



*Report of Independent Auditors and  
Consolidated Financial Statements*

**Golden Valley Bancshares, Inc.  
and Subsidiary**

*December 31, 2020 and 2019*



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## **Report of Independent Auditors**

To the Shareholders and Board of Directors  
Golden Valley Bancshares, Inc. and Subsidiary

### **Report on the Consolidated Financial Statements**

We have audited the accompanying financial statements of Golden Valley Bancshares, Inc. and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

#### ***Management's Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 audits 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Golden Valley Bancshares, Inc., as of December 31, 2020 and 2019, 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.

*Moss Adams LLP*

Sacramento, California  
March 31, 2021

**Consolidated Financial Statements**

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**Golden Valley Bancshares, Inc. and Subsidiary**  
**Consolidated Balance Sheets**  
**December 31, 2020 and 2019**

	2020	2019
<b>ASSETS</b>		
Cash and cash equivalents:		
Cash and due from banks	\$ 6,634,174	\$ 9,011,841
Federal funds sold	1,336,409	-
Interest-bearing deposits in other financial institutions	10,669,192	97,744
Total cash and cash equivalents	18,639,775	9,109,585
Interest-bearing time deposits in other financial institutions	12,441,500	26,612,000
Available-for-sale investment securities	106,537,923	132,325,007
Loans, less allowance for loan losses of \$3,994,145 in 2020, and \$2,302,476 in 2019	261,532,954	181,409,499
Bank premises and equipment, net	1,378,868	1,462,434
Right-of-use (ROU) lease asset	1,343,528	1,623,127
Bank-owned life insurance	1,257,177	1,230,698
Accrued interest receivable and other assets	3,192,122	3,204,213
Total assets	<u>\$ 406,323,847</u>	<u>\$ 356,976,563</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Liabilities:		
Deposits:		
Noninterest-bearing	\$ 147,865,363	\$ 95,457,387
Interest-bearing	215,161,906	199,394,175
Total deposits	363,027,269	294,851,562
Federal Home Loan Bank borrowings	5,398,922	30,656,174
ROU lease liability	1,481,697	1,775,975
Accrued interest payable and other liabilities	1,161,431	785,362
Total liabilities	<u>371,069,319</u>	<u>328,069,073</u>
Commitments and contingencies (Note 10)		
Shareholders' equity:		
Preferred stock – no par value; 5,000,000 shares authorized, none outstanding	-	-
Common stock – no par value; 50,000,000 shares authorized; shares issued and outstanding 2,240,688 in 2020, and 2,297,921 in 2019	18,917,359	19,389,159
Retained earnings	13,830,766	9,737,609
Accumulated other comprehensive income (loss)	2,506,403	(219,278)
Total shareholders' equity	<u>35,254,528</u>	<u>28,907,490</u>
Total liabilities and shareholders' equity	<u>\$ 406,323,847</u>	<u>\$ 356,976,563</u>

**Golden Valley Bancshares, Inc. and Subsidiary**  
**Consolidated Statements of Income**  
**Years Ended December 31, 2020 and 2019**

	2020	2019
Interest income:		
Interest and fees on loans	\$ 11,690,222	\$ 8,673,714
Interest and deposits in other financial institutions	591,080	1,382,577
Interest on federal funds sold	4,351	420,676
Interest on tax-exempt investment securities	52,870	367,088
Interest on taxable investment securities	2,247,559	1,848,283
Total interest income	14,586,082	12,692,338
Interest expense:		
Interest on deposits	755,495	1,398,260
Interest on borrowings	161,345	225,163
Total interest expense	916,840	1,623,423
Net interest income before provision for loan losses	13,669,242	11,068,915
Provision for loan losses	1,583,780	280,175
Net interest income after provision for loan losses	12,085,462	10,788,740
Non-interest income:		
Service charges and fees	225,336	226,924
Loan packaging fees	671,680	542,892
Gain on sale of available-for-sale investment securities	773,421	1,333,403
Other	181,556	38,817
Total non-interest income	1,851,993	2,142,036
Non-interest expense:		
Salaries and employee benefits	4,711,195	4,143,330
Occupancy and equipment	804,349	735,017
Other	2,588,754	2,528,545
Total non-interest expense	8,104,298	7,406,892
Net interest income before provision for income taxes	5,833,157	5,523,884
Provision for income taxes	1,740,000	1,532,000
Net income	\$ 4,093,157	\$ 3,991,884
Basic income per share	\$ 1.81	\$ 1.74
Diluted income per share	\$ 1.80	\$ 1.74

See accompanying notes.

**Golden Valley Bancshares, Inc. and Subsidiary**  
**Consolidated Statements of Comprehensive Income**  
**Years Ended December 31, 2020 and 2019**

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	<u>2020</u>	<u>2019</u>
Net income	\$ 4,093,157	\$ 3,991,884
Other comprehensive income:		
Unrealized holding gains arising during the year on available-for-sale investment securities	4,641,101	2,204,182
Less reclassification adjustment for gains included in net income	(773,421)	(1,333,403)
Tax effect	<u>(1,141,999)</u>	<u>(251,839)</u>
Total other comprehensive income	<u>2,725,681</u>	<u>618,940</u>
Total comprehensive income	<u>\$ 6,818,838</u>	<u>\$ 4,610,824</u>



**Golden Valley Bancshares, Inc. and Subsidiary**  
**Consolidated Statements of Changes in Shareholders' Equity**  
**Years Ended December 31, 2020 and 2019**

	Common Stock		Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total Shareholders' Equity
	Shares	Amount			
Balance, December 31, 2018	2,086,880	\$ 16,525,953	\$ 8,595,677	\$ (838,218)	\$ 24,283,412
Net income	-	-	3,991,884	-	3,991,884
Other comprehensive income	-	-	-	618,940	618,940
Share-based compensation	-	5,754	-	-	5,754
Exercise of stock options	2,034	7,500	-	-	7,500
Stock dividends	<u>209,007</u>	<u>2,849,952</u>	<u>(2,849,952)</u>	<u>-</u>	<u>-</u>
Balance, December 31, 2019	2,297,921	19,389,159	9,737,609	(219,278)	28,907,490
Net income	-	-	4,093,157	-	4,093,157
Other comprehensive income	-	-	-	2,725,681	2,725,681
Share-based compensation	-	162,593	-	-	162,593
Repurchase of common stock	<u>(57,233)</u>	<u>(634,393)</u>	<u>-</u>	<u>-</u>	<u>(634,393)</u>
Balance, December 31, 2020	<u><u>2,240,688</u></u>	<u><u>\$ 18,917,359</u></u>	<u><u>\$ 13,830,766</u></u>	<u><u>\$ 2,506,403</u></u>	<u><u>\$ 35,254,528</u></u>

