



Report of Independent Auditors
and Financial Statements for

Idaho First Bank

December 31, 2016 and 2015

MOSS-ADAMS_{LLP}

Certified Public Accountants | Business Consultants

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REPORT OF INDEPENDENT AUDITORS

Board of Directors and Stockholders
Idaho First Bank

We have audited the accompanying financial statements of Idaho First Bank, which comprise the statements of financial condition as of December 31, 2016 and 2015, and the related statements of income (loss), comprehensive income (loss), 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.

REPORT OF INDEPENDENT AUDITORS
(continued)

We believe that the audit evidence 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, 2016 and 2015, 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
February 28, 2017

IDAHO FIRST BANK
STATEMENTS OF FINANCIAL CONDITION

ASSETS

	December 31,	
	2016	2015
Cash and due from banks	\$ 3,808,353	\$ 2,543,806
Interest-bearing deposits due from banks	6,750,536	7,307,277
Cash and cash equivalents	10,558,889	9,851,083
Securities available for sale, at fair value	9,732,873	7,372,908
Equity securities	296,002	200,902
Mortgage loans held for sale	2,622,129	6,522,816
Loans receivable	118,007,812	89,578,695
Allowance for loan losses	(1,601,518)	(1,233,976)
Net loans receivable	116,406,294	88,344,719
Premises and equipment, net	4,915,898	4,981,803
Accrued interest receivable	337,124	283,187
Net deferred tax asset	3,454,809	3,174,380
Cash surrender value of bank-owned life insurance	724,000	706,000
Other real estate owned, net	-	382,950
Other assets	442,104	306,054
Total assets	<u>\$ 149,490,122</u>	<u>\$ 122,126,802</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Deposits		
Noninterest-bearing demand	\$ 27,562,363	\$ 22,034,372
Interest-bearing demand	11,008,152	9,023,611
Savings	31,576,063	20,890,904
Time deposits	59,313,373	53,101,082
Total deposits	129,459,951	105,049,969
Borrowings from Federal Home Loan Bank	3,000,000	1,000,000
Accrued interest payable	53,348	42,619
Other liabilities	376,482	393,738
Total liabilities	<u>132,889,781</u>	<u>106,486,326</u>

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; 6,000,000 shares authorized; 2,666,727 and 2,348,960 shares issued and outstanding, respectively	21,911,034	20,524,179
Accumulated deficit	(5,240,263)	(4,865,816)
Accumulated other comprehensive loss	(70,430)	(17,887)
Total stockholders' equity	<u>16,600,341</u>	<u>15,640,476</u>
Total liabilities and stockholders' equity	<u>\$ 149,490,122</u>	<u>\$ 122,126,802</u>

IDAHO FIRST BANK
STATEMENTS OF INCOME (LOSS)

	Years Ended December 31,	
	2016	2015
Interest income		
Loans, including fees	\$ 5,311,935	\$ 5,005,629
Securities	116,278	90,133
Other interest income	37,658	16,995
Total interest income	5,465,871	5,112,757
Interest expense		
Time deposits	594,591	461,835
Savings	77,573	42,684
Interest-bearing demand	8,005	6,599
Borrowed funds	54,671	32,512
Total interest expense	734,840	543,630
Net interest income	4,731,031	4,569,127
Provision for loan losses	495,000	320,000
Net interest income after provision for loan losses	4,236,031	4,249,127
Noninterest income		
Mortgage banking income	2,221,412	1,954,929
Service charges on deposits	137,902	111,622
Increase in cash surrender value of bank-owned life insurance	18,000	17,000
Other income	253,844	212,605
	2,631,158	2,296,156
Noninterest expenses		
Salaries and employee benefits	4,514,129	3,663,270
Occupancy	436,830	384,439
Equipment	221,464	161,661
Professional services	713,283	415,408
Data processing	675,636	587,170
Advertising and promotion	266,636	120,630
Employee expenses	172,200	186,546
Telephone	127,467	112,532
Loan expenses	115,168	140,118
FDIC insurance	108,769	85,881
Supplies and postage	107,265	97,475
Other real estate owned gains	(38,696)	(29,396)
Other operating expenses	68,485	17,830
	7,488,636	5,943,564
Income (loss) before income taxes	(621,447)	601,719
Income tax benefit	(247,000)	(1,321,000)
Net income (loss)	\$ (374,447)	\$ 1,922,719
Net income (loss) per share	\$ (0.16)	\$ 0.87
Diluted net income per share		\$ 0.80

See accompanying notes.

