

GOLDEN VALLEY BANK
Chico, California

FINANCIAL STATEMENTS
December 31, 2017 and 2016

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CONTENTS

INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
BALANCE SHEETS	2
STATEMENTS OF INCOME	3
STATEMENTS OF COMPREHENSIVE INCOME	4
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY	5
STATEMENTS OF CASH FLOWS.....	6
NOTES TO THE FINANCIAL STATEMENTS	8

INDEPENDENT AUDITOR'S REPORT

To 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, 2017 and 2016, 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.

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, 2017 and 2016, 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.

Sacramento, California
March 29, 2018

GOLDEN VALLEY BANK
BALANCE SHEETS
December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and due from banks	\$ 5,905,434	\$ 6,732,272
Interest-bearing deposits in other financial institutions	<u>8,014,693</u>	<u>18,896,113</u>
Total cash and cash equivalents	13,920,127	25,628,385
Interest-bearing time deposits in other financial institutions	11,174,000	16,886,000
Available-for-sale investment securities	53,623,000	38,019,000
Loans, less allowance for loan losses of \$1,880,581 in 2017 and \$1,811,794 in 2016	141,051,884	123,841,136
Bank premises and equipment, net	986,930	1,052,011
Bank-owned life insurance	1,177,097	1,150,147
Accrued interest receivable and other assets	<u>3,127,009</u>	<u>3,071,010</u>
Total assets	<u>\$ 225,060,047</u>	<u>\$ 209,647,689</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing	\$ 62,362,586	\$ 55,802,642
Interest bearing	<u>132,262,358</u>	<u>123,560,895</u>
Total deposits	194,624,944	179,363,537
Federal Home Loan Bank borrowings	7,000,000	7,000,000
Accrued interest payable and other liabilities	<u>830,787</u>	<u>2,114,620</u>
Total liabilities	<u>202,455,731</u>	<u>188,478,157</u>
Commitments and contingencies (Note 9)		
Shareholders' equity:		
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 2,084,380 in 2017 and 2,078,016 in 2016	16,385,140	16,275,390
Retained earnings	6,562,178	5,203,513
Accumulated other comprehensive loss, net of taxes	<u>(343,002)</u>	<u>(309,371)</u>
Total shareholders' equity	<u>22,604,316</u>	<u>21,169,532</u>
Total liabilities and shareholders' equity	<u>\$ 225,060,047</u>	<u>\$ 209,647,689</u>

See accompanying notes to the financial statements.

GOLDEN VALLEY BANK
STATEMENTS OF INCOME
For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Interest income:		
Interest and fees on loans	\$ 6,598,653	\$ 5,891,380
Interest on deposits in other financial institutions	438,634	286,919
Interest on tax exempt investment securities	579,230	515,785
Interest on taxable investment securities	<u>472,252</u>	<u>440,346</u>
Total interest income	<u>8,088,769</u>	<u>7,134,430</u>
Interest expense:		
Interest on deposits	231,874	149,482
Interest on borrowings	<u>79,409</u>	<u>43,869</u>
Total interest expense	<u>311,283</u>	<u>193,351</u>
Net interest income before provision for loan losses	7,777,486	6,941,079
Provision for loan losses	<u>69,151</u>	<u>22,000</u>
Net interest income after provision for loan losses	<u>7,708,335</u>	<u>6,919,079</u>
Non-interest income:		
Service charges and fees	189,535	167,955
Loan packaging fees	243,207	285,504
Gain on sale of available-for-sale investment securities	13,513	5,629
Other	<u>62,796</u>	<u>41,932</u>
Total non-interest income	<u>509,051</u>	<u>501,020</u>
Non-interest expense:		
Salaries and employee benefits	2,874,451	3,156,656
Occupancy and equipment	532,495	517,685
Other	<u>1,713,133</u>	<u>1,598,006</u>
Total non-interest expense	<u>5,120,079</u>	<u>5,272,347</u>
Net income before provision for income taxes	3,097,307	2,147,752
Provision for income taxes	<u>1,273,850</u>	<u>626,000</u>
Net income	<u>\$ 1,823,457</u>	<u>\$ 1,521,752</u>
Basic income per share	<u>\$ 0.88</u>	<u>\$ 0.74</u>
Diluted income per share	<u>\$ 0.83</u>	<u>\$ 0.71</u>
Cash dividends per common share	<u>\$ 0.20</u>	<u>\$ 0.20</u>

See accompanying notes to the financial statements.

GOLDEN VALLEY BANK
STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Net income	\$ 1,823,457	\$ 1,521,752
Other comprehensive income (loss):		
Unrealized holding gains (losses) arising during the year on available-for-sale investment securities	63,847	(929,757)
Less reclassification adjustment for gains included in net income	(13,513)	(5,629)
Tax effect	<u>(20,000)</u>	<u>386,000</u>
Total other comprehensive income (loss)	<u>30,334</u>	<u>(549,386)</u>
Total comprehensive income	<u>\$ 1,853,791</u>	<u>\$ 972,366</u>

See accompanying notes to the financial statements.

GOLDEN VALLEY BANK
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Years Ended December 31, 2017 and 2016

	Common Stock		Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total Shareholders' Equity
	Shares	Amount			
Balance, January 1, 2016	2,016,905	\$ 16,092,214	\$ 4,095,319	\$ 240,015	\$ 20,427,548
Net income					
Other comprehensive income:	-	-	1,521,752	-	1,521,752
Net change in unrealized losses on available-for-sale investment securities, net of \$386,000 in tax effect	-	-	-	(549,386)	(549,386)
Share-based expense	-	114,024	-	-	114,024
Exercise of stock options	61,111	69,152	-	-	69,152
Cash dividend (\$0.20 per common share)	-	-	(413,558)	-	(413,558)
Balance, December 31, 2016	<u>2,078,016</u>	<u>\$ 16,275,390</u>	<u>\$ 5,203,513</u>	<u>\$ (309,371)</u>	<u>\$ 21,169,532</u>
Net income					
Other comprehensive income:	-	-	1,823,457	-	1,823,457
Net change in unrealized losses on available-for-sale investment securities, net of (\$19,999) in tax effect	-	-	-	30,334	30,334
Share-based expense	-	109,750	-	-	109,750
Exercise of stock options	6,364	-	-	-	-
Adoption of ASU 2017-08 (Note 1)	-	-	(112,199)	-	(112,199)
Adoption of ASU 2018-02 (Notes 1 and 8)	-	-	63,965	(63,965)	-
Cash dividend (\$0.20 per common share)	-	-	(416,558)	-	(416,558)
Balance, December 31, 2017	<u>2,084,380</u>	<u>\$ 16,385,140</u>	<u>\$ 6,562,178</u>	<u>\$ (343,002)</u>	<u>\$ 22,604,316</u>

See accompanying notes to financial statements.

