REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS

IDAHO FIRST BANK

December 31, 2019 and 2018

MOSSADAMS

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Report of Independent Auditors

Board of Directors and Stockholders
Idaho First Bank

Report on the Financial Statements

We have audited the accompanying financial statements of Idaho First Bank, which comprise the statements of financial condition as of December 31, 2019 and 2018, and the related statements of income, comprehensive income, changes in stockholders' 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Idaho First Bank as of December 31, 2019 and 2018, 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

Spokane, Washington
May 18, 2020

Idaho First Bank
Statements of Financial Condition

ASSETS

	December 31, 2019	December 31, 2018
Cash and due from banks	$ 3,762,832	$ 3,777,858
Interest-bearing deposits due from banks	11,907,781	13,787,434
Cash and cash equivalents	15,670,613	17,565,292
Securities available for sale, at fair value	21,440,241	12,505,230
Stock in other institutions	584,346	577,146
Mortgage loans held for sale	2,217,570	1,744,763
Loans receivable	172,028,335	165,085,166
Allowance for loan losses	(2,095,928)	(2,114,476)
Net loans receivable	169,932,407	162,970,690
Premises and equipment, net	6,235,736	4,436,694
Accrued interest receivable	680,604	559,762
Net deferred tax asset	1,710,986	2,185,682
Cash surrender value of bank-owned life insurance	776,013	759,000
Other assets	828,374	544,806
Total assets	$ 220,076,890	$ 203,849,065

See accompanying notes.

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 2019	December 31, 2018
Deposits		
Noninterest-bearing demand	$ 47,822,991	$ 41,530,280
Interest-bearing demand	18,123,086	18,087,724
Savings	73,862,756	67,018,119
Time deposits	46,379,900	53,609,855
Total deposits	186,188,733	180,245,978
Borrowed funds	5,000,000	5,000,000
Accrued interest payable	119,360	108,826
Other liabilities	940,810	419,310
Total liabilities	192,248,903	185,774,114
Commitments and contingencies (Note 7)		
Stockholders' equity		
Preferred stock $1,000 par value; 10,000 shares authorized; none issued or outstanding	-	-
Common stock - no par value; 9,000,000 shares authorized; 4,526,109 and 3,099,452 shares issued and outstanding, respectively	32,478,276	23,985,894
Accumulated deficit	(4,705,884)	(5,709,051)
Accumulated other comprehensive income (loss)	55,595	(201,892)
Total stockholders' equity	27,827,987	18,074,951
Total liabilities and stockholders' equity	$ 220,076,890	$ 203,849,065

See accompanying notes.

Idaho First Bank
Statements of Income

	Years Ended December 31, 2019	2018
INTEREST INCOME		
Loans, including fees	$ 8,807,743	$ 8,043,465
Securities	381,627	272,279
Other interest income	559,875	230,842
Total interest income	9,749,245	8,546,586
INTEREST EXPENSE		
Time deposits	1,015,999	791,314
Savings	709,362	559,072
Interest-bearing demand	25,972	19,011
Borrowed funds	123,783	94,428
Total interest expense	1,875,116	1,463,825
Net interest income	7,874,129	7,082,761
PROVISION FOR LOAN LOSSES	290,000	455,000
Net interest income after provision for loan losses	7,584,129	6,627,761
NONINTEREST INCOME		
Mortgage banking income	763,973	1,583,401
Service charges on deposits	167,485	149,700
Increase in cash surrender value of bank-owned life insurance	17,013	17,000
Other income	402,108	384,582
	1,350,579	2,134,683
NONINTEREST EXPENSES		
Salaries and employee benefits	4,544,532	4,847,815
Occupancy	630,710	558,723
Equipment	225,289	237,381
Data processing	1,003,424	970,302
Professional services	288,003	400,347
Employee expenses	171,900	186,110
FDIC insurance	80,521	171,461
Telephone	189,063	157,086
Loan expenses	63,130	119,638
Supplies and postage	117,449	108,637
Advertising and promotion	141,466	96,311
Other operating expenses	94,054	82,633
	7,549,541	7,936,444
INCOME BEFORE TAXES	1,385,167	826,000
INCOME TAX PROVISION	382,000	257,000
NET INCOME	$ 1,003,167	$ 569,000
NET INCOME PER SHARE	$ 0.30	$ 0.19

See accompanying notes.

	Years Ended December 31,	
	2019	2018
NET INCOME	$ 1,003,167	$ 569,000
OTHER COMPREHENSIVE INCOME (LOSS)		
Change in unrealized gains (losses) on securities available for sale	$ 350,183	(84,067)
Income tax benefit (provision)	(92,696)	(1,395)
Other comprehensive income (loss)	257,487	(85,462)
Comprehensive income	$ 1,260,654	$ 483,538

Idaho First Bank
Statements of Changes in Stockholders' Equity

	Common Stock			Accumulated Other	
	Shares	Amount	Accumulated Deficit	Comprehensive Income (Loss)	Total
BALANCE, December 31, 2017	2,987,698	$ 23,288,549	$ (6,278,051)	$ (116,430)	$ 16,894,068
Net income	-	-	569,000	-	569,000
Issuance of stock, net	111,754	697,345	-	-	697,345
Other comprehensive loss, net of tax	-	-	-	(85,462)	(85,462)
BALANCE, December 31, 2018	3,099,452	23,985,894	(5,709,051)	(201,892)	18,074,951
Net income	-	-	1,003,167	-	1,003,167
Issuance of stock, net	1,426,657	8,492,382	-	-	8,492,382
Other comprehensive income, net of tax	-	-	-	257,487	257,487
BALANCE, December 31, 2019	4,526,109	$ 32,478,276	$ (4,705,884)	$ 55,595	$ 27,827,987

See accompanying notes.

	Years Ended December 31, 2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 1,003,167	$ 569,000
Adjustments to reconcile net income to net cash from operating activities		
Net accretion of deferred loan fees, costs and premiums	(157,767)	(123,217)
Net amortization of securities' discounts and premiums	36,173	53,853
Provision for loan losses	290,000	455,000
Originations of loans held for sale	(25,281,706)	(46,442,247)
Proceeds from sale of loans held for sale	25,312,300	50,643,102
Gain on sale of loans	(503,401)	(1,079,233)
Increase in cash surrender value of life insurance	(17,013)	(17,000)
Loss on disposal of premises, equipment and software	1,860	-
Depreciation and amortization	298,676	327,090
Amortization of operating right-of-use assets	96,473	-
Net change in operating lease liabilities	(93,363)	-
Deferred income tax provision	382,000	257,000
Stock based compensation expense	146,076	66,936
Net change in accrued interest receivable and other assets	(243,622)	(220,883)
Net change in accrued interest payable and other liabilities	368,136	102,969
Net cash from operating activities	1,637,989	4,592,370
CASH FLOWS FROM INVESTING ACTIVITIES		
Securities available for sale		
Maturities, prepayments and calls	4,050,708	2,407,727
Purchases	(12,671,709)	(3,829,832)
Redemption of stock in other institutions	64,000	18,600
Purchase of stock in other institutions	(71,200)	(114,100)
Net increase in loans	(7,093,950)	(25,714,527)
Purchases of premises, equipment and software	(2,099,578)	(18,271)
Net cash from investing activities	(17,821,729)	(27,250,403)

Idaho First Bank
Statements of Cash Flows (continued)

	Years Ended December 31, 2019	2018
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	$ 5,942,755	$ 22,673,943
Borrowings from Federal Home Loan Bank	1,000,000	2,000,000
Repayments of borrowings from Federal Home Loan Bank	(1,000,000)	-
Proceeds from issuance of common stock, net	8,346,306	630,409
Net cash from financing activities	14,289,061	25,304,352
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,894,679)	2,646,319
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	17,565,292	14,918,973
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 15,670,613	$ 17,565,292
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION		
Cash paid during the year for		
Interest	$ 1,864,582	$ 1,417,824
Income taxes	$ -	$ -

See accompanying notes.

