

**GOLDEN VALLEY BANK**  
Chico, California

**FINANCIAL STATEMENTS**  
December 31, 2018 and 2017

GOLDEN VALLEY BANK  
Chico, California

FINANCIAL STATEMENTS  
December 31, 2018 and 2017

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## 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, 2018 and 2017, 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, 2018 and 2017, 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 LLP

Sacramento, California  
March 28, 2019

GOLDEN VALLEY BANK  
BALANCE SHEETS  
December 31, 2018 and 2017

|  | <u>2018</u>           | <u>2017</u>           |
|--|-----------------------|-----------------------|
| <b>ASSETS</b>  |                       |                       |
| Cash and due from banks  | \$ 5,942,886          | \$ 5,905,434          |
| Interest-bearing deposits in other financial institutions  | <u>37,809,635</u>     | <u>8,014,693</u>      |
| Total cash and cash equivalents  | 43,752,521            | 13,920,127            |
| Interest-bearing time deposits in other financial institutions   | 13,925,984            | 11,174,000            |
| Available-for-sale investment securities   | 70,214,794            | 53,623,000            |
| Loans, less allowance for loan losses of \$2,023,096<br>in 2018 and \$1,880,581 in 2017  | 155,138,670           | 141,051,884           |
| Bank premises and equipment, net   | 1,489,441             | 986,930               |
| Bank-owned life insurance  | 1,203,848             | 1,177,097             |
| Accrued interest receivable and other assets   | <u>3,136,864</u>      | <u>3,127,009</u>      |
| Total assets   | <u>\$ 288,862,122</u> | <u>\$ 225,060,047</u> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>  |                       |                       |
| Deposits:  |                       |                       |
| Noninterest-bearing  | \$ 80,646,430         | \$ 62,362,586         |
| Interest bearing   | <u>175,399,054</u>    | <u>132,262,358</u>    |
| Total deposits   | 256,045,484           | 194,624,944           |
| Federal Home Loan Bank borrowings  | 7,705,772             | 7,000,000             |
| Accrued interest payable and other liabilities   | <u>827,454</u>        | <u>830,787</u>        |
| Total liabilities  | <u>264,578,710</u>    | <u>202,455,731</u>    |
| Commitments and contingencies (Note 9)   |                       |                       |
| Shareholders' equity:  |                       |                       |
| Preferred stock – no par value; 5,000,000 shares<br>authorized, none outstanding   | -                     | -                     |
| Common stock – no par value; 50,000,000 shares<br>authorized; shares issued and outstanding 2,086,880<br>in 2018 and 2,084,380 in 2017 | 16,525,953            | 16,385,140            |
| Retained earnings  | 8,595,677             | 6,562,178             |
| Accumulated other comprehensive loss   | <u>(838,218)</u>      | <u>(343,002)</u>      |
| Total shareholders' equity   | <u>24,283,412</u>     | <u>22,604,316</u>     |
| Total liabilities and shareholders' equity   | <u>\$ 288,862,122</u> | <u>\$ 225,060,047</u> |

See accompanying notes to the financial statements.

GOLDEN VALLEY BANK  
STATEMENTS OF INCOME  
For the Years Ended December 31, 2018 and 2017

|  | <u>2018</u>         | <u>2017</u>         |
|--|---------------------|---------------------|
| Interest income:   |                     |                     |
| Interest and fees on loans                               | \$ 7,778,742        | \$ 6,598,653        |
| Interest on deposits in other financial institutions     | 608,727             | 438,634             |
| Interest on tax exempt investment securities             | 492,666             | 579,230             |
| Interest on taxable investment securities                | <u>790,454</u>      | <u>472,252</u>      |
| Total interest income                                    | <u>9,670,589</u>    | <u>8,088,769</u>    |
| Interest expense:  |                     |                     |
| Interest on deposits                                     | 359,488             | 231,874             |
| Interest on borrowings                                   | <u>168,090</u>      | <u>79,409</u>       |
| Total interest expense                                   | <u>527,578</u>      | <u>311,283</u>      |
| Net interest income before provision for loan losses     | 9,143,011           | 7,777,486           |
| Provision for loan losses                                | <u>138,760</u>      | <u>69,151</u>       |
| Net interest income after provision for loan losses      | <u>9,004,251</u>    | <u>7,708,335</u>    |
| Non-interest income:                                     |                     |                     |
| Service charges and fees                                 | 220,271             | 189,535             |
| Loan packaging fees                                      | 222,677             | 243,207             |
| Gain on sale of available-for-sale investment securities | 43,226              | 13,513              |
| Other  | <u>31,741</u>       | <u>62,796</u>       |
| Total non-interest income                                | <u>517,915</u>      | <u>509,051</u>      |
| Non-interest expense:                                    |                     |                     |
| Salaries and employee benefits                           | 3,508,118           | 2,874,451           |
| Occupancy and equipment                                  | 711,924             | 532,495             |
| Other  | <u>1,935,249</u>    | <u>1,713,133</u>    |
| Total non-interest expense                               | <u>6,155,291</u>    | <u>5,120,079</u>    |
| Net income before provision for income taxes             | 3,366,875           | 3,097,307           |
| Provision for income taxes                               | <u>916,000</u>      | <u>1,273,850</u>    |
| Net income   | <u>\$ 2,450,875</u> | <u>\$ 1,823,457</u> |
| Basic income per share                                   | <u>\$ 1.17</u>      | <u>\$ 0.88</u>      |
| Diluted income per share                                 | <u>\$ 1.11</u>      | <u>\$ 0.83</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, 2018 and 2017

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|  | <u>2018</u>         | <u>2017</u>         |
|--|---------------------|---------------------|
| Net income   | \$ 2,450,875        | \$ 1,823,457        |
| Other comprehensive income (loss):   |                     |                     |
| Unrealized holding gains (losses) arising during the<br>year on available-for-sale investment securities | (646,990)           | 63,847              |
| Less reclassification adjustment for gains included<br>in net income                                     | (43,226)            | (13,513)            |
| Tax effect   | <u>195,000</u>      | <u>(20,000)</u>     |
| Total other comprehensive income (loss)  | <u>(495,216)</u>    | <u>30,334</u>       |
| Total comprehensive income   | <u>\$ 1,955,659</u> | <u>\$ 1,853,791</u> |

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See accompanying notes to the financial statements.