**Golden Valley Bancshares, Inc. and Subsidiary**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2020 and 2019**

	<b>2020</b>	<b>2019</b>
Cash flows from operating activities:		
Net income	\$ 4,093,157	\$ 3,991,884
Adjustment to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,583,780	280,175
Depreciation and amortization	285,149	252,338
Amortization of ROU lease asset	322,601	320,123
Cash payments on lease liability	(337,280)	(330,050)
Net loss on sale of bank premises and equipment	1,043	490
Change in deferred loan origination fees, net	1,419,711	(2,682)
Gain on sale of available-for-sale investment securities	(773,421)	(1,333,403)
Investment securities amortization	400,400	512,240
Share-based compensation expense	162,593	100,468
Increase in cash surrender value of bank-owned life insurance, net	(26,479)	(26,850)
Change in accrued interest receivable and other assets	(879,377)	(47,173)
Change in accrued interest payable and other liabilities	376,069	120,684
Net cash provided by operating activities	<u>6,627,946</u>	<u>3,838,244</u>
Cash flows from investing activities:		
Change in interest-bearing deposits in other financial institutions	14,170,500	(12,686,016)
Purchase of available-for-sale investment securities	(16,747,880)	(106,596,154)
Proceeds from sales and calls of available-for-sale investment securities	30,025,383	39,469,511
Proceeds from principal payments on available-for-sale investment securities	16,750,282	6,706,356
Net increase in loans	(83,126,946)	(26,548,322)
Purchase of Federal Home Loan Bank stock	(252,200)	(270,000)
Purchase of premises and equipment, net	(200,957)	(225,821)
Net cash used in investing activities	<u>(39,381,818)</u>	<u>(100,150,446)</u>
Cash flows from financing activities:		
Increase in demand, interest bearing and savings deposits, net	52,407,976	37,234,322
Increase in time deposits, net	15,767,731	1,571,756
Proceeds from FHLB advances	30,000,000	30,100,000
Repayment of FHLB advances	(55,257,252)	(7,149,598)
Repurchase of common stock	(634,393)	-
Cash paid to purchase and retire stock options	-	(94,714)
Proceeds from exercised options	-	7,500
Net cash provided by financing activities	<u>42,284,062</u>	<u>61,669,266</u>
Net increase (decrease) in cash and cash equivalents	9,530,190	(34,642,936)
Cash and cash equivalents, beginning of year	9,109,585	43,752,521
Cash and cash equivalents, end of year	<u>\$ 18,639,775</u>	<u>\$ 9,109,585</u>
Supplemental disclosure of cash-flow information:		
Cash paid during the year:		
Interest expense	\$ 971,285	\$ 1,551,283
Income taxes	\$ 1,961,021	\$ 1,659,884
Supplemental disclosures of noncash activities:		
Unrealized gain on investment securities available-for-sale, net of gains included in net income	\$ 3,867,680	\$ 868,764
Common stock dividend	\$ -	\$ 2,849,952
Right-of-use lease asset recorded on new leases	\$ -	\$ 14,493
Right-of-use lease asset recorded on adoption of ASU No. 2016-02	\$ -	\$ 1,878,530
Lease liability recorded on adoption of ASU No. 2016-02	\$ -	\$ 2,041,305
Market value of shares tendered in-lieu of cash to pay for exercise of options and/or related taxes	\$ -	\$ 16,073

# Golden Valley Bancshares, Inc. and Subsidiary

## Notes to Consolidated Financial Statements

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### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**General** – Golden Valley Bancshares, Inc. (the “Company”) is a bank holding company incorporated under the laws of the State of California on December 2, 2019. The consolidated financial statements include accounts of Golden Valley Bancshares and its wholly-owned subsidiary, Golden Valley Bank (the “Bank”). Upon formation and regulatory approval of the Company on October 23, 2020, all shareholders of the Bank became shareholders of the Holding Company. Further, the Bank’s current directors and principal officers remain the same, will continue to manage the Bank, and have also become directors and principal officers of the Holding Company. The Bank was approved as a state-chartered member bank on April 24, 2006, and is subject to regulation by the California Department of Financial Protection and Innovation (the “DFPI”) and the Federal Deposit Insurance Corporation (the “FDIC”). The Bank is headquartered in Chico, California, with a full service 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, Shasta, and surrounding counties.

The accounting and reporting policies of the Company 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. Certain reclassifications were made to the prior year financial statements to conform to the current year consolidated financial statement presentation. Such reclassifications have no impact on previously reported net income or shareholders’ equity.

**Principals of consolidation** – All significant intercompany balances and transactions have been eliminated in consolidation.

**Subsequent events** – Management has evaluated subsequent events for recognition and disclosure through March 31, 2021, which is the date the consolidated financial statements were available to be issued.

**Use of estimates** – The preparation of consolidated 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 consolidated 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 consolidated 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 one month and three 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.

## Golden Valley Bancshares, Inc. and Subsidiary

### Notes to Consolidated Financial Statements

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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.

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 statement of income, 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. 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 nonaccrual status in accordance with the Bank’s policy, typically after 90 days of nonpayment.

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.

## Golden Valley Bancshares, Inc. and Subsidiary Notes to Consolidated Financial Statements

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**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.

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.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) was enacted in response to the Coronavirus Disease 2019 (“COVID-19”) pandemic. The CARES Act provides optional temporary relief from troubled debt restructuring and impairment accounting requirements for loan modifications related to the COVID-19 pandemic. Banking regulators issued similar guidance, which also clarified that a COVID-19-related modification should not be considered a TDR if the borrower was current on payments at the time the underlying loan modification program was implemented and if the modification was considered to be short-term. The Bank responded to the needs of its borrowers in accordance with the CARES Act and regulatory guidance to grant short-term COVID-19 related loan modifications. These modified loans are not troubled debt restructurings and are not considered to be past due or nonperforming. The Bank granted payment deferrals of 90 days determined on a case-by-case basis considering the nature of the business and impact of the COVID-19 pandemic.

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

## Golden Valley Bancshares, Inc. and Subsidiary

### Notes to Consolidated Financial Statements

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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.

*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.

## Golden Valley Bancshares, Inc. and Subsidiary Notes to Consolidated Financial Statements

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*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 timelines. 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.

**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 \$75,000 and \$65,000 is included in accrued interest payable and other liabilities on the consolidated balance sheets at December 31, 2020 and 2019, 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.

## Golden Valley Bancshares, Inc. and Subsidiary

### Notes to Consolidated Financial Statements

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**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, 2020 and 2019, 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.

**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 EPS 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 that share in the earnings of the Bank. The treasury stock method is applied to determine the dilutive effect of stock options in computing diluted EPS.

**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 that 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 consolidated financial statements.

**Revenue recognition** – The Company records revenue from contracts with customers in accordance with Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers* (“Topic 606”). Under Topic 606, the Bank must identify the contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue when (or as) the Bank satisfies a performance obligation.



