Report of Independent Auditors
and Financial Statements

Idaho First Bank

December 31, 2013 and 2012

MOSS-ADAMS LLP

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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, 2013 and 2012, and the related statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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, 2013 and 2012, 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
March 6, 2014

IDAHO FIRST BANK
STATEMENTS OF FINANCIAL CONDITION

ASSETS

	December 31, 2013	December 31, 2012
Cash and due from banks	$ 2,179,498	$ 2,378,390
Interest-bearing deposits due from banks	2,368,993	5,476,650
Cash and cash equivalents	4,548,491	7,855,040
Securities available for sale, at fair value	4,953,479	4,446,247
Federal Home Loan Bank stock, at cost	267,700	265,200
Mortgage loans held for sale	1,754,509	9,929,986
Loans receivable	72,807,309	62,256,783
Allowance for loan losses	(1,133,688)	(1,114,098)
Net loans receivable	71,673,621	61,142,685
Premises and equipment, net	5,050,252	209,350
Accrued interest receivable	239,593	223,866
Deferred tax asset	796,362	-
Cash surrender value of Bank-owned life insurance	671,000	653,000
Other real estate owned, net	610,100	826,901
Other assets	302,731	188,446
Total assets	$ 90,867,838	$ 85,740,721

LIABILITIES AND STOCKHOLDERS' EQUITY

	2013	2012
Deposits		
Noninterest-bearing demand	$ 12,383,575	$ 12,981,136
Interest-bearing demand	10,445,801	7,166,610
Savings	12,974,161	14,423,236
Time deposits, less than $100,000	5,962,701	6,836,007
Time deposits from $100,000 to $249,999	34,415,116	32,737,201
Time deposits of $250,000 and more	3,696,949	4,194,058
Total deposits	79,878,303	78,338,248
Borrowings from Federal Home Loan Bank	1,000,000	2,000,000
Accrued interest payable	41,590	49,518
Other liabilities	458,802	351,532
Total liabilities	81,378,695	80,739,298
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; 40,000,000 shares authorized; 16,190,546 and 8,206,932 shares issued and outstanding, respectively	18,069,319	14,711,282
Accumulated deficit	(8,510,837)	(9,726,615)
Accumulated other comprehensive income (loss)	(69,339)	16,756
Total stockholders' equity	9,489,143	5,001,423
Total liabilities and stockholders' equity	$ 90,867,838	$ 85,740,721

See accompanying notes.

IDAHO FIRST BANK
STATEMENTS OF INCOME

	Years Ended December 31,	
	2013	2012
Interest income		
Loans, including fees	$ 3,846,150	$ 3,747,809
Securities	49,509	52,506
Other interest income	9,886	12,203
Total interest income	3,905,545	3,812,518
Interest expense		
Time deposits	519,943	689,388
Savings	23,872	47,792
Interest-bearing demand	6,859	7,598
Borrowed funds	49,934	66,285
Total interest expense	600,608	811,063
Net interest income	3,304,937	3,001,455
Provision for loan losses	410,000	685,000
Net interest income after provision for loan losses	2,894,937	2,316,455
Noninterest income		
Mortgage banking income	2,532,781	1,937,937
Service charges on deposits	91,307	90,775
Increase in cash surrender value of Bank-owned life insurance	18,000	18,000
Other income	184,700	168,082
	2,826,788	2,214,794
Noninterest expenses		
Salaries and employee benefits	3,259,518	2,502,782
Occupancy	397,655	378,971
Equipment	99,162	112,730
Professional services	367,397	287,461
Data processing	345,856	280,743
FDIC insurance	154,291	179,991
Training, travel, and other employee	98,956	54,300
Advertising and promotion	85,055	77,200
Supplies and postage	81,574	69,014
Telephone	80,681	87,623
Other real estate owned losses and provisions	76,850	96,319
Loan expenses	76,165	72,430
Collection and other real estate owned expenses	47,402	39,535
Other operating	87,385	29,982
	5,257,947	4,269,081
Income before income taxes	463,778	262,168
Income tax benefit	(752,000)	-
Net income	$ 1,215,778	$ 262,168
Net income per share	$ 0.10	$ 0.03

