2013	286,316	$ 7.75	3.69 years	$ 282,958
Outstanding at December 31, 2013	286,316	$ 7.75	2.69 years	$ 543,050
Granted	57,834	$ 10.29		
Exercised	(10,000)	$ 7.50		
Expired	(6,000)	$ 7.50		
Cancelled	(8,000)	$ 7.50		
Outstanding at December 31, 2014	320,150	$ 8.20	2.82 years	$ 1,450,227
Exercisable at December 31, 2014	266,650	$ 7.78	1.52 years	$ 1,330,667
Options expected to vest	47,337	$ 10.28	9.30 years	$ 105,787

At December 31, 2014, the unrecognized cost related to non-vested stock option awards totaled $280,431. That cost is expected to be amortized on a straight-line basis over a weighted average period of 3.59 years and will be adjusted for subsequent changes in estimated forfeitures. Total share-based expense of $68,433 and $9,321 is recorded in salaries and benefits and other non-interest expense for the years ended December 31, 2014 and 2013, respectively. The fair value of options vested during 2014 and 2013 totaled $4,863 and $10,536, respectively.

The following information relates to stock options granted during the years ended December 31, 2014 and 2013. There were no stock options granted in 2013.

	2014
Weighted average grant date fair value per option	$6.89
Significant fair value assumptions:	
Expected term	6.2 years
Expected annual volatility	76%
Risk-free interest rate	1.62%

Dividends: Upon declaration by the Board of Directors, all shareholders of record will be entitled to receive dividends. The California Financial Code restricts the total dividend payment of any state banking association in any calendar year to the lesser of (1) the bank's retained earnings or (2) the bank's net income for its last three fiscal years, less distributions made to shareholders during the same three-year period. At December 31, 2014 and 2013, no amounts were free of such restrictions. Dividends totaling $0.20 and $0.20 per share were declared to shareholders of record during 2014 and 2013, respectively.

(Continued)

NOTE 11 – SHAREHOLDERS' EQUITY

Earnings Per Share: A reconciliation of the numerators and denominators of the basic and diluted earnings per share computations for the years ended December 31, 2014 and 2013 is shown below.

	Net Income	Weighted Average Number of Shares Outstanding	Per Share Amount
December 31, 2014			
Basic earnings per share	$ 1,513,513	1,978,476	$ 0.76
Effect of dilutive stock options	-	279,725	
Diluted earnings per share	$ 1,513,513	2,258,201	$ 0.67
December 31, 2013			
Basic earnings per share	$ 1,346,564	1,996,963	$ 0.67
Effect of dilutive stock options	-	-	
Diluted earnings per share	$ 1,346,564	1,996,963	$ 0.67

Shares of common stock issuable under stock options for which the exercise prices were greater than the average market prices were not included in the computation of diluted earnings per share due to their antidilutive effect. Such shares totaled 40,425 and 286,316 for the years ended December 31, 2014 and 2013, respectively.

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total and Tier 1 capital to risk-weighted assets and of Tier 1 capital to average assets (leverage ratio). Each of these components is defined in the regulations.

(Continued)

NOTE 11 – SHAREHOLDERS' EQUITY (Continued)

Banks are also subject to additional capital guidelines under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth below. The most recent notification from the FDIC categorized the Bank as well capitalized under these guidelines. There are no conditions or events since that notification that management believes have changed the Bank's category.

	2014		2013	
	Amount	Ratio	Amount	Ratio
Leverage Ratio				
Golden Valley Bank	$ 18,677,000	11.1%	$ 17,681,000	12.0%
Minimum requirement for "Well-Capitalized" institution under prompt corrective action provisions	$ 8,376,000	5.0%	$ 7,367,000	5.0%
Minimum regulatory requirement	$ 6,701,000	4.0%	$ 5,894,000	4.0%
Tier 1 Risk-Based Capital Ratio				
Golden Valley Bank	$ 18,677,000	16.8%	$ 17,681,000	17.3%
Minimum requirement for "Well-Capitalized" institution under prompt corrective action provisions	$ 6,679,000	6.0%	$ 6,118,000	6.0%
Minimum regulatory requirement	$ 4,453,000	4.0%	$ 4,079,000	4.0%
Total Risk-Based Capital Ratio				
Golden Valley Bank	$ 20,074,000	18.0%	$ 18,962,000	18.6%
Minimum requirement for "Well-Capitalized" institution under prompt corrective action provisions	$ 11,132,000	10.0%	$ 10,241,000	10.0%
Minimum regulatory requirement	$ 8,905,000	8.0%	$ 8,193,000	8.0%

Management believes that the Bank met all its capital adequacy requirements as of December 31, 2014 and 2013.

(Continued)

NOTE 12 – RELATED PARTY TRANSACTIONS

During the normal course of business, the Bank enters into transactions with related parties, including Directors and executive officers. The following is a summary of the aggregate activity involving related party borrowers for the years ended December 31, 2014 and 2013:

	2014	2013
Balance, beginning of period	$ 1,284,074	$ 2,265,164
Disbursements	4,448,524	319,275
Amounts repaid	(1,097,645)	(1,300,365)
Balance, end of period	$ 4,634,953	$ 1,284,074
Undisbursed commitments to related parties, December 31	$ 1,007,988	$ 853,939

At December 31, 2014 and 2013, the Bank's deposits from related parties totaled approximately $7,599,000 and $7,177,000, respectively.

NOTE 13 – EMPLOYEE BENEFIT PLANS

Profit Sharing Plan: In 2006, the Bank adopted the Golden Valley Bank 401(k) Profit Sharing Plan and Trust (the "Plan"). All employees 18 years of age or older with two months of service are eligible to participate in the salary deferral provisions of the Plan. Eligible employees may elect to make tax deferred contributions up to the maximum amount allowed by law. After eligible employees have completed one year of service, they may participate in the employer contribution provisions. The Bank may make contributions to the Plan at the discretion of the Board of Directors. Eligible employees hired on or before August 1, 2006 are immediately vested in employer contributions. Bank contributions vest at a rate of 20% annually for all other employees, starting in the second year of service. The Bank contributed $62,317 and $63,452 to the Plan during the years ended December 31, 2014 and 2013.

Salary Continuation and Retirement Program: A salary continuation and retirement program is in place for two key executives. Under this program, the executives will receive monthly payments for between 10 and 15 years after retirement. These benefits are substantially equivalent to those available under a life insurance policies purchased by the Bank on the lives of the executives. In addition, the estimated present value of these future benefits is accrued over the period from the effective date of the program until the participant's expected retirement date. The expense related to the program for the years ended December 31, 2014 and 2013 was $147,000 and $140,000, respectively. As of December 31, 2014 and 2013, the Company had accrued $846,000 and $700,000, respectively, for potential benefits payable.

In connection with this program, the Bank has purchased single premium life insurance policies with a cash surrender value totaling $1,093,622 and $1,064,185 at December 31, 2014 and 2013, respectively. Income earned on these policies, net of expenses, totaled $29,437 and $30,322 for the years ended December 31, 2014 and 2013, respectively.

(Continued)

NOTE 14 – OTHER EXPENSES

Other expenses for the years ended December 31, 2014 and 2013 consisted of the following:

	2014	2013
Data processing	$ 433,555	$ 411,629
Professional fees	277,783	191,000
Regulatory assessments	110,465	87,124
Advertising and marketing	102,586	92,196
Director fees	114,232	81,396
Other	349,638	186,684
	$ 1,388,259	$ 1,050,029