## Golden Valley Bancshares, Inc. and Subsidiary Notes to Consolidated Financial Statements

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Most of our revenue-generating transactions are not subject to Topic 606, including revenue generated from financial instruments, such as our loans and other investments. In addition, certain noninterest income streams such as fees associated with servicing income and sale of loans are also not in scope of the new guidance. The Bank fully satisfies their performance obligations on their contracts with customers as services are rendered and the transaction prices are typically fixed; charged either on a periodic basis or based on activity. Consideration is often received immediately or shortly after the Company satisfies its performance obligation and revenue is recognized. The contracts evaluated that are in scope of Topic 606 are primarily related to service charges and fees on deposit accounts, stop payment fees, ATM surcharge fees, and other service charges, commissions and fees.

**Restrictions on cash** – Cash on hand or on deposit with the Federal Reserve Bank (“FRB”) was required to meet regulatory reserve and clearing requirements in 2019. Effective March 26, 2020, the Federal Reserve Bank reduced reserve requirements to zero percent.

**Advertising** – Advertising costs are charged to expense in the period incurred and totaled \$156,993 and \$157,262 for the years ended December 31, 2020 and 2019, respectively.

**Share-based compensation** – The Bank has one share-based payment plan, the 2016 Golden Valley Bancshares Equity Incentive Plan (the “Plan”), which is described more fully in Note 11. 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.

**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.

## Golden Valley Bancshares, Inc. and Subsidiary

### Notes to Consolidated Financial Statements

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**Leases** – The Bank determines if an arrangement is a lease at inception. Operating lease right-of-use assets (“ROU asset”) and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. Substantially all of the Bank’s leases are comprised of operating leases in which the Bank is lessee of real estate property for branches and automobiles. The Bank elected not to include short-term leases (i.e. leases with initial terms of twelve months or less) within the ROU asset and lease liability. The Bank uses the rate implicit in the lease whenever this rate is readily determinable. As this rate is rarely determinable, the Bank utilizes its incremental borrowing rate at lease inception, on a collateralized basis, over a similar term. The Bank’s lease terms may include options to extend or terminate the lease, which it recognizes when it is reasonably certain that the Bank will exercise that option. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term.

**Adoption of new accounting standards** – In August 2018, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*. The amendments in this ASU remove, modify, and add disclosure requirements for the fair value reporting of assets and liabilities. The modifications and additions relate to Level 3 fair value measurements at the end of the reporting period. ASU 2018-13 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. We adopted the requirements of this ASU on January 1, 2020 and added disclosure about significant observable inputs used to develop Level 3 fair value measurements prospectively. As the ASU’s requirements only relate to disclosures, the amendments will not impact our financial condition or results of operations.

**Recent accounting pronouncements** – In June 2016, FASB issued ASU 2016-13 Topic 326, with the objective of providing financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. It replaces the incurred loss impairment methodology in the current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. This amendment affects entities holding financial assets and net investment in leases that are not accounted for at fair value through net income. The amendments affect loans, debt securities, trade receivables, net investments in lease, off-balance-sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash.

#### Transition

- For debt securities with OTTI, the guidance will be applied prospectively.
- Existing purchased credit impaired (“PCI”) assets will be grandfathered and classified as purchased credit deteriorated (“PCD”) assets at the date of adoption. The asset will be grossed up for the allowance for expected credit losses for all PCD assets at the date of adoption and will continue to recognize the noncredit discount in interest income based on the yield of such assets as of the adoption date. Subsequent changes in expected credit losses will be recorded through the allowance.
- For all other assets within the scope of CECL, a cumulative-effect adjustment will be recognized in retained earnings as of the beginning of the first reporting period in which the guidance is effective.

These amendments are effective as follows:

- For PBEs that do meet the definition of an SEC filer, the standard will be effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years.

# Golden Valley Bancshares, Inc. and Subsidiary

## Notes to Consolidated Financial Statements

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- For calendar year-end PBE's that are not SEC filers, such as the Company, it is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years.

As of this time, management has not fully modeled and analyzed the historical data necessary to make a clear determination as to the materiality of the impact on either financial condition, or future operations, based upon the implementation of the CECL methodology of required reserves, or recognition of future credit losses. Management does believe there is a potential material impact to both capital and operations based upon this new framework for both reserving and recognizing future credit losses.

### 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 that 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.

## Golden Valley Bancshares, Inc. and Subsidiary

### Notes to Consolidated Financial Statements

**Fair value of financial instruments** – The carrying amounts and estimated fair values of financial instruments not carried at fair value are as follows as of December 31, 2020 and 2019:

	2020				
	Carrying Amount	Fair Value Measurements Using:			Total
		Level 1	Level 2	Level 3	
<b>Financial assets:</b>					
Cash and due from banks	\$ 6,634,174	\$ 6,634,174	\$ -	\$ -	\$ 6,634,174
Federal funds sold	1,336,409	1,336,409	-	-	1,336,409
Interest-bearing deposits and interest-bearing time deposits in other financial institutions	23,110,692	10,669,192	12,441,500	-	23,110,692
Loans, net	261,532,954	-	-	257,629,000	257,629,000
<b>Financial liabilities:</b>					
Deposits	\$ 363,027,269	\$ 316,828,000	\$ 28,058,000	\$ -	\$ 344,886,000
FHLB borrowings	5,398,922	5,398,922	-	-	5,398,922
<b>2019</b>					
	Carrying Amount	Level 1	Level 2	Level 3	Total
<b>Financial assets:</b>					
Cash and due from banks	\$ 9,011,841	\$ 9,011,841	\$ -	\$ -	\$ 9,011,841
Interest-bearing deposits and interest-bearing time deposits in other financial institutions	26,709,744	97,744	26,612,000	-	26,709,744
Loans, net	181,409,499	-	-	182,064,524	182,064,524
<b>Financial liabilities:</b>					
Deposits	\$ 294,851,562	\$ 250,182,000	\$ 25,661,000	\$ -	\$ 275,843,000
FHLB borrowings	30,656,174	30,656,174	-	-	30,656,174

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.

