REPORT OF INDEPENDENT AUDITORS
AND CONSOLIDATED FINANCIAL STATEMENTS

PEAK BANCORP, INC.

December 31, 2022 and 2021

Table of Contents

Report of Independent Auditors

The Board of Directors and Stockholders
Peak Bancorp, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Peak Bancorp, Inc., which comprise the consolidated statements of financial condition as of December 31, 2022 and 2021, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Peak Bancorp, Inc. as of December 31, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Peak Bancorp, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Peak Bancorp, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Peak Bancorp, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Peak Bancorp, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Moss Adams LLP

Spokane, Washington
April 25, 2023

Peak Bancorp, Inc.
Consolidated Statements of Financial Condition

ASSETS

	December 31, 2022		December 31, 2021
Cash and due from banks	$	10,407,898	$	7,990,259
Interest-bearing deposits due from banks		34,473,251		103,131,106
Cash and cash equivalents		44,881,149		111,121,365
Securities available for sale, at fair value		36,661,716		32,802,646
Equity securities		1,467,146		1,655,846
Mortgage loans held for sale		-		912,000
Loans receivable		479,570,869		398,087,327
Allowance for loan losses		(5,710,812)		(4,587,622)
Net loans receivable		473,860,057		393,499,705
Premises and equipment, net		7,546,163		7,819,077
Accrued interest receivable		1,674,888		1,387,554
Net deferred tax asset		1,764,543		934,250
Cash surrender value of bank-owned life insurance		828,725		810,821
Other assets		4,867,381		3,802,584
Total assets	$	573,551,768	$	554,745,848

See accompanying notes.

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 2022	December 31, 2021
Deposits		
Noninterest-bearing demand	$ 177,706,609	$ 184,100,232
Interest-bearing demand	51,741,829	47,739,786
Savings	193,555,180	205,927,775
Time deposits	74,402,248	32,687,335
Total deposits	497,405,866	470,455,128
Line of credit	5,346,875	5,340,625
Paycheck Protection Program Loan Funds	3,146,338	19,757,777
Borrowed funds	17,500,000	12,000,000
Accrued interest payable	415,159	111,334
Other liabilities	4,610,515	4,449,262
Total liabilities	528,424,753	512,114,126
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; 5,350,651 and 5,344,686 shares issued and outstanding, respectively	38,621,861	38,522,464
Retained earnings	8,285,173	4,019,524
Accumulated other comprehensive (loss) income	(1,780,019)	89,734
Total stockholders' equity	45,127,015	42,631,722
Total liabilities and stockholders' equity	$ 573,551,768	$ 554,745,848

See accompanying notes.

Peak Bancorp, Inc.
Consolidated Statements of Income

	Years Ended December 31,	
	2022	2021
INTEREST INCOME		
Loans, including fees	$ 21,525,192	$ 22,494,787
Securities	569,029	288,099
Other interest income	666,402	112,565
Total interest income	22,760,623	22,895,451
INTEREST EXPENSE		
Time deposits	472,846	311,722
Savings	1,073,189	403,926
Interest-bearing demand	53,521	17,825
Borrowed funds	449,278	1,104,993
Total interest expense	2,048,834	1,838,466
Net interest income	20,711,789	21,056,985
PROVISION FOR LOAN LOSSES	1,100,000	1,500,000
Net interest income after provision for loan losses	19,611,789	19,556,985
NONINTEREST INCOME		
Mortgage banking income	312,857	1,518,422
Service charges on deposits	263,800	200,183
Increase in cash surrender value of bank-owned life insurance	17,904	17,562
Other income	769,554	613,963
	1,364,115	2,350,130
NONINTEREST EXPENSES		
Salaries and employee benefits	9,017,419	8,631,589
Occupancy	1,075,805	764,467
Equipment	343,628	241,672
Data processing	1,639,685	1,436,909
Professional services	1,182,989	970,167
Employee expenses	301,298	200,346
FDIC insurance	387,234	368,842
Telephone	206,139	204,334
Loan expenses	37,795	134,609
Supplies and postage	139,518	149,097
Advertising and promotion	567,367	414,248
Other operating expenses	316,378	695,404
	15,215,255	14,211,684
INCOME BEFORE TAXES	5,760,649	7,695,431
INCOME TAX PROVISION	1,495,000	2,019,000
NET INCOME	$ 4,265,649	$ 5,676,431
NET INCOME PER COMMON SHARE	$ 0.80	$ 1.10
DILUTED NET INCOME PER COMMON SHARE	$ 0.78	$ 1.08

	Years Ended December 31, 2022	Years Ended December 31, 2021
NET INCOME	$ 4,265,649	$ 5,676,431
OTHER COMPREHENSIVE LOSS		
Change in unrealized losses on securities available for sale	(2,521,046)	(239,801)
Income tax provision	651,293	63,885
Other comprehensive loss	(1,869,753)	(175,916)
Comprehensive income	$ 2,395,896	$ 5,500,515

Peak Bancorp, Inc.
Consolidated Statements of Changes in Stockholders' Equity

	Common Stock		Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount			
BALANCE, December 31, 2020	4,967,294	$ 35,239,536	$ (1,656,907)	$ 265,650	$ 33,848,279
Net income	-	-	5,676,431	-	5,676,431
Issuance of common stock	363,296	2,807,847	-	-	2,807,847
Equity compensation	14,096	475,081	-	-	475,081
Other comprehensive loss, net of tax	-	-	-	(175,916)	(175,916)
BALANCE, December 31, 2021	5,344,686	38,522,464	4,019,524	89,734	42,631,722
Net income	-	-	4,265,649	-	4,265,649
Issuance of common stock	5,965	39,608	-	-	39,608
Equity compensation	-	59,789	-	-	59,789
Other comprehensive loss, net of tax	-	-	-	(1,869,753)	(1,869,753)
BALANCE, December 31, 2022	5,350,651	$ 38,621,861	$ 8,285,173	$ (1,780,019)	$ 45,127,015

See accompanying notes.