IDAHO FIRST BANK
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31, 2013	2012
Net income	$ 1,215,778	$ 262,168
Other comprehensive income (loss)		
Change in unrealized gains (losses) on securities available for sale	(141,179)	8,542
Income tax benefit (provision)	55,084	(3,333)
Other comprehensive income (loss)	(86,095)	5,209
Comprehensive income	$ 1,129,683	$ 267,377

See accompanying notes.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Shares	Common Stock	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
BALANCE, December 31, 2011	7,999,932	$ 14,677,488	$ (9,988,783)	$ 11,547	$ 4,700,252
Net income	-	-	262,168	-	262,168
Equity compensation expense	-	1,454	-	-	1,454
Issuance of stock, net	207,000	32,340	-	-	32,340
Other comprehensive income, net of tax	-	-	-	5,209	5,209
BALANCE, December 31, 2012	8,206,932	14,711,282	(9,726,615)	16,756	5,001,423
Net income	-	-	1,215,778	-	1,215,778
Issuance of stock, net	7,983,614	3,358,037	-	-	3,358,037
Other comprehensive loss, net of tax	-	-	-	(86,095)	(86,095)
BALANCE, December 31, 2013	16,190,546	$ 18,069,319	$ (8,510,837)	$ (69,339)	$ 9,489,143

IDAHO FIRST BANK
STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 1,215,778	$ 262,168
Adjustments to reconcile net income to net cash from operating activities		
Net accretion of deferred loan fees and costs	(153,285)	(149,693)
Net amortization of securities' discounts and premiums	85,242	64,694
Provision for loan losses	410,000	685,000
Originations of loans held for sale	(72,525,960)	(66,117,268)
Proceeds from sale of loans held for sale	82,259,637	58,799,724
Gain on sale of loans	(1,558,200)	(1,133,258)
Increase in cash surrender value of life insurance	(18,000)	(18,000)
Loss on disposal of premises and equipment	-	215
Equity compensation expense	-	1,454
Depreciation and amortization	151,259	87,069
Net losses and provisions on other real estate owned	76,850	96,319
Deferred income tax benefit	(752,000)	-
Change in accrued interest receivable and other assets	(133,279)	28,516
Change in accrued interest payable and other liabilities	110,063	56,289
Net cash from operating activities	9,168,105	(7,336,771)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net change in time deposits with banks	-	720,000
Securities available for sale		
Maturities, prepayments and calls	1,800,390	1,375,345
Purchases	(2,534,042)	(2,051,200)
Redemption of Federal Home Loan Bank stock	9,800	4,800
Purchase of Federal Home Loan Bank stock	(12,300)	-
Net increase in loans	(11,345,751)	(112,437)
Purchases of premises, equipment, and software	(4,788,894)	(46,372)
Proceeds from sale of premises and equipment	-	200
Proceeds from sale of other real estate owned	698,051	-
Net cash from investing activities	(16,172,746)	(109,664)

	Years Ended December 31, 2013	2012
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	$ 1,540,055	$ 9,223,723
Borrowings from Federal Home Loan Bank	11,000,000	11,000,000
Repayments of borrowings from Federal Home Loan Bank	(12,000,000)	(12,000,000)
Proceeds from issuance of common stock, net	3,158,037	32,340
Net cash from financing activities	3,698,092	8,256,063
NET CHANGE IN CASH AND CASH EQUIVALENTS	(3,306,549)	809,628
Cash and cash equivalents, beginning of year	7,855,040	7,045,412
Cash and cash equivalents, end of year	$ 4,548,491	$ 7,855,040
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION		
Cash paid during the year for:		
Interest	$ 608,536	$ 833,096
Income taxes	$ -	$ -
NONCASH INVESTING AND FINANCING ACTIVITIES		
Net change in unrealized gains (losses) on securities available for sale, net of tax	$ (86,095)	$ 5,209
Loans provided for the sale of other real estate owned	$ 324,700	$ -
Transfer of loans to other real estate owned	$ 882,800	$ 36,101
Issuance of common stock for purchase of premises	$ 200,000	$ -

See accompanying notes.

Note 1 – Summary of Significant Accounting Policies

Bank organization – Idaho First Bank (Bank) provides a full range of banking services to its commercial and consumer customers through its office serving McCall, Idaho, and contiguous areas and a branch and mortgage office in Boise, Idaho.

The Bank was organized March 2, 2005. Banking operations commenced on October 3, 2005, with the opening of the branch located in McCall, Idaho. A branch was opened in Boise, Idaho, on January 13, 2014.

