GOLDEN VALLEY BANK
Chico, California

FINANCIAL STATEMENTS
December 31, 2012 and 2011

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Crowe Horwath LLP
Independent Member Crowe Horwath International

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Golden Valley Bank, which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Golden Valley Bank as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Crowe Horwath LLP

Sacramento, California
March 11, 2013

GOLDEN VALLEY BANK
BALANCE SHEETS
December 31, 2012 and 2011

	2012	2011
ASSETS		
Cash and due from banks	$ 4,699,216	$ 2,958,020
Interest-bearing deposits in other financial institutions	10,681,020	7,653,553
Total cash and cash equivalents	15,380,236	10,611,573
Interest-bearing deposits in other financial institutions	11,482,000	8,592,000
Available-for-sale investment securities (Notes 2 and 3)	15,216,000	16,341,000
Loans, less allowance for loan losses of $1,617,483 in 2012 and $1,488,809 in 2011 (Notes 2, 4, 9 and 12)	82,068,403	71,562,374
Bank premises and equipment, net (Notes 5 and 9)	677,889	763,694
Other real estate	256,633	324,000
Bank-owned life insurance (Note 13)	1,033,863	506,102
Accrued interest receivable and other assets (Note 8)	2,149,584	1,993,948
Total assets	$ 128,264,608	$ 110,694,691
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits (Note 12):		
Noninterest-bearing	$ 32,288,018	$ 24,243,751
Interest bearing (Note 6)	77,867,362	68,952,070
Total deposits	110,155,380	93,195,821
Accrued interest payable and other liabilities (Note 8)	1,003,395	947,079
Total liabilities	111,158,775	94,142,900
Commitments and contingencies (Note 9)		
Shareholders' equity (Notes 10 and 11):		
Preferred stock – no par value; 5,000,000 shares authorized, none outstanding	-	-
Common stock – no par value; 50,000,000 shares authorized; shares issued and outstanding 2,016,111 in 2012 and 2,061,933 in 2011	16,023,109	16,332,016
Retained earnings	894,099	20,522
Accumulated other comprehensive income, net of taxes (Note 3)	188,625	199,253
Total shareholders' equity	17,105,833	16,551,791
Total liabilities and shareholders' equity	$ 128,264,608	$ 110,694,691

See accompanying notes to financial statements.

GOLDEN VALLEY BANK
STATEMENTS OF INCOME
For the Years Ended December 31, 2012 and 2011

	2012	2011
Interest income:		
Interest and fees on loans	$ 4,762,245	$ 4,465,318
Interest on deposits in other financial institutions	120,549	128,267
Interest on taxable investment securities	368,325	463,082
Total interest income	5,251,119	5,056,667
Interest expense:		
Interest on deposits (Note 6)	235,768	353,380
Interest on borrowings	6	4
Total interest expense	235,774	353,384
Net interest income before provision for loan losses	5,015,345	4,703,283
Provision for loan losses (Note 4)	232,766	310,300
Net interest income after provision for loan losses	4,782,579	4,392,983
Non-interest income:		
Service charges and fees	182,648	161,069
Loan packaging fees	360,287	188,007
Gain on sale of available-for-sale investment securities (Note 3)	111,178	1,121
Gain on sale of other real estate	-	53,445
Other	35,087	26,408
Total non-interest income	689,200	430,050
Non-interest expense:		
Salaries and employee benefits (Notes 4, 10 and 13)	2,070,981	2,108,426
Occupancy and equipment (Notes 5 and 9)	364,107	338,076
Other (Note 14)	1,285,503	1,184,220
Total non-interest expense	3,720,591	3,630,722
Net income before provision for income taxes	1,751,188	1,192,311
Provision for income taxes (Note 8)	676,000	286,000
Net income	$ 1,075,188	$ 906,311
Basic and diluted income per share (Note 11)	$ 0.53	$ 0.44
Cash dividends per common share	$ 0.10	$ -

See accompanying notes to financial statements.

GOLDEN VALLEY BANK
STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2012 and 2011

	2012	2011
Net income	$ 1,075,188	$ 906,311
Other comprehensive income:		
Unrealized holding gains arising during the year on available-for-sale investment securities	94,550	306,099
Less reclassification adjustment for gains included In net income	(111,178)	(1,121)
Tax effect	6,000	(126,999)
Total other comprehensive (loss) income	(10,628)	177,979
Total comprehensive income	$ 1,064,560	$ 1,084,290

See accompanying notes to financial statements.

GOLDEN VALLEY BANK
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Years Ended December 31, 2012 and 2011

	Common Stock		Retained Earnings (Accumulated Deficit)	Accumulated Other Compre-hensive Income	Total Shareholders' Equity
	Shares	Amount			
Balance, January 1, 2011	2,061,933	$ 16,274,524	$ (885,789)	$ 21,274	$15,410,009
Net income	-	-	906,311	-	906,311
Other comprehensive income:					
Net change in unrealized gains on available-for-sale investment securities, net of $127,000 in tax expense	-	-	-	177,979	177,979
Share-based expense (Note 10)	-	45,505	-	-	45,505
Restricted common stock compensation expense (Note 10)	-	11,987	-	-	11,987
Balance, December 31, 2011	2,061,933	16,332,016	20,522	199,253	16,551,791
Net income	-	-	1,075,188	-	1,075,188
Other comprehensive income:					
Net change in unrealized gains on available-for-sale investment securities, net of $6,000 in tax expense (Note 3)	-	-	-	(10,628)	(10,628)
Share-based expense (Note 10)	-	18,353	-	-	18,353
Restricted common stock compensation expense (Note 10)	-	9,584	-	-	9,584
Repurchase and retirement of common stock	(45,822)	(336,844)	-	-	(336,844)
Cash dividend ($0.10 per common share)	-	-	(201,611)	-	(201,611)
Balance, December 31, 2012	2,016,111	$ 16,023,109	$ 894,099	$ 188,625	$17,105,833

See accompanying notes to financial statements.