IDAHO FIRST BANK
STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Years Ended December 31,	
	<u>2016</u>	<u>2015</u>
Net income (loss)	<u>\$ (374,447)</u>	<u>\$ 1,922,719</u>
Other comprehensive income (loss)		
Change in unrealized gains (losses) on securities available for sale	(85,972)	11,234
Income tax benefit (provision)	<u>33,429</u>	<u>(4,421)</u>
Other comprehensive income (loss)	<u>(52,543)</u>	<u>6,813</u>
Comprehensive income (loss)	<u><u>\$ (426,990)</u></u>	<u><u>\$ 1,929,532</u></u>

IDAHO FIRST BANK
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Shares	Common Stock	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
BALANCE, December 31, 2014	1,976,355	\$ 19,248,409	\$(6,788,535)	\$ (24,700)	\$ 12,435,174
Net income	-	-	1,922,719	-	1,922,719
Issuance of stock, net	372,605	1,275,770	-	-	1,275,770
Other comprehensive income, net of tax	-	-	-	6,813	6,813
BALANCE, December 31, 2015	2,348,960	20,524,179	(4,865,816)	(17,887)	15,640,476
Net loss	-	-	(374,447)	-	(374,447)
Issuance of stock, net	317,767	1,386,855	-	-	1,386,855
Other comprehensive loss, net of tax	-	-	-	(52,543)	(52,543)
BALANCE, December 31, 2016	<u>2,666,727</u>	<u>\$ 21,911,034</u>	<u>\$(5,240,263)</u>	<u>\$ (70,430)</u>	<u>\$ 16,600,341</u>

IDAHO FIRST BANK
STATEMENTS OF CASH FLOWS

	<u>Years Ended December 31,</u>	
	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ (374,447)	\$ 1,922,719
Adjustments to reconcile net income to net cash from operating activities		
Net accretion of deferred loan fees, costs and premiums	(128,497)	(270,042)
Net amortization of securities' discounts and premiums	63,940	69,933
Provision for loan losses	495,000	320,000
Originations of loans held for sale	(64,276,557)	(69,229,516)
Proceeds from sale of loans held for sale	69,825,679	66,586,532
Gain on sale of loans	(1,648,435)	(1,315,779)
Increase in cash surrender value of life insurance	(18,000)	(17,000)
Loss on disposal of premises, equipment and software	996	9,632
Depreciation and amortization	281,078	248,865
Net gains and provisions on other real estate owned	(38,696)	(29,396)
Deferred income tax benefit	(247,000)	(1,321,000)
Directors' fees paid by issuance of stock	43,182	41,644
Consultant fees paid by issuance of stock	250,000	-
Change in accrued interest receivable and other assets	(188,079)	(43,396)
Change in accrued interest payable and other liabilities	(6,527)	68,962
	<u>4,033,637</u>	<u>(2,957,842)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Securities available for sale		
Maturities, prepayments and calls	1,975,027	1,986,641
Purchases	(4,484,904)	(3,522,249)
Redemption of equity securities	160,000	205,900
Purchase of equity securities	(255,100)	(149,402)
Net increase in loans	(28,428,078)	(5,187,684)
Purchases of premises, equipment, and software	(218,077)	(222,321)
Proceeds from sale of repossessed property	421,646	1,414,057
	<u>(30,829,486)</u>	<u>(5,475,058)</u>

IDAHO FIRST BANK
STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	\$ 24,409,982	\$ 9,358,534
Borrowings from Federal Home Loan Bank	8,000,000	5,000,000
Repayments of borrowings from Federal Home Loan Bank	(6,000,000)	(5,000,000)
Proceeds from issuance of common stock, net	1,093,673	1,234,126
	<u>27,503,655</u>	<u>10,592,660</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	707,806	2,159,760
Cash and cash equivalents, beginning of year	9,851,083	7,691,323
Cash and cash equivalents, end of year	<u>\$ 10,558,889</u>	<u>\$ 9,851,083</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION		
Cash paid during the year for		
Interest	\$ 724,111	\$ 540,645
Income taxes	\$ -	\$ -
NONCASH INVESTING AND FINANCING ACTIVITIES		
Transfer of loans to repossessed property	\$ -	\$ 1,492,590

IDAHO FIRST BANK

NOTES TO FINANCIAL STATEMENTS

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, valuation of other real estate owned, and deferred income taxes. In connection with the determination of the allowance for loan losses and valuation of other real estate owned, management obtains independent appraisals for significant loans and other real estate owned.

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.

IDAHO FIRST BANK
NOTES TO FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (continued)

Securities available for sale (continued) – The Bank periodically evaluates 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 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.

Equity securities – 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 \$266,600 and \$171,500 and was classified as restricted securities at December 31, 2016 and 2015, 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, 2016 or 2015.

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 \$29,402 at December 31, 2016 and 2015.

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.

IDAHO FIRST BANK

NOTES TO FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (continued)

Loans receivable and allowances for loan losses (continued) – 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.

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.

IDAHO FIRST BANK
NOTES TO FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (continued)

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, 2016. There was no valuation allowance for possible losses on other real estate owned at December 31, 2015.

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, 2016 or 2015.

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.

IDAHO FIRST BANK

NOTES TO FINANCIAL STATEMENTS

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.

Advertising – Advertising and promotion costs are charged to noninterest expense when incurred. Advertising and promotion expense for the years ended December 31, 2016 and 2015, was \$266,636 and \$120,630, 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, 2016 and 2015.

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, 2016 and 2015, 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, 2016 or 2015. It is the Bank’s policy to record interest and penalties as a component of income tax expense.