GOLDEN VALLEY BANK  
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
For the Years Ended December 31, 2018 and 2017

|   | <u>Common Stock</u> |                      | <u>Retained Earnings</u> | <u>Accumulated Other Comprehensive (Loss) Income</u> | <u>Total Shareholders' Equity</u> |
|---|---------------------|----------------------|--------------------------|--|-----------------------------------|
|   | <u>Shares</u>       | <u>Amount</u>        |                          |  |                                   |
| Balance, January 1, 2017                | <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                              | -                   | -                    | 1,823,457                | -  | 1,823,457                         |
| Other comprehensive income              | -                   | -                    | -                        | 30,334   | 30,334                            |
| Share-based compensation                | -                   | 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                           | -                   | -                    | <u>(416,558)</u>         | -  | <u>(416,558)</u>                  |
| Balance, December 31, 2017              | 2,084,380           | 16,385,140           | 6,562,178                | (343,002)  | 22,604,316                        |
| Net income                              | -                   | -                    | 2,450,875                | -  | 2,450,875                         |
| Other comprehensive loss                | -                   | -                    | -                        | (495,216)  | (495,216)                         |
| Share-based compensation                | -                   | 140,813              | -                        | -  | 140,813                           |
| Exercise of stock options               | 2,500               | -                    | -                        | -  | -                                 |
| Cash dividend                           | -                   | -                    | <u>(417,376)</u>         | -  | <u>(417,376)</u>                  |
| Balance, December 31, 2018              | <u>2,086,880</u>    | <u>\$ 16,525,953</u> | <u>\$ 8,595,677</u>      | <u>\$ (838,218)</u>                                  | <u>\$ 24,283,412</u>              |

See accompanying notes to financial statements.

GOLDEN VALLEY BANK  
STATEMENTS OF CASH FLOWS  
For the Years Ended December 31, 2018 and 2017

|   | <u>2018</u>          | <u>2017</u>          |
|---|----------------------|----------------------|
| <b>Cash flows from operating activities:</b>                                      |                      |                      |
| Net income  | \$ 2,450,875         | \$ 1,823,457         |
| Adjustments to reconcile net income to net cash provided by operating activities: |                      |                      |
| Provision for loan losses   | 138,760              | 69,151               |
| Depreciation and amortization   | 214,068              | 185,302              |
| Net gain on sale of bank premises and equipment                                   |                      | 1,527                |
| Deferred loan origination fees, net   | 12,753               | (993)                |
| Gain on sale of available-for-sale investment securities                          | (43,226)             | (13,513)             |
| Investment securities amortization  | 624,443              | 403,784              |
| Share-based compensation expense  | 140,813              | 109,750              |
| Increase in cash surrender value of bank-owned life insurance, net                | (26,751)             | (26,950)             |
| Decrease in accrued interest receivable and other assets                          | 291,938              | (132,598)            |
| (Decrease) increase in accrued interest payable and other liabilities             | (3,459)              | (1,278,151)          |
|   | 3,800,214            | 1,140,766            |
| <b>Net cash provided by operating activities</b>                                  |                      |                      |
| <b>Cash flows from investing activities:</b>                                      |                      |                      |
| Change in interest-bearing deposits in other financial institutions               | (2,751,984)          | 5,712,000            |
| Purchase of available-for-sale investment securities                              | (26,261,187)         | (35,511,690)         |
| Proceeds from sales and calls of available-for-sale investment securities         | 5,033,013            | 15,617,917           |
| Proceeds from principal payments on available-for-sale investment securities      | 3,364,955            | 2,949,836            |
| Maturities of available-for-sales securities                                      |                      | 1,000,000            |
| Net increase in loans   | (14,238,299)         | (17,278,906)         |
| Purchase of Federal Home Loan Bank stock  | (106,800)            | (55,600)             |
| Purchase of premises and equipment, net   | (716,579)            | (121,748)            |
|   | (35,676,881)         | (27,688,191)         |
| <b>Net cash used in investing activities</b>                                      |                      |                      |
| <b>Cash flows from financing activities:</b>                                      |                      |                      |
| Increase in demand, interest bearing and savings deposits, net                    | 60,703,542           | 14,155,241           |
| Increase (decrease) in time deposits, net   | 716,998              | 1,106,166            |
| Proceeds from FHLB advances   | 7,705,772            | 7,000,000            |
| Repayment of FHLB advances  | (7,000,000)          | (7,000,000)          |
| Cash dividend paid  | (417,251)            | (422,240)            |
|   | 61,709,061           | 14,839,167           |
| <b>Net cash provided by financing activities</b>                                  |                      |                      |
| (Decrease) increase in cash and cash equivalents                                  | 29,832,394           | (11,708,258)         |
| Cash and cash equivalents at beginning of year                                    | 13,920,127           | 25,628,385           |
| <b>Cash and cash equivalents at end of year</b>                                   | <b>\$ 43,752,521</b> | <b>\$ 13,920,127</b> |
| Supplemental disclosure of cash flow information:                                 |                      |                      |
| Cash paid during the year:  |                      |                      |
| Interest expense  | \$ 504,238           | \$ 290,242           |
| Income taxes  | 810,000              | 1,191,727            |

See accompanying notes to financial statements.

GOLDEN VALLEY BANK  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2018 and 2017

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**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: Management has evaluated subsequent events for recognition and disclosure through March 28, 2019, which is 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.

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 interest-bearing deposits in other financial institutions with original maturities of less than three months. Generally, Federal funds are sold for one day periods.

Interest-Bearing Time Deposits in Other Financial Institutions: Interest-bearing time deposits in other financial institutions mature between 4 months and 5 years 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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(Continued)

GOLDEN VALLEY BANK  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2018 and 2017

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**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.

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**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 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.

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(Continued)

GOLDEN VALLEY BANK  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2018 and 2017

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**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.

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(Continued)

GOLDEN VALLEY BANK  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2018 and 2017

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**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 is included in accrued interest payable and other liabilities on the balance sheets at December 31, 2018 and 2017, 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, 2018 and 2017 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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(Continued)

GOLDEN VALLEY BANK  
NOTES TO THE FINANCIAL STATEMENTS  
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**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 \$154,200 and \$142,521 for the years ended December 31, 2018 and 2017, 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.