	Years Ended December 31, 2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 4,265,649	$ 5,676,431
Adjustments to reconcile net income to net cash from operating activities		
Net accretion of deferred loan fees, costs and premiums	(1,372,429)	(7,074,000)
Net amortization of securities' discounts and premiums	176,428	75,436
Provision for loan losses	1,100,000	1,500,000
Originations of loans held for sale	(11,348,383)	(45,836,224)
Proceeds from sale of loans held for sale	12,573,240	49,588,605
Gain on sale of loans	(312,857)	(1,036,981)
Increase in cash surrender value of life insurance	(17,904)	(17,562)
Loss on disposal of premises, equipment and software	3,471	4,424
Depreciation and amortization	458,009	339,780
Amortization of operating right-of-use assets	378,777	190,574
Deferred income tax provision	1,495,000	2,019,000
Equity based compensation expense	59,789	438,739
Net change in accrued interest receivable and other assets	(3,404,908)	(980,633)
Net change in accrued interest payable and other liabilities	465,078	(24,629)
Net cash from (used in) operating activities	4,518,960	4,862,960
CASH FLOWS FROM INVESTING ACTIVITIES		
Securities available for sale		
Maturities, prepayments and calls	5,740,965	4,974,232
Purchases	(12,297,509)	(25,283,088)
Redemption of equity securities	1,342,300	1,287,700
Purchase of equity securities	(1,153,600)	(2,038,200)
Net change in loans	(80,087,923)	424,394,933
Purchases of premises, equipment, and software	(188,566)	(1,989,985)
Proceeds from sale of premises, equipment and software	-	100
Net cash from (used in) investing activities	(86,644,333)	401,345,692
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	26,950,738	122,274,262
Borrowings from line of credit	-	5,337,500
Borrowings from the Paycheck Protection Program Liquidity Facility	-	231,866,878
Repayments of Paycheck Protection Program Liquidity Facility borrowings	(16,611,439)	(698,041,728)
Additions to FHLB advances and other borrowings	28,737,933	30,000,000
Repayments of borrowings from Federal Home Loan Bank	(23,237,933)	(31,000,000)
Amortization of line of credit origination fee	6,250	3,125
Proceeds from issuance of common stock, net	39,608	2,844,189
Net cash (used in) from financing activities	15,885,157	(336,715,774)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(66,240,216)	69,492,878
CASH AND CASH EQUIVALENTS, beginning of year	111,121,365	41,628,487
CASH AND CASH EQUIVALENTS, end of year	$ 44,881,149	$ 111,121,365
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION		
Cash paid during the year for		
Interest	$ 1,745,009	$ 2,894,333
Income taxes	$ 1,903,000	$ 2,605,000
Initial recognition of ROU assets and lease liabilities	$ -	$ 2,812,431

Note 1 – Summary of Significant Accounting Policies

Holding Company formation – During 2021, Idaho First Bank (the Bank) and Peak Bancorp, Inc. (the Company) consummated a share exchange whereby the Company—an Idaho corporation created by the Bank's Board of Directors—became the Bank's holding company.

Shareholders who owned stock in the Bank became shareholders of the Company, with the Company owning 100% of the Bank. The Bank's shareholders approved the share exchange during their annual meeting on April 26, 2021.

Bank organization – Idaho First Bank provides a full range of banking services to its commercial and consumer customers through its offices in southwestern Idaho, serving McCall, Boise, Eagle, Ketchum, Nampa, and New Meadows, as well as a branch in Bend, Oregon.

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

Intercompany transactions and balances are eliminated in consolidation.

Agreement with BAWAG Group - On February 2, 2022, the Company announced the signing of an agreement to sell 100% of the shares of Peak Bancorp, Inc. to BAWAG Group, a publicly listed holding company headquartered in Vienna, Austria for $65 million. The transaction received shareholder approval in April, 2022, and is also subject to regulatory approval. As of April 25, 2023, the required regulatory approval is still pending.

Basis of financial statement presentation – The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. In preparing the consolidated 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 consolidated 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, deferred tax assets and liabilities, and fair value of financial instruments.

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 Company's allowance for loan losses. Such agencies may require the Company 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.

Note 1 – Summary of Significant Accounting Policies (continued)

Securities available for sale – Debt securities available for sale are recorded at fair value. Unrealized holding gains and losses on debt 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 Company uses the specific identification method to determine the cost of debt securities sold. The purchase and sales of debt securities, along with gains and losses, are recorded on the settlement date of the transaction.