GOLDEN VALLEY BANK
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Net income	$ 1,075,188	$ 906,311
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	232,766	310,300
Depreciation and amortization	181,490	171,207
Deferred loan origination fees, net	(165,328)	(26,638)
Gain on sale of available-for-sale investment securities	(111,178)	(1,121)
Share-based expense	27,937	57,492
Increase in cash surrender value of bank-owned life insurance, net	(27,761)	(15,812)
(Increase) decrease in accrued interest receivable and other assets	(66,736)	847
Increase in accrued interest payable and other liabilities	56,316	207,259
Provision for deferred taxes and change in valuation allowance	(17,000)	38,630
Gain on sale of other real estate	-	(53,445)
Net cash provided by operating activities	1,185,694	1,595,030
Cash flows from investing activities:		
Proceeds from sale of other real estate	-	371,295
Change in interest-bearing deposits in other financial institutions	(2,890,000)	962,000
Purchase of available-for-sale investment securities	(9,204,007)	(9,365,177)
Proceeds from sales and calls of available-for-sale investment securities	9,280,682	5,340,612
Proceeds from principal payments on available-for-sale investment securities	1,067,292	1,676,635
Proceeds from maturity of available-for-sale investment securities	-	460,000
Net increase in loans	(10,505,897)	(6,622,508)
Purchase of Federal Home Loan Bank stock	(65,900)	(77,400)
Purchase of bank-owned life insurance	(500,000)	-
Purchase of premises and equipment	(20,304)	(57,024)
Net cash used in investing activities	(12,838,134)	(7,311,567)
Cash flows from financing activities:		
Increase in demand, interest bearing and savings deposits, net	17,262,839	7,233,985
(Decrease) increase in time deposits, net	(303,281)	238,411
Cash dividend paid	(201,611)	-
Repurchase and retirement of common stock	(336,844)	-
Net cash provided by financing activities	16,421,103	7,472,396
Increase in cash and cash equivalents	4,768,663	1,755,859
Cash and cash equivalents at beginning of year	10,611,573	8,855,714
Cash and cash equivalents at end of year	$ 15,380,236	$ 10,611,573

(Continued)

GOLDEN VALLEY BANK
STATEMENTS OF CASH FLOWS
(Continued)
For the Years Ended December 31, 2012 and 2011

	2012	2011
Supplemental disclosure of cash flow information:		
Cash paid during the year:		
Interest expense	$ 252,706	$ 356,205
Income taxes	$ -	$ 370,000
Non-cash investing activity:		
Transfer of loans to other real estate	$ -	$ 711,750

See accompanying notes to financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The FDIC adopted a final rule amending its deposit insurance regulations on November 15, 2010 to implement Section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act providing for unlimited deposit insurance for noninterest-bearing transaction accounts until December 31, 2012.

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

Subsequent Events: The Bank has evaluated subsequent events for recognition and disclosure through March 11, 2013, the date the financial statements were available to be issued.

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

Reclassifications: Certain reclassifications have been made to prior year's balances to conform to classifications in 2012. Reclassifications had no affect on prior year net income or shareholders' equity.

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

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) 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.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 income statement and 2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. For equity securities, the entire amount of impairment is recognized through earnings.

In order to determine OTTI for purchased beneficial interests that, on the purchase date, were not highly rated, the Company compares the present value of the remaining cash flows as estimated at the preceding evaluation date to the current expected remaining cash flows. OTTI is deemed to have occurred if there has been an adverse change in the remaining expected future cash flows.

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

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

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

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

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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

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

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

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

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 California Department of Financial Institutions, 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 $33,000 and $31,000 is included in accrued interest payable and other liabilities on the balance sheets at December 31, 2012 and 2011, respectively.

Other Real Estate: Real estate properties acquired through, or in lieu of, loan foreclosure are expected to be sold and are initially recorded at the fair value of the property, less estimated costs to sell. The excess, if any, of the loan amount over the fair value is charged to the allowance for loan losses. Subsequent declines in the fair value of other real estate, along with related revenue and expenses from operations, are charged to noninterest expense as incurred.

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

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

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

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 bases of assets and liabilities, computed using enacted tax rates. 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. 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.

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

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

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

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Adoption of New Accounting Standards: In May, 2011, the Financial Accounting Standards Board (the "FASB") issued an amendment to achieve common fair value measurement and disclosure requirements between U.S. and International accounting principles. Overall, the guidance is consistent with existing U.S. accounting principles; however, there are some amendments that change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The bank adopted this guidance for the year ended December 31, 2012. The adoption of this guidance did not have a material effect on the Bank's financial statements.

In June 2011, the FASB amended existing guidance and eliminated the option to present the components of other comprehensive income as part of the statement of changes in shareholders' equity. The amendment requires that comprehensive income be presented in either a single continuous statement or in two separate consecutive statements. The Bank adopted this guidance for the year ended December 31, 2012. Adoption changed the presentation of the components of comprehensive income for the Bank, which was previously included as part of the statement of changes in shareholders' equity.