GOLDEN VALLEY BANK
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Net income	\$ 1,823,457	\$ 1,521,752
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	69,151	22,000
Depreciation and amortization	185,302	177,623
Net gain on sale of bank premises and equipment	1,527	2,960
Deferred loan origination fees, net	(993)	(101,347)
Gain on sale of available-for-sale investment securities	(13,513)	(5,629)
Investment securities amortization	403,784	117,327
Share-based expense	109,750	114,024
Increase in cash surrender value of bank-owned life insurance, net	(26,950)	(28,037)
Decrease in accrued interest receivable and other assets	(132,598)	(34,365)
(Decrease) increase in accrued interest payable and other liabilities	<u>(1,278,151)</u>	<u>504,894</u>
Net cash provided by operating activities	<u>1,140,766</u>	<u>2,291,202</u>
Cash flows from investing activities:		
Change in interest-bearing deposits in other financial institutions	5,712,000	2,765,000
Purchase of available-for-sale investment securities	(35,511,690)	(11,067,646)
Proceeds from sales and calls of available-for-sale investment securities	15,617,917	6,769,158
Proceeds from principal payments on available-for-sale investment securities	2,949,836	2,889,244
Maturities of available-for-sales securities	1,000,000	1,000,000
Net increase in loans	(17,278,906)	(13,795,801)
Purchase of Federal Home Loan Bank stock	(55,600)	(98,900)
Purchase of premises and equipment, net	<u>(121,748)</u>	<u>(160,631)</u>
Net cash used in investing activities	<u>(27,688,191)</u>	<u>(11,699,576)</u>
Cash flows from financing activities:		
Increase in demand, interest bearing and savings deposits, net	14,155,241	22,631,452
Increase (decrease) in time deposits, net	1,106,166	6,686,454
Proceeds from FHLB advances	7,000,000	-
Repayment of FHLB advances	(7,000,000)	-
Cash dividend paid	(422,240)	(404,377)
Proceeds from exercised options	<u>-</u>	<u>69,152</u>
Net cash provided by financing activities	<u>14,839,167</u>	<u>28,892,681</u>
(Decrease) increase in cash and cash equivalents	(11,708,258)	19,574,307
Cash and cash equivalents at beginning of year	<u>25,628,385</u>	<u>6,054,078</u>
Cash and cash equivalents at end of year	<u>\$ 13,920,127</u>	<u>\$ 25,628,385</u>

(Continued)

GOLDEN VALLEY BANK
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2017 and 2016

	<u>2017</u>		<u>2016</u>
Supplemental disclosure of cash flow information:			
Cash paid during the year:			
Interest expense	\$ 290,242	\$	185,378
Income taxes	1,191,727		440,000

See accompanying notes to the financial statements.

GOLDEN VALLEY BANK
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

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.

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

Cash and Cash Equivalents: For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and due from banks, 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 and Interest-Bearing Time 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.

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GOLDEN VALLEY BANK
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

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)

GOLDEN VALLEY BANK
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

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)

GOLDEN VALLEY BANK
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

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 – 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.

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.

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)

GOLDEN VALLEY BANK
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

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 \$55,000 and \$48,000 is included in accrued interest payable and other liabilities on the balance sheets at December 31, 2017 and 2016, respectively.

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, 2017 and 2016 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.

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.

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GOLDEN VALLEY BANK
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Earnings Per Share: Basic earnings per share (EPS), which excludes dilution, is computed by dividing net income by the weighted-average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock, such as stock options 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.

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

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

Restrictions on Cash: Cash on hand or on deposit with the Federal Reserve Bank (FRB) was required to meet regulatory reserve and clearing requirements.

Advertising: Advertising costs are charged to expense in the period incurred and totaled \$142,521 and \$172,175 for the years ended December 31, 2017 and 2016, respectively.

Share-Based Compensation: The Bank has one share-based payment plan, the 2016 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.

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.

(Continued)

GOLDEN VALLEY BANK
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Adoption of New Accounting Standards:

In February 2018, the FASB issued ASU No. 2018-02, “Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (“AOCI”).” Under ASU 2018-02, entities are allowed, but not required, to reclassify from Accumulated Other Comprehensive Income (“AOCI”) to retained earnings stranded tax effects resulting from the new federal corporate income tax rate of the Tax Cuts and Jobs Act (“TCJA”). The reclassification could include other stranded tax effects that relate to the TCJA but do not directly relate to the change in the federal rate, e.g., state taxes, changing from a worldwide tax system to a territorial system. Tax effects that are stranded in AOCI for other reasons, e.g., prior changes in tax law, a change in valuation allowance, may not be reclassified. Entities also will have an option to adopt the standard retrospectively or in the period of adoption. The amendments in this Update are effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. The Bank adopted the provisions of ASU No. 2018-02 in the fourth quarter of 2017. The Bank reclassified the disproportionate tax effect resulting from the TCJA by increasing retained earnings by \$63,965 and reducing AOCI by \$63,965.

In March of 2017, the FASB issued ASU No. 2017-08, “Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities.” This guidance shortens the amortization period for premiums on certain callable debt securities to the earliest call date (with an explicit, noncontingent call feature that is callable at a fixed price and on a preset dates), rather than contractual maturity date as currently required under GAAP. ASU 2017-08 does not impact instruments without preset call dates such as mortgage-backed securities. For instruments with contingent call features, once the contingency is resolved and the security is callable at a fixed price and preset date, the security is within the scope of ASU 2017-08. ASU 2017-08 is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020, and early adoption is permitted. Accordingly, effective August of 2017, the Bank early adopted ASU 2017-08. The adoption of this standard resulted in a cumulative effect adjustment of \$112,199 which was a reduction to the Bank’s retained earnings. The adoption of this standard had no impact on earnings or cashflows.