Note 1 – Summary of Significant Accounting Policies

Bank organization – Idaho First Bank (Bank) provides a full range of banking services to its commercial and consumer customers through its offices in southwestern Idaho, serving McCall, Boise, Eagle, and New Meadows.

The Bank was organized March 2, 2005. Banking operations commenced on October 3, 2005, with the opening of the McCall, Idaho, office.

Basis of financial statement presentation – The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of certain assets and liabilities as of the date of the statement of financial condition and certain revenues and expenses for the period. Actual results could differ, either positively or negatively, from those estimates.

Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan losses and deferred income taxes. In connection with the determination of the allowance for loan losses, management obtains independent appraisals for significant loans.

Management believes the allowance for loan losses is adequate. While management uses currently available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses. Such agencies may require the Bank to recognize additions to the allowance based on their judgments of information available to them at the time of their examination.

Cash and cash equivalents – For the purposes of reporting cash flows, cash and cash equivalents include cash on hand, demand accounts due from banks, both interest-bearing and noninterest-bearing, and federal funds sold.

Securities available for sale – Securities available for sale are recorded at fair value. Unrealized holding gains and losses on securities available for sale are reported as a net amount in other comprehensive income (loss). Premiums and discounts are recognized in interest income using the interest method over the period to maturity. The Bank uses the specific identification method to determine the cost of securities sold. The purchase and sales of securities, along with gains and losses, are recorded on the settlement date of the transaction.

The Bank evaluates, at the end of each quarter, each of its investments in debt securities with a decline in fair value below the amortized cost of the investment to determine whether or not the decline is deemed to be other-than-temporary. If it is determined the impairment is other-than-temporary for equity securities, the impairment loss is recognized in earnings equal to the difference between the investment's cost and its fair value. If it is determined the impairment is other-than-temporary for debt securities, the Bank will recognize the credit component of an other-than-temporary impairment in earnings and the noncredit component in other comprehensive income when the Bank does not intend to sell the security and it is more likely than not the Bank will not be required to sell the security prior to recovery. In evaluating investments with declines in value, the Bank considers the length of the time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the Bank's intent or plans to sell with regard to the investment.

Note 1 – Summary of Significant Accounting Policies (continued)

Stock in other institutions – The Bank is a member of the Federal Home Loan Bank (FHLB) system and owns equity securities of the FHLB of Des Moines. Members are required to own a certain amount of stock based on the level of borrowings and other factors, therefore, stock is periodically purchased and sold. The FHLB stock was carried at a cost of $534,000 and $526,800 and was classified as restricted securities at December 31, 2019 and 2018, respectively. There is no determinable fair value for these equity securities as all purchases and redemptions occur at the $100 par value of the stock. The equity securities are periodically evaluated for impairment based upon ultimate recovery at par value. The securities were not considered to be impaired at December 31, 2019 and 2018.

The Bank also owns stock of Bankers' Bank of the West located in Denver, Colorado. Bankers' Bank of the West provides correspondent banking services and is owned by community banks in its market area. These securities were carried at a cost of $50,346 at December 31, 2019 and 2018.

Cash dividends on equity securities are reported as other interest income.

Loans receivable and allowances for loan losses – The Bank grants mortgage, commercial, and consumer loans to customers. A substantial portion of the loan portfolio is represented by loans in McCall, Boise, and surrounding areas. The ability of the Bank's debtors to honor their contracts is dependent upon general economic conditions in these areas, including real estate values.

Loans that management has the intent and ability to hold for the foreseeable future, or until maturity or pay off, are reported at their outstanding principal adjusted for any charge offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest on loans is calculated by using the simple interest method on daily balances of the principal amount outstanding. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

A loan is considered impaired when, based on current information and events, it is probable the Bank will be unable to collect the scheduled payments, principal, or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. When loan terms are modified because of financial difficulties of the customer they are classified as troubled debt restructurings and accounted for as impaired loans.

Large groups of smaller-balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer and residential loans for impairment disclosures.

Note 1 – Summary of Significant Accounting Policies (continued)

The accrual of interest on impaired loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due or the loan has been in default for a period of 90 days or more. Loans that are in default over 90 days may continue to accrue interest if the loan is well collateralized and in the process of collection. Interest may be recognized as received in cash if the ultimate collection of principal is not in doubt. If there is doubt as to the collectability of both interest and principal, all payments are applied against the principal balance. A loan may be returned to full accrual status when the borrower is current on all payments and they have the ability to pay principal and interest as agreed.

An allowance for probable losses on loans is maintained at a level deemed by management to be adequate to provide for probable loan losses through charges to earnings. The allowance is based upon a continuing review of loans, which includes consideration of actual net loan loss experience, changes in the size and character of the loan portfolio, identification of individual problem situations that may affect the borrower's ability to repay, and evaluation of current economic conditions. Loan losses are recognized through charges to the allowance, when management believes the uncollectibility of a loan balance is confirmed.

Mortgage loans held for sale – The Bank originates mortgage loans for sale to investors in the secondary market. Loans held for sale are carried at the lower of cost or fair value as determined by outstanding commitments from investors. Gains and losses resulting from the sale of loans are determined on the specific-identification method and reflect the extent that sale proceeds, based on the contractual commitment entered into by the Bank and the investor, exceed or are less than the Bank's investment in the loans.

Premises and equipment – Premises and equipment are stated at cost less accumulated depreciation over estimated useful lives, which range from 3 to 35 years. Leasehold improvements are amortized over the terms of the related lease or the estimated useful lives of the improvements, whichever is shorter. Depreciation and amortization expense is computed using the straight-line method for financial statement purposes. Accelerated depreciation methods are used for income tax purposes. Normal costs of maintenance and repairs are charged to expense as incurred.

Bank-owned life insurance – The Bank purchased a life insurance policy on its chief executive officer. The Bank-owned life insurance is recorded, at the balance sheet date, at the amount that can be realized under the insurance contract, which is the cash surrender value.

Other real estate owned – Other real estate owned includes real estate acquired through foreclosure or deed taken in lieu of foreclosure. Property is recorded at the lower of recorded investment or fair value less estimated costs to sell. Any required write-down from the recorded investment to fair value, at the time of foreclosure, is charged to the allowance for loan losses. Subsequent write-downs and gains or losses recognized upon sale of the property are included in noninterest income or expense. The Bank may have a valuation allowance for probable losses on disposition of other real estate owned, which is allocated on a specific property by property basis. There was no other real estate owned at December 31, 2019 and 2018.