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

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.

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. Members are required to own a certain amount of stock based on the level of borrowings and other factors. The Bank owns equity securities of the Federal Home Loan Bank of Seattle. These securities are carried at cost. 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 were not considered to be impaired at December 31, 2013 or 2012.

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 the real estate and general economic conditions in these areas.

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.

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.

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.

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.

Note 1 – Summary of Significant Accounting Policies (continued)

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 has a valuation allowance for possible losses on disposition of other real estate owned, which is allocated on a specific property by property basis. The valuation allowance for possible losses on other real estate owned was $105,000 at December 31, 2013, and $30,000 at December 31, 2012.

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, 2013 or 2012.

Advertising – Advertising and promotion costs are charged to noninterest expense when incurred. Advertising and promotion expense for the years ended December 31, 2013 and 2012, was $85,055 and $77,200, 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.

Note 1 – Summary of Significant Accounting Policies (continued)

Income taxes (continued) – 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 a portion of the Company's net operating loss carry forwards to reflect management's estimate of the realizable amount of its deferred tax assets at December 31, 2013.

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, 2013, 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, 2013. It is the Bank's policy to record interest and penalties as a component of income tax expense.

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

Equity compensation – The cost resulting from all share-based payment transactions are recognized in the financial statements of the Bank. 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.

Net income per share – Net income per share is calculated by taking the net income for the year divided by the average number of shares of common stock outstanding during the year. Diluted earnings per share were not calculated for 2013 or 2012 as the exercise prices of outstanding stock warrants and options were greater than, or equal to, the market value of the Bank's common stock.

Reclassifications – Certain reclassifications have been made in the December 31, 2012, financial statements in order to conform with the December 31, 2013, presentation with no effect on previously reported net income or stockholders' equity.

Note 1 – Summary of Significant Accounting Policies (continued)

Subsequent events review – Subsequent events are events or transactions that occur after the date of the balance sheet 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 March 6, 2014, which is the date the financial statements are available to be issued. See Note 16 for further discussion of subsequent events.

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, 2013. As of December 31, 2013, securities available for sale, with an estimated market value of $1,928,851 were pledged as collateral for $754,510 of uninsured public deposits. The carrying amounts of securities available for sale and their approximate fair values were as follows:

	December 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. government agency securities	$ 3,041,560	$ 5,967	$ (99,858)	$ 2,947,669
Mortgage-backed securities	2,025,620	11,654	(31,464)	2,005,810
	$ 5,067,180	$ 17,621	$ (131,322)	$ 4,953,479

	December 31, 2012			
U.S. government agency securities	$ 3,046,748	$ 7,190	$ -	$ 3,053,938
Mortgage-backed securities	1,372,021	20,288	-	1,392,309
	$ 4,418,769	$ 27,478	$ -	$ 4,446,247

Note 2 – Securities Available for Sale (continued)

As of December 31, 2013, there were two securities with unrealized losses. The securities had an amortized cost of $2,198,279 and estimated market value of $2,066,957. One of these securities, with a coupon of 2.25% and a maturity date of December 21, 2022, has been in an unrealized loss position for 12 consecutive months. The other security has not been in an unrealized loss position for 12 consecutive months. There were no securities with unrealized losses at December 31, 2012. 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.

These 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 2013 or 2012.

Maturities of securities available for sale at December 31, 2013, are summarized below. Actual maturities may differ from contractual maturities due to call provisions.

	Amortized Cost	Estimated Market Value
Maturing in one to five years	$ 2,020,071	$ 2,026,038
Maturing in five to ten years	1,021,489	921,631
Mortgage-backed securities	2,025,620	2,005,810
	$ 5,067,180	$ 4,953,479

Note 3 – Loans Receivable and Allowance for Loan Losses

Major classifications of loans at December 31 were as follows:

	2013	2012
Real estate - commercial	$ 25,447,645	$ 21,966,388
Real estate - residential	23,020,083	18,540,769
Commercial	13,891,570	14,639,664
Construction and land development loans	7,352,107	5,066,133
Consumer loans	3,095,904	2,043,829
	72,807,309	62,256,783
Allowance for loan losses	(1,133,688)	(1,114,098)
Net loans receivable	$ 71,673,621	$ 61,142,685

Deferred fees and costs were a net credit of $226,509 at December 31, 2013, and a net credit of $139,225 at December 31, 2012.