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(Continued)

GOLDEN VALLEY BANK  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2018 and 2017

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**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:

On January 1, 2018, the Bank adopted Accounting Standards Update (ASU) 2014-09 Revenue from Contracts with Customers and all subsequent amendments to the ASU (collectively referred to as “ASC 606”), which (i) creates a single framework for recognizing revenue from contracts with customers that fall within its scope and (ii) revises when to recognize a gain or loss from the transfer of nonfinancial assets. The majority of the Bank’s revenues come from interest income and other sources, including loans, investment securities, and cash balances, that are outside the scope of ASC 606. The Bank’s services that fall within the scope of ASC 606 are presented within noninterest income and are recognized as revenue as the Bank satisfies its obligation to the customer. These sources of income include service charges on deposit accounts, interchange income, and safety deposit box income, amongst other less significant transactions. The adoption of ASC 606 did not materially impact the Bank or these components of noninterest income.

On January 1, 2018, the Bank adopted ASU 2016-01 Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The main provisions of the update are to eliminate the available-for-sale classification of accounting for equity securities and to adjust the fair value disclosures for financial instruments carried at amortized costs such that the disclosed fair values represent an exit price as opposed to an entry price. The provisions of this update require that equity securities be carried at fair value on the balance sheet, and any periodic changes in value will be adjustments to the income statement. The impact of adoption of this ASU by the Bank was not material, as the Bank does not hold equity securities. However, the new standard resulted in changes to the fair value disclosures for financial instruments, which are now computed using an exit price notion as required by the ASU.

In February 2016, the FASB amended existing guidance that requires lessees recognize the following for all leases (with the exception of short-term leases) at the commencement date (1) A lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) A right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers.

These amendments are effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Bank adopted the new guidance for ASU 2016-02 Leases (Topic 842) on January 1, 2019. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees may not apply a full retrospective transition approach. Upon adoption, the Bank recognized additional operating liabilities and corresponding right of use assets based on the present value of the remaining minimum rental payments for the Bank’s existing operating leases.

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(Continued)

GOLDEN VALLEY BANK  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2018 and 2017

**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, 2018</u>   | <u>Carrying<br/>Amount</u> | <u>Fair Value Measurements Using:</u> |                |                | <u>Total</u>   |
|--|----------------------------|---------------------------------------|----------------|----------------|----------------|
|  |                            | <u>Level 1</u>                        | <u>Level 2</u> | <u>Level 3</u> |                |
| <b>Financial assets:</b>   |                            |                                       |                |                |                |
| Cash and due from banks  | \$ 5,942,886               | \$ 5,942,886                          | \$ -           | \$ -           | \$ 5,942,886   |
| Interest-bearing deposits and interest-bearing time deposits in other financial institutions | 52,381,854                 | 35,475,502                            | 16,220,498     | -              | 51,696,000     |
| Loans, net   | 155,138,670                | -                                     | -              | 153,765,000    | 153,765,000    |
| FHLB stock   | 949,500                    | N/A                                   | N/A            | N/A            | N/A            |
| Accrued interest receivable  | 1,001,645                  | -                                     | 527,926        | 473,719        | 1,001,645      |
| <b>Financial liabilities:</b>  |                            |                                       |                |                |                |
| Deposits   | \$ 256,045,484             | \$ 214,172,000                        | \$ 23,972,000  | \$ -           | \$ 238,144,000 |
| FHLB borrowings  | 7,705,772                  | 7,705,772                             | -              | -              | 7,705,772      |
| Accrued interest payable   | 78,264                     | 66,883                                | 11,381         | -              | 78,264         |

(Continued)

GOLDEN VALLEY BANK  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2018 and 2017

**NOTE 2 – FAIR VALUE** (Continued)

| December 31, 2017  | Carrying Amount | Fair Value Measurements Using: |               |             | Total          |
|--|-----------------|--------------------------------|---------------|-------------|----------------|
|  |                 | Level 1                        | Level 2       | Level 3     |                |
| 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         |

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, 2018 and December 31, 2017:

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 estimated fair values of financial instruments disclosed below as of December 31, 2018 follow the guidance in ASU 2016-01 which prescribes an “exit price” approach in estimating and disclosing fair value of financial instruments incorporating discounts for credit, liquidity, and marketability factors. The fair values shown as of December 31, 2017 use an “entry price” approach.

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

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GOLDEN VALLEY BANK  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2018 and 2017

**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.

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, 2018 and 2017:

*Recurring Basis*

| <u>Description</u>   | <u>December 31, 2018</u> |                |                     |                |
|--|--------------------------|----------------|---------------------|----------------|
|  | <u>Fair Value</u>        | <u>Level 1</u> | <u>Level 2</u>      | <u>Level 3</u> |
| Debt securities:   |                          |                |                     |                |
| U.S. Government-sponsored entities                           | \$ 3,112,764             | \$ -           | \$ 3,112,764        | \$ -           |
| Government guaranteed residential mortgage-backed securities | 20,365,611               | -              | 20,365,611          | -              |
| Municipal securities   | 26,332,049               | -              | 26,332,049          | -              |
| Corporate debt securities                                    | 5,634,226                | -              | 5,634,226           | -              |
| Certificates of deposit                                      | 739,369                  | -              | 739,369             | -              |
| Collateralized Mortgage Obligations                          | <u>14,030,775</u>        | <u>-</u>       | <u>14,030,775</u>   | <u>-</u>       |
| Total assets measured at fair value                          | <u>\$70,214,794</u>      | <u>\$ -</u>    | <u>\$70,214,794</u> | <u>\$ -</u>    |

| <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                           | \$ 1,164,613             | \$ -           | \$ 1,164,613        | \$ -           |
| Government guaranteed residential mortgage-backed securities | 8,888,521                | -              | 8,888,521           | -              |
| Municipal securities   | 29,914,006               | -              | 29,914,006          | -              |
| Collateralized Mortgage Obligations                          | <u>13,655,640</u>        | <u>-</u>       | <u>13,655,640</u>   | <u>-</u>       |
| Total assets measured at fair value                          | <u>\$53,622,780</u>      | <u>\$ -</u>    | <u>\$53,622,780</u> | <u>\$ -</u>    |

(Continued)

GOLDEN VALLEY BANK  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2018 and 2017

**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, 2018 and 2017, 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 assets or liabilities measured on a non-recurring basis as of December 31, 2018 and 2017.