(Continued)

GOLDEN VALLEY BANK
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

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.

Fair Value of Financial Instruments: The carrying amounts and estimated fair values of financial instruments not carried at fair value are as follows:

<u>December 31, 2017</u>	<u>Carrying Amount</u>	<u>Fair Value Measurements Using:</u>			<u>Total</u>
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Financial assets:					
Cash and due from banks	\$ 5,905,434	\$ 5,905,434	\$ -	\$ -	\$ 5,905,434
Interest-bearing deposits and interest-bearing time deposits in other financial institutions	19,188,693	5,275,693	13,876,307	-	19,152,000
Loans, net	141,051,884	-	-	141,724,000	141,724,000
FHLB stock	842,700	N/A	N/A	N/A	N/A
Accrued interest receivable	771,106	-	337,388	433,718	771,106
Financial liabilities:					
Deposits	\$ 194,624,944	\$ 159,172,000	\$ 23,248,000	\$ -	\$ 182,420,000
FHLB borrowings	7,000,000	7,000,000	-	-	7,000,000
Accrued interest payable	54,924	42,210	12,714	-	54,924

(Continued)

GOLDEN VALLEY BANK
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 2 – FAIR VALUE (Continued)

December 31, 2016	Carrying Amount	Fair Value Measurements Using:			Total
		Level 1	Level 2	Level 3	
Financial assets:					
Cash and due from banks	\$ 6,732,272	\$ 6,732,272	\$ -	\$ -	\$ 6,732,272
Interest-bearing deposits and interest-bearing time deposits in other financial institutions	35,782,113	16,655,113	19,020,887	-	35,676,000
Loans, net	123,841,136	-	-	124,197,000	124,197,000
FHLB stock	787,100	N/A	N/A	N/A	N/A
Accrued interest receivable	622,998	-	252,028	370,970	622,998
Financial liabilities:					
Deposits	\$ 179,363,537	\$ 154,840,000	\$ 22,255,000	\$ -	\$ 177,095,000
FHLB borrowings	7,000,000	7,000,000	-	-	7,000,000
Accrued interest payable	33,883	7,600	26,283	-	33,883

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, 2017 and December 31, 2016:

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

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.

(Continued)

GOLDEN VALLEY BANK
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 2 – FAIR VALUE (Continued)

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.

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

Accrued interest receivable and payable: The carrying amount of accrued interest receivable and payable approximates fair value and are considered to be linked in classification to the asset or liability for which they relate.

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.

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, 2017 and 2016:

Recurring Basis

<u>Description</u>	<u>December 31, 2017</u>			
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Debt securities:				
U.S. Government-sponsored entities	\$ 1,165,000	\$ -	\$ 1,165,000	\$ -
Government guaranteed residential mortgage-backed securities	8,889,000	-	8,889,000	-
Municipal securities	29,914,000	-	29,914,000	-
Collateralized Mortgage Obligations	<u>13,655,000</u>	<u>-</u>	<u>13,655,000</u>	<u>-</u>
Total assets measured at fair value	<u>\$53,623,000</u>	<u>\$ -</u>	<u>\$53,623,000</u>	<u>\$ -</u>
<u>Description</u>	<u>December 31, 2016</u>			
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Debt securities:				
U.S. Government-sponsored entities	\$ 2,213,000	\$ -	\$ 2,213,000	\$ -
Government guaranteed residential mortgage-backed securities	15,338,000	-	15,338,000	-
Municipal securities	19,471,000	-	19,471,000	-
Corporate debt securities	<u>997,000</u>	<u>-</u>	<u>997,000</u>	<u>-</u>
Total assets measured at fair value	<u>\$38,019,000</u>	<u>\$ -</u>	<u>\$38,019,000</u>	<u>\$ -</u>

(Continued)

GOLDEN VALLEY BANK
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 2 – FAIR VALUE (Continued)

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, 2017 and 2016, 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, 2017 and 2016.

There were no liabilities recorded at fair value on a recurring or non-recurring basis at December 31, 2017 or 2016.

NOTE 3 – AVAILABLE-FOR-SALE INVESTMENT SECURITIES

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

	2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Government-sponsored entities	\$ 1,177,828	\$ 9,079	\$ (21,907)	\$ 1,165,000
Government guaranteed residential mortgage-backed securities	9,086,110	-	(197,110)	8,889,000
Municipal securities	30,050,775	171,760	(308,535)	29,914,000
Collateralized Mortgage Obligations	13,800,324	1,478	(146,802)	13,655,000
	\$ 54,115,037	\$ 182,317	\$ (674,354)	\$ 53,623,000

Net unrealized losses on available-for-sale investment securities totaling \$492,037 were recorded, net of \$149,035 in tax asset, as accumulated other comprehensive income within shareholders' equity at December 31, 2017. Net proceeds from the sale of available-for-sale investment securities for the year ended December 31, 2017 were \$13,513. There were no transfers of available-for-sale investment securities during the year ended December 31, 2017.

	2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Government-sponsored entities	\$ 2,237,085	\$ 14,231	\$ (38,316)	\$ 2,213,000
Government guaranteed residential mortgage-backed securities	15,591,863	-	(253,863)	15,338,000
Municipal securities	19,734,163	175,576	(438,739)	19,471,000
Corporate debt securities	998,260	-	(1,260)	997,000
	\$ 38,561,371	\$ 189,807	\$ (732,178)	\$ 38,019,000

(Continued)

GOLDEN VALLEY BANK
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

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

Net unrealized losses on available-for-sale investment securities totaling \$542,371 were recorded, net of \$233,000 in tax asset, as accumulated other comprehensive income within shareholders' equity at December 31, 2017. Net proceeds from the sale of available-for-sale investment securities for the year ended December 31, 2017 were \$5,629. There were no transfers of available-for-sale investment securities during the year ended December 31, 2017.