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

	2013	2012
Fixed	$ 21,286,717	$ 15,407,705
Variable	51,520,592	46,849,078
	$ 72,807,309	$ 62,256,783

The Bank completes a quarterly analysis of the adequacy of allowance for loan losses. This quarterly analysis is reviewed and approved by the Board of Directors each quarter. The allowance for loans 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.

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

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 30-month 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 that 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 appraised collateral value, less selling costs.

An analysis of the changes in the allowance for loan losses for the years ended December 31, 2013 and 2012, 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, 2013 and 2012.

	Real Estate Commercial	Real Estate Residential	Commercial	Construction and Land Development	Consumer	Unallocated	Total
Balance at December 31, 2012	$ 452,183	$ 361,357	$ 70,399	$ 187,258	$ 18,394	$ 24,507	$ 1,114,098
Provision charged to expense	226,170	118,737	77,837	(67,328)	30,521	24,063	410,000
Loans charged off	(213,887)	(169,808)	(29,288)	-	-	-	(412,983)
Loan recoveries	500	4,035	15,188	2,850	-	-	22,573
Balance at December 31, 2013	$ 464,966	$ 314,321	$ 134,136	$ 122,780	$ 48,915	$ 48,570	$ 1,133,688
Balances as of December 31, 2013							
Allowance for impaired loans	$ 13,682	$ 27,980	$ -	$ -	$ -	$ -	$ 41,662
Allowance for unimpaired loans	451,284	286,341	134,136	122,780	48,915	48,570	1,092,026
Total allowance for loan losses	$ 464,966	$ 314,321	$ 134,136	$ 122,780	$ 48,915	$ 48,570	$ 1,133,688
Impaired loans receivable	$ 787,276	$ 719,999	$ 868,700	$ -	$ -		$ 2,375,975
Unimpaired loans receivable	24,660,369	22,300,084	13,022,870	7,352,107	3,095,904		70,431,334
Total loans receivable	$ 25,447,645	$ 23,020,083	$ 13,891,570	$ 7,352,107	$ 3,095,904		$ 72,807,309
Allowance for loan losses to loans receivable	1.83%	1.37%	0.97%	1.67%	1.58%		1.56%

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

	Real Estate Commercial	Real Estate Residential	Commercial	Construction and Land Development	Consumer	Unallocated	Total
Balance at December 31, 2011	$ 326,446	$ 328,669	$ 71,093	$ 318,213	$ 3,818	$ 3,831	$ 1,052,070
Provision charged to expense	352,321	13,647	170,295	58,485	69,576	20,676	685,000
Loans charged off	(265,166)	-	(174,006)	(205,240)	(110,000)	-	(754,412)
Loan recoveries	38,582	19,041	3,017	15,800	55,000	-	131,440
Balance at December 31, 2012	$ 452,183	$ 361,357	$ 70,399	$ 187,258	$ 18,394	$ 24,507	$ 1,114,098
Balances as of December 31, 2012							
Allowance for impaired loans	$ 287,286	$ 168,649	$ 12,061	$ 3,898	$ -	$ -	$ 471,894
Allowance for unimpaired loans	164,897	192,708	58,338	183,360	18,394	24,507	642,204
Total allowance for loan losses	$ 452,183	$ 361,357	$ 70,399	$ 187,258	$ 18,394	$ 24,507	$ 1,114,098
Impaired loans receivable	$ 2,099,251	$ 1,003,889	$ 55,261	$ 516,255	$ -		$ 3,674,656
Unimpaired loans receivable	19,867,137	17,536,880	14,584,403	4,549,878	2,043,829		58,582,127
Total loans receivable	$ 21,966,388	$ 18,540,769	$ 14,639,664	$ 5,066,133	$ 2,043,829		$ 62,256,783
Allowance for loan losses to loans receivable	2.06%	1.95%	0.48%	3.70%	0.90%		1.79%

The Bank had two residential real estate loans totaling $1,082,573 that were 30-59 days past due as of December 31, 2013. There were no loans that were past due 60 or more days as of December 31, 2013. The Bank had no loans that were past-due more than 30 days and still accruing interest at December 31, 2012.

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.