The Company evaluates, at the end of each quarter, each of its investments in debt and equity 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 Company will recognize the credit component of an other-than-temporary impairment in earnings and the noncredit component in other comprehensive income when the Company does not intend to sell the security and it is more likely than not the Company will not be required to sell the security prior to recovery. In evaluating investments with declines in value, the Company 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 Company's intent or plans to sell with regard to the investment.

Equity securities (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 $1,416,800 and $1,605,500 at December 31, 2022 and 2021, 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, 2022 or 2021.

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, 2022 and 2021.

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

Loans receivable and allowances for loan losses – The Company grants mortgage, commercial, and consumer loans to customers. A substantial portion of the loan portfolio is represented by loans in southwest Idaho. The ability of the Company'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 net 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.

Note 1 – Summary of Significant Accounting Policies (continued)

A loan is considered impaired when, based on current information and events, it is probable the Company 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 Company does not separately identify individual consumer and residential loans for impairment disclosures.

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 uncollectability of a loan balance is confirmed.

Paycheck Protection Program (PPP) loans – Loans originated under the PPP program have terms of two to five years and earn interest at 1%. The Company received a fee of 1%-5% at origination from the U.S. Small Business Administration (SBA) depending on the loan amount, which was netted with loan origination costs and amortized into interest income under the effective yield method over the contractual life of the loan. The recognition of fees and costs is accelerated when the loan is forgiven by the SBA and/or paid off prior to maturity. PPP loans are fully guaranteed by the SBA and are expected to be forgiven by the SBA if they meet the requirements of the program.

Note 1 – Summary of Significant Accounting Policies (continued)

Mortgage loans held for sale – The Company 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, on a loan-by-loan basis, 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 Company and the investor, exceed or are less than the Company'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. 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 founder, who retired from the Bank in 2021. 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, net of surrender charges. Changes in cash surrender values are included in noninterest income.

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 Company 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, 2022 or 2021.

Right-of-use assets and liabilities – These amounts were determined based on the present value of remaining minimum lease payments. Disclosures about the Company's leasing activities are presented in Note 7.

Long-lived assets – The Company 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, 2022 or 2021.

Transfers of financial assets – Transfers 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 Company, when the transferee has the right to pledge or transfer the assets, and when the Company does not continue to control the assets by maintaining a repurchase agreement.

Note 1 – Summary of Significant Accounting Policies (continued)

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.

Paycheck Protection Program Liquidity Facility – A bank can pledge Paycheck Protection Program (PPP) loans to the Federal Reserve Bank as collateral for discount window borrowings under the liquidity facility. Such borrowings are secured only by the underlying SBA PPP loans and are non-recourse to the Company. The related loans and borrowings are excluded from regulatory capital, liquidity, and other measures when pledged on this basis mitigating credit, liquidity, and other risks. The Company has pledged a significant amount of its PPP loans and taken corresponding borrowings under this program. See Note 6 Borrowings.

Advertising – Advertising and promotion costs are charged to noninterest expense when incurred. Advertising and promotion expense for the years ended December 31, 2022 and 2021, was $567,367 and $414,248, respectively.

Revenue recognition – Accounting Standards Codification (ASC) 606, *Revenue from Contracts with Customers* (ASC 606), establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts to provide goods or services to customers. The core principle requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to receive in exchange for those goods or services recognized as performance obligations are satisfied.

The majority of our revenue-generating transactions are not subject to ASC 606, including revenue generated from financial instruments, such as our loans and letters of credit, as these activities are subject to other U.S. GAAP discussed elsewhere within our disclosures. Revenue generating activities that are within the scope of ASC 606 are presented in our income statement as components of noninterest income. Noninterest income is recognized when the Company has completed its related performance obligation, and when the amount of that income is measurable. Gain or loss on held for sale loans, servicing charges on deposits, and ATM/debit card fees are all examples of revenue to the Company that falls within the scope of ASC 606.

Note 1 – Summary of Significant Accounting Policies (continued)

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 Company'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 Company's Idaho state investment tax credits at December 31, 2022 and 2021.

The Company recognizes and measures uncertain tax positions using a more-likely-than-not approach. The Company's approach consisted of an examination of its consolidated financial statements, its income tax provision, and its federal and state income tax returns. The Company analyzed its tax positions including the permanent and temporary differences as well as the major components of income and expense. As of December 31, 2022 and 2021, the Company did not believe that it had any uncertain tax positions that would rise to the level of having a material effect on its consolidated financial statements. In addition, the Company had no accrued interest or penalties as of December 31, 2022 or 2021.

Off-balance-sheet financial instruments – In the ordinary course of business, the Company 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.

Note 1 – Summary of Significant Accounting Policies (continued)

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 consolidated statements of cash flow. The costs resulting from share-based compensation payments to employees are recognized in the consolidated financial statements of the Company. When stock options are granted, compensation expense is recorded on a straight-line attribution basis over the service period required for vesting 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 Company's equity compensation to employees are provided in Note 12.

Net income per common share – Net income per common share is calculated by taking the net income for the year divided by the average weighted number of shares of common stock outstanding during the year, which were 5,349,703 and 5,160,540 in 2022 and 2021, respectively. Diluted net income per common share includes the dilutive effect of additional common shares issuable under stock warrants and options, which totaled 105,741 and 111,706 at December 31, 2022 and 2021, respectively.

Comprehensive income – Comprehensive income (loss) consists of net income and other comprehensive income. Other comprehensive income 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 Note 15. 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.