## Golden Valley Bancshares, Inc. and Subsidiary Notes to Consolidated Financial Statements

### Fair value measurements

*Assets recorded at fair value* – The following tables present information about the Bank’s assets measured at fair value on a recurring and nonrecurring basis as of December 31, 2020 and 2019:

	2020			
	Fair Value	Level 1	Level 2	Level 3
Debt securities:				
U.S. Government-sponsored entities	\$ 1,042,862	\$ -	\$ 1,042,862	\$ -
Government guaranteed residential mortgage-backed securities	11,263,106	-	11,263,106	-
Municipal securities	52,505,128	-	52,505,128	-
Corporate debt securities	7,189,859	-	7,189,859	-
Certificates of deposit	812,365	-	812,365	-
Collateralized mortgage obligations	33,724,603	-	33,724,603	-
Total assets measured at fair value	<u>\$ 106,537,923</u>	<u>\$ -</u>	<u>\$ 106,537,923</u>	<u>\$ -</u>
	2019			
	Fair Value	Level 1	Level 2	Level 3
Debt securities:				
U.S. Government-sponsored entities	\$ 2,051,037	\$ -	\$ 2,051,037	\$ -
Government guaranteed residential mortgage-backed securities	31,960,442	-	31,960,442	-
Municipal securities	45,785,914	-	45,785,914	-
Corporate debt securities	8,290,739	-	8,290,739	-
Certificates of deposit	784,990	-	784,990	-
Collateralized mortgage obligations	43,451,885	-	43,451,885	-
Total assets measured at fair value	<u>\$ 132,325,007</u>	<u>\$ -</u>	<u>\$ 132,325,007</u>	<u>\$ -</u>

At December 31, 2020 and 2019, the Bank had no liabilities measured at fair value on a recurring basis. 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, 2020 and 2019, there were no transfers in or out of Levels 1 and 2.

*Nonrecurring basis* – The Bank may be required, from time to time, to measure certain assets at fair value on a nonrecurring 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 nonrecurring basis as of December 31, 2020 and 2019.

# Golden Valley Bancshares, Inc. and Subsidiary

## Notes to Consolidated Financial Statements

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

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

	2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Government-sponsored entities	\$ 1,062,442	\$ 3,440	\$ (23,020)	\$ 1,042,862
Government guaranteed residential mortgage-backed securities	10,832,392	430,714	-	11,263,106
Municipal securities	50,157,953	2,408,836	(61,661)	52,505,128
Corporate debt securities	7,243,660	18,799	(72,600)	7,189,859
Certificates of deposit	739,683	72,682	-	812,365
Collateralized mortgage obligations	32,945,586	782,666	(3,649)	33,724,603
	<u>\$ 102,981,716</u>	<u>\$ 3,717,137</u>	<u>\$ (160,930)</u>	<u>\$ 106,537,923</u>

Net proceeds from the sale of available-for-sale investment securities for the year ended December 31, 2020, were \$27,950,383. Gross realized gains and losses on sales of securities were \$783,896 and \$10,475 respectively, during the year ended December 31, 2020.

	2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Government-sponsored entities	\$ 2,089,552	\$ 4,355	\$ (42,870)	\$ 2,051,037
Government guaranteed residential mortgage-backed securities	32,109,117	18,605	(167,280)	31,960,442
Municipal securities	45,845,869	390,268	(450,224)	45,785,913
Corporate debt securities	8,382,643	13,851	(105,755)	8,290,739
Certificates of deposit	739,899	45,092	-	784,991
Collateralized mortgage obligations	43,469,400	265,645	(283,160)	43,451,885
	<u>\$ 132,636,480</u>	<u>\$ 737,816</u>	<u>\$ (1,049,289)</u>	<u>\$ 132,325,007</u>

Net proceeds from the sale of available-for-sale investment securities for the year ended December 31, 2019, were \$39,469,511. Gross realized gains and losses on sales of securities were \$1,361,773 and \$28,370, respectively, during the year ended December 31, 2019.

## Golden Valley Bancshares, Inc. and Subsidiary Notes to Consolidated Financial Statements

**Contractual maturities** – The amortized cost and estimated fair value of available-for-sale investment securities at December 31, 2020, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because the issuers of securities may have the right to call or prepay obligations with or without prepayment penalties.

	Amortized Cost	Estimated Fair Value
Within one year	\$ 522,193	\$ 526,645
After one year through five years	19,588,217	19,957,388
After five years through ten years	25,415,913	26,146,659
After ten years	46,556,904	48,574,586
	92,083,227	95,205,278
Investment securities not due at a single maturity date:		
Government guaranteed residential mortgage-backed securities	10,832,392	11,263,106
U.S. Government-sponsored entities	66,097	69,539
	\$ 102,981,716	\$ 106,537,923

The following table summarizes securities with unrealized losses at December 31, 2020 and 2019, aggregated by major security type and length of time in a continuous unrealized loss position:

	2020					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities:						
U.S. Government-sponsored entities	\$ -	\$ -	\$ 973,325	\$ (23,020)	\$ 973,325	\$ (23,020)
Municipal securities	6,833,184	(55,049)	1,290,556	(6,612)	8,123,740	(61,661)
Corporate debt securities	-	-	6,267,322	(72,600)	6,267,322	(72,600)
Collateralized mortgage obligations	141,303	(143)	2,161,342	(3,505)	2,302,645	(3,649)
	\$ 6,974,487	\$ (55,192)	\$ 10,692,545	\$ (105,737)	\$ 17,667,032	\$ (160,930)
	2019					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities:						
U.S. Government-sponsored entities	\$ -	\$ -	\$ 1,953,190	\$ (42,870)	\$ 1,953,190	\$ (42,870)
Government guaranteed residential mortgage-backed securities	24,842,099	(141,023)	2,029,717	(26,257)	26,871,816	(167,280)
Municipal securities	25,827,299	(450,224)	-	-	25,827,299	(450,224)
Corporate debt securities	6,266,283	(77,588)	945,992	(28,167)	7,212,275	(105,755)
Collateralized mortgage obligations	29,699,354	(281,349)	708,827	(1,811)	30,408,181	(283,160)
	\$ 86,635,035	\$ (950,184)	\$ 5,637,726	\$ (99,105)	\$ 92,272,761	\$ (1,049,289)

## Golden Valley Bancshares, Inc. and Subsidiary

### Notes to Consolidated Financial Statements

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At December 31, 2020, the Bank held 10 securities with a book value of \$10,798,281 that were in a loss position for more than 12 months. At December 31, 2020, the Bank held 9 securities with a book value of \$7,029,679 that were in a loss position for less 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.

The only significant concentration of investment securities (greater than 10% of shareholders' equity) in any individual security issuer at December 31, 2019, is certain Government guaranteed residential mortgage-backed securities issued by the Government National Mortgage Association, Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation. The only significant concentration of investment securities (greater than 10% of shareholders' equity) in any individual security issuer at December 31, 2020 is certain Government guaranteed residential mortgage-backed securities issued by the Government National Mortgage Association, Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation.

Investment securities with amortized costs totaling \$14,195,754 and \$3,378,165, and estimated fair values totaling \$15,017,113 and \$3,498,877 were pledged to secure borrowing arrangements at December 31, 2020 and 2019, respectively.