IDAHO FIRST BANK
NOTES TO FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (continued)

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 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. There was no compensation expense recorded for the years ended December 31, 2016 and 2015.

Net income (loss) per share – Net income (loss) per share is calculated by taking the net income (loss) for the year divided by the average number of shares of common stock outstanding during the year. Diluted net income per share is calculated taking into account the dilutive impact of stock warrants.

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.

Reclassifications – Certain reclassifications have been made in the December 31, 2015, financial statements in order to conform with the December 31, 2016, presentation with no effect on previously reported net income or stockholders' equity.

IDAHO FIRST BANK

NOTES TO FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements – In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update 2016-02, *Leases*, which changes the accounting for leases. Under current accounting standards operating leases are not reflected in assets nor in liabilities. The new standard requires most leases to be recorded on the balance sheet. For example, the right to use a leased asset would be recorded as an asset and the lease payments payable to the lessor would be recorded as a liability. The new accounting standard will become effective in 2019.

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.

The Bank has evaluated subsequent events through February 28, 2017, which is the date the financial statements are available to be issued.

IDAHO FIRST BANK
NOTES TO FINANCIAL STATEMENTS

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, 2016 and 2015. As of December 31, 2016, securities available for sale, with an estimated market value of \$1,990,194 were pledged as collateral for \$2,857,833 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, 2016				
U.S. government agency securities	\$ 5,003,780	\$ 1,763	\$ (54,221)	\$ 4,951,322
Mortgage-backed securities	4,844,332	4,953	(67,734)	4,781,551
	<u>\$ 9,848,112</u>	<u>\$ 6,716</u>	<u>\$ (121,955)</u>	<u>\$ 9,732,873</u>
As of December 31, 2015				
U.S. government agency securities	\$ 4,003,359	\$ 1,819	\$ (9,225)	\$ 3,995,953
Mortgage-backed securities	3,398,817	8,329	(30,191)	3,376,955
	<u>\$ 7,402,176</u>	<u>\$ 10,148</u>	<u>\$ (39,416)</u>	<u>\$ 7,372,908</u>

At December 31, 2016 and 2015, nine and six securities, respectively, had unrealized losses. Information for securities with unrealized losses is as follows:

	December 31, 2016			December 31, 2015		
	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 of longer						
Amortized cost	\$ -	\$1,141,201	\$1,141,201	\$ -	\$1,062,228	\$1,062,228
Gross unrealized losses	-	(11,570)	(11,570)	-	(16,577)	(16,577)
Estimated market value	-	1,129,631	1,129,631	-	1,045,651	1,045,651
Securities with unrealized losses for less than 12 consecutive months						
Amortized cost	3,000,045	3,436,449	6,436,494	2,004,046	1,991,747	3,995,793
Gross unrealized losses	(54,221)	(56,164)	(110,385)	(9,225)	(13,614)	(22,839)
Estimated market value	2,945,824	3,380,285	6,326,109	1,994,821	1,978,133	3,972,954
Total securities with unrealized losses						
Amortized cost	3,000,045	4,577,650	7,577,695	2,004,046	3,053,975	5,058,021
Gross unrealized losses	(54,221)	(67,734)	(121,955)	(9,225)	(30,191)	(39,416)
Estimated market value	2,945,824	4,509,916	7,455,740	1,994,821	3,023,784	5,018,605

IDAHO FIRST BANK
NOTES TO FINANCIAL STATEMENTS

Note 2 – Securities Available for Sale (continued)

Management evaluates securities for other-than-temporary impairment on an annual basis, and more frequently when economic or market concerns warrant such evaluation. 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 2016 or 2015.

Maturities of securities available for sale at December 31, 2016, are summarized below. None of the securities owned, as of December 31, 2016, had call provisions.

	<u>Amortized Cost</u>	<u>Estimated Market Value</u>
Maturing within one year	\$ 997,453	\$ 999,069
Maturing in one to five years	4,006,327	3,952,253
Mortgage-backed securities	<u>4,844,332</u>	<u>4,781,551</u>
	<u>\$ 9,848,112</u>	<u>\$ 9,732,873</u>

Note 3 – Loans Receivable and Allowance for Loan Losses

Major classifications of loans at December 31 were as follows:

	<u>2016</u>	<u>2015</u>
Real estate - commercial	\$ 49,227,071	\$ 31,105,195
Real estate - residential	29,244,330	26,885,963
Commercial	28,243,314	21,015,816
Construction and land development	6,355,042	6,449,313
Consumer	<u>4,938,055</u>	<u>4,122,408</u>
	118,007,812	89,578,695
Allowance for loan losses	<u>(1,601,518)</u>	<u>(1,233,976)</u>
Net loans receivable	<u>\$116,406,294</u>	<u>\$ 88,344,719</u>

IDAHO FIRST BANK
NOTES TO FINANCIAL STATEMENTS

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

Deferred fees and costs were a net credit of \$354,426 and \$258,189 at December 31, 2016 and 2015, respectively.