Reclassifications – Certain reclassifications have been made in the December 31, 2021, financial statements in order to be in accordance with the December 31, 2022, 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 Company'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 consolidated financial statements of the Company, 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 Company in 2023.

Note 1 – Summary of Significant Accounting Policies (continued)

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 Company 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 the financial statements. The Company's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated statement of financial condition but arose after the date of the consolidated statement of financial condition and before the financial statements are available to be issued.

The Company has evaluated subsequent events through April 25, 2023, which is the date the consolidated financial statements are available to be issued.

Note 2 – Securities Available for Sale

Securities have been classified in the consolidated statements of financial condition according to management's intent and ability. All investment securities were classified as available for sale at December 31, 2022 and 2021. Securities available for sale, with an estimated market value of $16,972,064 and $8,997,687 were pledged as collateral for public deposits and to the Federal Home Loan Bank of Des Moines to support the Company's available credit line as of December 31, 2022 and 2021, respectively. 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, 2022				
U.S. treasuries and government agency securities	$ 31,241,257	$ -	$ (1,606,225)	$ 29,635,032
Mortgage-backed securities	7,820,021	-	(793,337)	7,026,684
	$ 39,061,278	$ -	$ (2,399,562)	$ 36,661,716
As of December 31, 2021				
U.S. treasuries and government agency securities	$ 27,418,235	$ 126,784	$ (27,381)	$ 27,517,638
Mortgage-backed securities	5,262,928	32,586	(10,506)	5,285,008
	$ 32,681,163	$ 159,370	$ (37,887)	$ 32,802,646

Note 2 – Securities Available for Sale (continued)

All of the Company's securities held unrealized losses at December 31, 2022. There were 7 securities with unrealized losses at December 31, 2021. Information for securities with unrealized losses is as follows:

	December 31, 2022			December 31, 2021		
	U.S. Treasuries and Government Agency Securities	Mortgage-backed Securities	Total	U.S. Treasuries and Government Agency Securities	Mortgage-backed Securities	Total
Securities with unrealized losses for 12 consecutive months or longer						
Amortized cost	$ 12,047,073	$ 554,761	$ 12,601,834	$ -	$ -	$ -
Gross unrealized losses	(785,270)	(40,653)	(825,923)	-	-	-
Estimated market value	11,261,803	514,108	11,775,911	-	-	-
Securities with unrealized losses for less than 12 consecutive months						
Amortized cost	$ 19,194,184	$ 7,265,260	26,459,444	$ 12,056,204	$ 868,206	12,924,410
Gross unrealized losses	(820,955)	(752,684)	(1,573,639)	(27,381)	(10,506)	(37,887)
Estimated market value	18,373,229	6,512,576	24,885,805	12,028,823	857,700	12,886,523
Total securities with unrealized losses						
Amortized cost	$ 31,241,257	$ 7,820,021	39,061,278	$ 12,056,204	$ 868,206	12,924,410
Gross unrealized losses	(1,606,225)	(793,337)	(2,399,562)	(27,381)	(10,506)	(37,887)
Estimated market value	29,635,032	7,026,684	36,661,716	12,028,823	857,700	12,886,523

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 Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

The Company's unrealized losses 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 were deemed other-than-temporary.

There were no sales of securities in 2022 or 2021.

Note 2 – Securities Available for Sale (continued)

Maturities of securities available for sale at December 31, 2022, are summarized below.

	Amortized Cost	Estimated Market Value
Maturing within one year	$ 12,033,581	$ 11,866,779
Maturing in one to five years	18,123,248	16,835,405
Maturing in six to ten years	1,084,428	932,848
Mortgage-backed securities	7,820,021	7,026,684
	$ 39,061,278	$ 36,661,716

Note 3 – Loans Receivable and Allowance for Loan Losses

Major classifications of loans at December 31 were as follows:

	2022	2021
Real Estate - Commercial	$ 235,784,426	$ 185,239,037
Real Estate - Residential	94,396,380	71,420,493
Construction and land development	78,652,311	57,641,635
Commercial	59,298,216	49,683,235
Paycheck Protection Program	4,779,517	29,646,614
Consumer	6,660,019	4,456,313
	479,570,869	398,087,327
Allowance for loan losses	(5,710,812)	(4,587,622)
Net loans receivable	$ 473,860,057	$ 393,499,705

Deferred fees and costs were a net credit of $1,931,658 and $1,782,171 at December 31, 2022 and 2021, respectively, and were included in the loan balances above.

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

	2022	2021
Fixed	$ 101,861,528	$ 97,649,503
Variable	377,709,341	300,437,824
	$ 479,570,869	$ 398,087,327

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

Pursuant to the CARES Act passed in March 2020, the Bank funded over 4,200 loans to eligible small businesses and non-profit organizations who participated in the Paycheck Protection Program (PPP) administered by the U.S. Small Business Administration (SBA). PPP loans have terms of two to five years and earn interest at fixed rate of 1%. In addition, the Bank received a fee of 1%-5% from the SBA depending on the loan amount, which was netted with loan origination costs and amortized into interest income under the effective yield method over the contractual life of the loan. The recognition of fees and costs is accelerated when the loan is forgiven by the SBA and/or paid off prior to maturity. PPP loans are fully guaranteed by the SBA and are expected to be forgiven by the SBA if they meet the requirements of the program.