NOTE 2 – FAIR VALUE

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

Fair Value Hierarchy

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

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

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

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

(Continued)

NOTE 2 – FAIR VALUE (Continued)

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

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

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

December 31, 2012	Carrying Amount	Fair Value Measurements at Using: Level 1	Level 2	Level 3	Total
Financial assets:					
Cash and due from banks	$ 4,699,216	$ 4,699,216	$ -	$ -	$ 4,699,216
Interest-bearing deposits in other financial institutions	22,163,020	10,432,020	11,723,980	-	22,156,000
Available-for-sale securities	15,216,000	-	15,216,000	-	15,216,000
Loans, net	82,068,403	-	-	84,577,000	84,577,000
FHLB stock	489,400	N/A	N/A	N/A	N/A
Accrued interest receivable	400,769	400,769	-	-	400,769
Financial liabilities:					
Deposits	$ 110,155,380	$ 94,846,000	$ 16,507,000	$ -	$ 111,353,000
Accrued interest payable	41,158	41,158	-	-	41,158

	December 31, 2011	
	Carrying Amount	Fair Value
Financial assets:		
Cash and due from banks	$ 2,958,020	$ 2,958,020
Interest-bearing deposits in other financial institutions	16,245,553	16,137,000
Available-for-sale investment securities	16,341,000	16,341,000
Loans, net	71,562,374	73,091,000
FHLB Stock	423,500	N/A
Accrued interest receivable	310,322	310,322
Financial liabilities:		
Deposits	$ 93,195,821	$ 93,513,000
Accrued interest payable	58,090	58,090

(Continued)

NOTE 2 – FAIR VALUE (Continued)

Fair Value of Financial Instruments (Continued)

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

The following methods and assumptions were used by the Bank to estimate the fair values of its financial instruments at December 31, 2012 and December 31, 2011:

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

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

Investment securities: For investment securities, fair values are estimated using quoted market prices for similar securities and model-based valuation techniques for which all significant assumptions are observable and are classified as Level 2 classification.

Loans and leases: Fair values of loans, excluding certain impaired loans, are estimated as follows: For variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values resulting in a Level 3 classification. Fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality also resulting in a Level 3 classification. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price.

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

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

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

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

(Continued)

NOTE 2 – FAIR VALUE (Continued)

Fair Value Measurements

Assets Recorded at Fair Value

The following tables present information about the Bank's assets and liabilities measured at fair value on a recurring and nonrecurring basis as of December 31, 2012 and 2011:

Recurring Basis

	December 31, 2012			
Description	Fair Value	Level 1	Level 2	Level 3
Debt securities:				
U.S. Government-sponsored entities	$ 6,161,000	$ -	$ 6,161,000	$ -
Government guaranteed residential mortgage-backed securities	2,865,000	-	2,865,000	-
Municipal securities	5,138,000	-	5,138,000	-
Corporate debt securities	1,052,000	-	1,052,000	-
Total assets measured at fair value	$ 15,216,000	$ -	$ 15,216,000	$ -

	December 31, 2011			
Description	Fair Value	Level 1	Level 2	Level 3
Debt securities:				
U.S. Government-sponsored entities	$ 4,382,000	$ -	$ 4,382,000	$ -
Government guaranteed residential mortgage-backed securities	9,873,000	-	9,873,000	-
Municipal securities	1,065,000	-	1,065,000	-
Corporate debt securities	1,021,000	-	1,021,000	-
Total assets measured at fair value	$ 16,341,000	$ -	$ 16,341,000	$ -

Fair values for Level 2 available-for-sale investment securities are based on quoted market prices for similar securities and model-based valuation techniques for which all significant assumptions are observable. During the year ended December 31, 2012, there were no transfers in or out of Levels 1 and 2.

(Continued)

NOTE 2 – FAIR VALUE (Continued)

Fair Value Measurements (Continued)

Assets Recorded at Fair Value (Continued)

Non-recurring Basis

The Bank may be required, from time to time, to measure certain assets at fair value on a non-recurring basis. These include assets that are measured at the lower of cost or market value that were recognized at fair value which was below cost at the reporting date.

	December 31, 2012				
Description	Fair Value	Level 1	Level 2	Level 3	Total Losses
Impaired loans:					
Real estate – construction	$ 59,535	$ -	$ -	$ 59,535	$ 188,000
Commercial	151,463	-	-	151,463	-
Other real estate	256,633	-	-	256,633	-
Total assets measured at fair value on a non-recurring basis	$ 467,631	$ -	$ -	$ 467,631	$ 188,000

	December 31, 2011				
Description	Fair Value	Level 1	Level 2	Level 3	Total Losses
Impaired loans:					
Real estate – construction	$ 172,535	$ -	$ -	$ 172,535	$ 75,000
Commercial	168,762	-	-	168,762	50,000
Other real estate	324,000	-	-	324,000	-
Total assets measured at fair value on a non-recurring basis	$ 665,297	$ -	$ -	$ 665,297	$ 125,000

Impaired loans are collateral dependent and have been adjusted to fair value based on the estimated fair value of the underlying collateral, less estimated selling costs. If the Bank determines that the value of an impaired loan is less than the recorded investment in the loan, the carrying value is adjusted through a charge-off recorded through the allowance for loan losses. Total losses of $188,000 and $125,000 represent impairment charges recognized during the year ended December 31, 2012 and 2011, respectively, related to the above impaired loans.

There were no material changes in the valuation techniques used during 2012.