Contractual Maturities: The amortized cost and estimated fair value of available-for-sale investment securities at December 31, 2017, 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.

	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>
Within one year	\$ 899,854	\$ 916,000
After one year through five years	4,323,218	4,273,000
After five years through ten years	15,092,855	14,897,000
After ten years	<u>24,535,560</u>	<u>24,462,000</u>
Total	\$ 44,851,487	\$ 44,548,000
Investment securities not due at a single maturity date:		
Government guaranteed residential mortgage-backed securities	9,086,110	8,889,000
U.S. Government-sponsored entities	<u>177,441</u>	<u>186,000</u>
	<u>\$ 54,115,038</u>	<u>\$ 53,623,000</u>

At December 31, 2017, the Bank held fifteen securities with a value of \$12,250,473 that were in a loss position for more than 12 months. At December 31, 2016, the Bank held two municipal securities with a value of \$650,379 that were in a loss position for more than 12 months. The decline in market value is attributable to fluctuations in interest rates and not credit quality. Accordingly, it is expected that the securities will not be settled at a price less than amortized cost. 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)

GOLDEN VALLEY BANK
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

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

The following table summarizes securities with unrealized losses at December 31, 2017 and 2016, aggregated by major security type and length of time in a continuous unrealized loss position:

	2017					
	Less than 12 Months		12 Months or Longer		Total	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
Debt securities:						
U.S. Government-sponsored entities	\$ -	\$ -	\$ 978,093	\$ (21,907)	\$ 978,093	\$ (21,907)
Government guaranteed residential mortgage-backed securities	2,031,411	(54,651)	6,857,111	(142,459)	8,888,522	(197,110)
Municipal securities	19,922,382	(244,165)	4,186,533	(64,370)	24,108,915	(308,535)
Collateralized Mortgage Obligations	13,291,577	(146,802)	-	-	13,291,577	(146,802)
	<u>\$ 35,245,370</u>	<u>\$ (445,618)</u>	<u>\$ 12,021,737</u>	<u>\$ (228,736)</u>	<u>\$ 47,267,107</u>	<u>\$ (674,354)</u>

	2016					
	Less than 12 Months		12 Months or Longer		Total	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
Debt securities:						
U.S. Government-sponsored entities	\$ 1,961,684	\$ (38,316)	\$ -	\$ -	\$ 1,961,684	\$ (38,316)
Government guaranteed residential mortgage-backed securities	15,337,617	(253,863)	-	-	15,337,617	(253,863)
Municipal securities	12,006,878	(406,717)	618,357	(32,022)	12,625,235	(438,739)
Collateralized Mortgage Obligations	997,488	(1,260)	-	-	997,448	(1,260)
	<u>\$ 29,306,179</u>	<u>\$ (700,156)</u>	<u>\$ 618,357</u>	<u>\$ (32,022)</u>	<u>\$ 30,922,024</u>	<u>\$ (732,178)</u>

There were no concentrations of investment securities (greater than 10% of shareholders' equity) in any individual security issuer at December 31, 2017. The only significant concentration of investment securities (greater than 10% of shareholders' equity) in any individual security issuer at December 31, 2016 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 \$2,298,489 and \$2,287,923 and estimated fair values totaling \$2,314,875 and \$2,313,742 were pledged to secure borrowing arrangements at December 31, 2017 and 2016, respectively.

(Continued)

GOLDEN VALLEY BANK
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 4 – LOANS AND ALLOWANCE FOR LOAN LOSSES

Outstanding loans at December 31, 2017 and 2016 are summarized below:

	<u>2017</u>	<u>2016</u>
Commercial	\$ 21,721,889	\$ 19,462,575
Real estate – commercial	76,003,270	70,029,116
Real estate – residential	27,512,706	26,102,860
Real estate – construction	16,945,134	9,354,533
Consumer and other	<u>235,176</u>	<u>190,549</u>
	142,418,175	125,139,633
Deferred loan origination costs (fees), net	514,290	513,297
Allowance for loan losses	<u>(1,880,581)</u>	<u>(1,811,794)</u>
	<u>\$ 141,051,884</u>	<u>\$ 123,841,136</u>

Salaries and employee benefits totaling \$591,731 and \$503,244 were deferred as loan origination costs for the years ended December 31, 2017 and 2016, respectively.

(Continued)

GOLDEN VALLEY BANK
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

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, 2017 and 2016 by portfolio class and by impairment methodology:

	December 31, 2017						
	<u>Commercial</u>	<u>Real Estate - Construction</u>	<u>Real Estate - Commercial</u>	<u>Real Estate - Residential</u>	<u>Consumer and Other</u>	<u>Unallocated</u>	<u>Total</u>
Allowance for Loan Losses							
Beginning balance	\$ 331,172	\$ 219,958	\$ 922,672	\$ 307,628	\$ 4,653	\$ 25,711	\$ 1,811,794
Provision for loan losses	18,607	103,030	13,393	4,707	(984)	(69,602)	69,151
Loans charged-off	-	-	-	-	(364)	-	(364)
Recoveries	-	-	-	-	-	-	-
Ending balance allocated to portfolio classes	<u>\$ 349,779</u>	<u>\$ 322,988</u>	<u>\$ 936,065</u>	<u>\$ 312,335</u>	<u>\$ 3,305</u>	<u>\$ (43,891)</u>	<u>\$ 1,880,581</u>
Ending balance: individually evaluated for impairment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Ending balance: collectively evaluated for impairment	<u>\$ 349,779</u>	<u>\$ 322,988</u>	<u>\$ 936,065</u>	<u>\$ 312,335</u>	<u>\$ 3,305</u>	<u>\$ (43,891)</u>	<u>\$ 1,880,581</u>
Loans							
Ending balance	<u>\$ 21,721,889</u>	<u>\$ 16,945,134</u>	<u>\$ 76,003,270</u>	<u>\$ 27,512,706</u>	<u>\$ 235,176</u>	<u>\$ -</u>	<u>\$ 142,418,175</u>
Ending balance: individually evaluated for impairment	<u>\$ 110,050</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 110,050</u>
Ending balance: collectively evaluated for, impairment	<u>\$ 21,611,839</u>	<u>\$ 16,945,134</u>	<u>\$ 76,003,270</u>	<u>\$ 27,512,706</u>	<u>\$ 235,176</u>	<u>\$ -</u>	<u>\$ 142,308,125</u>