The Bank ended its origination of new PPP loans on June 30, 2020. On June 5, 2020, the PPP Flexibility Act was signed into law that modified, among other things, rules governing the PPP payment deferral period. In October 2020, due to updated guidance from the SBA that PPP loan payments were to be deferred until SBA had remitted forgiveness funds to the lender if the Borrower applied for forgiveness within ten months after the end of their covered period, the Bank modified the first payment due dates for PPP loans that originated prior to June 5, 2020, and extended the payment deferral period from six to sixteen months. The extended payment deferral period will affect the timing over which the accretion of PPP net loan origination fees are recognized.

Section 4013 of the CARES Act and Section 541 of the Coronavirus Response and Relief Supplemental Appropriations Act of 2020 (the Coronavirus Relief Act) passed in January 2021 provided optional, temporary relief from evaluating loans that may have been considered TDRs under GAAP. This relief applies to loan modifications executed between March 1, 2020, and the earlier of 60 days after the national emergency related to the Pandemic is terminated, or January 1, 2022. The Bank elected to apply these temporary accounting provisions to payment relief loans beginning in March 2020. During 2020, 77 loans had been in a CARES Act deferment at some point during the year, of which all but one had ended their deferment period as of December 31, 2020.

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 – A loan is considered to be impaired when it is probable that not all of the related principal and interest payments will be collected. 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.

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

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.

An analysis of changes in the allowance for loan losses for the years ended December 31, 2022 and 2021, measured by the Bank's other loan segments, is included in the following tables. The following tables 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, 2022 and 2021:

	Real Estate Commercial	Real Estate Residential	Commercial	Construction and Land Development	Consumer	Paycheck Protection Program	Unallocated	Total
Balance at December 31, 2021	$ 2,673,868	$ 587,423	$ 742,816	$ 547,788	$ 31,815	$ -	$ 3,912	$ 4,587,622
Provision (recapture)	534,092	26,466	58,667	499,525	5,994	(20,832)	(3,912)	1,100,000
Loans charged off	-	-	-	-	-	-	-	-
Loan recoveries	-	-	2,358	-	-	20,832	-	23,190
Balance at December 31, 2022	$ 3,207,960	$ 613,889	$ 803,841	$ 1,047,313	$ 37,809	$ -	$ -	$ 5,710,812
Balance at December 31, 2022								
Allowance for impaired loans	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Allowance for unimpaired loans	3,207,960	613,889	803,841	1,047,313	37,809	-	-	5,710,812
Total allowance for loan losses	$ 3,207,960	$ 613,889	$ 803,841	$ 1,047,313	$ 37,809	$ -	$ -	$ 5,710,812
Impaired loans receivable	$ -	$ 27,475	$ -	$ -	$ -	$ -		$ 27,475
Unimpaired loans receivable	235,784,426	94,368,905	59,298,216	78,652,311	6,660,019	4,779,517		479,543,394
Total loans receivable	$ 235,784,426	$ 94,396,380	$ 59,298,216	$ 78,652,311	$ 6,660,019	$ 4,779,517		$ 479,570,869
Allowance for loan losses to loans receivable by segment	1.36%	0.65%	1.36%	1.33%	0.57%	0.00%		1.19%

	Real Estate Commercial	Real Estate Residential	Commercial	Construction and Land Development	Consumer	Paycheck Protection Program	Unallocated	Total
Balance at December 31, 2020	$ 1,786,209	$ 339,132	$ 769,942	$ 217,682	$ 39,802	$ -	$ 16,401	$ 3,169,168
Provision (recapture)	887,659	248,291	11,709	330,106	(7,987)	42,711	(12,489)	1,500,000
Loans charged off	-	-	(50,279)	-	-	(42,711)	-	(92,990)
Loan recoveries	-	-	11,444	-	-	-	-	11,444
Balance at December 31, 2021	$ 2,673,868	$ 587,423	$ 742,816	$ 547,788	$ 31,815	$ -	$ 3,912	$ 4,587,622
Balance at December 31, 2021								
Allowance for impaired loans	$ 13,591	$ -	$ 10,793	$ -	$ 1,999	$ -	$ -	$ 26,383
Allowance for unimpaired loans	2,660,277	587,423	732,023	547,788	29,816	-	3,912	4,561,239
Total allowance for loan losses	$ 2,673,868	$ 587,423	$ 742,816	$ 547,788	$ 31,815	$ -	$ 3,912	$ 4,587,622
Impaired loans receivable	$ 4,847,925	$ 201,202	$ 30,941	$ -	$ 1,999	$ -		$ 5,082,067
Unimpaired loans receivable	180,391,112	71,219,291	49,652,294	57,641,635	4,454,314	29,646,614		$ 393,005,260
Total loans receivable	$ 185,239,037	$ 71,420,493	$ 49,683,235	$ 57,641,635	$ 4,456,313	$ 29,646,614		$ 398,087,327
Allowance for loan losses to loans receivable by segment	1.44%	0.82%	1.50%	0.95%	0.71%	0.00%		1.15%

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

The Bank had $27,475 in consumer real estate loans 30-89 days past due as of December 31, 2022. The Bank had $24,998 in consumer real estate loans and $875,764 in PPP loans that were 30-89 days past due as of December 31, 2021. There were no accruing loans more than 90 days past due as of December 31, 2022 and 2021.