Note 1 – Summary of Significant Accounting Policies (continued)

Right-of-use assets and liabilities – On January 1, 2019, the Bank adopted ASU 2016-02, *Leases Topic 842*, which requires the Bank to recognize most leases on the balance sheet. Adoption of the leasing standard resulted in the recognition of operating right-of-use assets of $257,261, and operating lease liabilities of $258,493 as of January 1, 2019. These amounts were determined based on the present value of remaining minimum lease payments, discounted using the Bank's incremental borrowing rate as of the date of adoption. There was no material impact to the timing of expense or income recognition in the Bank's income statements. Prior periods were not restated and continue to be presented under legacy GAAP. Disclosures about the Bank's leasing activities are presented in Note 7.

Long-lived assets – The Bank evaluates the carrying value of long-lived assets based on current and anticipated discounted cash flows and recognizes impairment when such cash flows will be less than the carrying value of the asset. There was no impairment during the years ended December 31, 2019 and 2018.

Transfers of financial assets – Transfers of financial assets are accounted for as sales when control over the assets is relinquished. Control is considered to be relinquished when the assets have been isolated from the Bank, when the transferee has the right to pledge or transfer the assets, and when the Bank does not continue to control the assets by maintaining a repurchase agreement.

Loss contingencies – If it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated, then a contingency for that loss is reflected in the financial statements. If a loss contingency does not meet both criteria for recognition, it may be disclosed in the financial statements depending upon the probability of loss.

Advertising – Advertising and promotion costs are charged to noninterest expense when incurred. Advertising and promotion expense for the years ended December 31, 2019 and 2018, was $141,466 and $96,311, respectively.

Income taxes – Deferred income taxes are reported for temporary differences between items of income or expense reported in the financial statements and those reported for income tax purposes. Deferred taxes are computed using the asset and liability method. Under this method, a deferred tax asset or liability is determined based on management's estimate of the enacted tax rates that will be in effect when the differences between the financial statement carrying amounts and tax basis of existing assets and liabilities are expected to be reported in the Bank's income tax returns. The deferred tax provision for the year is equal to the net change in the net deferred tax asset from the beginning to the end of the year, less amounts applicable to the change in value related to investments available for sale. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion of the deferred tax assets will not be realized. Management considers among other things, the scheduled reversal of deferred tax liabilities, projected future taxable income, tax planning strategies, and positions taken by taxing authorities on the various issues related to the deductibility of certain costs in making this assessment. A valuation allowance has been recorded against the Bank's Idaho state investment tax credits at December 31, 2019 and 2018.

Note 1 – Summary of Significant Accounting Policies (continued)

The Bank recognizes and measures uncertain tax positions using a more-likely-than-not approach. The Bank's approach consisted of an examination of its financial statements, its income tax provision, and its federal and state income tax returns. The Bank analyzed its tax positions including the permanent and temporary differences as well as the major components of income and expense. As of December 31, 2019 and 2018, the Bank did not believe that it had any uncertain tax positions that would rise to the level of having a material effect on its financial statements. In addition, the Bank had no accrued interest or penalties as of December 31, 2019 and 2018. It is the Bank's policy to record interest and penalties as a component of income tax expense.

Off-balance sheet financial instruments – In the ordinary course of business, the Bank originates off-balance sheet financial instruments consisting of commitments to extend credit, performance standby letters of credit, and home equity lines of credit. Such financial instruments are recorded in the financial statements when they are funded. These instruments involve, to varying degrees, elements of credit risk in excess of the amounts recognized in the statements of financial condition. An allowance for potential credit exposure on off-balance sheet financial instruments is reflected in other liabilities. Provisions to increase that allowance are reflected in noninterest expense.

Equity compensation – Operating expenses paid in stock are recognized in noninterest expenses based upon the fair value of stock issued and are disclosed as noncash items in the statements of cash flow. The costs resulting from share-based compensation payments to directors and employees are recognized in the financial statements of the Bank. When stock options are granted, compensation expense is recorded on a straight-line attribution basis over the vesting period of the options. The compensation expense of options is calculated using the Black-Scholes option pricing model at the date of the grant. Disclosures related to the Bank's equity compensation to employees are provided in Note 12.

Net income per share – Net income per share is calculated by taking the net income for the year divided by the average number of shares of common stock outstanding during the year, which were 3,317,523 and 3,002,537 in 2019 and 2018, respectively.

Comprehensive income (loss) – Comprehensive income (loss) consists of net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available for sale, net of tax. Other comprehensive income (loss) is recognized as a separate component of equity.

Fair value of financial instruments – Fair values of financial instruments are estimated using relevant market information and other assumptions, and are more fully disclosed in a separate note. 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.

Note 1 – Summary of Significant Accounting Policies (continued)

Reclassifications – Certain reclassifications have been made in the December 31, 2018, financial statements in order to be in accordance with the December 31, 2019, presentation with no effect on previously reported net income or stockholders' equity.

Recent accounting pronouncements – In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses*, which will change accounting standards for establishing allowances for credit losses. Specifically, this will affect the calculation of the Bank's allowance for loan losses. Under current accounting standards, the focus is on probable credit losses at the date of the financial statement. The new standard shifts the focus to a current estimate of all expected credit losses, considering future events. While the new accounting standard is not expected to have a material impact on the financial statements of the Bank, it is expected to increase the documentation required to support the estimation of the allowance for loan losses. The new accounting standard is scheduled to become effective for the Bank in 2021.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). This guidance is a comprehensive new revenue recognition standard that supersedes substantially all existing revenue recognition guidance. The new standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under existing guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price, and allocating the transaction price to each separate performance obligation. In July 2015, the FASB agreed to delay the effective date of the standard by one year. Therefore, the new standard was effective in 2018 and was adopted by the Bank. The Bank's revenue is comprised of net interest income on financial assets and financial liabilities, which is explicitly excluded from the scope of the standard, and non-interest income. The largest percentage of the Bank's non-interest income is derived from the gain on sale of mortgage loans. The gains are recognized at the time of the sale of the loan, when proceeds are sent to the Bank by the investor purchasing the loan. The Bank also considered the impact of this standard on service fees and other noninterest income. The adoption of this standard had no material impact on the financial statements for the years ended December 31, 2019 and 2018.

Note 2 – Securities Available for Sale

Securities have been classified in the statements of financial condition according to management's intent and ability. All investment securities were classified as available for sale at December 31, 2019 and 2018. As of December 31, 2019, securities available for sale, with an estimated market value of $2,050,782 were pledged as collateral for $1,791,470 of uninsured public deposits. The carrying amounts of securities available for sale and their approximate fair values were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
As of December 31, 2019				
U.S. government agency securities	$ 10,831,402	$ 82,646	$ (7,913)	$ 10,906,135
Mortgage-backed securities	10,533,230	43,867	(42,991)	10,534,106
	$ 21,364,632	$ 126,513	$ (50,904)	$ 21,440,241
As of December 31, 2018				
U.S. government agency securities	$ 5,996,407	$ -	$ (125,006)	$ 5,871,401
Mortgage-backed securities	6,783,397	4,799	(154,367)	6,633,829
	$ 12,779,804	$ 4,799	$ (279,373)	$ 12,505,230

Note 2 – Securities Available for Sale (continued)

Information for securities with unrealized losses at December 31, 2019 and 2018, is as follows:

	December 31, 2019			December 31, 2018		
	U.S. Government Agency Securities	Mortgage-backed Securities	Total	U.S. Government Agency Securities	Mortgage-backed Securities	Total
Securities with unrealized losses for 12 consecutive months or longer						
Amortized cost	$ 1,999,173	$ 2,054,050	$ 4,053,223	$ 4,999,815	$ 4,145,986	$ 9,145,801
Gross unrealized losses	(6,974)	(16,923)	(23,897)	(115,317)	(139,465)	(254,782)
Estimated market value	1,992,199	2,037,127	4,029,326	4,884,498	4,006,521	8,891,019
Securities with unrealized losses for less than 12 consecutive months						
Amortized cost	1,000,000	4,024,202	5,024,202	996,592	1,348,115	2,344,707
Gross unrealized losses	(939)	(26,068)	(27,007)	(9,689)	(14,902)	(24,591)
Estimated market value	999,061	3,998,134	4,997,195	986,903	1,333,213	2,320,116
Total securities with unrealized losses						
Amortized cost	2,999,173	6,078,252	9,077,425	5,996,407	5,494,101	11,490,508
Gross unrealized losses	(7,913)	(42,991)	(50,904)	(125,006)	(154,367)	(279,373)
Estimated market value	2,991,260	6,035,261	9,026,521	5,871,401	5,339,734	11,211,135

Management evaluates securities for other-than-temporary impairment on a quarterly basis. Consideration is given to: (1) the length of time and the extent to which the fair value has been less than cost; (2) the financial condition and near-term prospects of the issuer; and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

The Bank’s unrealized losses primarily relate to fluctuations in the current interest rate environment. In analyzing an issuer’s financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts’ reports. As management has the ability and intent to hold debt securities for the foreseeable future, no declines are deemed other-than-temporary.

There were no sales of securities in 2019 or 2018.

Note 2 – Securities Available for Sale (continued)

Maturities of securities available for sale at December 31, 2019, are summarized below. Of the securities maturing in one to five years, $2,660,000 of those securities had quarterly call provisions.

	Amortized Cost	Estimated Market Value
Maturing within one year	$ 1,005,548	$ 1,001,441
Maturing in one to five years	8,658,931	8,736,413
Maturing in six to ten years	1,166,923	1,168,281
Mortgage-backed securities	10,533,230	10,534,106
	$ 21,364,632	$ 21,440,241

Note 3 – Loans Receivable and Allowance for Loan Losses

Major classifications of loans at December 31 were as follows:

	2019	2018
Real Estate - Commercial	$ 79,754,728	$ 71,870,764
Real Estate - Residential	37,059,494	40,866,323
Commercial	38,441,671	29,092,007
Construction and land development	10,093,718	16,762,392
Consumer	6,678,724	6,493,680
	172,028,335	165,085,166
Allowance for loan losses	(2,095,928)	(2,114,476)
Net loans receivable	$ 169,932,407	$ 162,970,690

Deferred fees and costs were a net credit of $398,790 and $383,072 at December 31, 2019 and 2018, respectively. Premiums associated with the purchase of loans were $139,273 and $297,664 at December 31, 2019 and 2018, respectively.

The interest rates on loans at December 31 fall into the following fixed and variable components:

	2019	2018
Fixed	$ 21,607,993	$ 33,703,523
Variable	150,420,342	131,381,643
	$ 172,028,335	$ 165,085,166

Note 3 – Loans Receivable and Allowance for Loan Losses (continued)

The Bank completes a quarterly analysis of the adequacy of the allowance for loan losses. This quarterly analysis is reviewed and approved by the Board of Directors each quarter. The allowance for loan losses is calculated using two separate and distinct methodologies as follows:

Impaired loans – Impaired loans are comprised of troubled debt restructurings and nonaccrual loans. The Bank reviews each impaired loan, on a loan-by-loan basis. A loan may have a specific reserve within the allowance for loan losses if there is a deficiency in expected cash flows or collateral values.

Unimpaired loans – Each segment of the loan portfolio (excluding impaired loans) is evaluated separately as a pool and an appropriate loss factor for each segment is calculated. The historical loss factors experienced by the Bank over a three-year period are used as a foundation for estimating potential losses. Historical loss factors are adjusted using management's judgment for the impact of internal measures, such as delinquent loans, classified loans, and impaired loans. The experience of lending staff and changes in internal underwriting policies are also considered. The impact of both national and local economic conditions is evaluated. Also, the impact of loan volumes, trends, and concentrations is considered. The allowance for each portfolio segment of unimpaired loans is determined separately using the historical loss rates for that segment and adjusting for each of the above-mentioned factors.

Loans are charged off when they are considered uncollectible and of such little value their continued classification as bankable assets are not warranted. For impaired loans, where no source of repayment other than the liquidation of collateral is expected, a charge-off is made when the loan balance exceeds the estimated fair value of the collateral, less estimated selling costs.

Note 3 – Loans Receivable and Allowance for Loan Losses (continued)

An analysis of changes in the allowance for loan losses for the years ended December 31, 2019 and 2018, measured segment by segment, is included in the following tables. The following tables also show the amount of the allowance for loan losses and the amount of loans receivable segregated by impaired loans and unimpaired loans as of December 31, 2019 and 2018:

	Real Estate Commercial	Real Estate Residential	Commercial	Construction and Land Development	Consumer	Unallocated	Total
Balance at December 31, 2018	$ 1,175,501	$ 447,035	$ 259,289	$ 165,110	$ 58,118	$ 9,423	$ 2,114,476
Provision (recapture)	139,334	79,159	7,009	(126,251)	49,876	140,873	290,000
Loans charged off	-	(316,228)	-	-	-	-	(316,228)
Loan recoveries	-	4,440	3,240	-	-	-	7,680
Balance at December 31, 2019	$ 1,314,835	$ 214,406	$ 269,538	$ 38,859	$ 107,994	$ 150,296	$ 2,095,928
Balances as of December 31, 2019							
Allowance for impaired loans	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Allowance for unimpaired loans	1,314,835	214,406	269,538	38,859	107,994	150,296	2,095,928
Total allowance for loan losses	$ 1,314,835	$ 214,406	$ 269,538	$ 38,859	$ 107,994	$ 150,296	$ 2,095,928
Impaired loans receivable	$ 153,115	$ 428,714	$ 424,060	$ -	$ -		$ 1,005,889
Unimpaired loans receivable	79,601,613	36,630,780	38,017,611	10,093,718	6,678,724		171,022,446
Total loans receivable	$ 79,754,728	$ 37,059,494	$ 38,441,671	$ 10,093,718	$ 6,678,724		$ 172,028,335
Allowance for loan losses to loans receivable by segment	1.65%	0.58%	0.70%	0.38%	1.62%		1.22%

	Real Estate Commercial	Real Estate Residential	Commercial	Construction and Land Development	Consumer	Unallocated	Total
Balance at December 31, 2017	$ 802,135	$ 387,685	$ 221,184	$ 164,055	$ 64,535	$ 19,822	$ 1,659,416
Provision (recapture)	402,985	64,646	35,405	(31,220)	(6,417)	(10,399)	455,000
Loans charged off	(44,139)	(5,296)	(1,630)	-	-	-	(51,065)
Loan recoveries	14,520	-	4,330	32,275	-	-	51,125
Balance at December 31, 2018	$ 1,175,501	$ 447,035	$ 259,289	$ 165,110	$ 58,118	$ 9,423	$ 2,114,476
Balances as of December 31, 2018							
Allowance for impaired loans	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Allowance for unimpaired loans	1,175,501	447,035	259,289	165,110	58,118	9,423	2,114,476
Total allowance for loan losses	$ 1,175,501	$ 447,035	$ 259,289	$ 165,110	$ 58,118	$ 9,423	$ 2,114,476
Impaired loans receivable	$ -	$ 448,729	$ -	$ -	$ -		$ 448,729
Unimpaired loans receivable	71,870,764	40,417,594	29,092,007	16,762,392	6,493,680		164,636,437
Total loans receivable	$ 71,870,764	$ 40,866,323	$ 29,092,007	$ 16,762,392	$ 6,493,680		$ 165,085,166
Allowance for loan losses to loans receivable by segment	1.64%	1.09%	0.89%	0.99%	0.89%		1.28%

The Bank had $3,646,640 in commercial real estate loans and $2,499,037 in commercial loans that were 30-89 days past due as of December 31, 2019. The Bank had $74,977 in commercial loans and $28,185 in consumer loans that were 30-89 days past due as of December 31, 2018. There were no accruing loans more than 90 days past due as of December 31, 2019 and 2018.