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

The following table shows loans as of December 31, 2013 and 2012, 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, 2013						
Grade						
Pass	$ 24,406,338	$ 21,118,663	$ 13,009,480	$ 5,983,104	$ 3,095,904	$ 67,613,489
Special mention	1,041,307	1,702,666	13,390	558,622	-	3,315,985
Substandard	-	198,754	868,700	810,381	-	1,877,835
Total	$ 25,447,645	$ 23,020,083	$ 13,891,570	$ 7,352,107	$ 3,095,904	$ 72,807,309

	Real Estate Commercial	Real Estate Residential	Commercial	Construction and Land Development	Consumer	Total
As of December 31, 2012						
Grade						
Pass	$ 19,960,707	$ 15,976,507	$ 13,715,703	$ 4,549,865	$ 1,516,523	$ 55,719,305
Special mention	1,631,135	2,101,791	-	218,266	-	3,951,192
Substandard	374,546	462,471	868,700	298,002	527,306	2,531,025
Doubtful	-	-	55,261	-	-	55,261
Total	$ 21,966,388	$ 18,540,769	$ 14,639,664	$ 5,066,133	$ 2,043,829	$ 62,256,783

The following tables show information on impaired loans by loan segment. 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 the in the allowance for loan losses.

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

The tables show amounts as of December 31, 2013 and 2012.

	Recorded Impaired Loan Balance	Unpaid Principal Balance	Specific Reserve in Allowance
As of December 31, 2013			
With no specific reserve in allowance			
Real estate - commercial	$ 495,973	$ 495,973	
Commercial	868,700	868,700	
Total	$ 1,364,673	$ 1,364,673	
With specific reserve in allowance			
Real estate - commercial	$ 291,303	$ 291,303	$ 13,682
Real estate - residential	719,999	719,999	27,980
Total	$ 1,011,302	$ 1,011,302	$ 41,662
Total			
Real estate - commercial	$ 787,276	$ 787,276	$ 13,682
Real estate - residential	719,999	719,999	27,980
Commercial	868,700	868,700	-
Total	$ 2,375,975	$ 2,375,975	$ 41,662
As of December 31, 2012			
With no specific reserve in allowance			
Real estate - residential	$ 34,610	$ 61,814	
Construction and land development	298,002	298,002	
Total	$ 332,612	$ 359,816	
With specific reserve in allowance			
Real estate - commercial	$ 2,099,251	$ 2,099,251	$ 287,286
Real estate - residential	969,279	969,279	168,649
Commercial	55,261	110,522	12,061
Construction and land development	218,253	218,253	3,898
Total	$ 3,342,044	$ 3,397,305	$ 471,894
Total			
Real estate - commercial	$ 2,099,251	$ 2,099,251	$ 287,286
Real estate - residential	1,003,889	1,031,093	168,649
Commercial	55,261	110,522	12,061
Construction and land development	516,255	516,255	3,898
Total	$ 3,674,656	$ 3,757,121	$ 471,894

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

The Bank allocated specific reserves of $41,662 and $319,164 as of December 31, 2013 and 2012, respectively, to customers whose loan terms were modified in previous troubled debt restructurings. The Bank has not committed to lend additional amounts as of December 31, 2013 and 2012, to customers with outstanding loans that are classified as troubled debt restructurings.

There were no newly restructured loans in 2013. In 2012, the Bank restructured loans as a response to the weakened financial condition of certain borrowers. These borrowers were given concessions, by the Bank agreeing to below-market rates or changes in the timing of payments. There were no restructurings that made concessions of principal owed to the Bank. The following table shows the number and amount of loans restructured with the average rate concession, if any, granted for the year ended December 31, 2012:

	2012		
	Number Restructured	Amount Restructured	Average Rate Concession
Real estate - commercial	2	$ 876,817	2.23%
Construction and land development loans	1	388,174	-
Total	3	$ 1,264,991	1.55%

In 2013, there were no loans that defaulted on the timely payment of principal and interest within 12 months of being restructured. In 2012, there was one commercial real estate loan of $374,546 that defaulted on the timely payment of principal and interest within 12 months of being restructured. Payment default is defined as 90 days or more past due.