**NOTE 3 – AVAILABLE-FOR-SALE INVESTMENT SECURITIES**

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

|  | 2018              |                              |                               |                            |
|--|-------------------|------------------------------|-------------------------------|----------------------------|
|  | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair<br>Value |
| Debt securities:   |                   |                              |                               |                            |
| U.S. Government-sponsored entities                           | \$ 3,130,905      | \$ 6,989                     | \$ (25,130)                   | \$ 3,112,764               |
| Government guaranteed residential mortgage-backed securities | 20,626,857        | 7,725                        | (268,971)                     | 20,365,611                 |
| Municipal securities   | 26,921,500        | 43,523                       | (632,974)                     | 26,332,049                 |
| Corporate debt securities                                    | 5,727,662         | -                            | (93,436)                      | 5,634,226                  |
| Certificates of deposit                                      | 742,123           | -                            | (2,754)                       | 739,369                    |
| Collateralized Mortgage Obligations                          | 14,248,000        | 7,154                        | (224,379)                     | 14,030,775                 |
|  | \$ 71,397,047     | \$ 65,391                    | \$ (1,247,644)                | \$ 70,214,794              |

Net proceeds from the sale of available-for-sale investment securities for the year ended December 31, 2018 were \$4,784,803. There were no transfers of available-for-sale investment securities during the year ended December 31, 2018.

|  | 2017              |                              |                               |                            |
|--|-------------------|------------------------------|-------------------------------|----------------------------|
|  | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair<br>Value |
| Debt securities:   |                   |                              |                               |                            |
| U.S. Government-sponsored entities                           | \$ 1,177,441      | \$ 9,079                     | \$ (21,907)                   | \$ 1,164,613               |
| Government guaranteed residential mortgage-backed securities | 9,085,631         | -                            | (197,110)                     | 8,888,521                  |
| Municipal securities   | 30,050,781        | 171,760                      | (308,535)                     | 29,914,006                 |
| Collateralized Mortgage Obligations                          | 13,800,965        | 1,477                        | (146,802)                     | 13,655,640                 |
|  | \$ 54,114,818     | \$ 182,316                   | \$ (674,354)                  | \$ 53,622,780              |

(Continued)

GOLDEN VALLEY BANK  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2018 and 2017

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

Net proceeds from the sale of available-for-sale investment securities for the year ended December 31, 2017 were \$14,617,917. 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, 2018, 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<br/>Cost</u> | <u>Estimated<br/>Fair<br/>Value</u> |
|--|---------------------------|-------------------------------------|
| Within one year  | \$ 505,205                | \$ 504,689                          |
| After one year through five years                            | 13,794,406                | 13,623,078                          |
| After five years through ten years                           | 21,161,124                | 20,728,531                          |
| After ten years  | <u>15,176,862</u>         | <u>14,855,493</u>                   |
| Total  | \$ 50,637,597             | \$ 49,711,791                       |
| Investment securities not due at a single maturity date:     |                           |                                     |
| Government guaranteed residential mortgage-backed securities | 20,626,857                | 20,365,611                          |
| U.S. Government-sponsored entities                           | <u>132,593</u>            | <u>137,392</u>                      |
|  | <u>\$ 71,397,047</u>      | <u>\$ 70,214,794</u>                |

At December 31, 2018, the Bank held 71 securities with a book value of \$29,848,396 that were in a loss position for more than 12 months. At December 31, 2017, the Bank held fifteen securities with a book value of \$12,250,473 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.

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(Continued)

GOLDEN VALLEY BANK  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2018 and 2017

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

The following table summarizes securities with unrealized losses at December 31, 2018 and 2017, aggregated by major security type and length of time in a continuous unrealized loss position:

|  | 2018                       |                          |                            |                          |                      |                          |
|--|----------------------------|--------------------------|----------------------------|--------------------------|----------------------|--------------------------|
|  | <u>Less than 12 Months</u> |                          | <u>12 Months or Longer</u> |                          | <u>Total</u>         |                          |
|  | <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                           | \$ -                       | \$ -                     | \$ 974,870                 | \$ (25,130)              | \$ 974,870           | \$ (25,130)              |
| Government guaranteed residential mortgage-backed securities | 9,740,895                  | (40,892)                 | 7,020,399                  | (228,079)                | 16,761,294           | (268,971)                |
| Municipal securities   | 2,855,641                  | (34,775)                 | 21,001,719                 | (598,199)                | 23,857,360           | (632,974)                |
| Corporate securities   | 5,727,663                  | (93,436)                 | -                          | -                        | 5,727,663            | (93,436)                 |
| Certificates of deposit                                      | 740,106                    | (2,754)                  | -                          | -                        | 740,106              | (2,754)                  |
| Collateralized Mortgage Obligations                          | 1,137,205                  | (11,878)                 | 10,479,599                 | (212,501)                | 11,616,804           | (224,379)                |
|  | <u>\$ 20,201,510</u>       | <u>\$ (183,735)</u>      | <u>\$ 39,476,587</u>       | <u>\$ (1,063,909)</u>    | <u>\$ 59,678,097</u> | <u>\$ (1,247,644)</u>    |

|  | 2017                       |                          |                            |                          |                      |                          |
|--|----------------------------|--------------------------|----------------------------|--------------------------|----------------------|--------------------------|
|  | <u>Less than 12 Months</u> |                          | <u>12 Months or Longer</u> |                          | <u>Total</u>         |                          |
|  | <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>      |

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, 2018 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 \$2,817,384 and \$2,298,489 and estimated fair values totaling \$2,755,972 and \$2,314,875 were pledged to secure borrowing arrangements at December 31, 2018 and 2017, respectively.

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GOLDEN VALLEY BANK  
NOTES TO THE FINANCIAL STATEMENTS  
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**NOTE 4 – LOANS AND ALLOWANCE FOR LOAN LOSSES**

Outstanding loans at December 31, 2018 and 2017 are summarized below:

|   | <u>2018</u>           | <u>2017</u>           |
|---|-----------------------|-----------------------|
| Commercial                                  | \$ 20,665,572         | \$ 21,721,889         |
| Real estate – commercial                    | 89,107,005            | 76,003,270            |
| Real estate – residential                   | 29,411,543            | 27,512,706            |
| Real estate – construction                  | 16,857,388            | 16,945,134            |
| Consumer and other                          | <u>618,721</u>        | <u>235,176</u>        |
|   | 156,660,229           | 142,418,175           |
| Deferred loan origination costs (fees), net | 501,537               | 514,290               |
| Allowance for loan losses                   | <u>(2,023,096)</u>    | <u>(1,880,581)</u>    |
|   | <u>\$ 155,138,670</u> | <u>\$ 141,051,884</u> |

Salaries and employee benefits totaling \$573,557 and \$591,731 were deferred as loan origination costs for the years ended December 31, 2018 and 2017, respectively.