Note 3 – Loans Receivable and Allowance for Loan Losses (continued)

Commercial real estate loans on nonaccrual status at December 31, 2019, and December 31, 2018, were $153,115, and $0, respectively. Residential real estate loans on nonaccrual status at December 31, 2019, and December 31, 2018, were $0, and $448,729, respectively.

The Bank has an internal system of grading loans according to the risk inherent in each loan.

Pass – Loans of average or above average quality with no unusual risk.

Special mention – Loans that require more than the usual amount of management attention. Adverse industry conditions, deteriorating financial conditions, declining trends, management problems, or other similar weaknesses may be evident. Ability to meet current payment schedules may be questionable, even though interest and principal are still being paid as agreed.

Substandard – Loans possessing weaknesses that jeopardize the ultimate collection of principal and interest. The weaknesses require close supervision by Bank management. Loss may not be evident; however, the loan is inadequately protected by current financials or pledged collateral.

Doubtful – Loans with one or more weaknesses, which, on the basis of currently existing facts, conditions, and values, make ultimate collection of all principal highly questionable.

The following table shows loans as of December 31, 2019 and 2018, by type of loan and by internal loan grades:

	Real Estate Commercial	Real Estate Residential	Commercial	Construction and Land Development	Consumer	Total
As of December 31, 2019						
Grade						
Pass	$ 79,177,553	$ 36,630,780	$ 38,402,157	$ 6,447,078	$ 6,678,724	$ 167,336,292
Special mention	-	-	39,514	3,646,640	-	3,686,154
Substandard	577,175	428,714	-	-	-	1,005,889
Doubtful	-	-	-	-	-	-
Total	$ 79,754,728	$ 37,059,494	$ 38,441,671	$ 10,093,718	$ 6,678,724	$ 172,028,335

	Real Estate Commercial	Real Estate Residential	Commercial	Construction and Land Development	Consumer	Total
As of December 31, 2018						
Grade						
Pass	$ 70,573,247	$ 39,988,880	$ 28,908,320	$ 13,115,752	$ 6,493,680	$ 159,079,879
Special mention	1,297,517	-	43,126	3,646,640	-	4,987,283
Substandard	-	877,443	140,561	-	-	1,018,004
Doubtful	-	-	-	-	-	-
Total	$ 71,870,764	$ 40,866,323	$ 29,092,007	$ 16,762,392	$ 6,493,680	$ 165,085,166

Note 3 – Loans Receivable and Allowance for Loan Losses (continued)

The following tables show information on impaired loans by loan class. The recorded impaired loan balance is net of any charge-off amount. The unpaid principal balance is total principal balance including amounts the Bank determined to be a loss and charged-off. The specific reserve in allowance is the amount of impairment that has been specifically reserved for in the allowance for loan losses.

As of December 31, 2019 and 2018, the Bank had no troubled debt restructurings. There were no newly restructured loans in 2019 or 2018, nor were there any loans that defaulted on the timely payment of principal and interest within 12 months of being restructured.

	Recorded Impaired Loan Balance	Unpaid Principal Balance	Specific Reserve in Allowance
As of December 31, 2019			
With no specific reserve in allowance			
Real Estate - Residential	$ 428,714	$ 428,714	$ -
Real Estate - Commercial	153,115	153,115	-
Commercial	424,060	424,060	-
Total	$ 1,005,889	$ 1,005,889	$ -
As of December 31, 2018			
With no specific reserve in allowance			
Real Estate - Residential	$ 448,729	$ 448,729	$ -

A summary of the annual average balance of impaired loans along with the interest income recognized on impaired loans for the years ended December 31 follows:

	2019		2018	
	Average Balance	Interest Income Recognized	Average Balance	Interest Income Recognized
Real Estate - Residential	$ 428,714	$ 26,331	$ 1,194,255	$ -
Real Estate - Commercial	156,471	7,747	-	-
Commercial	432,652	18,197	-	-
Total	$ 1,017,837	$ 52,275	$ 1,194,255	$ -

Note 4 – Premises and Equipment

Major classifications of premises and equipment at December 31 are summarized as follows:

	2019	2018
Land	$ 459,000	$ 459,000
Buildings and improvements	5,733,573	4,570,305
Furniture and equipment	1,306,218	1,262,143
Construction in process	786,877	-
Total cost	8,285,668	6,291,448
Less accumulated depreciation and amortization	2,049,932	1,854,754
Net book value	$ 6,235,736	$ 4,436,694

Depreciation and amortization expense for the years ended December 31, 2019 and 2018, were $298,676 and $327,090, respectively.

Note 5 – Deposits

The following table shows weighted average rates and scheduled maturities for time deposits:

Years Ending December 31,	Amount	Average Rate
2020	$ 34,704,788	2.01%
2021	5,910,314	1.83%
2022	2,911,800	2.61%
2023	498,000	2.63%
2024	2,354,998	2.82%
	$ 46,379,900	2.08%

The Bank had $6,796,000 and $9,221,000 of time deposits of over $250,000 as of December 31, 2019 and 2018, respectively.

Note 6 – Borrowings

The Bank had a $5 million line of credit with Pacific Coast Bankers' Bank and a $3 million line of credit with both Bankers' Bank of the West and Zions Bank at December 31, 2019 and 2018, respectively. These lines were unsecured. There was no balance outstanding on the lines as of December 31, 2019 and 2018.

The Bank has a credit arrangement with the Federal Home Loan Bank of Des Moines (FHLB), under which the Bank can borrow up to 45% of its assets. Borrowings must be collateralized with loans or securities. Loans with a principal balance of $91.6 million and $84.8 million were pledged as collateral at December 31, 2019 and 2018, respectively. At December 31, 2019 and 2018, the Bank had $5 million of borrowings from the FHLB. Borrowings from the FHLB have penalties for early payment. The following table shows weighted average rates and scheduled maturities for borrowings from the FHLB at December 2019:

Years Ending December 31,	Amount	Average Rate
2020	$ 1,000,000	1.59%
2021	1,000,000	2.77%
2023	1,000,000	3.00%
2024	2,000,000	2.37%
	$ 5,000,000	2.42%

As of December 31, 2019, FHLB had issued $11,070,000 of letters of credit on the Bank's behalf to collateralize public deposits of the Bank. At December 31, 2018, FHLB had issued $9,500,000 of letters of credit on the Bank's behalf to collateralize public deposits of the Bank

Note 7 – Commitments and Contingencies

Lease commitments and contracts – The Bank has entered into various leases for property and equipment. Total rental expense for premises and equipment operating leases amounted to $106,488 and $196,481 in 2019 and 2018, respectively. The future minimum annual rental payments under all leases at December 31, 2019, are summarized as follows:

Years Ending December 31	
2020	$ 122,582
2021	88,961
2022	3,620
	$ 215,163

Leases are classified as operating or financing leases at the lease commencement date. Lease expense for operating leases and short-term leases is recognized on a straight-line basis over the lease term. Right-of-use assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term.