(Continued)

GOLDEN VALLEY BANK
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

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

	December 31, 2016						Total
	<u>Commercial</u>	<u>Real Estate - Construction</u>	<u>Real Estate - Commercial</u>	<u>Real Estate - Residential</u>	<u>Consumer and Other</u>	<u>Unallocated</u>	
<u>Allowance for Loan Losses</u>							
Beginning balance	\$ 339,291	\$ 210,969	\$ 741,226	\$ 301,353	\$ 8,683	\$ 190,716	\$ 1,792,238
Provision for loan losses	(8,119)	8,989	181,446	6,275	(1,586)	(165,005)	22,000
Loans charged-off	-	-	-	-	(2,444)	-	(2,444)
Recoveries	-	-	-	-	-	-	-
Ending balance allocated to portfolio classes	<u>\$ 331,172</u>	<u>\$ 219,958</u>	<u>\$ 922,672</u>	<u>\$ 307,628</u>	<u>\$ 4,653</u>	<u>\$ 25,711</u>	<u>\$ 1,811,794</u>
Ending balance: individually evaluated for impairment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Ending balance: collectively evaluated for impairment	<u>\$ 331,172</u>	<u>\$ 219,958</u>	<u>\$ 922,672</u>	<u>\$ 307,628</u>	<u>\$ 4,653</u>	<u>\$ 25,711</u>	<u>\$ 1,811,794</u>
<u>Loans</u>							
Ending balance	<u>\$ 19,462,575</u>	<u>\$ 9,354,533</u>	<u>\$ 70,029,116</u>	<u>\$ 26,102,860</u>	<u>\$ 190,549</u>	<u>\$ -</u>	<u>\$ 125,139,633</u>
Ending balance: individually evaluated for impairment	<u>\$ 122,050</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 122,050</u>
Ending balance: collectively evaluated for impairment	<u>\$ 19,340,525</u>	<u>\$ 9,354,533</u>	<u>\$ 70,029,116</u>	<u>\$ 26,102,860</u>	<u>\$ 190,549</u>	<u>\$ -</u>	<u>\$ 125,017,583</u>

(Continued)

GOLDEN VALLEY BANK
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

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, 2017 and 2016:

December 31, 2017						
Credit Risk Profile by Internally Assigned Grade						
	Commercial	Real Estate – Construction	Real Estate – Commercial	Real Estate – Residential	Consumer and Other	Total
Grade:						
Pass	\$ 20,252,746	\$ 16,823,625	\$ 73,798,470	\$ 27,512,706	\$ 235,176	\$ 138,622,723
Special Mention	952,222	-	2,204,800	-	-	3,157,022
Substandard	516,921	121,509	-	-	-	638,430
Total	<u>\$ 21,721,889</u>	<u>\$ 16,945,134</u>	<u>\$ 76,003,270</u>	<u>\$ 27,512,706</u>	<u>\$ 235,176</u>	<u>\$ 142,418,175</u>

December 31, 2016						
Credit Risk Profile by Internally Assigned Grade						
	Commercial	Real Estate – Construction	Real Estate – Commercial	Real Estate – Residential	Consumer and Other	Total
Grade:						
Pass	\$ 18,298,436	\$ 9,221,823	\$ 68,094,074	\$ 26,102,860	\$ 190,549	\$ 121,907,742
Special Mention	886,935	-	1,935,042	-	-	2,821,977
Substandard	277,204	132,710	-	-	-	409,914
Total	<u>\$ 19,462,575</u>	<u>\$ 9,354,533</u>	<u>\$ 70,029,116</u>	<u>\$ 26,102,860</u>	<u>\$ 190,549</u>	<u>\$ 125,139,633</u>

The following tables show an aging analysis of the loan portfolio by the time past due at December 31, 2017 and 2016:

December 31, 2017							
	30-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total	90 Days and Still Accruing	Nonaccrual
Commercial	\$ -	\$ -	\$ -	\$ 21,721,889	\$ 21,721,889	\$ -	\$ 110,050
Real estate – commercial	-	-	-	76,003,270	76,003,270	-	-
Real estate – residential	-	-	-	27,512,706	27,512,706	-	-
Real estate – construction	-	-	-	16,945,134	16,945,134	-	-
Consumer	-	-	-	235,176	235,176	-	-
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 142,418,175</u>	<u>\$ 142,418,175</u>	<u>\$ -</u>	<u>\$ 110,050</u>

(Continued)

GOLDEN VALLEY BANK
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

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

	December 31, 2016						
	30-89 Days <u>Past Due</u>	Greater Than 90 Days <u>Past Due</u>	Total <u>Past Due</u>	<u>Current</u>	<u>Total</u>	90 Days and <u>Still Accruing</u>	<u>Nonaccrual</u>
Commercial	\$ -	\$ -	\$ -	\$ 19,462,575	\$ 19,462,575	\$ -	\$ 122,050
Real estate – commercial	-	-	-	70,029,116	70,029,116	-	-
Real estate – residential	-	-	-	26,102,860	26,102,860	-	-
Real estate – construction	-	-	-	9,354,533	9,354,533	-	-
Consumer	-	-	-	190,549	190,549	-	-
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 125,139,633</u>	<u>\$ 125,139,633</u>	<u>\$ -</u>	<u>\$ 122,050</u>

The following tables show information related to impaired loans at and for the years ended December 31, 2017 and 2016:

	December 31, 2017				
	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Cash Basis Interest Income Recognized</u>
With no related allowance recorded:					
Commercial	\$ 110,050	\$ 150,000	\$ -	\$ 150,000	\$ 12,000
Total:					
Commercial	\$ 110,050	\$ 150,000	\$ -	\$ 150,000	\$ 12,000