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(Continued)

GOLDEN VALLEY BANK  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2018 and 2017

**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, 2018 and 2017 by portfolio class and by impairment methodology:

|  | December 31, 2018    |                                       |                                     |                                      |                               |                    |                      |
|--|----------------------|---------------------------------------|-------------------------------------|--------------------------------------|-------------------------------|--------------------|----------------------|
|  | <u>Commercial</u>    | <u>Real Estate -<br/>Construction</u> | <u>Real Estate -<br/>Commercial</u> | <u>Real Estate -<br/>Residential</u> | <u>Consumer<br/>and Other</u> | <u>Unallocated</u> | <u>Total</u>         |
| Allowance for Loan Losses                              |                      |                                       |                                     |                                      |                               |                    |                      |
| Beginning balance                                      | \$ 349,779           | \$ 322,988                            | \$ 936,065                          | \$ 312,335                           | \$ 3,305                      | \$ (43,891)        | \$ 1,880,581         |
| Provision for loan losses                              | (27,596)             | (11,936)                              | 145,431                             | 12,776                               | 6,969                         | 13,116             | 138,760              |
| Loans charged-off                                      | -                    | -                                     | -                                   | -                                    | -                             | -                  | -                    |
| Recoveries   | -                    | -                                     | -                                   | 3,755                                | -                             | -                  | 3,755                |
| Ending balance allocated to portfolio classes          | <u>\$ 322,183</u>    | <u>\$ 311,052</u>                     | <u>\$ 1,081,496</u>                 | <u>\$ 332,866</u>                    | <u>\$ 10,274</u>              | <u>\$ (30,775)</u> | <u>\$ 2,023,096</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>\$ 322,183</u>    | <u>\$ 311,052</u>                     | <u>\$ 1,081,496</u>                 | <u>\$ 332,866</u>                    | <u>\$ 10,274</u>              | <u>\$ (30,775)</u> | <u>\$ 2,023,096</u>  |
| Loans  |                      |                                       |                                     |                                      |                               |                    |                      |
| Ending balance   | <u>\$ 20,665,572</u> | <u>\$ 16,857,388</u>                  | <u>\$ 89,107,005</u>                | <u>\$ 29,411,543</u>                 | <u>\$ 618,721</u>             | <u>\$ -</u>        | <u>\$156,660,229</u> |
| Ending balance: individually evaluated for impairment  | <u>\$ 98,050</u>     | <u>\$ -</u>                           | <u>\$ -</u>                         | <u>\$ -</u>                          | <u>\$ -</u>                   | <u>\$ -</u>        | <u>\$ 98,050</u>     |
| Ending balance: collectively evaluated for, impairment | <u>\$ 20,567,522</u> | <u>\$ 16,857,388</u>                  | <u>\$ 89,107,005</u>                | <u>\$ 29,411,543</u>                 | <u>\$ 618,722</u>             | <u>\$ -</u>        | <u>\$156,562,179</u> |

(Continued)

GOLDEN VALLEY BANK  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2018 and 2017

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

|  | December 31, 2017    |                                       |                                     |                                      |                               |                    |                       |
|--|----------------------|---------------------------------------|-------------------------------------|--------------------------------------|-------------------------------|--------------------|-----------------------|
|  | <u>Commercial</u>    | <u>Real Estate -<br/>Construction</u> | <u>Real Estate -<br/>Commercial</u> | <u>Real Estate -<br/>Residential</u> | <u>Consumer<br/>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, 2018 and 2017

**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, 2018 and 2017:

| December 31, 2018                                |                      |                               |                             |                              |                       |                      |
|--|----------------------|-------------------------------|-----------------------------|------------------------------|-----------------------|----------------------|
| Credit Risk Profile by Internally Assigned Grade |                      |                               |                             |                              |                       |                      |
|  | Commercial           | Real Estate –<br>Construction | Real Estate –<br>Commercial | Real Estate –<br>Residential | Consumer<br>and Other | Total                |
| Grade:   |                      |                               |                             |                              |                       |                      |
| Pass   | \$ 19,712,700        | \$ 16,748,964                 | \$ 86,956,915               | \$ 29,409,043                | \$ 618,721            | \$153,446,343        |
| Special Mention                                  | 533,936              | -                             | 793,849                     | -                            | -                     | 1,327,785            |
| Substandard                                      | 418,936              | 108,424                       | 1,356,241                   | 2,500                        | -                     | 1,886,101            |
| Total  | <u>\$ 20,665,572</u> | <u>\$ 16,857,388</u>          | <u>\$ 89,107,005</u>        | <u>\$ 29,411,543</u>         | <u>\$ 618,721</u>     | <u>\$156,660,229</u> |

| December 31, 2017                                |                      |                               |                             |                              |                       |                      |
|--|----------------------|-------------------------------|-----------------------------|------------------------------|-----------------------|----------------------|
| Credit Risk Profile by Internally Assigned Grade |                      |                               |                             |                              |                       |                      |
|  | Commercial           | Real Estate –<br>Construction | Real Estate –<br>Commercial | Real Estate –<br>Residential | Consumer<br>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> |

The following tables show an aging analysis of the loan portfolio by the time past due at December 31, 2018 and 2017:

| December 31, 2018             |                        |                                     |                   |                      |                      |                               |                  |
|-------------------------------|------------------------|-------------------------------------|-------------------|----------------------|----------------------|-------------------------------|------------------|
|                               | 30-89 Days<br>Past Due | Greater Than<br>90 Days<br>Past Due | Total<br>Past Due | Current              | Total                | 90 Days and<br>Still Accruing | Nonaccrual       |
| Commercial                    | \$ -                   | \$ -                                | \$ -              | \$ 20,665,572        | \$ 20,665,572        | \$ -                          | \$ 98,050        |
| Real estate –<br>commercial   | -                      | -                                   | -                 | 89,107,005           | 89,107,005           | -                             | -                |
| Real estate –<br>residential  | -                      | -                                   | -                 | 29,411,543           | 29,411,543           | -                             | -                |
| Real estate –<br>construction | -                      | -                                   | -                 | 16,857,388           | 16,857,388           | -                             | -                |
| Consumer                      | -                      | -                                   | -                 | 618,721              | 618,721              | -                             | -                |
| Total                         | <u>\$ -</u>            | <u>\$ -</u>                         | <u>\$ -</u>       | <u>\$156,660,229</u> | <u>\$156,660,229</u> | <u>\$ -</u>                   | <u>\$ 98,050</u> |