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

	<u>2016</u>	<u>2015</u>
Fixed	\$ 21,198,414	\$ 15,463,007
Variable	<u>96,809,398</u>	<u>74,115,688</u>
	<u>\$118,007,812</u>	<u>\$ 89,578,695</u>

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 is 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 fair value of the collateral, less selling costs.

IDAHO FIRST BANK

NOTES TO FINANCIAL STATEMENTS

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, 2016 and 2015, 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, 2016 and 2015.

	Real Estate Commercial	Real Estate Residential	Commercial	Construction and Land Development	Consumer	Unallocated	Total
Balance at December 31, 2015	\$ 192,519	\$ 766,679	\$ 104,714	\$ 138,660	\$ 31,330	\$ 74	\$ 1,233,976
Provision (recapture)	555,594	(301,068)	239,318	(25,066)	1,776	24,446	495,000
Loans charged off	(201,214)	-	-	-	(506)	-	(201,720)
Loan recoveries	48,749	7,742	9,009	3,339	5,423	-	74,262
Balance at December 31, 2016	<u>\$ 595,648</u>	<u>\$ 473,353</u>	<u>\$ 353,041</u>	<u>\$ 116,933</u>	<u>\$ 38,023</u>	<u>\$ 24,520</u>	<u>\$ 1,601,518</u>
Balances as of December 31, 2016							
Allowance for impaired loans	\$ -	\$ 228,240	\$ -	\$ -	\$ -	\$ -	\$ 228,240
Allowance for unimpaired loans	595,648	245,113	353,041	116,933	38,023	24,520	1,373,278
Total allowance for loan losses	<u>\$ 595,648</u>	<u>\$ 473,353</u>	<u>\$ 353,041</u>	<u>\$ 116,933</u>	<u>\$ 38,023</u>	<u>\$ 24,520</u>	<u>\$ 1,601,518</u>
Impaired loans receivable	\$ -	\$ 1,531,429	\$ -	\$ -	\$ -		\$ 1,531,429
Unimpaired loans receivable	49,227,071	27,712,901	28,243,314	6,355,042	4,938,055		116,476,383
Total loans receivable	<u>\$ 49,227,071</u>	<u>\$ 29,244,330</u>	<u>\$ 28,243,314</u>	<u>\$ 6,355,042</u>	<u>\$ 4,938,055</u>		<u>\$ 118,007,812</u>
Allowance for loan losses to loans receivable by segment	1.21%	1.62%	1.25%	1.84%	0.77%		1.36%

	Real Estate Commercial	Real Estate Residential	Commercial	Construction and Land Development	Consumer	Unallocated	Total
Balance at December 31, 2014	\$ 508,866	\$ 295,318	\$ 255,537	\$ 128,503	\$ 52,152	\$ 33,943	\$ 1,274,319
Provision (recapture)	(304,815)	467,056	(142,198)	354,414	(20,588)	(33,869)	320,000
Loans charged off	(12,912)	-	(16,901)	(347,107)	(5,184)	-	(382,104)
Loan recoveries	1,380	4,305	8,276	2,850	4,950	-	21,761
Balance at December 31, 2015	<u>\$ 192,519</u>	<u>\$ 766,679</u>	<u>\$ 104,714</u>	<u>\$ 138,660</u>	<u>\$ 31,330</u>	<u>\$ 74</u>	<u>\$ 1,233,976</u>
Balances as of December 31, 2015							
Allowance for impaired loans	\$ 7,395	\$ 433,951	\$ -	\$ -	\$ -	\$ -	\$ 441,346
Allowance for unimpaired loans	185,124	332,728	104,714	138,660	31,330	74	792,630
Total allowance for loan losses	<u>\$ 192,519</u>	<u>\$ 766,679</u>	<u>\$ 104,714</u>	<u>\$ 138,660</u>	<u>\$ 31,330</u>	<u>\$ 74</u>	<u>\$ 1,233,976</u>
Impaired loans receivable	\$ 756,942	\$ 1,084,267	\$ 72,972	\$ -	\$ -		\$ 1,914,181
Unimpaired loans receivable	30,348,253	25,801,696	20,942,844	6,449,313	4,122,408		87,664,514
Total loans receivable	<u>\$ 31,105,195</u>	<u>\$ 26,885,963</u>	<u>\$ 21,015,816</u>	<u>\$ 6,449,313</u>	<u>\$ 4,122,408</u>		<u>\$ 89,578,695</u>
Allowance for loan losses to loans receivable by segment	0.62%	2.85%	0.50%	2.15%	0.76%		1.38%

The Bank had one consumer loan of \$704 and one commercial loan of \$99,985, that were 30-89 days past due as of December 31, 2016. There were no loans more than 90 days past due as of December 31, 2016. The Bank had no loans that were 30 or more days past due as of December 31, 2015.

IDAHO FIRST BANK
NOTES TO FINANCIAL STATEMENTS

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

Residential real estate loans on nonaccrual status at December 31, 2016, were \$1,531,429. Residential real estate loans on nonaccrual status at December 31, 2015, were \$1,084,267. Commercial loans on nonaccrual status were \$72,972 at December 31, 2015.