Note 7 – Commitments and Contingencies (continued)

The Bank uses its incremental borrowing rate at lease commencement to calculate the present value of lease payments when the rate implicit in a lease is not known. The Bank's incremental borrowing rate is based on the FHLB amortizing advance rate, adjusted for the lease term and other factors.

Right-of-use assets are classified on the balance sheet with other assets and were $160,788 as of December 31, 2019. The associated liabilities are classified on the balance sheet with other liabilities and were $163,898 as of December 31, 2019.

Commitments to extend credit – In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities that are not presented in the accompanying financial statements. The commitments and contingent liabilities include various guarantees and commitments to extend credit. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the commitment letter. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many 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 it is deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the customer. Collateral held varies but may include securities, accounts receivable, inventory, fixed assets, or real estate properties. The distribution of commitments to extend credit approximates the distribution of loans outstanding.

At December 31, 2019 and 2018, the Bank had $44,512,594 and $38,139,383, respectively, in commitments to extend credit.

The Bank does not anticipate material losses as a result of these commitments. At December 31, 2019 and 2018, the Bank had $50,000, respectively, in an allowance for off-balance sheet credit exposure.

Note 8 – Dividend Restriction

Banking regulations limit the amount of dividends that may be paid. No dividends can be paid until all initial losses have been recaptured, an appropriate allowance for loan losses has been established, overall capital is adequate, and an adequate amount of additional paid-in capital of the Bank exists. The Bank has no intention of paying cash dividends in the foreseeable future.

Note 9 – Income Taxes

The components of income tax provision consist of the following:

	2019	2018
Current tax expense		
Federal	$ -	$ -
State	-	-
Deferred tax benefit		
Federal	303,660	176,841
State	75,960	79,761
Change in valuation allowance	2,380	398
Income tax provision	$ 382,000	$ 257,000

The components of the net deferred income tax asset in the statements of financial condition are as follows:

	2019	2018
Deferred tax assets		
Net operating loss carryforward	$ 1,354,662	$ 1,784,065
Allowance for loan and credit losses	503,136	440,907
Nonaccrual interest income	353	-
Held for sale loans	19,078	15,010
Unrealized gain on securities available for sale	-	72,681
Investment tax credit carryforwards	43,728	41,348
Total deferred tax assets	1,920,957	2,354,011
Less valuation allowance	(43,728)	(41,348)
Deferred tax liabilities		
Deferred loan origination costs	(106,347)	(107,726)
Book-tax depreciation	(37,978)	(19,539)
Unrealized loss on securities available for sale	(20,015)	-
Other	(1,903)	284
Total deferred tax liabilities	(166,243)	(126,981)
Net deferred tax asset	$ 1,710,986	$ 2,185,682

Note 9 – Income Taxes (continued)

The income tax provision recorded differs from the expected income tax provision (benefit) at statutory tax rates. During 2018 the state of Idaho lowered its income tax rate from 7.4% to 6.925%. The new tax rate adjustment resulted in an additional state tax provision of $35,000 in 2018. The reconciliation of the differences between expected taxes and actual taxes is as follows:

	2019	2018
Federal income tax expense at expected rate	$ 290,885	$ 173,460
State tax expense at expected rate, net of federal benefit	94,574	44,784
Effect of tax exempt income	(4,503)	(4,500)
Change in valuation allowance	2,380	398
Other	(1,336)	7,858
Effect of Idaho income tax rate change	-	35,000
Income tax provision	$ 382,000	$ 257,000

Operating loss carryforwards as of December 31, 2019, for tax purposes were as follows:

Expiration Dates	Federal	State
December 31, 2028	$ 492,777	$ 897,211
December 31, 2029	1,739,106	1,839,658
December 31, 2030	2,337,157	2,421,266
December 31, 2031	168,522	192,185
December 31, 2032	2,850	-
December 31, 2036	251,119	251,119
	$ 4,991,531	$ 5,601,439

Note 9 – Income Taxes (continued)

State investment tax credit carryforwards as of December 31, 2019, for tax purposes were as follows:

Expiration Dates	Amount
December 31, 2019	$ 3,430
December 31, 2020	2,239
December 31, 2021	12,045
December 31, 2022	1,714
December 31, 2023	117
December 31, 2024	31
December 31, 2025	1,492
December 31, 2026	1,150
December 31, 2027	6,430
December 31, 2028	7,236
December 31, 2029	5,023
December 31, 2030	6,169
December 31, 2031	3,376
December 31, 2032	548
	$ 51,000

The above investment tax carryforwards represent a deferred tax asset of $43,728 as of December 31, 2019. The amount and timing of the realization of these tax benefits is uncertain because they have shorter carryforward time limits than net operating loss carryforwards. Therefore, a valuation allowance has been established for the full balance of this deferred tax asset.

The Bank had no unrecognized tax benefits at December 31, 2019 and 2018.

The Bank recognizes interest accrued and penalties related to unrecognized tax benefits in tax expense. During the years ended December 31, 2019 and 2018, the Bank recognized no interest and penalties.

Note 10 – Employee Retirement Benefits

The Bank has a deferred compensation plan known as the Idaho First Bank 401(k) Employee Stock Ownership Plan (ESOP). Employees are eligible to participate in the ESOP after attaining age 18 by making elective contributions to the ESOP. Participants are eligible for matching contributions after attaining age 21.

For the years ended December 31, 2019 and 2018, the Bank made a matching contribution of 50% of the first 8% of employee contribution. In effect, this limits the matching contribution to 4% of eligible compensation. The compensation expense relating to employer contributions for the years ended December 31, 2019 and 2018, was $83,258 and $113,779, respectively.

Note 10 – Employee Retirement Benefits (continued)

Bank contributions are made in the form of common stock of the Bank. At December 31, 2019, the ESOP owned 77,200 shares, or 1.7% of the Bank's common stock. At December 31, 2018, the ESOP owned 74,000 shares, or 2.4% of the Bank's common stock.

The Bank is required by regulation to provide a repurchase option to participants holding the Bank's stock, as the stock is not widely traded. The Bank is required to repurchase stock at fair market value, as determined by an independent appraisal. At December 31, 2019, there were no shares subject to this repurchase requirement.

Note 11 – Related Party Transactions

In the normal course of business, the Bank accepts deposits and makes loans to its executive officers, directors, principal shareholders, and companies affiliated with these individuals. There were approximately $2,098,000 and $1,755,000 of deposits from related parties at December 31, 2019 and 2018, respectively.