(Continued)

GOLDEN VALLEY BANK  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2018 and 2017

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

|                            | December 31, 2017              |  |                           |                       |                       |                                       |                   |  |
|----------------------------|--------------------------------|--|---------------------------|-----------------------|-----------------------|---------------------------------------|-------------------|--|
|                            | <u>30-89 Days<br/>Past Due</u> | <u>Greater Than<br/>90 Days<br/>Past Due</u> | <u>Total<br/>Past Due</u> | <u>Current</u>        | <u>Total</u>          | <u>90 Days and<br/>Still Accruing</u> | <u>Nonaccrual</u> |  |
| 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> |  |

The following tables show information related to impaired loans at and for the years ended December 31, 2018 and 2017:

|                                     | December 31, 2018              |   |                              |  |  |
|-------------------------------------|--------------------------------|---|------------------------------|--|--|
|                                     | <u>Recorded<br/>Investment</u> | <u>Unpaid<br/>Principal<br/>Balance</u> | <u>Related<br/>Allowance</u> | <u>Average<br/>Recorded<br/>Investment</u> | <u>Cash Basis<br/>Interest<br/>Income<br/>Recognized</u> |
| With no related allowance recorded: |                                |   |                              |  |  |
| Commercial                          | \$ 98,050                      | \$ 150,000                              | \$ -                         | \$ 104,050                                 | \$ 12,000  |

|                                     | December 31, 2017              |   |                              |  |  |
|-------------------------------------|--------------------------------|---|------------------------------|--|--|
|                                     | <u>Recorded<br/>Investment</u> | <u>Unpaid<br/>Principal<br/>Balance</u> | <u>Related<br/>Allowance</u> | <u>Average<br/>Recorded<br/>Investment</u> | <u>Cash Basis<br/>Interest<br/>Income<br/>Recognized</u> |
| With no related allowance recorded: |                                |   |                              |  |  |
| Commercial                          | \$ 110,050                     | \$ 150,000                              | \$ -                         | \$ 116,050                                 | \$ 12,000  |

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

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GOLDEN VALLEY BANK  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2018 and 2017

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

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, 2018 and 2017, 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, 2018 and 2017, 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, 2018 and 2017.

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, 2018 and 2017 consisted of the following:

|  | <u>2018</u>         | <u>2017</u>        |
|--|---------------------|--------------------|
| Furniture, fixtures and equipment              | \$ 1,043,151        | \$ 800,092         |
| Leasehold improvements                         | 1,877,273           | 1,399,408          |
| Construction in process                        | <u>-</u>            | <u>12,231</u>      |
|  | 2,920,424           | 2,211,731          |
| Less accumulated depreciation and amortization | <u>(1,430,983)</u>  | <u>(1,224,801)</u> |
|  | <u>\$ 1,489,441</u> | <u>\$ 986,930</u>  |

Depreciation and amortization included in occupancy and equipment expense totaled \$214,068 and \$185,302 for the years ended December 31, 2018 and 2017, respectively.

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GOLDEN VALLEY BANK  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2018 and 2017

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**NOTE 6 – INTEREST-BEARING DEPOSITS**

Time deposits that meet or exceed the FDIC Insurance limit of \$250,000 at year-end 2018 and 2017 were \$8,987,685 and \$7,979,978.

Interest-bearing deposits at December 31, 2018 and 2017 consisted of the following:

|                                  | <u>2018</u>           | <u>2017</u>           |
|----------------------------------|-----------------------|-----------------------|
| Savings                          | \$ 22,256,146         | \$ 17,257,315         |
| Money market                     | 88,744,101            | 60,948,855            |
| Interest-bearing demand accounts | 40,371,196            | 30,745,575            |
| Time                             | <u>24,027,611</u>     | <u>23,310,613</u>     |
|                                  | <u>\$ 175,399,054</u> | <u>\$ 132,262,358</u> |

Aggregate annual maturities of time deposits are as follows:

| <u>Year Ending<br/>December 31,</u> |                      |
|-------------------------------------|----------------------|
| 2019                                | \$ 23,101,405        |
| 2020                                | 882,048              |
| 2021                                | 44,158               |
| 2022                                | <u>-</u>             |
|                                     | <u>\$ 24,027,611</u> |

Interest expense recognized on interest-bearing deposits for the years ended December 31, 2018 and 2017 consisted of the following:

|                                  | <u>2018</u>       | <u>2017</u>       |
|----------------------------------|-------------------|-------------------|
| Savings                          | \$ 13,576         | \$ 12,276         |
| Money market                     | 108,194           | 87,634            |
| Interest-bearing demand accounts | 32,242            | 19,676            |
| Time                             | <u>205,476</u>    | <u>112,288</u>    |
|                                  | <u>\$ 359,488</u> | <u>\$ 231,874</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, 2018 and 2017.

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(Continued)

GOLDEN VALLEY BANK  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2018 and 2017

**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, 2018 and 2017 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>2018</u>         |
|---|---------------------|
| Maturity date May 8, 2019, fixed rate of 2.65%                | \$ 7,000,000        |
| Maturity date March 28, 2023, amortizing, fixed rate of 3.43% | <u>705,772</u>      |
|   | <u>\$ 7,705,772</u> |
|   | <br><u>2017</u>     |
| Maturity date February 8, 2018, fixed rate of 1.23%           | <u>\$ 7,000,000</u> |

At December 31, 2018 and 2017, the Bank's borrowing capacity under this arrangement was \$44,315,365 and \$35,313,657, respectively. The Bank is required to pledge available-for-sale investment securities and certain loans to secure any advances under this arrangement. Loans totaling \$89,392,467 and \$76,886,673 were pledged to secure advances from the FHLB at December 31, 2018 and 2017, respectively.