The Bank had no loans on nonaccrual status at December 31, 2022. The Bank had loans on nonaccrual status of $486,425 commercial real estate and $176,204 of residential real estate loans at December 31, 2021.

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, 2022 and 2021, by type of loan and by internal loan grades:

	Real Estate Commercial	Real Estate Residential	Commercial	Paycheck Protection Program	Construction and Land Development	Consumer	Total
As of December 31, 2022							
Grade							
Pass	$ 231,658,219	$ 93,868,980	$ 55,010,381	$ 4,779,517	$ 78,652,311	$ 6,660,019	$ 470,629,427
Special mention	4,126,207	499,925	4,287,835	-	-	-	8,913,967
Substandard	-	27,475	-	-	-	-	27,475
Doubtful	-	-	-	-	-	-	-
Total	$ 235,784,426	$ 94,396,380	$ 59,298,216	$ 4,779,517	$ 78,652,311	$ 6,660,019	$ 479,570,869

	Real Estate Commercial	Real Estate Residential	Commercial	Paycheck Protection Program	Construction and Land Development	Consumer	Total
As of December 31, 2021							
Grade							
Pass	$ 177,849,312	$ 71,219,291	$ 49,136,544	$ 29,646,614	$ 57,641,635	$ 4,454,314	$ 389,947,710
Special mention	2,541,800	-	515,750	-	-	-	3,057,550
Substandard	4,847,925	201,202	30,941	-	-	1,999	5,082,067
Doubtful	-	-	-	-	-	-	-
Total	$ 185,239,037	$ 71,420,493	$ 49,683,235	$ 29,646,614	$ 57,641,635	$ 4,456,313	$ 398,087,327

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.

	Recorded Impaired Loan Balance	Unpaid Principal Balance	Specific Reserve in Allowance
As of December 31, 2022			
With no specific reserve in allowance			
Real Estate - Residential	$ 27,475	$ 27,475	$ -
With specific reserve in allowance	-	-	-
Total	$ 27,475	$ 27,475	$ -
As of December 31, 2021			
With no specific reserve in allowance			
Real Estate - Commercial	$ 4,361,500	$ 4,361,500	$ -
Real Estate - Residential	201,202	201,202	-
Commercial	9,356	9,356	-
With specific reserve in allowance			
Real Estate - Commercial	486,425	486,425	13,591
Commercial	21,585	21,585	10,793
Consumer & Other	1,999	1,999	1,999
Total	$ 5,082,067	$ 5,082,067	$ 26,383

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:

	2022		2021	
	Average Balance	Interest Income Recognized	Average Balance	Interest Income Recognized
Real Estate - Commercial	$ -	$ -	$ 4,978,037	$ 262,570
Real Estate - Residential	26,091	1,424	199,996	9,250
Commercial	-	-	186,545	10,104
Consumer & Other	-	-	1,903	266
Total	$ 26,091	$ 1,424	$ 5,366,482	$ 282,191

As of December 31, 2022 and 2021, the Bank had no troubled debt restructurings.

Note 4 – Premises and Equipment

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

	2022	2021
Real Estate - Commercial	$ 235,784,426	$ 185,239,037
Real Estate - Residential	94,396,380	71,420,493
Construction and land development	78,652,311	57,641,635
Commercial	59,298,216	49,683,235
Paycheck Protection Program	4,779,517	29,646,614
Consumer	6,660,019	4,456,313
	479,570,869	398,087,327
Allowance for loan losses	(5,710,812)	(4,587,622)
Net loans receivable	$ 473,860,057	$ 393,499,705

Depreciation and amortization expense for the years ended December 31, 2022 and 2021, were $458,009 and $339,780, respectively.

Note 5 – Deposits

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

Years Ending December 31,	Amount	Average Rate
2023	$ 58,555,659	2.37%
2024	11,012,376	2.66%
2025	4,631,787	3.21%
2026	112,006	0.45%
2027	90,420	1.58%
	$ 74,402,248	2.46%

The Bank had $27,153,368 and $2,276,616 of time deposits of over $250,000 as of December 31, 2022 and 2021, respectively.

Note 6 – Borrowings

The Company had a $10,000,000 line of credit with United Bankers' Bank at December 31, 2022. Under the agreement, the Corporation makes quarterly payments for accrued interest, with the full outstanding balance of principal and interest due on July 1, 2023. Interest is assessed on the outstanding balance of the borrowing, at a rate of 7.5% at December 31, 2022. The Bank had an outstanding principal balance of $5,350,000 at December 31, 2022 and 2021, respectively. The borrowing is collateralized by 100% of the Bank's stock.

The Bank had a $10,000,000 line of credit with Bankers' Bank of the West, a $5,000,000 line of credit with Pacific Coast Bankers' Bank, a $5,000,000 line of credit with United Bankers' Bank, and a $3,000,000 line of credit with Zions Bank at December 31, 2022. These lines were unsecured. There was no balance outstanding on the lines as of December 31, 2022 or 2021.

The Bank has borrowings of $3,146,338 and $19,757,777 at an annual rate of 0.35% under the Paycheck Protection Program Liquidity Facility as of December 31, 2022 and 2021, respectively. These borrowings are secured by PPP loans at par and are non-recourse to the Bank. The related loans and borrowings are excluded from regulatory capital, liquidity, and other measures when pledged on this basis mitigating credit, liquidity, and market risks.