	December 31, 2016				
	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Cash Basis Interest Income Recognized</u>
With no related allowance recorded:					
Commercial	\$ 122,050	\$ 150,000	\$ -	\$ 150,000	\$ 9,500
Total:					
Commercial	\$ 122,050	\$ 150,000	\$ -	\$ 150,000	\$ 9,500

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

(Continued)

GOLDEN VALLEY BANK
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

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

For the years ended December 31, 2017 and 2016, the average recorded investment in impaired loans was \$150,000. The Bank had no specific allowance for loan losses on impaired loans with a recorded investment of \$150,000 at December 31, 2017 and 2016. Interest income on a cash basis was not significant. Interest forgone on nonaccrual loans for the years ended December 31, 2017 and 2016 was \$0. The Bank had no loans accruing interest that were over 90 days past due as of December 31, 2017 and 2016. At December 31, 2017 and 2016, the Bank had \$110,050 and \$122,500, respectively, in nonaccrual loans.

Troubled Debt Restructurings: The Bank has allocated no specific reserves to loans to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2017 and 2016, 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, 2017 and 2016, 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, 2017 and 2016.

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, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Furniture, fixtures and equipment	\$ 800,092	\$ 775,943
Leasehold improvements	1,399,408	1,398,047
Construction in process	<u>12,231</u>	<u>247</u>
	2,211,731	2,174,237
Less accumulated depreciation and amortization	<u>(1,224,801)</u>	<u>(1,122,226)</u>
	<u>\$ 986,930</u>	<u>\$ 1,052,011</u>

Depreciation and amortization included in occupancy and equipment expense totaled \$185,302 and \$177,623 for the years ended December 31, 2017 and 2016, respectively.

(Continued)

GOLDEN VALLEY BANK
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 6 – INTEREST-BEARING DEPOSITS

Time deposits that meet or exceed the FDIC Insurance limit of \$250,000 at year-end 2017 and 2016 were \$7,979,978 and \$6,576,651.

Interest-bearing deposits at December 31, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Savings	\$ 17,257,315	\$ 16,453,843
Money market	60,948,855	63,355,704
Interest-bearing demand accounts	30,745,575	21,546,901
Time	<u>23,310,613</u>	<u>22,204,447</u>
	<u>\$ 132,262,358</u>	<u>\$ 123,560,895</u>

Aggregate annual maturities of time deposits are as follows:

<u>Year Ending December 31,</u>	
2018	\$ 20,204,152
2019	1,815,782
2020	1,042,602
2021	<u>248,077</u>
	<u>\$ 23,310,613</u>

Interest expense recognized on interest-bearing deposits for the years ended December 31, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Savings	\$ 12,276	\$ 9,524
Money market	87,634	78,496
Interest-bearing demand accounts	19,676	17,906
Time	<u>112,288</u>	<u>43,556</u>
	<u>\$ 231,874</u>	<u>\$ 149,482</u>

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, 2017 and 2016.

(Continued)

GOLDEN VALLEY BANK
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 7 – BORROWING ARRANGEMENTS (Continued)

In addition, the Bank has a borrowing arrangement with the FRB. 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, 2017 and 2016 there were no outstanding borrowings.

The Bank has also obtained a letter of credit with the FHLB totaling \$8,800,000, used to collateralize California State Treasurer Time Deposit Program deposit. The letter of credit has a maturity date of October 28, 2021.

The Bank has a secured borrowing arrangement with the FHLB. At year-end, advances from the FHLB were as follows:

	<u>2017</u>
Maturity date February 8, 2018, fixed rate of 1.23%	\$ <u>7,000,000</u>
	<u>2016</u>
Maturity date May 5, 2017, fixed rate of 0.68%	\$ 3,500,000
Maturity date May 5, 2017, fixed rate of 0.69%	<u>3,500,000</u>
	<u>\$ 7,000,000</u>

At December 31, 2017 and 2016, the Bank's borrowing capacity under this arrangement was \$35,313,657 and \$29,342,939, respectively. The Bank is required to pledge available-for-sale investment securities and certain loans to secure any advances under this arrangement. Loans totaling \$76,886,673 and \$66,858,074 were pledged to secure advances from the FHLB at December 31, 2017 and 2016, respectively.

NOTE 8 – INCOME TAXES

Income taxes for the years ended December 31, 2017 and 2016 consisted of the following:

	<u>Federal</u>	<u>State</u>	<u>Total</u>
<u>2017</u>			
Current	\$ 261,273	\$ 156,131	\$ 417,404
Deferred	<u>670,683</u>	<u>185,763</u>	<u>856,446</u>
Income tax expense	<u>\$ 931,956</u>	<u>\$ 341,894</u>	<u>\$ 1,273,850</u>
<u>2016</u>			
Current	\$ 456,857	\$ 225,143	\$ 682,000
Deferred	<u>(35,534)</u>	<u>(20,466)</u>	<u>(56,000)</u>
Income tax expense	<u>\$ 421,323</u>	<u>\$ 204,677</u>	<u>\$ 626,000</u>

(Continued)

GOLDEN VALLEY BANK
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 8 – INCOME TAXES (Continued)

Deferred tax assets (liabilities) at December 31, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Deferred tax assets:		
Allowance for loan losses	\$ 439,947	\$ 583,975
Deferred compensation	-	592,847
Stock-based expense	57,408	64,787
Organization costs	29,608	54,766
State tax deferral	34,048	72,695
Unrealized loss on available-for-sale securities	149,035	233,000
Other	<u>72,571</u>	<u>181,953</u>
Total deferred tax assets	<u>782,617</u>	<u>1,784,023</u>
Deferred tax liabilities:		
Loan origination costs	(301,094)	(376,913)
Premises and equipment	(39,263)	(93,739)
Other	<u>(17,207)</u>	<u>(1,070)</u>
Total deferred tax liabilities	<u>(357,564)</u>	<u>(471,722)</u>
Net deferred tax assets	<u>\$ 425,053</u>	<u>\$ 1,312,301</u>

The effective tax rate at December 31, 2017 and 2016, as a percentage of income before income taxes, differs from the statutory Federal income tax rate as follows:

	<u>2017</u>	<u>2016</u>
Federal income tax expense, at statutory rate	34.0%	34.0%
State franchise tax, net of Federal tax effect	7.3	7.1
Tax-exempt income from life insurance policies	(0.3)	(0.4)
Tax exempt income	(5.9)	(8.0)
Stock based compensation	0.8	(3.5)
Deferred tax asset re-measurement	4.8	-
Other	<u>0.5</u>	<u>(0.1)</u>
Effective tax rate	<u>41.2%</u>	<u>29.1%</u>

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. The Bank is no longer subject to tax examinations by U.S. Federal taxing authorities for years ended before December 31, 2014 and by state and local taxing authorities for years ended before December 31, 2013.