It is management's opinion that loans to the Bank's officers, directors, and principal shareholders are on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and do not involve more than normal risk of collectability. The activity for these loans is as follows:

	2019	2018
Balance, beginning of year	$ 3,769,829	$ 4,189,551
Advances	4,897,128	3,125,686
Payments	(2,500,798)	(3,545,408)
Balance, end of year	$ 6,166,159	$ 3,769,829

Note 12 – Stock Options and Stock Grants

Shareholders approved the Idaho First Bank 2014 Long-Term Equity Incentive Plan at the 2014 Annual Shareholders' Meeting. The plan allows the Bank to grant up to 500,000 shares of nonqualified stock options, incentive stock options, restricted stock and restricted stock unit awards. In 2019, The Bank granted 9,000 shares of restricted stock to certain employees as provided by the plan. Vesting was immediate for 6,000 shares, and vesting occurs equally over a three-year period, beginning May 20, 2020, for the remaining 3,000 shares. The fair value of the stock at time of issuance was $6.24 per share. At December 31, 2019, there was $15,080 of total unrecognized compensation cost related to the nonvested shares granted under the Plan. The Bank has not granted any other options or grants under this plan. The Bank recognized $41,080 in equity compensation related to the restricted stock awards in 2019. There was no equity compensation expense in 2018.

Note 13 – Concentrations of Credit Risk

Most of the Bank's loans, commitments, and standby letters of credit have been granted to customers in the Bank's market area, which is the state of Idaho. As such, significant changes in economic conditions in Idaho or with its primary industries could adversely affect the Bank's ability to collect loans. Substantially all such customers are depositors of the Bank. The concentrations of credit, by type of loan, are set forth in Note 3. The distribution of commitments to extend credit approximates the distribution of loans outstanding. Under banking regulations, the Bank is not allowed to extend credit to any single borrower or group of related borrowers in excess of $5,984,000 at December 31, 2019.

The Bank places its cash with financial institutions with strong capital positions. The Bank is at risk for uninsured deposits, the amount in excess of $250,000. The Bank regularly reviews the financial condition of the financial institutions at which it has uninsured deposits.

Note 14 – Stockholders' Equity and Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by state and federal banking agencies. If the Bank does not meet minimum capital standards, regulators can take actions that they deem necessary to return the Bank to a safe and sound condition. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, 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 classifications are also subject to qualitative judgments by the regulators.

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 being phased in over a multi-year schedule ending on January 1, 2019. The Basel III rules establish minimum capital ratios for a Tier 1 Leverage Ratio, a Common Equity Tier 1 Risk-based Capital Ratio, a Tier 1 Risk-based Capital Ratio, and a Total Risk-based Capital Ratio. Unrealized gains or losses on the Bank's securities available for sale are not included in regulatory capital calculations.

The Bank is also required to maintain a capital conservation buffer, in excess of the adequately capitalized risk-based capital ratios. The capital conservation buffer was phased in, reaching a requirement of 2.5% in 2019. The capital conservation buffer requirement was 1.875% in 2019. The Bank's capital conservation buffer was 7.64% as of December 31, 2019. An institution that does not meet the capital conservation buffer requirement may be subject to restrictions on certain activities including payment of dividends, stock repurchases, and discretionary bonuses to executive officers.

Under prompt corrective action regulations there are five capital classifications; well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion. Furthermore, capital restoration plans are required if an institution becomes undercapitalized.

Note 14 – Stockholders' Equity and Regulatory Matters (continued)

During the years 2019 and 2018, all notifications from the Idaho State Department of Finance and the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. Management believes that no conditions or events since the most recent notification would change the Bank's category. Management believes that the Bank met all regulatory capital requirements to which it is subject to as of December 31, 2019 and 2018, as summarized in the following table:

	Actual Capital		Minimum Capital Requirements		Well-Capitalized Capital Requirements	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2019						
Tier 1 leverage	$ 26,417,000	12.14%	$ 8,704,000	4.00%	$ 10,880,000	5.00%
Common equity tier 1 risk-based capital	26,417,000	14.46%	8,220,000	4.50%	11,873,000	6.50%
Tier 1 risk-based capital	26,417,000	14.46%	10,960,000	6.00%	14,613,000	8.00%
Total risk-based capital	28,563,000	15.64%	14,613,000	8.00%	18,266,000	10.00%
December 31, 2018						
Tier 1 leverage	$ 16,493,000	8.30%	$ 7,944,000	4.00%	$ 9,930,000	5.00%
Common equity tier 1 risk-based capital	16,493,000	9.89%	7,507,000	4.50%	10,844,000	6.50%
Tier 1 risk-based capital	16,493,000	9.89%	10,010,000	6.00%	13,347,000	8.00%
Total risk-based capital	18,579,000	11.14%	13,347,000	8.00%	16,683,000	10.00%

Note 15 – Fair Value Measurement

Under accounting principles generally accepted in the United States of America, most assets and liabilities of the Bank are measured at historical cost. However, the Bank is required to use alternative value measurements for some assets and liabilities, such as securities available for sale, real estate loans held for sale, impaired loans, and other real estate owned.

Note 15 – Fair Value Measurement (continued)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The framework for determining fair value follows:

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

Level 2 – Quoted prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations based on observable market data such as interest rates or yield curves.

Level 3 – Valuations determined by unobservable data based upon subjective judgments or appraisals.

The following table summarizes the Bank's assets that were measured at fair value:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2019				
Assets measured at fair value on a recurring basis				
Securities available for sale				
U.S. government agency securities	$ 10,906,135	$ -	$ 10,906,135	$ -
Mortgage-backed securities	10,534,106	-	10,534,106	-
Total securities available for sale	$ 21,440,241	$ -	$ 21,440,241	$ -
December 31, 2018				
Assets measured at fair value on a recurring basis				
Securities available for sale				
U.S. government agency securities	$ 5,871,401	$ -	$ 5,871,401	$ -
Mortgage-backed securities	6,633,829	-	6,633,829	-
Total securities available for sale	$ 12,505,230	$ -	$ 12,505,230	$ -

Securities available for sale are included under Level 2 because there may or may not be daily trades in each of the individual securities or because the valuation of these securities may be based on instruments that are not exactly identical to those owned by the Bank.

The Bank had no assets measured at fair value on a nonrecurring basis, using Level 3 measurements, at December 31, 2019 and 2018.

Note 15 – Fair Value Measurement (continued)

Impaired loans, if collateral dependent, are valued at the fair value of underlying collateral, as determined by a qualified independent appraiser, less the estimated cost to foreclose, sell, and carry the collateral. For impaired loans that are not collateral dependent, the Bank can measure fair value as described above or use a measurement based upon the present value of expected future cash flows discounted at the loan's effective interest rate.

Note 16 – Fair Value of Financial Instruments and Interest Rate Risk

The estimated fair values of the Bank's financial instruments at December 31 are as follows:

	2019		2018	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial Assets				
Cash and cash equivalents	$ 15,670,613	$ 15,670,613	$ 17,565,292	$ 17,565,292
Securities available for sale	21,440,241	21,440,241	12,505,230	12,505,230
Equity securities	584,346	610,532	577,146	597,978
Mortgage loans held for sale	2,217,570	2,217,570	1,744,763	1,744,763
Net loans receivable	169,932,407	167,459,883	162,970,690	160,194,847
Accrued interest receivable	680,604	680,604	559,762	559,762
Financial Liabilities				
Noninterest-bearing demand	47,822,991	47,822,991	41,530,280	41,530,280
Interest-bearing demand	18,123,086	18,123,086	18,087,724	18,087,724
Savings	73,862,756	73,862,756	67,018,119	67,018,119
Time deposits	46,379,900	46,628,978	53,609,855	53,253,500
Borrowed funds	5,000,000	5,081,887	5,000,000	4,995,362
Accrued interest payable	119,360	119,360	108,826	108,826

Loan commitments in which the committed interest rate is less than the current market rate are insignificant.