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, 2016 and 2015, 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, 2016						
Grade						
Pass	\$ 49,043,826	\$ 27,712,901	\$ 26,265,721	\$ 6,355,042	\$ 4,938,055	\$114,315,545
Special mention	164,961	-	1,977,593	-	-	2,142,554
Substandard	18,284	1,531,429	-	-	-	1,549,713
Total	<u>\$ 49,227,071</u>	<u>\$ 29,244,330</u>	<u>\$ 28,243,314</u>	<u>\$ 6,355,042</u>	<u>\$ 4,938,055</u>	<u>\$118,007,812</u>
As of December 31, 2015						
Grade						
Pass	\$ 30,915,071	\$ 25,801,696	\$ 19,929,744	\$ 6,269,611	\$ 4,122,408	\$ 87,038,530
Special mention	-	-	1,086,072	179,702	-	1,265,774
Substandard	190,124	1,084,267	-	-	-	1,274,391
Total	<u>\$ 31,105,195</u>	<u>\$ 26,885,963</u>	<u>\$ 21,015,816</u>	<u>\$ 6,449,313</u>	<u>\$ 4,122,408</u>	<u>\$ 89,578,695</u>

IDAHO FIRST BANK
NOTES TO FINANCIAL STATEMENTS

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.

	<u>Recorded Impaired Loan Balance</u>	<u>Unpaid Principal Balance</u>	<u>Specific Reserve in Allowance</u>
As of December 31, 2016			
With no specific reserve in allowance			
Real estate - residential	<u>\$ 448,729</u>	<u>\$ 448,729</u>	
With specific reserve in allowance			
Real estate - residential	<u>\$ 1,082,700</u>	<u>\$ 1,082,700</u>	<u>\$ 228,240</u>
Total			
Real estate - residential	<u>\$ 1,531,429</u>	<u>\$ 1,531,429</u>	<u>\$ 228,240</u>
As of December 31, 2015			
With no specific reserve in allowance			
Real estate - commercial	\$ 476,214	\$ 476,214	
Real estate - residential	436,581	436,581	
Commercial	<u>72,972</u>	<u>85,885</u>	
Total	<u>\$ 985,767</u>	<u>\$ 998,680</u>	
With specific reserve in allowance			
Real estate - commercial	\$ 280,728	\$ 280,728	\$ 7,395
Real estate - residential	<u>647,686</u>	<u>647,686</u>	<u>433,951</u>
Total	<u>\$ 928,414</u>	<u>\$ 928,414</u>	<u>\$ 441,346</u>
Total			
Real estate - commercial	\$ 756,942	\$ 756,942	\$ 7,395
Real estate - residential	1,084,267	1,084,267	433,951
Commercial	<u>72,972</u>	<u>85,885</u>	-
Total	<u>\$ 1,914,181</u>	<u>\$ 1,927,094</u>	<u>\$ 441,346</u>

IDAHO FIRST BANK
NOTES TO FINANCIAL STATEMENTS

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

As of December 31, 2016, the Bank had no troubled debt restructurings. The Bank allocated specific reserves of \$7,395 as of December 31, 2015, to customers whose loan terms were modified in previous troubled debt restructurings. The Bank had not committed to lend additional amounts as of December 31, 2015, to customers with outstanding loans that were classified as troubled debt restructurings.

There were no newly restructured loans in 2016 or 2015, nor were there any loans that defaulted on the timely payment of principal and interest within 12 months of being restructured.

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:

	2016		2015	
	Average Balance	Interest Income Recognized	Average Balance	Interest Income Recognized
Real estate - commercial	\$ 640,119	\$ 10,190	\$ 763,545	\$ 32,265
Real estate - residential	1,376,736	-	1,439,196	68,473
Commercial	15,459	-	17,864	-
Construction and land development	-	-	311,305	-
Total	<u>\$ 2,032,314</u>	<u>\$ 10,190</u>	<u>\$ 2,531,910</u>	<u>\$ 100,738</u>

Note 4 – Premises and Equipment

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

	2016	2015
Land	\$ 459,000	\$ 459,000
Buildings and improvements	4,508,198	4,502,125
Furniture and equipment	<u>1,228,102</u>	<u>1,035,829</u>
Total cost	6,195,300	5,996,954
Less accumulated depreciation	<u>1,279,402</u>	<u>1,015,151</u>
Net book value	<u>\$ 4,915,898</u>	<u>\$ 4,981,803</u>

Depreciation and amortization expense for the years ended December 31, 2016 and 2015, were \$280,125 and \$243,421, respectively.

IDAHO FIRST BANK
NOTES TO FINANCIAL STATEMENTS

Note 5 – Deposits

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

Years ending December 31,	<u>Amount</u>	<u>Average Rate</u>
2017	\$ 31,619,654	0.90%
2018	8,994,934	1.11%
2019	8,913,370	1.52%
2020	4,626,713	1.66%
2021	4,909,702	1.65%
Thereafter	<u>249,000</u>	2.00%
	<u><u>\$ 59,313,373</u></u>	1.15%

The Bank had \$8,284,643, and \$6,936,542, of time deposits of \$250,000 and more as of December 31, 2016, and 2015, respectively.