(Continued)

NOTE 2 – FAIR VALUE (Continued)

Fair Value Measurements (Continued)

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

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

Other Real Estate – Nonrecurring adjustments to certain commercial and residential real estate properties classified as other real estate (OREO) are measured at fair value, less costs to sell. Fair values are based on recent real estate appraisals. These appraisals may use a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

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

There were no liabilities recorded at fair value on a recurring or non-recurring basis at December 31, 2012 or 2011.

(Continued)

NOTE 3 – AVAILABLE-FOR-SALE INVESTMENT SECURITIES

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

	2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Government-sponsored entities	$ 5,997,566	$ 163,434	$ -	$ 6,161,000
Government guaranteed residential mortgage-backed securities	2,826,287	38,713	-	2,865,000
Municipal securities	5,060,504	111,853	(34,357)	5,138,000
Corporate debt securities	1,008,018	43,982	-	1,052,000
	$ 14,892,375	$ 357,982	$ (34,357)	$ 15,216,000

Net unrealized gains on available-for-sale investment securities totaling $323,625 were recorded, net of $135,000 in tax liabilities, as accumulated other comprehensive income within shareholders' equity at December 31, 2012. Proceeds and gross realized gains from sales and calls of available-for-sale investment securities for the year ended December 31, 2012 totaled $9,280,682 and $111,178, respectively. There were no transfers of available-for-sale investment securities during the year ended December 31, 2012.

	2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Government-sponsored entities	$ 4,215,784	$ 166,216	$ -	$ 4,382,000
Government guaranteed residential mortgage-backed securities	9,772,792	100,208	-	9,873,000
Municipal securities	1,002,331	62,669	-	1,065,000
Corporate debt securities	1,009,840	11,160	-	1,021,000
	$ 16,000,747	$ 340,253	$ -	$ 16,341,000

Net unrealized gains on available-for-sale investment securities totaling $340,253 were recorded, net of $141,000 in tax liabilities, as accumulated other comprehensive income within shareholders' equity at December 31, 2011. Proceeds and gross realized gains from the sale of available-for-sale investment securities for the year ended December 31, 2011 totaled $991,733 and $1,121, respectively. There were no transfers of available-for-sale investment securities during the year ended December 31, 2011.

At December 31, 2012, the Bank held six municipal securities within their value of $2,507,000 that were in a loss position for less than 12 months. Because the decline in market value is attributable to fluctuations in interest rates and not credit quality, and because the Bank does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery, which may be maturity, management does not consider these investments to be other-than-temporarily impaired.

(Continued)

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

Contractual Maturities: The amortized cost and estimated fair value of available-for-sale investment securities at December 31, 2012, 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	$ 1,999,167	$ 2,020,000
After one year through five years	4,007,888	4,074,000
After five years through ten years	1,236,030	1,241,000
After ten years	3,824,650	3,897,000
	11,067,735	11,232,000
Investment securities not due at a single maturity date:		
Government guaranteed residential mortgage-backed securities	2,826,287	2,865,000
U.S. Government-sponsored entities	998,353	1,119,000
	$ 14,892,375	$ 15,216,000

The only significant concentration of investment securities (greater than 10% of shareholders' equity) in any individual security issuer at December 31, 2012 is certain Government guaranteed residential mortgage-backed securities issued by the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation.

Investment securities with amortized costs totaling $1,998,730 and $8,154,133 and estimated fair values totaling $2,214,000 and $8,430,000 were pledged to secure borrowing arrangements at December 31, 2012 and 2011, respectively.

NOTE 4 – LOANS AND ALLOWANCE FOR LOAN LOSSES

Outstanding loans at December 31, 2012 and 2011 are summarized below:

	2012	2011
Commercial	$ 19,609,907	$ 14,768,184
Real estate – commercial	40,814,196	34,701,315
Real estate – residential	16,948,481	16,075,061
Real estate – construction	5,910,230	7,279,623
Consumer and other	314,861	304,117
	83,597,675	73,128,300
Deferred loan origination costs (fees), net	88,211	(77,117)
Allowance for loan losses	(1,617,483)	(1,488,809)
	$ 82,068,403	$ 71,562,374

Salaries and employee benefits totaling $340,615 and $114,969 were deferred as loan origination costs for the years ended December 31, 2012 and 2011, respectively.

(Continued)

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

The following tables show the allocation and activity of the allowance for loan losses at and for the years ended December 31, 2012 and 2011 by portfolio class and by impairment methodology:

	December 31, 2012						
	Commercial	Real Estate - Construction	Real Estate - Commercial	Real Estate - Residential	Consumer and Other	Unallocated	Total
Allowance for Loan Losses							
Beginning balance	$ 280,231	$ 346,193	$ 557,189	$ 241,427	$ 11,864	$ 51,905	$ 1,488,809
Provision for loan losses	53,049	12,853	74,565	40,519	3,530	48,250	232,766
Loans charged-off	(14,966)	(188,000)	-	-	(2,840)	-	(205,806)
Recoveries	14,962	85,000	-	1,752	-	-	101,714
Ending balance allocated to portfolio classes	$ 333,276	$ 256,046	$ 631,754	$ 283,698	$ 12,554	$ 100,155	$ 1,617,483
Ending balance: individually evaluated for impairment	$ 50,000	$ -	$ -	$ -	$ -	$ -	$ 50,000
Ending balance: collectively evaluated for impairment	$ 283,276	$ 256,046	$ 631,754	$ 283,698	$ 12,554	$ 100,155	$ 1,567,483
Loans							
Ending balance	$ 19,609,907	$ 5,910,230	$ 40,814,196	$ 16,948,481	$ 314,861	$ -	$ 83,597,675
Ending balance: individually evaluated for impairment	$ 201,463	$ 59,535	$ -	$ -	$ -	$ -	$ 260,998
Ending balance: collectively evaluated for impairment	$ 19,408,444	$ 5,850,695	$ 40,814,196	$ 16,948,481	$ 314,861	$ -	$ 83,336,677