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:

	2013		2012	
	Average Balance	Interest Income Recognized	Average Balance	Interest Income Recognized
Real estate - commercial	$ 1,564,270	$ 55,591	$ 2,109,458	$ 72,112
Real estate - residential	840,655	24,827	1,030,388	32,676
Commercial	622,662	39,127	47,532	-
Construction and land development	91,693	-	506,714	8,971
Consumer	-	-	93,077	-
Total	$ 3,119,280	$ 119,545	$ 3,787,169	$ 113,759

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

Loans on nonaccrual status, by loan class, at December 31 are as follows:

	2013	2012
Real estate - commercial	$ -	$ 374,546
Real estate - residential	-	283,889
Commercial	868,700	55,261
Construction and land development loans	-	298,002
Total	$ 868,700	$ 1,011,698

Note 4 – Premises and Equipment

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

	2013	2012
Land	$ 459,000	$ -
Buildings and improvements	4,314,945	129,747
Furniture and equipment	703,894	544,228
Fixed assets in process	168,000	-
Total cost	5,645,839	673,975
Less accumulated depreciation	595,587	464,625
Net book value	$ 5,050,252	$ 209,350

Depreciation and amortization expense for the years ended December 31, 2013 and 2012, was $145,696 and $82,180, respectively.

Note 5 – Deposits

The following table shows weighted average rates and scheduled maturities for time deposits at December 31, 2013:

Years ending December 31,	Amount	Average Rate
2014	$ 32,708,242	1.01%
2015	7,699,137	1.18%
2016	1,832,481	0.78%
2017	1,093,650	1.15%
2018	492,256	1.18%
2023	249,000	2.00%
	$ 44,074,766	1.01%

The Bank had $3,696,949 of time deposits of $250,000 and more as of December 31, 2013. Of this amount, there was one time deposit of $250,000, and $3,446,949 was in time deposits exceeding $250,000.

Note 6 – Borrowings

The Bank had a $1,500,000 line of credit with Pacific Coast Bankers' Bank and a $1,500,000 line of credit with Zions Bank at December 31, 2013. Both lines are unsecured. There was no balance outstanding on the lines as of December 31, 2013 or 2012.

The Bank has a credit arrangement with the Federal Home Loan Bank of Seattle, under which the Bank can borrow up to 15% of its assets. Borrowings must be collateralized with loans or securities. At December 31, 2013, loans with a principal balance of $24.2 million were pledged as collateral. At December 31, 2013, the Bank had $1,000,000 of borrowings from the Federal Home Loan Bank. Borrowings from the Federal Home Loan Bank have penalties for early payment. The advance of $1,000,000, from the Federal Home Loan Bank has a fixed rate of 3.42% and matures on July 2, 2014.

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 $175,392 and $332,400 in 2013 and 2012, respectively. The future minimum annual rental payments under operating leases at December 31, 2013, are summarized as follows:

Years ending December 31,	
2014	$ 92,004
2015	38,335
	$ 130,339

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, 2013 and 2012, the Bank had $10,200,658 and $10,080,954, respectively, in commitments to extend credit. The Bank also had $30,000 and $95,691, respectively, of standby letters of credit.

The Bank does not anticipate material losses as a result of these commitments. The Bank maintained an allowance for off-balance sheet credit exposure of $30,000 at December 31, 2013, and $20,000 at December 31, 2012.

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:

	2013	2012
Current tax expense		
Federal	$ -	$ -
State	-	-
Deferred tax benefit		
Federal	154,764	106,977
State	14,373	14,003
Change in valuation allowance	(921,137)	(120,980)
Income tax benefit	$ (752,000)	$ -

The component of the net deferred income tax assets and liabilities in the statements of financial condition are as follows:

	2013	2012
Deferred tax assets		
Net operating loss carryforward	$ 3,486,181	$ 3,559,571
Losses on other real estate owned	124,417	133,108
Allowance for loan and credit losses	66,943	52,706
Unrealized loss on securities available for sale	44,362	-
Tax credit carryforwards	22,747	15,528
Held for sale loans	22,466	116,291
Other	21,212	14,610
Total deferred tax assets	3,788,328	3,891,814
Less valuation allowance	(2,920,145)	(3,841,282)
Deferred tax liabilities		
Deferred loan origination costs	(57,277)	(46,647)
Book-tax depreciation	(14,544)	(3,885)
Unrealized gain on securities available for sale	-	(10,721)
Total deferred tax liabilities	(71,821)	(61,253)
Net deferred tax asset (liability)	$ 796,362	$ (10,721)

Note 9 – Income Taxes (continued)

The tax benefit related to operating loss carryforwards expected to be realized during 2014 and 2015 has been estimated to be $752,000. Accordingly, the valuation reduction of $921,137 in 2013 includes $752,000 for this estimated benefit. The realization of the remaining net deferred tax assets is uncertain and as such a valuation allowance of $2,920,145 has been recognized as of December 31, 2013. The net deferred income tax asset above of $796,362 at December 31, 2013, was recorded as an asset. The net deferred tax liability above of $10,721 at December 31, 2012, was recorded in other liabilities.