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 approximately $248,378,764 and $180,480,000 were pledged as collateral at December 31, 2022 and 2021, respectively. Securities with a market value of $3,651,087 and $5,297,000 were pledged as collateral at December 31, 2022 and 2021, respectively. At December 31, 2022 and 2021, the Bank had $17,500,000 and $12,000,000, respectively, 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 31, 2022:

Years Ending December 31,	Amount	Weighted Average Rate
2023	$ 14,500,000	4.28%
2024	2,000,000	2.37%
2025	1,000,000	1.21%
	$ 17,500,000	3.88%

The FHLB had issued $31,200,000 and $26,070,000 of letters of credit on the Bank's behalf to collateralize public deposits of the Bank as of December 31, 2022 and 2021, respectively.

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 $114,609 and $113,207 in 2022 and 2021, respectively. The future minimum annual rental payments under all leases at December 31, 2022, are summarized as follows:

Years Ending December 31	
2023	$ 463,173
2024	449,693
2025	450,561
2026	430,525
2027	420,502
2028	426,861
2029	289,278
	$ 2,930,593

The Company leases branches and corporate office space under non-cancelable leases. Some leases provide the Company with one or more options to renew for terms up to five years, at management's sole discretion. The depreciable life of leasehold improvements are limited by the expected lease term.

Lease expense for operating leases and short-term leases is recognized on a straight-line basis over the lease term. Right-of-use assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. 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. The Company 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 weighted average life of right-of-use assets is 7 years, and the weighted average discount rate is 1.6% as of December 31, 2022.

Right-of-use assets are classified on the Consolidated Statement of Financial Condition with other assets and were $2,383,701 and $2,720,834 as of December 31, 2022 and 2021, respectively. The associated liabilities are classified on the Consolidated Statement of Financial Condition with other liabilities and were $2,521,317 and $2,746,734 as of December 31, 2022 and 2021, respectively.

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 consolidated 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.

Note 7 – Commitments and Contingencies (continued)

At December 31, 2022 and 2021, the Bank had $153,898,541 and $128,702,996, respectively, in commitments to extend credit.

The Bank does not anticipate material losses as a result of these commitments. At December 31, 2022 and 2021, the Bank had $50,000 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.

Note 9 – Income Taxes

The components of income tax provision consist of the following:

	2022	2021
Current tax expense		
Federal	$ 999,265	$ 737,122
State	354,606	315,054
Deferred tax expense		
Federal	148,735	779,878
State	30,265	189,045
Change in valuation allowance	(37,871)	(2,099)
Income tax provision	$ 1,495,000	$ 2,019,000

Note 9 – Income Taxes (continued)

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

	2022	2021
Deferred tax assets		
Allowance for loan and credit losses	$ 1,485,701	$ 1,212,043
Unrealized loss on securities available for sale	619,543	-
Book-tax equity compensation	72,661	19,841
Other	20,464	55,651
Total deferred tax assets	2,198,369	1,287,535
Less valuation allowance	-	(37,871)
Deferred tax liabilities		
Deferred loan origination costs	(217,327)	(223,378)
Book-tax depreciation	(216,499)	(60,286)
Unrealized gain on securities available for sale	-	(31,750)
Total deferred tax liabilities	(433,826)	(315,414)
Net deferred tax asset	$ 1,764,543	$ 934,250

The income tax provision recorded differs from the expected income tax provision at statutory tax rates. The reconciliation of the differences between expected taxes and actual taxes is as follows:

	2022	2021
Federal income tax expense at expected rate	$ 1,209,736	$ 1,510,998
State tax expense at expected rate	351,400	500,203
Effect of tax exempt income	(19,414)	(5,730)
Change in valuation allowance	(37,871)	(2,099)
Other	(8,851)	15,628
Income tax provision	$ 1,495,000	$ 2,019,000

The Company had no unrecognized tax benefits at December 31, 2022 and 2021.

The Company recognizes interest accrued and penalties related to unrecognized tax benefits in tax expense. During the years ended December 31, 2022 and 2021, 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, 2022 and 2021, 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, 2022 and 2021, was $210,904 and $163,801, respectively.

Employer contributions are made in the form of common stock of the Company. At December 31, 2022 and 2021, the ESOP owned 79,911 shares, representing ownership of 1.5% of the Company's common stock, respectively.

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, 2022, 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 $3,928,000 and $5,128,000 of deposits from related parties at December 31, 2022 and 2021, 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:

	2022	2021
Balance, beginning of year	$ 19,034,297	$ 15,175,058
Advances	2,886,172	8,741,421
Payments	(10,071,674)	(4,882,182)
Balance, end of year	$ 11,848,795	$ 19,034,297

Note 12 – Stock Options and Stock Grants

The Bank issued 863,276 warrants in connection with a stock offering during 2018 and 2019, which entitled warrant holders to purchase an equal number of shares of common stock at a price of 110% of the book value per share as of the last quarter prior to the exercise of the warrant. There were 363,296 warrants exercised in 2021 at a weighted average exercise price of $7.73. All warrants that were not exercised expired on December 27, 2021. Because all warrants were exercised or expired, there were no warrants outstanding as of December 31, 2022, and 2021, respectively.