#### NOTE 4 – LOANS AND ALLOWANCE FOR LOAN LOSSES

Outstanding loans at December 31, 2020 and 2019, are summarized below:

	<u>2020</u>	<u>2019</u>
Commercial	\$ 87,062,647	\$ 19,973,142
Real estate – commercial	125,843,482	114,202,751
Real estate – residential	35,967,884	32,513,009
Real estate – construction	17,404,665	16,346,711
Consumer and other	<u>163,914</u>	<u>172,142</u>
	266,442,592	183,207,755
Deferred loan origination (fees) costs, net	(915,493)	504,220
Allowance for loan losses	<u>(3,994,145)</u>	<u>(2,302,476)</u>
	<u>\$ 261,532,954</u>	<u>\$ 181,409,499</u>

Salaries and employee benefits totaling \$870,592 and \$661,649 and were deferred as loan origination costs for the years ended December 31, 2020 and 2019, respectively.



## Golden Valley Bancshares, Inc. and Subsidiary Notes to Consolidated Financial Statements

Pursuant to the Coronavirus Aid, Relief and Economic Security (“CARES”) Act passed in March 2020, the Bank funded over 477 loans to eligible small businesses and nonprofit organizations who participated in the Paycheck Protection Program (“PPP”) administered by the U.S. Small Business Administration (“SBA”). PPP loans have terms of two to five years and earn interest at 1%. In addition, the Bank received a fee of 1% to 5% from the SBA depending on the loan amount, which was netted with loan origination costs and amortized into interest income under the straight-line method over the contractual life of the loan. The recognition of fees and costs is accelerated when the loan is forgiven by the SBA and/or paid off prior to maturity. PPP loans are fully guaranteed by the SBA and are expected to be forgiven by the SBA if they meet the requirements of the program. The balance of PPP loans at December 31, 2020, was \$66,714,655 with related deferred fee income of \$1,424,916.

The following tables show the allocation and activity of the allowance for loan losses at and for the years ended December 31, 2020 and 2019, by portfolio class and by impairment methodology:

	2020						Total
	Commercial	Real Estate – Construction	Real Estate – Commercial	Real Estate – Residential	Consumer and Other	Unallocated	
Allowance for loan losses:							
Beginning balance	\$ 296,309	\$ 236,687	\$ 1,474,504	\$ 288,636	\$ 6,340	\$ -	\$ 2,302,476
Provision for loan losses	203,576	13,910	913,425	75,970	(245)	377,145	1,583,781
Loans charged-off	-	-	-	-	(1,370)	-	(1,370)
Recoveries	-	-	-	109,258	-	-	109,258
Ending balance allocated to portfolio classes	<u>\$ 499,885</u>	<u>\$ 250,597</u>	<u>\$ 2,387,929</u>	<u>\$ 473,864</u>	<u>\$ 4,725</u>	<u>\$ 377,145</u>	<u>\$ 3,994,145</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>\$ 499,885</u>	<u>\$ 250,597</u>	<u>\$ 2,387,929</u>	<u>\$ 473,864</u>	<u>\$ 4,725</u>	<u>\$ 377,145</u>	<u>\$ 3,994,145</u>
Loans:							
Ending balance	<u>\$ 87,062,647</u>	<u>\$ 17,404,665</u>	<u>\$ 125,843,482</u>	<u>\$ 35,967,884</u>	<u>\$ 163,914</u>	<u>\$ -</u>	<u>\$ 266,442,592</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>\$ 87,062,647</u>	<u>\$ 17,404,665</u>	<u>\$ 125,843,482</u>	<u>\$ 35,967,884</u>	<u>\$ 163,914</u>	<u>\$ -</u>	<u>\$ 266,442,592</u>

# Golden Valley Bancshares, Inc. and Subsidiary

## Notes to Consolidated Financial Statements

	2019						Total
	Commercial	Real Estate – Construction	Real Estate – Commercial	Real Estate – Residential	Consumer and Other	Unallocated	
Allowance for loan losses:							
Beginning balance	\$ 322,183	\$ 311,052	\$ 1,050,721	\$ 328,866	\$ 10,274	\$ -	\$ 2,023,096
Provision for loan losses	(25,874)	(74,365)	423,783	(40,230)	(3,139)	-	280,175
Loans charged-off	-	-	-	-	(795)	-	(795)
Recoveries	-	-	-	-	-	-	-
Ending balance allocated to portfolio classes	<u>\$ 296,309</u>	<u>\$ 236,687</u>	<u>\$ 1,474,504</u>	<u>\$ 288,636</u>	<u>\$ 6,340</u>	<u>\$ -</u>	<u>\$ 2,302,476</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>\$ 296,309</u>	<u>\$ 236,687</u>	<u>\$ 1,474,504</u>	<u>\$ 288,636</u>	<u>\$ 6,340</u>	<u>\$ -</u>	<u>\$ 2,302,476</u>
Loans:							
Ending balance	<u>\$ 24,915,588</u>	<u>\$ 16,346,711</u>	<u>\$ 109,260,305</u>	<u>\$ 32,513,009</u>	<u>\$ 172,142</u>	<u>\$ -</u>	<u>\$ 183,207,755</u>
Ending balance: individually evaluated for impairment	<u>\$ 86,050</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 86,050</u>
Ending balance: collectively evaluated for impairment	<u>\$ 24,829,538</u>	<u>\$ 16,346,711</u>	<u>\$ 109,260,305</u>	<u>\$ 32,513,009</u>	<u>\$ 172,142</u>	<u>\$ -</u>	<u>\$ 183,121,705</u>

The following tables show the loan portfolio allocated by management's internal risk ratings at December 31, 2020 and 2019:

	2020					Total
	Credit Risk Profile by Internally Assigned Grade					
Grade:	Commercial	Real Estate – Construction	Real Estate – Commercial	Real Estate – Residential	Consumer and Other	
Pass	\$ 86,345,249	\$ 17,404,665	\$ 124,019,369	\$ 35,946,344	\$ 163,914	\$ 263,879,541
Special Mention	378,826	-	512,148	-	-	890,974
Substandard	338,572	-	1,311,965	21,540	-	1,672,077
	<u>\$ 87,062,647</u>	<u>\$ 17,404,665</u>	<u>\$ 125,843,482</u>	<u>\$ 35,967,884</u>	<u>\$ 163,914</u>	<u>\$ 266,442,592</u>

  

	2019					Total
	Credit Risk Profile by Internally Assigned Grade					
Grade:	Commercial	Real Estate – Construction	Real Estate – Commercial	Real Estate – Residential	Consumer and Other	
Pass	\$ 24,152,659	\$ 15,976,439	\$ 107,603,978	\$ 31,967,727	\$ 172,142	\$ 179,872,945
Special Mention	388,998	370,272	334,625	495,317	-	1,589,212
Substandard	373,931	-	1,321,702	49,965	-	1,745,598
	<u>\$ 24,915,588</u>	<u>\$ 16,346,711</u>	<u>\$ 109,260,305</u>	<u>\$ 32,513,009</u>	<u>\$ 172,142</u>	<u>\$ 183,207,755</u>

## Golden Valley Bancshares, Inc. and Subsidiary Notes to Consolidated Financial Statements

The following tables show an aging analysis of the loan portfolio by the time past due at December 31, 2020 and 2019:

	2020						
	30-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total	90 Days and Still Accruing	Nonaccrual
Commercial	\$ -	\$ -	\$ -	\$ 87,062,647	\$ 87,062,647	\$ -	\$ -
Real estate – commercial	-	-	-	125,843,482	125,843,482	-	-
Real estate – residential	-	-	-	35,967,884	35,967,884	-	-
Real estate – construction	-	-	-	17,404,665	17,404,665	-	-
Consumer	-	-	-	163,914	163,914	-	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 266,442,592</u>	<u>\$ 266,442,592</u>	<u>\$ -</u>	<u>\$ -</u>

  

	2019						
	30-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total	90 Days and Still Accruing	Nonaccrual
Commercial	\$ -	\$ -	\$ -	\$ 24,915,588	\$ 24,915,588	\$ -	\$ 86,050
Real estate – commercial	-	-	-	109,260,305	109,260,305	-	-
Real estate – residential	-	-	-	32,513,009	32,513,009	-	-
Real estate – construction	-	-	-	16,346,711	16,346,711	-	-
Consumer	-	-	-	172,142	172,142	-	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 183,207,755</u>	<u>\$ 183,207,755</u>	<u>\$ -</u>	<u>\$ 86,050</u>

For the year ended December 31, 2020, there were no impaired loans. The following table shows information related to impaired loans at and for the year ended December 31, 2019:

	2019				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Cash Basis Interest Income Recognized
With no related allowance recorded:					
Commercial	\$ 86,050	\$ 150,000	\$ -	\$ 91,550	\$ 12,000

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

**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, 2020 and 2019, 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 years ended December 31, 2020 and 2019, no loans were modified as a troubled debt restructure. Further, there were no troubled debt restructurings for which there was a payment default within 12 months following the modification during the years ended December 31, 2020 and 2019.

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed on 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.

## Golden Valley Bancshares, Inc. and Subsidiary

### Notes to Consolidated Financial Statements

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On April 7, 2020, the federal banking agencies issued an interagency statement revising a March 22, 2020, interagency statement on loan modifications and the reporting for financial institutions working with customers affected by the COVID-19 pandemic (the “IA Statement”). The IA Statement reconfirmed that efforts to work with borrowers where the loans are prudently underwritten, and not considered past due or carried on nonaccrual status, should not result in the loans automatically being considered modified in a TDR for accounting and financial reporting purposes, or for purposes of their respective risk-based capital rules, which would otherwise require financial institutions subject to the capital rules to hold more capital. The IA Statement also clarified the interaction between its previous guidance and Section 4013 of the CARES Act, which provides certain financial institutions with the option to suspend the application of accounting guidance for TDRs for a limited period of time for loan modifications made to address the effects of the COVID-19 pandemic.

The Bank has granted various forms of assistance to customers and clients impacted by the COVID-19 pandemic, including payment deferrals and covenant modifications. The Bank’s COVID-19 related loan modifications have not been considered TDRs as:

- they represent short-term or other insignificant modifications, whether under the Bank’s regular loan modification assessments or the IA Statement guidance, or
- the Bank has elected to apply the option to suspend the application of accounting guidance for TDRs as provided under section 4013 of the CARES Act.

As of December 31, 2020, the Bank had one loan of \$231,054 outstanding with a short-term deferral of scheduled payments as provided under section 4013 of the CARES Act. To the extent that certain modifications did not meet any of the above criteria, the Bank accounts for them as TDRs.

#### NOTE 5 – BANK PREMISES AND EQUIPMENT

Bank premises and equipment at December 31, 2020 and 2019, consisted of the following:

	2020	2019
Furniture, fixtures and equipment	\$ 1,109,687	\$ 1,063,021
Leasehold improvements	2,000,167	1,879,991
Construction in process	8,564	7,359
	3,118,418	2,950,371
Less accumulated depreciation and amortization	(1,739,550)	(1,487,937)
	\$ 1,378,868	\$ 1,462,434

Depreciation and amortization included in occupancy and equipment expense totaled \$283,480 and \$252,338 for the years ended December 31, 2020 and 2019, respectively.

## Golden Valley Bancshares, Inc. and Subsidiary

### Notes to Consolidated Financial Statements

#### NOTE 6 – INTEREST-BEARING DEPOSITS

Time deposits that meet or exceed the FDIC Insurance limit of \$250,000 at December 31, 2020 and 2019, were \$9,925,379 and \$8,763,932, respectively.

Interest-bearing deposits at December 31, 2020 and 2019, consisted of the following:

	2020	2019
Savings	\$ 29,611,195	\$ 20,553,062
Money market	111,565,672	107,271,433
Interest-bearing demand accounts	46,193,360	45,970,312
Time	27,791,679	25,599,368
	\$ 215,161,906	\$ 199,394,175

Aggregate annual maturities of time deposits are as follows:

Year ending December 31:

2021	\$ 25,558,541
2022	1,659,053
2023	571,864
2024	-
Thereafter	2,221
Total	\$ 27,791,679

Interest expense recognized on interest-bearing deposits for the years ended December 31, 2020 and 2019, consisted of the following:

	2020	2019
Savings	\$ 12,868	\$ 14,337
Money market	414,205	808,223
Interest-bearing demand accounts	68,414	163,740
Time	260,008	411,960
	\$ 755,495	\$ 1,398,260

#### 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, 2020 and 2019.

## Golden Valley Bancshares, Inc. and Subsidiary

### Notes to Consolidated Financial Statements

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, 2020 and 2019, 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 was terminated in May 2020 and available-for-sale investment securities were pledged as collateral with the State Treasurer Time Deposit Program.

The Bank has a secured borrowing arrangement with the FHLB. At December 31, 2020 and 2019, advances from the FHLB were as follows:

	<u>2020</u>
Maturity date April 30, 2021, fixed rate of 0.00%	\$ 5,000,000
Maturity date March 28, 2023, amortizing, fixed rate of 3.43%	<u>398,922</u>
	<u>\$ 5,398,922</u>
	<u>2019</u>
Maturity date February 11, 2020, fixed rate of 1.68%	\$ 20,000,000
Maturity date May 11, 2020, fixed rate of 2.43%	7,000,000
Maturity date March 28, 2023, amortizing, fixed rate of 3.43%	556,174
Maturity date January 2, 2020, fixed rate of 1.66%	<u>3,100,000</u>
	<u>\$ 30,656,174</u>

At December 31, 2020 and 2019, the Bank's remaining borrowing capacity under this arrangement was \$60,026,100 and \$27,438,507, respectively. The Bank is required to pledge available-for-sale investment securities and certain loans to secure any advances under this arrangement. Loans totaling \$106,943,258 and \$98,899,793 were pledged to secure advances from the FHLB at December 31, 2020 and 2019, respectively.