**NOTE 8 – INCOME TAXES**

Income taxes for the years ended December 31, 2018 and 2017 consisted of the following:

|                                     | <u>Federal</u>    | <u>State</u>      | <u>Total</u>        |
|-------------------------------------|-------------------|-------------------|---------------------|
| <u>2018</u>                         |                   |                   |                     |
| Current                             | \$ 567,668        | \$ 426,661        | \$ 994,329          |
| Deferred                            | <u>(25,668)</u>   | <u>(52,661)</u>   | <u>(78,329)</u>     |
| Income tax expense                  | <u>\$ 542,000</u> | <u>\$ 374,000</u> | <u>\$ 916,000</u>   |
| <br><u>2017</u>                     |                   |                   |                     |
| Current                             | \$ 260,868        | \$ 156,237        | \$ 417,105          |
| Federal Deferred Tax Re-measurement | 147,299           | -                 | 147,299             |
| Deferred                            | <u>523,683</u>    | <u>185,763</u>    | <u>709,446</u>      |
| Income tax expense                  | <u>\$ 931,850</u> | <u>\$ 342,000</u> | <u>\$ 1,273,850</u> |

(Continued)

GOLDEN VALLEY BANK  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2018 and 2017

**NOTE 8 – INCOME TAXES** (Continued)

Deferred tax assets (liabilities) at December 31, 2018 and 2017 consisted of the following:

|  | <u>2018</u>       | <u>2017</u>       |
|--|-------------------|-------------------|
| Deferred tax assets:                             |                   |                   |
| Allowance for loan losses                        | \$ 480,969        | \$ 439,947        |
| Stock-based expense                              | 56,558            | 57,408            |
| Organization costs                               | 19,874            | 29,608            |
| State tax deferral                               | 89,828            | 34,048            |
| Unrealized loss on available-for-sale securities | 344,035           | 149,035           |
| Other  | <u>176,090</u>    | <u>72,571</u>     |
| Total deferred tax assets                        | <u>1,167,354</u>  | <u>782,617</u>    |
| Deferred tax liabilities:                        |                   |                   |
| Loan origination costs                           | (298,379)         | (301,094)         |
| Premises and equipment                           | (150,487)         | (39,263)          |
| Other  | <u>(20,106)</u>   | <u>(17,207)</u>   |
| Total deferred tax liabilities                   | <u>(468,972)</u>  | <u>(357,564)</u>  |
| Net deferred tax assets                          | <u>\$ 698,382</u> | <u>\$ 425,053</u> |

The effective tax rate at December 31, 2018 and 2017, as a percentage of income before income taxes, differs from the statutory Federal income tax rate as follows:

|  | <u>2018</u>  | <u>2017</u>  |
|--|--------------|--------------|
| Federal income tax expense, at statutory rate  | 21.0%        | 34.0%        |
| State franchise tax, net of Federal tax effect | 8.8          | 7.3          |
| Tax-exempt income from life insurance policies | (3.0)        | (0.3)        |
| Tax exempt income                              | (0.2)        | (5.9)        |
| Stock based compensation                       | 0.6          | 0.8          |
| Deferred tax asset re-measurement              | -            | 4.8          |
| Other  | <u>(0.1)</u> | <u>0.5</u>   |
| Effective tax rate                             | <u>27.1%</u> | <u>41.2%</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, 2018 and 2017, 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, 2018 and 2017

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**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 main office and administrative offices in Chico, California as well as its Business Banking Office in Redding, California under non-cancelable operating leases. The main office lease expired on June 30, 2016 at which time the Bank entered into the first of two five-year renewal options. The administrative offices lease expires July 1, 2021 and has two five-year renewal options. The Redding office lease expires on December 31, 2022 and has two five-year renewal options. The bank maintains the lease on its former operations office which expires on December 31, 2020 with two five-year renewal options. The banks sublease on this building expires December 31, 2020 with one five-year renewal option. Additionally, the Bank leases equipment under an operating lease that has non-cancelable lease terms in excess of one year at December 31, 2018. The lease expires in 2020.

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

| <u>Year Ending<br/>December 31,</u> | <u>Operating<br/>Leases</u> |
|-------------------------------------|-----------------------------|
| 2019                                | \$ 297,554                  |
| 2020                                | 295,431                     |
| 2021                                | 297,116                     |
| 2022                                | 303,494                     |
| 2023                                | 305,272                     |
| Thereafter                          | <u>2,375,519</u>            |
|                                     | <u>\$ 3,874,386</u>         |

Rental expense included in occupancy and equipment expense totaled \$315,793 and \$203,106 for the years ended December 31, 2018 and 2017, respectively. Accrued lease payable of \$129,485 and \$114,514 is recorded as of the years ended December 31, 2018 and 2017, 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 \$47,103,000 and \$40,350,000 at December 31, 2018 and 2017, 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.

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(Continued)

**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 39% 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 25% 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, 2018 and 2017. In management's judgment at December 31, 2018, a concentration of loans exists in real estate commercial, mortgage and non-real estate commercial related loans which represented approximately 56%, 19% and 13% of the Bank's loans, respectively. 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. 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 61,500 outstanding options under the plan at December 31, 2018. 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, 2018 and 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.

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(Continued)

GOLDEN VALLEY BANK  
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**NOTE 10 – SHARE-BASED COMPENSATION** (Continued)

Stock Option Awards: A summary of option activity under the Plan for the year ended December 31, 2018 is presented below:

| <u>Options</u>                   | <u>Shares</u>  | <u>Weighted<br/>Average<br/>Exercise<br/>Price</u> | <u>Weighted<br/>Average<br/>Remaining<br/>Contractual<br/>Term</u> | <u>Aggregate<br/>Intrinsic<br/>Value</u> |
|----------------------------------|----------------|--|--|--|
| Outstanding at January 1, 2018   | <u>126,213</u> | \$ 10.50   | 7.48 years   | \$ 315,701                               |
| Granted                          | -              | \$   |  |  |
| Exercised                        | (2,500)        | \$ 11.00   |  |  |
| Forfeited, expired, or cancelled | -              | \$   |  |  |
| Outstanding at December 31, 2018 | <u>123,713</u> | \$ 10.49   | 6.50 years   | \$ 496,271                               |
| Exercisable at December 31, 2018 | <u>67,842</u>  | \$ 10.18   | 5.38 years   | \$ 292,267                               |
| Options expected to vest         | <u>49,434</u>  | \$ 10.86   | 7.85 years   | \$ 179,883                               |

At December 31, 2018 and 2017, the unrecognized cost related to non-vested stock option awards totaled \$231,005 and \$344,319, respectively. That cost is expected to be amortized on a straight-line basis over a weighted average period of 3.25 years and will be adjusted for subsequent changes in estimated forfeitures. Total share-based expense of \$113,314 and \$109,750 is recorded in salaries and benefits and other non-interest expense for the years ended December 31, 2018 and 2017, respectively. The fair value of options vested during 2018 and 2017 totaled \$144,587 and \$102,890, respectively.