(Continued)

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

	December 31, 2011						
	Commercial	Real Estate - Construction	Real Estate - Commercial	Real Estate - Residential	Consumer and Other	Unallocated	Total
Allowance for Loan Losses							
Beginning balance	$ 228,516	$ 439,547	$ 433,096	$ 456,224	$ 6,354	$ 79,142	$ 1,642,879
Provision for loan losses	76,134	88,766	124,093	43,034	5,510	(27,227)	310,300
Loans charged-off	(24,419)	(347,911)	-	(258,758)	-	-	(631,088)
Recoveries	-	165,791	-	927	-	-	166,718
Ending balance allocated to portfolio classes	$ 280,231	$ 346,193	$ 557,189	$ 241,427	$ 11,864	$ 51,905	$ 1,488,809
Ending balance: individually evaluated for impairment	$ 50,000	$ 75,000	$ -	$ -	$ -	$ -	$ 125,000
Ending balance: collectively evaluated for impairment	$ 230,231	$ 271,193	$ 557,189	$ 241,427	$ 11,864	$ 51,905	$ 1,363,809
Loans							
Ending balance	$ 14,768,184	$ 7,279,623	$ 34,701,315	$ 16,075,061	$ 304,117	$ -	$ 73,128,300
Ending balance: individually evaluated for impairment	$ 218,762	$ 247,535	$ -	$ -	$ -	$ -	$ 466,297
Ending balance: collectively evaluated for impairment	$ 14,549,422	$ 7,032,088	$ 34,701,315	$ 16,075,061	$ 304,117	$ -	$ 72,662,003

(Continued)

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

The following tables show the loan portfolio allocated by management's internal risk ratings at December 31, 2012 and 2011:

	December 31, 2012					
	Credit Risk Profile by Internally Assigned Grade					
	Commercial	Real Estate – Construction	Real Estate – Commercial	Real Estate – Residential	Consumer and Other	Total
Grade:						
Pass	$18,831,829	$ 3,778,479	$38,556,155	$14,607,261	$ 314,861	$76,088,585
Special Mention	541,351	1,164,610	2,258,041	715,218	-	4,679,220
Substandard	236,727	967,141	-	1,626,002	-	2,829,870
Total	$19,609,907	$ 5,910,230	$40,814,196	$16,948,481	$ 314,861	$83,597,675

	December 31, 2011					
	Credit Risk Profile by Internally Assigned Grade					
	Commercial	Real Estate – Construction	Real Estate – Commercial	Real Estate – Residential	Consumer and Other	Total
Grade:						
Pass	$13,669,386	$ 4,342,648	$32,394,837	$13,207,979	$ 304,117	63,918,967
Special Mention	880,036	1,562,624	2,306,478	2,677,137	-	7,426,275
Substandard	218,762	1,374,351	-	189,945	-	1,783,058
Total	$14,768,184	$ 7,279,623	$34,701,315	$16,075,061	$ 304,117	$73,128,300

The following tables show an ageing analysis of the loan portfolio by the time past due at December 31, 2012 and 2011:

	December 31, 2012						
	30-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total	90 Days and Still Accruing	Nonaccrual
Commercial	$ -	$ -	$ -	$19,609,907	$19,609,907	$ -	$ 201,463
Real estate – commercial	-	-	-	40,814,196	40,814,196	-	-
Real estate – residential	75	-	75	16,948,406	16,948,481	-	-
Real estate – construction	-	59,535	59,535	5,850,695	5,910,230	-	59,535
Consumer	896	-	896	313,965	314,861	-	-
Total	$ 971	$ 59,535	$ 60,506	$83,537,169	$83,597,675	$ -	$ 260,998

(Continued)

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

	December 31, 2011						
	30-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total	90 Days and Still Accruing	Nonaccrual
Commercial	$ -	$ -	$ -	$ 14,768,184	$ 14,768,184	$ -	$ 218,762
Real estate – construction	-	247,535	247,535	7,032,088	7,279,623	-	247,535
Real estate – commercial	-	-	-	34,701,315	34,701,315	-	-
Real estate – residential	-	-	-	16,075,061	16,075,061	-	-
Consumer	-	-	-	304,117	304,117	-	-
Total	$ -	$ 247,535	$ 247,535	$ 72,880,765	$ 73,128,300	$ -	$ 466,297

The following tables show information related to impaired loans at and for the years ended December 31, 2012 and 2011:

	December 31, 2012				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Cash Basis Interest Income Recognized
With no related allowance recorded:					
Real estate – construction	$ 59,535	$ 247,535	$ -	$ 247,535	$ -
With an allowance recorded:					
Commercial	$ 201,463	$ 216,180	$ 50,000	$ 219,666	$ 5,431
Total:					
Commercial	$ 201,463	$ 216,180	$ 50,000	$ 219,666	$ 5,431
Real estate – construction	$ 59,535	$ 247,535	$ -	$ 247,535	$ -

	December 31, 2011				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Cash Basis Interest Income Recognized
With no related allowance recorded:					
Commercial	$ 148,250	$ 150,000	$ -	$ 150,000	$ 1,750
With an allowance recorded:					
Commercial	$ 70,512	$ 75,298	$ 50,000	$ 75,463	$ 5,739
Real estate – construction	$ 247,535	$ 247,535	$ 75,000	$ 247,535	$ 7,467
Total:					
Commercial	$ 218,762	$ 225,298	$ 50,000	$ 225,463	$ 7,489
Real estate – construction	$ 247,535	$ 247,535	$ 75,000	$ 247,535	$ 7,467

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

(Continued)

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

At December 31, 2012 and 2011, the Bank had $260,998 and $466,297, respectively, in nonaccrual loans. Interest forgone on nonaccrual loans for the years ended December 31, 2012 and 2011 was $21,284 and $58,896, respectively. The Bank had no loans accruing interest that were over 90 days past due as of December 31, 2012 and 2011.