#### NOTE 8 – INCOME TAXES

Income taxes for the years ended December 31, 2020 and 2019, consisted of the following:

	<u>2020</u>		
	<u>Federal</u>	<u>State</u>	<u>Total</u>
Current	\$ 1,341,403	\$ 804,557	\$ 2,145,960
Deferred	<u>(243,403)</u>	<u>(162,557)</u>	<u>(405,960)</u>
	<u>\$ 1,098,000</u>	<u>\$ 642,000</u>	<u>\$ 1,740,000</u>

**Golden Valley Bancshares, Inc. and Subsidiary**  
**Notes to Consolidated Financial Statements**

	2019		
	Federal	State	Total
Current	\$ 1,041,899	\$ 654,191	\$ 1,696,090
Deferred	(117,899)	(46,191)	(164,090)
	<u>\$ 924,000</u>	<u>\$ 608,000</u>	<u>\$ 1,532,000</u>

Deferred tax assets (liabilities) at December 31, 2020 and 2019, consisted of the following:

	2020	2019
Deferred tax assets:		
Allowance for loan losses	\$ 1,032,021	\$ 563,799
Stock-based expense	69,404	56,558
Organization costs	406	10,140
State tax deferral	169,501	134,615
Unrealized loss on available-for-sale securities	-	92,083
Lease liability	438,043	525,041
Other	137,637	199,814
Total deferred tax assets	<u>1,847,012</u>	<u>1,582,050</u>
Deferred tax liabilities:		
Loan origination costs	(360,576)	(317,544)
Premises and equipment	(159,996)	(159,317)
Right-of-use lease asset	(397,195)	(479,855)
Unrealized gain on available-for-sale securities	(1,051,343)	-
Other	(15,811)	(25,777)
Total deferred tax liabilities	<u>(1,984,921)</u>	<u>(982,493)</u>
Net deferred tax (liability) assets	<u>\$ (137,909)</u>	<u>\$ 599,557</u>

The effective tax rate at December 31, 2020 and 2019, as a percentage of income before income taxes, differs from the statutory Federal income tax rate as follows:

	2020	2019
Federal income tax expense, at statutory rate	21.0%	21.0%
State franchise tax, net of Federal tax effect	8.7%	8.5%
Tax-exempt income from life insurance policies	(0.1)%	(0.1)%
Tax exempt income	(0.2)%	(1.4)%
Stock based compensation	0.4%	0.0%
Other	(0.1)%	(0.3)%
Effective tax rate	<u>29.8%</u>	<u>27.7%</u>

## Golden Valley Bancshares, Inc. and Subsidiary

### Notes to Consolidated Financial Statements

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On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was enacted in response to the COVID-19 pandemic. The CARES Act, among other things, permits NOL carryovers and carrybacks to offset 100% of taxable income for taxable years beginning before 2021. In addition, the CARES Act allows NOLs incurred in 2018, 2019, and 2020 to be carried back to each of the five preceding taxable years to generate a refund of previously paid income taxes. The Bank has evaluated the impact of the CARES Act and determined that none of the changes would result in a material income tax benefit to the Bank.

On December 27, 2020, the Consolidated Appropriations Act of 2021 was signed into law and extends several provisions of the CARES Act. As of December 31, 2020, the Bank has determined that neither this Act nor changes to income tax laws or regulations in other jurisdictions have a significant impact on our effective tax rate.

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, 2017, and by state and local taxing authorities for years ended before December 31, 2016.

As of December 31, 2020 and 2019, there were no unrecognized tax benefits or interest and penalties related to tax matters accrued by the Bank.

#### **NOTE 9 – LEASES**

The Bank leases its main office and administrative offices in Chico, California, as well as its Business Banking Office in Redding, California, under noncancelable 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. In December 2020, the Bank gave written notice of its intent to exercise the second and first renewal options on the main office and administrative offices, respectively. 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 expired on December 31, 2020, at which time the Bank exercised the first of the two five-year renewal options. The Bank's sublease on this building also expired December 31, 2020, at which time the lessee exercised the five-year renewal option. Additionally, the Bank leases equipment and an automobile under operating leases that have noncancelable lease terms in excess of one year at December 31, 2020. The leases expire in 2022. For leases where the Bank is reasonably certain that it will exercise the option to renew the lease, it has recognized those options in its right-of-use lease asset and liability. The Bank had no other (financing, short-term or variable) lease arrangements during the current period or the prior year.



## Golden Valley Bancshares, Inc. and Subsidiary

### Notes to Consolidated Financial Statements

The Bank has applied ASC Topic 842 as of January 1, 2019, and elected the practical expedients package for all of its leases. In accordance with the practical expedients package, the Bank was not required to reassess whether any expired or existing contracts are leases or contain leases. The Bank was also not required to reassess the lease classification for existing or expired leases between operating and finance leases. The table below presents information regarding the Bank's leases as of December 31, 2020 and 2019.

	2020	2019
Right-of-use lease asset	\$ 1,343,528	\$ 1,623,127
Lease liability	\$ 1,481,697	\$ 1,775,975
Weighted Average Remaining Lease Term	4.76	5.75
Weighted Average Discount Rate	2.62%	2.62%

Maturities of lease liabilities as of December 31, are as follows:

	2020
2021	\$ 342,452
2022	349,136
2023	268,002
2024	274,900
2025	278,783
Thereafter	69,691
Total undiscounted cash flows	1,582,964
Less: present value discount	(101,267)
Present value of net future minimum lease payments	\$ 1,481,697

The following table presents the components of lease expense as of December 31, 2020 and 2019:

	2020	2019
Operating lease cost	\$ 322,601	\$ 341,879
Variable lease cost	67,737	48,441
Sublease income	(91,330)	(91,266)
Total lease cost	\$ 299,008	\$ 299,054

#### NOTE 10 – COMMITMENTS AND CONTINGENCIES

**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 \$48,267,000 and \$47,408,000 at December 31, 2020 and 2019, respectively. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized on the consolidated balance sheet.

## Golden Valley Bancshares, Inc. and Subsidiary

### Notes to Consolidated Financial Statements

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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 consolidated balance sheet.

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

Commercial loan commitments represent approximately 41% 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 35% 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 22% of total commitments and are generally secured by residential real estate and have variable interest rates. Agricultural loans represent 1% 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, 2020 and 2019. In management's judgment at December 31, 2020, a concentration of loans exists in real estate commercial, mortgage and non-real estate commercial related loans, which represented approximately 45%, 13%, and 35% of the Bank's loans, respectively. In management's judgment at December 31, 2019, a concentration of loans exists in real estate commercial, mortgage, and non-real estate commercial related loans, which represented approximately 60%, 18% and 14% 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 that 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.