The following information relates to stock options granted during the year ended December 31, 2017. There were no stock options granted in 2018.

|   | <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, 2018 and 2017, no amounts were free of such restrictions. Dividends totaling \$0.20 per share were declared to shareholders of record during 2018 and 2017, respectively.

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GOLDEN VALLEY BANK  
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**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, 2018 and 2017 is shown below.

Need option shares outstanding for this table

|                                  | <u>Net<br/>Income</u>       | <u>Weighted<br/>Average<br/>Number of<br/>Shares<br/>Outstanding</u> | <u>Per Share<br/>Amount</u> |
|----------------------------------|-----------------------------|--|-----------------------------|
| <u>December 31, 2018</u>         |                             |  |                             |
| Basic earnings per share         | \$ 2,450,875                | 2,086,880  | \$ <u>1.17</u>              |
| Effect of dilutive stock options | <u>                    </u> | <u>123,713</u>   | <u>                    </u> |
| Diluted earnings per share       | <u>\$ 2,450,875</u>         | <u>2,210,593</u>   | <u>\$ 1.11</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>              |

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, 2018 and 2017.

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 was 1.25% and for 2018 is 1.875%. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes as of December 31, 2018 and 2017, 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 2018 and 2017, 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.

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GOLDEN VALLEY BANK  
NOTES TO THE FINANCIAL STATEMENTS  
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**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.

|  | 2018          |              | 2017          |              |
|--|---------------|--------------|---------------|--------------|
|  | <u>Amount</u> | <u>Ratio</u> | <u>Amount</u> | <u>Ratio</u> |
| <u>Leverage Ratio</u>  |               |              |               |              |
| Golden Valley Bank   | \$ 25,122,000 | 9.0%         | \$ 22,947,000 | 10.1%        |
| Minimum requirement for "Well-Capitalized" institution under prompt corrective action provisions | \$ 14,029,000 | 5.0%         | \$ 11,336,000 | 5.0%         |
| Minimum regulatory requirement   | \$ 11,223,000 | 4.0%         | \$ 9,069,000  | 4.0%         |
| <u>Tier 1 Risk-Based Capital Ratio</u>   |               |              |               |              |
| Golden Valley Bank   | \$ 25,122,000 | 12.9%        | \$ 22,947,000 | 13.4%        |
| Minimum requirement for "Well-Capitalized" institution under prompt corrective action provisions | \$ 15,579,000 | 8.0%         | \$ 13,726,000 | 8.0%         |
| Minimum regulatory requirement   | \$ 11,684,000 | 6.0%         | \$ 10,294,000 | 6.0%         |
| <u>Common Equity Tier 1 Capital Ratio</u>  |               |              |               |              |
| Golden Valley Bank   | \$ 25,122,000 | 12.9%        | 22,947,000    | 13.4%        |
| Minimum requirement for "Well-Capitalized" institution under prompt corrective action provisions | \$ 12,658,000 | 6.5%         | 11,153,000    | 6.5%         |
| Minimum regulatory requirement   | \$ 8,763,000  | 4.5%         | 7,720,000     | 4.5%         |
| <u>Total Risk-Based Capital Ratio</u>  |               |              |               |              |
| Golden Valley Bank   | \$ 27,200,000 | 14.0%        | \$ 24,883,000 | 14.5%        |
| Minimum requirement for "Well-Capitalized" institution under prompt corrective action provisions | \$ 19,473,000 | 10.0%        | \$ 17,157,000 | 10.0%        |
| Minimum regulatory requirement   | \$ 15,579,000 | 8.0%         | \$ 13,726,000 | 8.0%         |

Management believes that the Bank met all its capital adequacy requirements as of December 31, 2018 and 2017.

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GOLDEN VALLEY BANK  
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**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, 2018 and 2017:

|  | <u>2018</u>         | <u>2017</u>         |
|--|---------------------|---------------------|
| Balance, beginning of period                               | \$ 4,157,265        | \$ 4,355,534        |
| Disbursements  | 260,425             | 1,318,473           |
| Amounts repaid   | <u>(402,870)</u>    | <u>(1,516,742)</u>  |
| Balance, end of period                                     | <u>\$ 4,014,820</u> | <u>\$ 4,157,265</u> |
| Undisbursed commitments to related parties,<br>December 31 | <u>\$ 1,387,436</u> | <u>\$ 1,499,157</u> |

At December 31, 2018 and 2017, the Bank's deposits from related parties totaled approximately \$16,342,000 and \$9,060,000, respectively. Included in related party deposits are deposits from Golden Valley Bank Community Foundation (the "Foundation"). In 2018, the Foundation received significant donations and insurance funds as a result of the nearby Camp Fire, the most destructive wildfire in California history. These deposit inflows are the primary reason for the increase in related party deposits in 2018 compared to 2017.

**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 \$98,366 and \$91,576 to the Plan during the years ended December 31, 2018 and 2017.

**NOTE 14 – OTHER EXPENSES**

Other expenses for the years ended December 31, 2018 and 2017 consisted of the following:

|                           | <u>2018</u>         | <u>2017</u>         |
|---------------------------|---------------------|---------------------|
| Data processing           | \$ 634,677          | \$ 537,404          |
| Professional fees         | 233,969             | 191,472             |
| Regulatory assessments    | 114,452             | 107,143             |
| Advertising and marketing | 274,707             | 224,314             |
| Director fees             | 168,000             | 164,833             |
| Other                     | <u>509,444</u>      | <u>487,967</u>      |
|                           | <u>\$ 1,935,249</u> | <u>\$ 1,713,133</u> |

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