Troubled Debt Restructurings: The Bank has allocated $50,000 of specific reserves to loans to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2012 and 2011. The Bank does not have commitments to lend additional funds to borrowers with loans whose terms have been modified in troubled debt restructurings.

During the year ended December 31, 2012, no loans were modified as a troubled debt restructure.

The following table presents loans by class modified as troubled debt restructurings that occurred during the year ended December 31, 2011:

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled debt restructurings:			
Commercial	1	$ 70,512	$ 70,512

There were no troubled debt restructurings for which there was a payment default within twelve months following the modification during the years ended December 31, 2012 and 2011.

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

NOTE 5 – BANK PREMISES AND EQUIPMENT

Bank premises and equipment at December 31, 2012 and 2011 consisted of the following:

	2012	2011
Furniture, fixtures and equipment	$ 579,596	$ 557,649
Leasehold improvements	1,014,867	1,005,201
Construction in process	3,556	14,866
	1,590,019	1,577,716
Less accumulated depreciation and amortization	(920,130)	(814,022)
	$ 677,889	$ 763,694

(Continued)

NOTE 5 – BANK PREMISES AND EQUIPMENT (Continued)

Depreciation and amortization included in occupancy and equipment expense totaled $106,109 and $116,335 for the years ended December 31, 2012 and 2011, respectively.

NOTE 6 – INTEREST-BEARING DEPOSITS

Interest-bearing deposits at December 31, 2012 and 2011 consisted of the following:

	2012	2011
Savings	$ 10,433,697	$ 8,048,894
Money market	36,116,883	31,802,692
Interest-bearing demand accounts	14,804,783	12,285,204
Time, $100,000 or more	12,680,762	12,690,437
Other time	3,831,237	4,124,843
	$ 77,867,362	$ 68,952,070

Aggregate annual maturities of time deposits are as follows:

Year Ending December 31,	
2013	$ 15,833,457
2014	406,316
2015	232,226
2016	40,000
	$ 16,511,999

Interest expense recognized on interest-bearing deposits for the years ended December 31, 2012 and 2011 consisted of the following:

	2012	2011
Savings	$ 13,664	$ 13,929
Money market	119,245	175,083
Interest-bearing demand accounts	16,248	14,659
Time, $100,000 or more	66,960	118,334
Other time	19,651	31,375
	$ 235,768	$ 353,380

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, 2012 or 2011.

(Continued)

NOTE 7 – BORROWING ARRANGEMENTS (Continued)

In addition, the Bank has a secured borrowing arrangement with the Federal Home Loan Bank of San Francisco (FHLB). At December 31, 2012 and 2011, the Bank's borrowing capacity under this arrangement was $31,638,100 and $27,316,800, respectively. There were no borrowings outstanding under this arrangement at December 31, 2012 or 2011. The Bank is required to pledge available-for-sale investment securities and certain loans to secure any advances under this arrangement. Loans totaling $59,904,000 were pledged to secure advances from the FHLB at December 31, 2012.

The Bank has a borrowing arrangement with the Federal Reserve Bank. Borrowings are secured by available-for-sale investment securities pledged by the Bank. The Bank's borrowing capacity varies depending on the type and value of investments pledged. At December 31, 2012 and 2011 there were no outstanding borrowings.

NOTE 8 – INCOME TAXES

Income taxes for the years ended December 31, 2012 and 2011 consisted of the following:

	Federal	State	Total
2012			
Current	$ 577,000	$ 116,000	$ 693,000
Deferred	(55,000)	38,000	(17,000)
Income tax expense	$ 522,000	$ 154,000	$ 676,000
2011			
Current	$ 298,560	$ 89,809	$ 388,369
Deferred	74,952	12,132	87,084
Change in the valuation allowance	(152,512)	(36,941)	(189,453)
Income tax expense	$ 221,000	$ 65,000	$ 286,000

The effective tax rate differs from the 34% federal statutory rate as a result of state income taxes for the year ended December 31, 2012 and as a result of state income taxes and the change in the valuation allowance for the year ended December 31, 2011.

(Continued)

NOTE 8 – INCOME TAXES (Continued)

Deferred tax assets (liabilities) at December 31, 2012 and 2011 consisted of the following:

	2012	2011
Deferred tax assets:		
Net operating losses	$ -	$ 47,488
Allowance for loan losses	602,652	565,341
Organization costs	118,730	133,495
Deferred compensation	265,596	259,774
Stock-based expense	217,647	215,888
Premises and equipment	59,574	63,020
Other	53,498	9,841
Total deferred tax assets	1,317,697	1,294,847
Deferred tax liabilities:		
Unrealized gain on available-for-sale securities	(135,000)	(141,000)
Prepaid expenses	(47,849)	(62,438)
Loan origination costs	(179,534)	(93,973)
Future liability of state deferred tax asset	(45,104)	(98,276)
Accrual to cash adjustment	-	(30,532)
Other	(65,697)	(61,939)
Total deferred tax liabilities	(473,184)	(488,158)
Net deferred tax assets	$ 844,513	$ 806,689

The Bank files income tax returns in the U.S. Federal and California jurisdictions. There are currently no pending U.S. Federal or State income tax or non-U.S. income tax examinations by tax authorities. With few exceptions, the Bank is no longer subject to tax examinations by U.S. Federal taxing authorities for years ended before December 31, 2009 and by state and local taxing authorities for years ended before December 31, 2008.