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

	2013	2012
Federal income tax expense at expected rate	$ 157,685	$ 89,137
State tax expense	16,037	12,378
Effect of tax exempt income	(8,264)	(7,906)
Effect of permanent differences	3,679	27,371
Change in valuation allowance	(921,137)	(120,980)
Income tax benefit	$ (752,000)	$ -

Operating loss carryforwards as of December 31, 2013, for tax purposes were as follows:

Expiration Dates	Federal	State
December 31, 2025	$ 70,590	$ 112,925
December 31, 2026	1,288,057	1,352,291
December 31, 2027	1,445,539	1,546,374
December 31, 2028	1,815,122	1,986,000
December 31, 2029	1,736,476	1,837,028
December 31, 2030	2,336,157	2,420,266
December 31, 2031	168,272	189,085
	$ 8,860,213	$ 9,443,969

At a federal tax rate of 34% and an Idaho State tax rate of 7.6%, the above operating loss carryforwards represent a deferred tax asset of $3,486,181 as of December 31, 2013. It is estimated that $752,000 of this tax benefit might be realized in 2014 and 2015. The amount and timing of the realization of these tax benefits beyond 2016 is uncertain. Therefore, a valuation allowance has been established against that portion of the deferred tax asset.

Note 9 – Income Taxes (continued)

State tax credit carryforwards as of December 31, 2013, for tax purposes were as follows:

Expiration Dates	Amount
December 31, 2019	$ 4,411
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	1,570
December 31, 2026	1,391
December 31, 2027	10,948
	$ 34,466

The Bank had no unrecognized tax benefits at December 31, 2013 or 2012.

The Bank recognizes interest accrued and penalties related to unrecognized tax benefits in tax expense. During the years ended December 31, 2013 and 2012, the Bank recognized no interest and penalties.

The Bank files a United States federal income tax return and an Idaho state income tax return. With few exceptions, the Bank is no longer subject to U. S. federal or state/local income tax examinations by tax authorities for years before December 31, 2010.

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.

Annual contributions to the ESOP by the Bank are flexible and subject to annual approval by the Board of Directors. Contributions were equal to 3.5% of the eligible compensation of eligible employees in 2013 and 3% in 2012. For Bank contribution purposes, compensation after one year of service is eligible. The compensation expense relating to employer contributions for the years ended December 31, 2013 and 2012, was $74,376 and $44,558, respectively.

Note 10 – Employee Retirement Benefits (continued)

For 2014, the Bank has approved a matching contribution of 50% of the first 4% of employee contribution. In effect, this will limit the matching contribution to no more than 2% of eligible compensation. At the discretion of the Board of Directors an additional profit sharing contribution may be made depending upon the Bank's financial performance.

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 market value. At December 31, 2013, 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 $1,162,000 and $1,202,000 of deposits from related parties at December 31, 2013 and 2012, 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:

	2013	2012
Balance, beginning of year	$ 923,143	$ 1,288,453
Advances	2,883,497	479,151
Payments	(124,778)	(844,461)
Balance, end of year	$ 3,681,862	$ 923,143

Note 12 – Stock Options

The Bank has granted both incentive stock options and nonqualified stock options under various plans and agreements. There was no equity compensation expense, associated with stock options in 2013, and there was $1,454 during the year ended December 31, 2012. The accounting offset to equity compensation expense was an increase to common stock for the same amount.

Note 12 – Stock Options (continued)

The vesting of stock options ranges from immediate vesting to five year vesting. As of December 31, 2013, there were 14,483 incentive stock options available for grant under the Incentive Stock Option Plan of 2005 and 14,499 nonqualified options available for grant under the Director Non-Qualified Stock Option Plan of 2005. All outstanding options have an original term of 10 years.