## Golden Valley Bancshares, Inc. and Subsidiary Notes to Consolidated Financial Statements

### NOTE 11 – SHARE-BASED COMPENSATION

The 2006 Golden Valley Bank Equity Incentive Plan terminated on April 12, 2016, and had 41,250 outstanding options under the plan at December 31, 2020. The 2016 Golden Valley Bancshares Equity Incentive Plan has been approved by the Bank's shareholders and permits the grant of stock options and restricted stock for up to 718,167 shares of the Bank's common stock. Under the 2016 Plan, the Bank had 583,918 and 586,417 shares reserved for future grants at December 31, 2020 and 2019, respectively. 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.

**Stock option awards** – A summary of option activity under the Plan for the year ended December 31, 2020, is presented below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Options:				
Outstanding at January 1, 2020	176,852	\$ 11.05	7.31 years	\$ 585,176
Granted	17,500	\$ 8.20	9.04 years	\$ 175
Forfeited, expired, or cancelled	<u>(18,851)</u>	\$ 12.06	6.56 years	\$ -
Outstanding at December 31, 2020	<u>175,501</u>	\$ 11.09	6.57 years	\$ 232,748
Exercisable at December 31, 2020	<u>84,705</u>	\$ 9.96	5.13 years	\$ 179,272
Options expected to vest	<u>61,973</u>	\$ 12.14	7.92 years	\$ 47,070

At December 31, 2020 and 2019, the unrecognized cost related to nonvested stock option awards totaled \$278,848 and \$357,797, respectively. That cost is expected to be amortized on a straight-line basis over a weighted average period of 2.50 years and will be adjusted for subsequent changes in estimated forfeitures. Total share-based expense of \$162,593 and \$100,468 is recorded in salaries and benefits and other noninterest expense for the years ended December 31, 2020 and 2019, respectively. The fair value of options vested during 2020 and 2019, totaled \$133,409 and \$126,103, respectively.

**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, 2020 and 2019, no amounts were free of such restrictions. There were no dividends declared to shareholders of record in 2020 and 2019.

## Golden Valley Bancshares, Inc. and Subsidiary

### Notes to Consolidated Financial Statements

The weighted average grant-date fair value per share of stock options granted in 2020 and 2019 was \$6.55 and \$5.85, respectively. The weighted average grant date assumptions used for the years ended December 31, 2020 and 2019, are shown below.

	2020	2019
Risk-free interest rate	1.68%	2.00%
Expected dividend yield	—%	—%
Expected life in years	8.9 years	7.50 years
Expected price volatility	51.77%	54.00%

#### NOTE 12 – 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, 2020 and 2019, is shown below.

	2020		
	Net Income	Weighted Average Number of Shares Outstanding	Per Share Amount
Basic earnings per share	\$ 4,093,157	2,262,893	\$ 1.81
Effect of dilutive stock options	-	16,215	
Diluted earnings per share	<u>\$ 4,093,157</u>	<u>2,279,108</u>	<u>\$ 1.80</u>
	2019		
	Net Income	Weighted Average Number of Shares Outstanding	Per Share Amount
Basic earnings per share	\$ 3,991,884	2,297,698	\$ 1.74
Effect of dilutive stock options	-	168	
Diluted earnings per share	<u>\$ 3,991,884</u>	<u>2,297,866</u>	<u>\$ 1.74</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. Such shares totaled 67,383 for the year ended December 31, 2020.

## Golden Valley Bancshares, Inc. and Subsidiary

### Notes to Consolidated Financial Statements

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**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 2019 was 2.50%. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes as of December 31, 2020 and 2019, 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 December 31, 2020 and 2019, 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.

## Golden Valley Bancshares, Inc. and Subsidiary

### Notes to Consolidated Financial Statements

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.

	2020		2019	
	Amount	Ratio	Amount	Ratio
<b>Leverage Ratio:</b>				
Golden Valley Bank	\$ 32,730,000	8.1%	\$ 29,127,000	8.4%
Minimum requirement for "Well-Capitalized" institution under prompt corrective action provisions	\$ 20,327,000	5.0%	\$ 17,553,000	5.0%
Minimum regulatory requirement	\$ 16,261,000	4.0%	\$ 14,043,000	4.0%
<b>Tier 1 Risk-Based Capital Ratio:</b>				
Golden Valley Bank	\$ 32,730,000	14.1%	\$ 29,127,000	12.9%
Minimum requirement for "Well-Capitalized" institution under prompt corrective action provisions	\$ 18,630,000	8.0%	\$ 18,096,000	8.0%
Minimum regulatory requirement	\$ 13,971,000	6.0%	\$ 13,571,000	6.0%
<b>Common Equity Tier 1 Capital Ratio:</b>				
Golden Valley Bank	\$ 32,730,000	14.1%	\$ 29,127,000	12.9%
Minimum requirement for "Well-Capitalized" institution under prompt corrective action provisions	\$ 15,137,000	6.5%	\$ 14,703,000	6.5%
Minimum regulatory requirement	\$ 10,478,000	4.5%	\$ 10,178,000	4.5%
<b>Total Risk-Based Capital Ratio:</b>				
Golden Valley Bank	\$ 35,655,000	15.3%	\$ 31,494,000	13.9%
Minimum requirement for "Well-Capitalized" institution under prompt corrective action provisions	\$ 23,286,000	10.0%	\$ 22,619,000	10.0%
Minimum regulatory requirement	\$ 18,629,000	8.0%	\$ 18,096,000	8.0%

Management believes that the Bank met all its capital adequacy requirements as of December 31, 2020 and 2019.

## Golden Valley Bancshares, Inc. and Subsidiary Notes to Consolidated Financial Statements

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### NOTE 13 – 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, 2020 and 2019:

	2020	2019
Balance, beginning of year	\$ 3,420,785	\$ 4,014,820
Disbursements	746,699	1,050,396
Amounts repaid	(697,458)	(1,644,431)
Balance, end of year	3,470,026	3,420,785
Undisbursed commitments to related parties, December 31	\$ 3,203,171	\$ 1,156,669

At December 31, 2020 and 2019, the Bank's deposits from related parties totaled approximately \$12,124,000 and \$14,505,000, respectively. Included in related party deposits are deposits from Golden Valley Bank Community Foundation (the "Foundation").

### NOTE 14 – 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 \$176,509 and \$108,029 to the Plan during the years ended December 31, 2020 and 2019.

# Golden Valley Bancshares, Inc. and Subsidiary

## Notes to Consolidated Financial Statements

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### NOTE 15 – OTHER EXPENSES

Other expenses for the years ended December 31, 2020 and 2019, consisted of the following:

	<u>2020</u>	<u>2019</u>
Data processing	\$ 830,062	\$ 815,853
Professional fees	351,453	274,814
Regulatory assessments	156,030	184,026
Advertising and marketing	502,126	350,904
Director fees	201,904	163,953
Other	547,179	738,995
	<u>\$ 2,588,754</u>	<u>\$ 2,528,545</u>