As of December 31, 2012, there were no unrecognized tax benefits or interest and penalties related to tax matters accrued by the Bank.

(Continued)

NOTE 9 – COMMITMENTS AND CONTINGENCIES

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

Additionally, the Bank leases equipment under operating leases that have noncancelable lease terms in excess of one year at December 31, 2012. These leases expire in 2015.

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

Year Ending December 31,	Operating Leases
2013	$ 131,124
2014	127,611
2015	123,135
2016	124,717
2017	125,374
Thereafter	1,109,237
	$ 1,741,198

Rental expense included in occupancy and equipment expense totaled $132,061 and $124,300 for the years ended December 31, 2012 and 2011, respectively. Accrued lease payable of $91,789 and $85,222 is recorded as of the years ended December 31, 2012 and 2011, respectively, to reflect the cumulative effect of known rent escalations over the life of the Chico lease.

Financial Instruments With Off-Balance-Sheet Risk: The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business in order to meet the financing needs of its customers. These financial instruments consist of commitments to extend credit totaling $21,926,000 and $20,486,000 at December 31, 2012 and 2011, respectively. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized on the balance sheet.

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

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

(Continued)

NOTE 9 – COMMITMENTS AND CONTINGENCIES (Continued)

Financial Instruments With Off-Balance-Sheet Risk (Continued)

Commercial loan commitments represent approximately 53% 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 3% 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 29% of total commitments and are generally secured by residential real estate and have variable interest rates. Consumer loans represent 2% of total commitments and are generally unsecured. Agricultural loans represent 4% 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, 2012 and 2011.

In management's judgment at December 31, 2012, a concentration of loans exists in real estate mortgage and construction related loans which represented approximately 69% and 7% of the Bank's loans, respectively. At December 31, 2011, a concentration of loans exists in real estate mortgage and construction related loans which represented approximately 69% and 10% 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 collectibility of these loans.

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

Correspondent Banking Agreements: The Bank maintains funds on deposit with other federally insured financial institutions under correspondent banking agreements. The FDIC adopted a final rule amending its deposit insurance regulations on November 15, 2010 to implement Section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act providing for unlimited deposit insurance for noninterest-bearing transaction accounts for two years starting December 31, 2010.

NOTE 10 – SHARE-BASED COMPENSATION

The Golden Valley Bank Equity Incentive Plan has been approved by its shareholders and permits the grant of stock options and restricted stock for up to 615,580 shares of the Bank's common stock. Under this Plan, the Bank had 329,264 shares reserved for future grants at December 31, 2012. The Plan is designed to retain employees, directors and founders who are advisory group members. The amount, frequency, and terms of share-based awards may vary based on competitive practices, the Bank's operating results and government regulations. New shares are issued upon option exercise or restricted share grants. The Plan does not provide for the settlement of awards in cash. The Plan requires that the option price may not be less than the fair market value of the stock at the date the option is granted, and that the stock must be paid in full at the time the option is exercised. All options expire on a date determined by the Board of Directors but not later than ten years from the date of grant. The vesting period for stock options and restricted stock is determined by the Board of Directors and is generally over a three to five year period.

(Continued)

NOTE 10 – SHARE-BASED COMPENSATION (Continued)

Stock Option Awards: A summary of option activity under the Plan for the years ended December 31, 2012 and 2011 is presented below:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2011	301,266	$ 7.85	5.53 years	$ -
Granted	10,000	$ 7.50		
Expired	(23,500)	$ 8.24		
Outstanding at December 31, 2011	287,766	$ 7.76	4.69 years	$ -
Cancelled	(1,450)	$ 8.95		
Outstanding at December 31, 2012	286,316	$ 7.75	3.69 years	$ 282,958
Exercisable at December 31, 2012	275,516	$ 7.51	3.52 years	$ 271,011
Options expected to vest	9,377	$ 7.50	7.89 years	$ 9,283

At December 31, 2012, the unrecognized cost related to non-vested stock option awards totaled $25,649. That cost is expected to be amortized on a straight-line basis over a weighted average period of 2.14 years and will be adjusted for subsequent changes in estimated forfeitures. Total share-based expense of $18,353 and $45,505 is recorded in salaries and benefits and other non-interest expense for the years ended December 31, 2012 and 2011, respectively. The fair value of options vested during 2012 and 2011 totaled $31,170 and $84,101, respectively.

The following information relates to stock options granted during the year ended December 31, 2011. There were no stock options granted in 2012.