Note 6 – Borrowings

The Bank had a \$3 million line of credit with Bankers’ Bank of the West and a \$1.5 million line of credit with both Pacific Coast Bankers’ Bank and Zions Bank at December 31, 2016 and 2015, respectively. These lines were unsecured. There was no balance outstanding on the lines as of December 31, 2016 or 2015.

The Bank has a credit arrangement with the Federal Home Loan Bank of Des Moines (FHLB), under which the Bank can borrow up to 35% of its assets. Borrowings must be collateralized with loans or securities. At December 31, 2016, loans with a principal balance of \$39.1 million were pledged as collateral. At December 31, 2016, the Bank had \$3,000,000 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:

Years ending December 31,	<u>Amount</u>	<u>Average Rate</u>
2019	\$ 1,000,000	1.17%
2020	1,000,000	1.59%
2024	<u>1,000,000</u>	3.19%
	<u><u>\$ 3,000,000</u></u>	1.98%

IDAHO FIRST BANK
NOTES TO FINANCIAL STATEMENTS

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 \$116,601 and \$106,918 in 2016 and 2015, respectively. The future minimum annual rental payments under operating leases at December 31, 2016, are summarized as follows:

Years ending December 31:

2017	\$ 185,235
2018	141,286
2019	81,953
2020	83,987
2021	86,021
Thereafter	<u>61,952</u>
	<u>\$ 640,434</u>

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, 2016 and 2015, the Bank had \$17,992,680 and \$23,323,507, respectively, in commitments to extend credit. The Bank also had \$30,000 and \$95,000, respectively, of standby letters of credit.

The Bank does not anticipate material losses as a result of these commitments. At December 31, 2016 and 2015, the Bank had \$35,000 in an allowance for off-balance sheet credit exposure.

IDAHO FIRST BANK

NOTES TO FINANCIAL STATEMENTS

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 expense (benefit) consist of the following:

	<u>2016</u>	<u>2015</u>
Current tax expense		
Federal	\$ -	\$ -
State	-	-
Deferred tax benefit		
Federal	(215,739)	204,775
State	(35,363)	38,020
Change in valuation allowance	<u>4,102</u>	<u>(1,563,795)</u>
Income tax benefit	<u>\$ (247,000)</u>	<u>\$ (1,321,000)</u>

IDAHO FIRST BANK
NOTES TO FINANCIAL STATEMENTS

Note 9 – Income Taxes (continued)

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

	<u>2016</u>	<u>2015</u>
Deferred tax assets		
Net operating loss carryforward	\$ 3,004,153	\$ 2,983,212
Allowance for loan and credit losses	464,745	192,724
Nonaccrual interest income	71,475	35,470
Unrealized loss on securities available for sale	44,810	11,380
Investment tax credit carryforwards	32,263	28,161
Held for sale loans	30,588	72,285
Other	8,922	6,103
Total deferred tax assets	<u>3,656,956</u>	<u>3,329,335</u>
Less valuation allowance	<u>(32,263)</u>	<u>(28,161)</u>
Deferred tax liabilities		
Deferred loan origination costs	(114,924)	(77,248)
Book-tax depreciation	(54,834)	(48,271)
Other	(126)	(1,275)
Total deferred tax liabilities	<u>(169,884)</u>	<u>(126,794)</u>
Net deferred tax asset	<u><u>\$ 3,454,809</u></u>	<u><u>\$ 3,174,380</u></u>

The income tax benefit recorded differs from the expected income tax benefit and the reconciliation of these differences is as follows:

	<u>2016</u>	<u>2015</u>
Federal income tax expense at expected rate	\$ (211,292)	\$ 204,584
State tax expense	(35,281)	26,906
Effect of tax exempt income	(7,023)	(7,157)
Effect of permanent differences	2,494	18,462
Change in valuation allowance	4,102	(1,563,795)
Income tax benefit	<u><u>\$ (247,000)</u></u>	<u><u>\$ (1,321,000)</u></u>

IDAHO FIRST BANK
NOTES TO FINANCIAL STATEMENTS

Note 9 – Income Taxes (continued)

Operating loss carryforwards as of December 31, 2016, for tax purposes were as follows:

<u>Expiration Dates</u>	<u>Federal</u>	<u>State</u>
December 31, 2026	\$ 88,600	\$ 218,836
December 31, 2027	1,448,689	1,546,374
December 31, 2028	1,815,472	1,986,000
December 31, 2029	1,739,106	1,837,028
December 31, 2030	2,337,157	2,420,266
December 31, 2031	168,522	189,085
December 31, 2032	2,850	-
December 31, 2035	5,115	-
December 31, 2036	46,063	46,063
	<u>\$ 7,651,574</u>	<u>\$ 8,243,652</u>

State investment tax credit carryforwards as of December 31, 2016, for tax purposes were as follows:

<u>Expiration Dates</u>	<u>Amount</u>
December 31, 2019	\$ 4,381
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	6,432
December 31, 2028	7,535
December 31, 2029	5,474
December 31, 2030	6,274
	<u>\$ 48,884</u>

The above investment tax carryforwards represent a deferred tax asset of \$32,263 as of December 31, 2016. 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 of \$32,263 has been established against this deferred tax asset.