As of December 31, 2017 and 2016, there were no unrecognized tax benefits or interest and penalties related to tax matters accrued by the Bank.

(Continued)

GOLDEN VALLEY BANK
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 8 – INCOME TAXES (Continued)

On December 22, 2017, H.R. 1, commonly known as the Tax Cuts and Jobs Act (the “Tax Act”), was signed into law, which among other items reduces the federal corporate tax rate to 21% from 34%, effective January 1, 2018. U.S. generally accepted accounting principles requires companies to revalue certain tax-related assets as of the date of enactment of the new legislation with resulting tax effects accounted for in the reporting period of enactment. As a result, we performed an analysis to determine the impact of the revaluation of the net deferred tax asset. The value of the deferred tax asset was reduced by \$147,299 and recorded as tax expense for the year ended December 31, 2017.

NOTE 9 – COMMITMENTS AND CONTINGENCIES

Operating Leases: The Bank leases its branch and administrative offices in Chico, California under non-cancelable operating leases. The branch lease expired on June 30, 2016 at which time the Bank entered into the first of 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. The administrative office lease expires on December 31, 2020 and has two five-year renewal options. The lease includes rent adjustment provisions of two percent annually during the initial lease term and the renewal periods.

Additionally, the Bank leases equipment under an operating lease that has non-cancelable lease terms in excess of one year at December 31, 2017. The lease expires in 2020.

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

<u>Year Ending December 31,</u>	<u>Operating Leases</u>
2018	\$ 197,317
2019	193,914
2020	190,299
2021	190,471
2022	195,301
Thereafter	<u>953,374</u>
	<u>\$ 1,920,676</u>

Rental expense included in occupancy and equipment expense totaled \$203,106 and \$200,298 for the years ended December 31, 2017 and 2016, respectively. Accrued lease payable of \$114,514 and \$109,459 is recorded as of the years ended December 31, 2017 and 2016, respectively, to reflect the cumulative effect of known rent escalations over the life of Bank’s leases.

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 \$40,350,000 and \$33,813,000 at December 31, 2017 and 2016, 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.

(Continued)

GOLDEN VALLEY BANK
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 9 – COMMITMENTS AND CONTINGENCIES (Continued)

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.

Commercial loan commitments represent approximately 37% 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 34% 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 27% of total commitments and are generally secured by residential real estate and have variable interest rates. 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, 2017 and 2016. In management's judgment at December 31, 2017, a concentration of loans exists in real estate commercial, mortgage and non-real estate commercial related loans which represented approximately 53%, 19% and 16% of the Bank's loans, respectively. In management's judgment at December 31, 2016, a concentration of loans exists in real estate commercial, mortgage and non-real estate commercial related loans which represented approximately 56%, 21% and 16% 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 2006 Golden Valley Bank Equity Incentive Plan terminated on April 12, 2016 and had 64,000 outstanding options under the plan at December 31, 2017. The 2016 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 652,879 shares of the Bank's common stock. Under the 2016 Plan, the Bank had 590,666 shares reserved for future grants at December 31, 2017. 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 requires that the option price may not be less than the fair market value of the stock at the date the option is granted. 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)

GOLDEN VALLEY BANK
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 10 – SHARE-BASED COMPENSATION (Continued)

Stock Option Awards: A summary of option activity under the Plan for the year ended December 31, 2017 is presented below:

<u>Options</u>	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term</u>	<u>Aggregate Intrinsic Value</u>
Outstanding at January 1, 2017	<u>84,500</u>	\$ 9.42	5.41 years	\$ 154,400
Granted	62,213	\$ 11.00		
Exercised	(20,000)	\$ 7.50		
Forfeited, expired, or cancelled	(500)	\$ 11.00		
Outstanding at December 31, 2017	<u>126,213</u>	\$ 10.50	7.48 years	\$ 315,701
Exercisable at December 31, 2017	<u>49,166</u>	\$ 10.03	5.64 years	\$ 146,097
Options expected to vest	<u>68,171</u>	\$ 10.80	8.65 years	\$ 150,066

At December 31, 2017, the unrecognized cost related to non-vested stock option awards totaled \$344,319. That cost is expected to be amortized on a straight-line basis over a weighted average period of 3.86 years and will be adjusted for subsequent changes in estimated forfeitures. Total share-based expense of \$109,750 and \$114,024 is recorded in salaries and benefits and other non-interest expense for the years ended December 31, 2017 and 2016, respectively. The fair value of options vested during 2017 and 2016 totaled \$102,890 and \$120,807, respectively.

The following information relates to stock options granted during the years ended December 31, 2017. There were no stock options granted in 2016.

	<u>2017</u>
Weighted average grant date fair value per option	\$7.35
Significant fair value assumptions:	
Expected term	7.29 years
Expected annual volatility	63%
Risk-free interest rate	1.89%

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, 2017 and 2016, no amounts were free of such restrictions. Dividends totaling \$0.20 and \$0.20 per share were declared to shareholders of record during 2017 and 2016, respectively.

(Continued)

GOLDEN VALLEY BANK
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

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, 2017 and 2016 is shown below.