Note 16 – Fair Value of Financial Instruments and Interest Rate Risk (continued)

The following methods and assumptions were used by the Bank in estimating the fair value of its financial instruments:

Cash and cash equivalents – The carrying amounts reported in the balance sheets for cash and cash equivalents approximate their fair value and are classified as Level 1.

Securities available for sale – Fair values of investment securities available for sale were primarily measured using information from a third party pricing service. This service provides pricing information by utilizing evaluated pricing models supported with market data information. Standard inputs include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data from market research publications. Fair values were estimated primarily by obtaining quoted prices for similar assets in active markets or through the use of pricing models. In cases where there may be limited or less transparent information provided by the Bank's third party pricing service, fair value may be estimated by the use of secondary pricing services or through the use of nonbinding third party broker quotes. Securities available for sale are as classified as Level 2.

Equity securities – The carrying value of Federal Home Loan Bank stock is stated at cost and approximates fair value based on the redemption provisions of the Federal Home Loan Bank.

The carrying value of Bankers' Bank of the West stock is stated at cost. As there is not an active market for the stock, the estimated fair value for the stock is derived from the book value per share resulting in a Level 3 classification.

Mortgage loans held for sale – Fair values are based on quoted market prices of similar loans sold in the secondary market or current buying commitments from investors on loans held for sale resulting in a Level 2 classification.

Net loans receivable – For variable rate loans that re-price frequently and have experienced no significant change in credit risk, fair values are based on carrying values. The fair values for all other loans are estimated using discounted cash flow analyses, using interest rates currently offered for loans with similar terms to borrowers with similar credit quality resulting in a Level 3 classification. Prepayments prior to the re-pricing date are not expected to be significant. Loans are generally expected to be held to maturity and any unrealized gains or losses are not expected to be realized. The allowance for loan losses is considered to be a reasonable estimate of loan discount for credit quality concerns.

Accrued interest receivable and payable – The carrying amounts reported in the statements of financial condition for accrued interest receivable and payable approximate their fair values.

Note 16 – Fair Value of Financial Instruments and Interest Rate Risk (continued)

Deposits – The fair value disclosed for demand deposits is by definition equal to the amount payable on demand at the reporting date (that is, the carrying amount) resulting in a Level 1 classification. The carrying amount for variable-rate deposit accounts approximates fair value resulting in a Level 1 classification. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation, which applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on these deposits resulting in a Level 2 classification. Early withdrawals of fixed-rate certificates of deposit are not expected to be significant.

Borrowings from Federal Home Loan Bank – The fair values of the Bank's advances from the Federal Home Loan Bank are estimated using discounted cash flow analyses, based on the Bank's current incremental borrowing rates for similar types of borrowing arrangements resulting in a Level 2 classification.

Off-balance sheet instruments – Fair values for the Bank's off-balance sheet financial instruments (lending commitments and standby letters of credit) are based on quoted fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing.

The Bank assumes interest rate risk (the risk that general interest rate levels will change) as a result of its normal operations. As a result, fair values of the Bank's financial instruments will change when interest rate levels change and these changes may be either favorable or unfavorable to the Bank. Management attempts to match maturities of assets and liabilities to the extent believed necessary to minimize interest rate risk. However, borrowers with fixed rate obligations are less likely to prepay in a rising rate environment and more likely to prepay in a falling rate environment. Conversely, depositors who received fixed rates are more likely to withdraw funds before maturity in a rising rate environment and less likely to do so in a falling rate environment. Management monitors rates and maturities of assets and liabilities and attempts to minimize interest rate risk by adjusting terms of new loans and deposits and by investing in securities with terms that mitigate the Bank's overall interest rate risk.

Note 17 – Subsequent Events

Subsequent events review – Subsequent events are events or transactions that occur after the date of the statement of financial condition but before the financial statements are issued. The Bank recognizes in the financial statements, the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial condition, including the estimates inherent in the process of preparing of the financial statements. The Bank's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial condition but arose after the date of the statement of financial condition and before the financial statements are available to be issued.

Note 17 – Subsequent Events (continued)

The coronavirus disease 2019 (COVID-19) pandemic has caused health and economic concerns in the United States and globally. In March 2020, U.S. President Trump declared a public health and national emergency due to COVID-19, which resulted in mandatory stay-at-home orders in most U.S. states, including Idaho. The impacts associated with the COVID-19 pandemic continue to have destabilizing and negative effects on global, national, and local economic and business activity. In response to this economic disruption, federal and state governments have recently enacted laws intending to stimulate the economy during this time. President Trump has signed into law three economic stimulus packages, including the $2.0 trillion Coronavirus Relief and Economic Security Act (the CARES Act) on March 26, 2020, which, among other things, initiated the Paycheck Protection Program (the PPP) under the Small Business Administration (SBA). The PPP loans have a two-year term and bear an interest rate of 1.0%. On April 16, 2020, the original $349.0 billion of funding for loans to small businesses under the PPP was depleted, and on April 27, 2020, the Federal government funded an additional $310.0 billion to the PPP. On April 16, 2020, the Federal Reserve Bank (FRB) opened access to a source of liquidity for financial institutions to participate in the PPP program, with the Paycheck Protection Program Liquidity Facility (PPPLF). The PPPLF is available at a fixed rate of 0.35% to institutions in exchange for the pledging of PPP loans, taken at face value. Funds through the PPPLF are for the duration of the underlying loans, and can be requested from the FRB until September 30, 2020, after which no new extensions of credit will be made available. As a preferred SBA lender, we assisted many businesses in participating in both the initial and second round of funding appropriations approved by Congress for the PPP, which was designed to help small businesses maintain their workforce during the COVID-19 pandemic. We engaged with an unrelated third party, A10 Capital, to assist in the origination of loans under the PPP program. As a result, we were able to expand our customer base by providing access to the PPP. Through May 18, 2020, we registered 4,069 loans totaling $580.9 million, with an average loan balance of approximately $142,758. Through May 18, 2020, the Company had received $579.1 million in funds through the PPPLF. The Company expects to receive fee income from the Federal government, subject to final registrations and funding of the PPP loans. This fee income is deferred over the life of the PPP loan and before costs incurred by the Company, including technology costs for loan application and processing and loan servicing costs.

The CARES Act also temporarily eases the guidance applicable to loan modifications and the effect on assessing TDRs related to the COVID-19 pandemic. Modifications within the scope of this relief include arrangements that defer or delay payments of principal and/or interest and extend until the earlier of the following: 1) 60 days after the date on which the national emergency related to the COVID-19 outbreak is terminated; or 2) December 31, 2020. Through May 13, 2020, we approved 74 COVID-19 related deferrals totaling approximately $27 million, primarily relating to our commercial banking customers. We expect payment deferral requests from borrowers to continue throughout the COVID-19 pandemic, and possibly beyond. We have also assisted our customers' cash flow needs by waiving or refunding certain fees, including early withdrawal fees on time deposits.

The Bank has evaluated subsequent events through May 18, 2020, which is the date the financial statements are available to be issued.

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