IDAHO FIRST BANK
NOTES TO FINANCIAL STATEMENTS

Note 9 – Income Taxes (continued)

The Bank had no unrecognized tax benefits at December 31, 2016 or 2015.

The Bank recognizes interest accrued and penalties related to unrecognized tax benefits in tax expense. During the years ended December 31, 2016 and 2015, 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 21. Participants may make elective contributions to the ESOP.

For the year ended December 31, 2016, the Bank made a matching contribution of 50% of the first 7% of employee contribution. In effect, this limits the matching contribution to 3.5% of eligible compensation. The 2015 contribution consisted of a 2.5% matching contribution. The compensation expense relating to employer contributions for the years ended December 31, 2016 and 2015, was \$84,947 and \$52,681, respectively.

Bank contributions are made in the form of common stock of the Bank. At December 31, 2016, the ESOP owned 54,600 shares, or 2.0% 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, 2016, 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 \$2,383,000 and \$682,000 of deposits from related parties at December 31, 2016 and 2015, respectively.

IDAHO FIRST BANK

NOTES TO FINANCIAL STATEMENTS

Note 11 – Related Party Transactions (continued)

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:

	<u>2016</u>	<u>2015</u>
Balance, beginning of year	\$ 2,250,921	\$ 2,960,442
Advances	5,186,586	1,683,662
Payments	<u>(576,659)</u>	<u>(2,393,183)</u>
Balance, end of year	<u>\$ 6,860,848</u>	<u>\$ 2,250,921</u>

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. The Bank has not granted any options or grants under this plan. There was no equity compensation expense in 2016 or 2015.

The Bank has 1,142 stock options outstanding that were granted under prior plans. The Bank has no intention to grant new options under the prior plans. The 1,142 options granted under the prior plans have an exercise price of \$120.00 and are expected to expire in 2017 without exercise.

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 \$3,661,000 at December 31, 2016.

The Bank places its cash with high credit quality institutions. The Bank is at risk for uninsured deposits, the amount in excess of \$250,000. The Bank regularly reviews the financial condition of other financial institutions at which it has uninsured deposits.

IDAHO FIRST BANK
NOTES TO FINANCIAL STATEMENTS

Note 14 – Stockholders’ Equity and Regulatory Matters

The Bank issued stock warrants, in connection with two stock offerings, entitling warrant holders to purchase common stock at \$4.20 per share at any time prior to the expiration of those warrants on December 27, 2017. At December 31, 2016, there were 356,455 shares of those warrants outstanding.

In order to encourage early exercise of stock warrants, on September 26, 2016, the Board approved a discounted exercise price of \$4.00 per share, through January 31, 2017. Between September 26, 2016, and December 31, 2016, there were 273,126 shares of warrants exercised and converted to common stock at the discounted exercise price of \$4.00 per share.

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 is being phased in, reaching a requirement of 2.5% in 2019. The capital conservation buffer requirement in 2016 is 0.625% and the Bank’s capital conservation buffer was 4.77% as of December 31, 2016. 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.

IDAHO FIRST BANK
NOTES TO FINANCIAL STATEMENTS

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

During the years 2016 and 2015, 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, 2016 and 2015, as summarized in the following table:

	Actual Capital		Minimum Capital Requirements		Well-Capitalized Capital Requirements	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2016						
Tier 1 leverage	\$ 13,667,000	9.53%	\$ 5,736,000	4.00%	\$ 7,170,000	5.00%
Common equity tier 1 risk-based capital	13,667,000	11.50%	5,347,000	4.50%	7,723,000	6.50%
Tier 1 risk-based capital	13,667,000	11.50%	7,129,000	6.00%	9,505,000	8.00%
Total risk-based capital	15,169,000	12.77%	9,505,000	8.00%	11,882,000	10.00%
December 31, 2015						
Tier 1 leverage	\$ 12,675,000	10.57%	\$ 4,798,000	4.00%	\$ 5,998,000	5.00%
Common equity tier 1 risk-based capital	12,675,000	12.52%	4,554,000	4.50%	6,579,000	6.50%
Tier 1 risk-based capital	12,675,000	12.52%	6,073,000	6.00%	8,097,000	8.00%
Total risk-based capital	13,944,000	13.78%	8,097,000	8.00%	10,121,000	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.

Accounting standards contain a framework of determining fair values as 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.