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. Restricted stock awards generally carry terms that allow for annual vesting periods of three to five years from the award date. Stock option awards carry terms that allow for an annual vesting period of 5 years from the award date, and an expiration date of 10 years from the award date. The Company recognized $59,789 and $341,477 in equity compensation expense related to the equity awards in 2022 and 2021, respectively. Unrecognized compensation costs related to the equity awards granted under the Plan were $151,482 and $211,272 as of December 31, 2022 and 2021, respectively.

The Company granted 111,706 stock options in 2021 to certain employees as provided by the plan. The fair value of the options granted was determined using assumptions as of the grant date of a 1.05% risk-free interest rate, 10 year expected term, 38.6% expected volatility, and no dividends. During 2022, 22,344 of these stock options vested to the recipients, of which 5,965 were exercised. As of December 31, 2022, a total of 105,741 stock options from the award remained, of which 16,379 stock options were vested and available for exercise. All 111,706 options were unvested as of December 31, 2021. Unexercised options are scheduled to expire in 2031.

In 2020, the Company granted 32,500 shares of restricted stock to certain employees as provided by the plan. No additional shares of restricted stock have been awarded to employees since 2020. There were 19,500 and 27,000 unvested shares of restricted stock as of December 31, 2022 and 2021, respectively.

During 2021, the Company granted 14,096 shares to Directors of the Company as part of compensation for their services. The Company recognized $97,262 in professional services expense related to the grants in 2021. No shares were granted to Directors of the Company during 2022.

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 includes the states of Idaho and Oregon. 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 $11,532,000 at December 31, 2022.

The Bank places its cash with financial institutions with strong capital positions. The Bank is at risk for uninsured deposits of 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 of 2.5% in excess of the adequately capitalized risk-based capital ratios. The Bank's capital conservation buffer was 3.3% as of December 31, 2022. 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 2022 and 2021, 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, 2022 and 2021, as summarized in the following table:

	Actual Capital		Minimum Capital Requirements		Well-Capitalized Capital Requirements	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2022						
Tier 1 leverage	$ 51,900,000	9.41%	$ 22,051,000	4.00%	$ 27,564,000	5.00%
Common equity tier 1 risk-based capital	51,900,000	10.16%	22,983,000	4.50%	33,197,000	6.50%
Tier 1 risk-based capital	51,900,000	10.16%	30,644,000	6.00%	40,858,000	8.00%
Total risk-based capital	57,661,000	11.29%	40,858,000	8.00%	51,073,000	10.00%
December 31, 2021						
Tier 1 leverage	$ 46,875,000	9.37%	$ 20,018,000	4.00%	$ 25,023,000	5.00%
Common equity tier 1 risk-based capital	46,875,000	11.57%	18,230,000	4.50%	26,332,000	6.50%
Tier 1 risk-based capital	46,875,000	11.57%	24,306,000	6.00%	32,408,000	8.00%
Total risk-based capital	51,513,000	12.72%	32,408,000	8.00%	40,511,000	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.

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.

Note 15 – Fair Value Measurement (continued)

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, 2022				
Assets measured at fair value on a recurring basis				
Securities available for sale				
U.S. treasuries and government agencies	$ 29,635,032	$ -	$ 29,635,032	$ -
Mortgage-backed securities	7,026,684	-	7,026,684	-
Total securities available for sale	$ 36,661,716	$ -	$ 36,661,716	$ -
December 31, 2021				
Assets measured at fair value on a recurring basis				
Securities available for sale				
U.S. treasuries and government agencies	$ 27,517,638	$ -	$ 27,517,638	$ -
Mortgage-backed securities	5,285,008	-	$ 5,285,008	-
Total securities available for sale	$ 32,802,646	$ -	$ 32,802,646	$ -
Assets measured at fair value on a nonrecurring basis				
Impaired loans	$ 483,626	$ -	$ -	$ 483,626

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, 2022.

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 15 – Fair Value Measurement (continued)

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

	2022		2021	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial Assets				
Cash and cash equivalents	$ 44,881,149	$ 44,881,149	$ 111,121,365	$ 111,121,365
Securities available for sale	36,661,716	36,661,716	32,802,646	32,802,646
Equity securities	1,467,146	1,467,146	1,655,846	1,691,973
Mortgage loans held for sale	-	-	912,000	912,000
Net loans receivable	473,860,057	472,722,900	393,499,705	393,746,221
Financial Liabilities				
Noninterest-bearing demand	177,706,609	177,706,609	184,100,232	184,100,232
Interest-bearing demand	51,741,829	51,741,829	47,739,786	47,739,786
Savings	193,555,180	193,555,180	205,927,775	205,927,775
Time deposits	74,402,248	73,321,948	32,687,335	32,791,515
Line of credit	5,346,875	5,346,874	5,340,625	5,315,476
Paycheck Protection Program Loan Funds	3,146,338	3,146,338	19,757,777	19,757,777
Borrowed funds	17,500,000	17,330,793	12,000,000	12,105,197

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

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 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.

Note 15 – Fair Value Measurement (continued)

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.

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.

Line of Credit – The fair values of the Bank’s outstanding line of credit 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.

Paycheck Protection Program Liquidity Facility (PPPLF) – The carrying amounts reported in the balance sheet for PPPLF funds approximate their fair value and are classified as Level 1.

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.