A summary of activity for stock options for the years ended December 31 is presented below:

	2013		2012	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding options at beginning of period	73,035	$ 10.27	73,035	$ 10.27
Forfeited	(8,307)	10.27	-	-
Outstanding at end of year	64,728	$ 10.27	73,035	$ 10.27
Options exercisable at year end	64,728	$ 10.27	72,615	$ 10.30

The following is additional information on options as of December 31, 2013:

	Outstanding	Exercisable
Options at December 31, 2013	64,728	64,728
Aggregate market value, assuming price of $.45	$ 29,128	$ 29,128
Aggregate exercise price	664,624	664,624
Aggregate intrinsic value*	$ -	$ -
Weighted average contractual term - years	2.2	2.2

*Exercise price exceeds market value; therefore, aggregate intrinsic value is zero.

As of December 31, 2013, there was no unrecognized compensation cost for nonvested stock options.

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 $2,144,000 at December 31, 2013.

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.

Note 14 – Stockholders' Equity and Regulatory Matters

The Bank has issued stock warrants in connection with two stock offerings. There are 13,418,475 shares of warrants outstanding that entitle warrant holders to purchase common stock at 42 cents per share at any time prior to the expiration of those warrants on December 27, 2017.

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 about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to total assets (as defined). As of December 31, 2013, the Bank was considered "well-capitalized".

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

The Bank's actual regulatory capital amounts and ratios are presented in the table below:

	Actual		Capital Adequacy		To Be Well Capitalized Under	
December 31, 2013	Amount	Ratio	Amount	Ratio	Amount	Ratio
Tier 1 capital (to average assets)	$ 9,073,000	10.19%	$ 3,562,000	4.00%	$ 4,453,000	5.00%
Tier 1 capital (to risk-weighted assets)	9,073,000	11.88%	3,055,000	4.00%	4,582,000	6.00%
Total capital (to risk-weighted assets)	10,031,000	13.13%	6,109,000	8.00%	7,637,000	10.00%
December 31, 2012						
Tier 1 capital (to average assets)	$ 4,985,000	6.00%	$ 3,324,000	4.00%	$ 8,310,000	10.00%
Tier 1 capital (to risk-weighted assets)	4,985,000	7.47%	2,668,000	4.00%	4,002,000	6.00%
Total capital (to risk-weighted assets)	5,822,000	8.73%	5,336,000	8.00%	6,670,000	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.

Note 15 – Fair Value Measurement (continued)

At December 31, 2013, the Bank had $2,947,669 of U.S. government agency securities and $2,005,810 of mortgage-backed securities measured on a recurring basis, using Level 2 measurements. At December 31, 2012, the Bank had $3,053,938 of U.S. government agency securities and $1,392,309 of mortgage-backed securities measured on a recurring basis, using Level 2 measurements. These securities 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 following table shows assets measured at fair value on a nonrecurring basis, using Level 3 measurements for the past two years:

	December 31, 2013		
	Estimated Fair Value	Valuation Techniques	Unobservable Inputs
Impaired loans	$ 1,011,302	Discounted cash flow	Restructured cash flow discounted at original rates
Other real estate owned	610,100	Market approach	Appraised value less selling costs of 8% to 10%

	December 31, 2012		
	Estimated Fair Value	Valuation Techniques	Unobservable Inputs
Impaired loans	$ 2,662,958	Discounted cash flow	Restructured cash flow discounted at original rates
Impaired loans	713,696	Market approach	Appraised value less selling costs of 8% to 10%
Other real estate owned	826,901	Market approach	Appraised value less selling costs of 8% to 10%

If collateral dependent, impaired loans 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)

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

The following table shows losses recognized for the year ended December 31:

	2013	2012
Losses on impaired loans	$ 412,983	$ 754,412
Loss on other real estate owned	1,850	66,319

Note 16 – Subsequent Events

Subsequent to December 31, 2013, the Bank was notified by a borrower of an inability to continue making payments on a residential real estate loan with a balance of $933,862. The loan was 30-59 days past due at December 31, 2013, but was not considered to be an impaired loan. The loan is now considered impaired and was placed on nonaccrual status on February 26 resulting in an interest reversal of $16,594. The Bank has agreed to accept a deed in lieu of foreclosure which is expected to be received by March 31, 2014. Any loss, if realized, is not expected to be material to the financial statements of the Bank.