	2011
Weighted average grant date fair value per option	$3.63
Significant fair value assumptions:	
Expected term	6.5 years
Expected annual volatility	65%
Risk-free interest rate	1.84%

(Continued)

NOTE 10 – SHARE-BASED COMPENSATION (Continued)

Restricted Common Stock Award: In 2007, the Bank awarded 4,351 shares of restricted common stock to one of its key executives. The restricted common stock award vests in equal installments over a five year period on the anniversary dates of the award as established by the Board of Directors. The first installment vested in 2008 and the award was fully vested in 2012. Any dividends attributable to the restricted stock award were held by the Bank and were released to the executive on the vesting date. The Bank and the executive have also entered into an agreement allowing the Bank's Board of Directors to vote all unvested restricted stock. The total fair value of the restricted common stock at the date of the award was $47,861 or $11 per share. This amount is expensed on a straight-line basis over the vesting period. There was $9,584 and $11,987 in expense recognized related to this award in 2012 and 2011, respectively.

NOTE 11 – SHAREHOLDERS' EQUITY

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, 2012, no amounts were free of such restrictions. A dividend of $0.10 per share was paid on December 18, 2012 to shareholders of record as of December 8, 2012.

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, 2012 and 2011 is shown below.

	Net Income	Weighted Average Number of Shares Outstanding	Per Share Amount
December 31, 2012			
Basic earnings per share	$ 1,075,188	2,042,073	$ 0.53
Effect of dilutive stock options	-	-	
Diluted earnings per share	$ 1,075,188	2,042,073	$ 0.53
December 31, 2011			
Basic earnings per share	$ 906,311	2,061,933	$ 0.44
Effect of dilutive stock options	-	-	
Diluted earnings per share	$ 906,311	2,061,933	$ 0.44

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 286,316 and 269,766 for the years ended December 31, 2012 and 2011, respectively.

(Continued)

NOTE 11 – SHAREHOLDERS' EQUITY (Continued)

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

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

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

	2012		2011	
	Amount	Ratio	Amount	Ratio
Leverage Ratio				
Golden Valley Bank	$ 16,917,000	13.7%	$ 16,353,000	14.7%
Minimum requirement for "Well-Capitalized" institution under prompt corrective action provisions	$ 6,162,000	5.0%	$ 5,559,000	5.0%
Minimum regulatory requirement	$ 4,930,000	4.0%	$ 4,447,000	4.0%
Tier 1 Risk-Based Capital Ratio				
Golden Valley Bank	$ 16,917,000	19.2%	$ 16,353,000	20.7%
Minimum requirement for "Well-Capitalized" institution under prompt corrective action provisions	$ 5,286,000	6.0%	$ 4,739,000	6.0%
Minimum regulatory requirement	$ 3,524,000	4.0%	$ 3,159,000	4.0%
Total Risk-Based Capital Ratio				
Golden Valley Bank	$ 18,025,000	20.5%	$ 17,347,000	22.0%
Minimum requirement for "Well-Capitalized" institution under prompt corrective action provisions	$ 8,810,000	10%	$ 7,898,000	10%
Minimum regulatory requirement	$ 7,048,000	8%	$ 6,318,000	8%

Management believes that the Bank met all its capital adequacy requirements as of December 31, 2012 and 2011.

(Continued)

NOTE 12 – RELATED PARTY TRANSACTIONS

During the normal course of business, the Bank enters into transactions with related parties, including Directors and executive officers. The following is a summary of the aggregate activity involving related party borrowers for the years ended December 31, 2012 and 2011:

	2012	2011
Balance, beginning of period	$ 2,577,053	$ 1,679,679
Disbursements	206,633	1,429,521
Amounts repaid	(518,522)	(532,147)
Balance, December 31	$ 2,265,164	$ 2,577,053
Undisbursed commitments to related parties, December 31	$ 895,875	$ 733,375

At December 31, 2012 and 2011, the Bank's deposits from related parties totaled approximately $6,914,000 and $8,262,000, respectively.

NOTE 13 – EMPLOYEE BENEFIT PLANS

Profit Sharing Plan: In 2006, the Bank adopted the Golden Valley Bank 401(k) Profit Sharing Plan and Trust (the "Plan"). All employees 18 years of age or older with two months of service are eligible to participate in the salary deferral provisions of the Plan. Eligible employees may elect to make tax deferred contributions up to the maximum amount allowed by law. After eligible employees have completed one year of service, they may participate in the employer contribution provisions. The Bank may make contributions to the Plan at the discretion of the Board of Directors. Eligible employees hired on or before August 1, 2006 are immediately vested in employer contributions. Bank contributions vest at a rate of 20% annually for all other employees, starting in the second year of service. The Bank contributed $48,769 and $39,251 to the Plan during the years ended December 31, 2012 and 2011.

Salary Continuation and Retirement Program: A salary continuation and retirement program is in place for two key executives. Under this program, the executives will receive monthly payments for between 10 and 15 years after retirement. These benefits are substantially equivalent to those available under a life insurance policies purchased by the Bank on the lives of the executives. In addition, the estimated present value of these future benefits is accrued over the period from the effective date of the program until the participant's expected retirement date. The expense related to the program for the years ended December 31, 2012 and 2011 was $133,000 and $135,000, respectively.

In connection with this program, the Bank has purchased single premium life insurance policies with a cash surrender value totaling $1,033,863 and $506,102 at December 31, 2012 and 2011, respectively. Income earned on these policies, net of expenses, totaled $27,761 and $15,812 for the years ended December 31, 2012 and 2011, respectively.

(Continued)

NOTE 14 – OTHER EXPENSES

Other expenses for the years ended December 31, 2012 and 2011 consisted of the following:

	2012	2011
Data processing	$ 423,286	$ 342,865
Professional fees	308,086	311,272
Regulatory assessments	93,546	138,325
Advertising and marketing	84,795	65,908
Other	375,790	325,850
	$ 1,285,503	$ 1,184,220