Need option shares outstanding for this table	<u>Net Income</u>	<u>Weighted Average Number of Shares Outstanding</u>	<u>Per Share Amount</u>
<u>December 31, 2017</u>			
Basic earnings per share	\$ 1,823,457	2,081,259	\$ <u>0.88</u>
Effect of dilutive stock options	<u> </u>	<u>126,213</u>	<u> </u>
Diluted earnings per share	<u>\$ 1,823,457</u>	<u>2,207,472</u>	<u>\$ 0.83</u>
<u>December 31, 2016</u>			
Basic earnings per share	\$ 1,521,752	2,062,478	\$ <u>0.74</u>
Effect of dilutive stock options	<u> -</u>	<u>75,965</u>	<u> </u>
Diluted earnings per share	<u>\$ 1,521,752</u>	<u>2,138,443</u>	<u>\$ 0.71</u>

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. All shares of common stock issuable under stock options were included in the computation of diluted earnings per share as all shares were in the money as of December 31, 2017 and 2016.

Regulatory Capital: The Bank is subject to certain regulatory capital requirements administered by the FDIC. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Bank on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. Under the Basel III rules, the Bank must hold a capital conservation buffer above the adequately capitalized risk-based ratios. The capital conservation buffer is being phased in from 0.0% in 2015 to 2.50% by 2019. The capital conservation buffer for 2017 is 1.25% and for 2016 is 0.625%. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes as of December 31, 2017 and 2016, the Bank met all capital adequacy requirements to which they are subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year-end 2017 and 2016, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

(Continued)

GOLDEN VALLEY BANK
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

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, common equity Tier 1, 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. The following table excludes the capital conservation buffer.

	<u>2017</u>		<u>2016</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
<u>Leverage Ratio</u>				
Golden Valley Bank	\$ 22,947,000	10.1%	\$ 21,479,000	10.7%
Minimum requirement for "Well-Capitalized" institution under prompt corrective action provisions	\$ 11,336,000	5.0%	\$ 10,000,000	5.0%
Minimum regulatory requirement	\$ 9,069,000	4.0%	\$ 8,000,000	4.0%
<u>Tier 1 Risk-Based Capital Ratio</u>				
Golden Valley Bank	\$ 22,947,000	13.4%	\$ 21,479,000	15.0%
Minimum requirement for "Well-Capitalized" institution under prompt corrective action provisions	\$ 13,726,000	8.0%	\$ 11,446,000	8.0%
Minimum regulatory requirement	\$ 10,294,000	6.0%	\$ 8,584,000	6.0%
<u>Common Equity Tier 1 Capital Ratio</u>				
Golden Valley Bank	\$ 22,947,000	13.4%	21,479,000	15.0%
Minimum requirement for "Well-Capitalized" institution under prompt corrective action provisions	\$ 11,153,000	6.5%	9,300,000	6.5%
Minimum regulatory requirement	\$ 7,720,000	4.5%	6,438,000	4.5%
<u>Total Risk-Based Capital Ratio</u>				
Golden Valley Bank	\$ 24,883,000	14.5%	\$ 23,268,000	16.3%
Minimum requirement for "Well-Capitalized" institution under prompt corrective action provisions	\$ 17,157,000	10%	\$ 14,307,000	10.0%
Minimum regulatory requirement	\$ 13,726,000	8%	\$ 11,446,000	8.0%

Management believes that the Bank met all its capital adequacy requirements as of December 31, 2017 and 2016.

(Continued)

GOLDEN VALLEY BANK
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 12 – RELATED PARTY TRANSACTIONS

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, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Balance, beginning of period	\$ 4,355,534	\$ 4,584,352
Disbursements	1,318,473	660,673
Amounts repaid	<u>(1,516,742)</u>	<u>(889,491)</u>
Balance, end of period	\$ <u>4,157,265</u>	\$ <u>4,355,534</u>
Undisbursed commitments to related parties, December 31	\$ <u>1,499,157</u>	\$ <u>1,391,032</u>

At December 31, 2017 and 2016, the Bank's deposits from related parties totaled approximately \$9,060,000 and \$8,276,000, 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. Deferrals can begin the first day of the following quarter after meeting eligibility requirements. The plan accepts both pre-tax and Roth deferrals. The Bank contribution is a Safe Harbor Match of employee salary deferrals and are 100% vested immediately. Any other employer contribution vests over a 6 year schedule. After eligible employees have completed one year of service, they are eligible for any additional 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. The Bank contributed \$91,576 and \$86,236 to the Plan during the years ended December 31, 2017 and 2016.

Supplemental Executive Retirement Program: A salary continuation and retirement program has been 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 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 year ended December 31, 2016 was \$440,000 at which time the plan was terminated. There was no expense incurred in 2017. As of December 31, 2016, the Bank had accrued \$1,441,000, for benefits payable which was subsequently paid out in December 2017.

The Bank has purchased single premium life insurance policies with a cash surrender value totaling \$1,177,097 and \$1,150,147 at December 31, 2017 and 2016, respectively. Income earned on these policies, net of expenses, totaled \$26,950 and \$28,036 for the years ended December 31, 2017 and 2016, respectively.

(Continued)

GOLDEN VALLEY BANK
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 14 – OTHER EXPENSES

Other expenses for the years ended December 31, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Data processing	\$ 537,404	\$ 459,527
Professional fees	191,472	203,188
Regulatory assessments	107,143	111,317
Advertising and marketing	224,314	247,859
Director fees	164,833	131,370
Other	<u>487,967</u>	<u>444,745</u>
	<u>\$ 1,713,133</u>	<u>\$ 1,598,006</u>

NOTE 15 – SUBSEQUENT EVENTS

Effective January 1, 2018, the Bank entered into two new lease arrangements, one in Chico, California for an expanded operations office space as well as a new lease in Redding, California, for a branch office. Effective January 1, 2018 the Bank also entered into an agreement to sublease its former operations office. Income from sublease will be netted against Bank's commitments. Future minimum lease payments associated with these new leases are as follows:

<u>Year Ending December 31,</u>	<u>Operating Leases</u>
2018	\$ 101,281
2019	98,515
2020	99,979
2021	101,466
2022	102,986
Thereafter	<u>1,716,685</u>
	<u>\$ 2,220,912</u>

The Bank has evaluated subsequent events for recognition and disclosure through March 29, 2018, the date the financial statements were available to be issued.