IDAHO FIRST BANK
NOTES TO FINANCIAL STATEMENTS

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, 2016				
Assets measured at fair value on a recurring basis				
Securities available for sale				
U.S. government agency securities	\$ 4,951,322	\$ -	\$ 4,951,322	\$ -
Mortgage-backed securities	<u>4,781,551</u>	<u>-</u>	<u>4,781,551</u>	<u>-</u>
Total securities available for sale	<u>\$ 9,732,873</u>	<u>\$ -</u>	<u>\$ 9,732,873</u>	<u>\$ -</u>
Assets measured at fair value on a nonrecurring basis				
Impaired loans	\$ 1,082,700	\$ -	\$ -	\$ 1,082,700
December 31, 2015				
Assets measured at fair value on a recurring basis				
Securities available for sale				
U.S. government agency securities	\$ 3,995,953	\$ -	\$ 3,995,953	\$ -
Mortgage-backed securities	<u>3,376,955</u>	<u>-</u>	<u>3,376,955</u>	<u>-</u>
Total securities available for sale	<u>\$ 7,372,908</u>	<u>\$ -</u>	<u>\$ 7,372,908</u>	<u>\$ -</u>
Assets measured at fair value on a nonrecurring basis				
Impaired loans	\$ 1,001,386	\$ -	\$ -	\$ 1,001,386
Other real estate owned	382,950	-	-	382,950

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.

IDAHO FIRST BANK
NOTES TO FINANCIAL STATEMENTS

Note 15 – Fair Value Measurement (continued)

The following table shows assets measured at fair value on a nonrecurring basis, using Level 3 measurements for the past two years:

	December 31, 2016		
	Estimated Fair Value	Valuation Techniques	Unobservable Inputs
Impaired loans	\$ 1,082,700	Market approach	Appraised value less selling costs of 10%
	December 31, 2015		
	Estimated Fair Value	Valuation Techniques	Unobservable Inputs
Impaired loans	\$ 353,700	Discounted cash flow	Restructured cash flow discounted at original rates ranging from 3.38% to 6.00%
Impaired loans	647,686	Market approach	Appraised value less selling costs of 7% to 10%
Other real estate owned	382,950	Market approach	Appraised value less selling costs of 8%

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.

Other real estate owned is valued at fair value as determined by a qualified independent appraiser, less estimated selling costs.

IDAHO FIRST BANK
NOTES TO FINANCIAL STATEMENTS

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:

	2016		2015	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial Assets				
Cash and cash equivalents	\$ 10,558,889	\$ 10,558,889	\$ 9,851,083	\$ 9,851,083
Securities available for sale	9,732,873	9,732,873	7,372,908	7,372,908
Equity securities	296,002	308,193	200,902	200,902
Mortgage loans held for sale	2,622,129	2,622,129	6,522,816	6,522,816
Net loans receivable	116,406,294	115,328,659	88,344,719	88,099,568
Accrued interest receivable	337,124	337,124	283,187	283,187
Financial Liabilities				
Noninterest-bearing demand	27,562,363	27,562,363	22,034,372	22,034,372
Interest-bearing demand	11,008,152	11,008,152	9,023,611	9,023,611
Savings	31,576,063	31,576,063	20,890,904	20,890,904
Time deposits	59,313,373	59,263,494	53,101,082	53,266,801
Borrowings from Federal Home Loan Bank	3,000,000	3,009,703	1,000,000	1,036,178
Accrued interest payable	53,348	53,348	42,619	42,619

The estimated fair value of standby letters of credit, at the end of 2016 and 2015, is insignificant. Loan commitments in which the committed interest rate is less than the current market rate are also 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 as classified as Level 2.

IDAHO FIRST BANK
NOTES TO FINANCIAL STATEMENTS

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

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.

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.

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.

IDAHO FIRST BANK

NOTES TO FINANCIAL STATEMENTS

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

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 – Net Income (Loss) per Share

Net income (loss) per share is calculated by dividing net income (loss) by the weighted average outstanding shares of common stock. Diluted net income per share is calculated by dividing net income by the weighted average outstanding shares of common stock plus the common stock equivalent of stock warrants using the treasury stock method. Stock options were not included in the common stock equivalents as they were determined to be anti-dilutive. For purposes of calculating common stock equivalent shares the estimated average market price of the Bank’s common stock was \$5.47 for 2015. Diluted calculations were not made for 2016, as there was a loss for the year.

IDAHO FIRST BANK
NOTES TO FINANCIAL STATEMENTS

Note 17 – Net Income (Loss) per Share (continued)

The following table shows the calculation of net income (loss) per share and diluted net income per share for the years ended December 31:

	<u>2016</u>	<u>2015</u>
Net income (loss) per share		
Net income (loss)	<u>\$ (374,447)</u>	<u>\$ 1,922,719</u>
Weighted average common shares outstanding	<u>2,367,859</u>	<u>2,219,940</u>
Net income (loss) per share	<u>\$ (0.16)</u>	<u>\$ 0.87</u>
Diluted net income per share		
Net income		<u>\$ 1,922,719</u>
Weighted average common shares outstanding		<u>2,219,940</u>
Stock warrants - common stock equivalent		<u>195,500</u>
Total		<u>2,415,440</u>
Diluted net income per share		<u>\$ 0.80</u>