



Report of Independent Auditors  
and Financial Statements

**Idaho First Bank**

December 31, 2014 and 2013

**MOSS-ADAMS<sub>LLP</sub>**

Certified Public Accountants | Business Consultants

*Acumen. Agility. Answers.*

## CONTENTS

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	PAGE
REPORT OF INDEPENDENT AUDITORS	1-2
FINANCIAL STATEMENTS	
Statements of financial condition	3
Statements of income	4
Statements of comprehensive income	5
Statements of changes in stockholders' equity	6
Statements of cash flows	7-8
Notes to financial statements	9-35

## 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, 2014 and 2013, 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, 2014 and 2013, 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 17, 2015

**IDAHO FIRST BANK**  
**STATEMENTS OF FINANCIAL CONDITION**

**ASSETS**

	December 31,	
	2014	2013
Cash and due from banks	\$ 2,933,751	\$ 2,179,498
Interest-bearing deposits due from banks	4,757,572	2,368,993
Cash and cash equivalents	7,691,323	4,548,491
Securities available for sale, at fair value	5,895,998	4,953,479
Federal Home Loan Bank stock, at cost	257,400	267,700
Mortgage loans held for sale	2,564,053	1,754,509
Loans receivable	85,973,902	72,807,309
Allowance for loan losses	(1,274,319)	(1,133,688)
Net loans receivable	84,699,583	71,673,621
Premises and equipment, net	5,007,971	5,050,252
Accrued interest receivable	282,650	239,593
Deferred tax asset	1,857,802	796,362
Cash surrender value of Bank-owned life insurance	689,000	671,000
Other real estate owned, net	301,500	610,100
Other assets	273,203	302,731
Total assets	<u>\$ 109,520,483</u>	<u>\$ 90,867,838</u>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

Deposits		
Noninterest-bearing demand	\$ 16,943,645	\$ 12,383,575
Interest-bearing demand	9,162,883	10,445,801
Savings	18,314,068	12,974,161
Time deposits, less than \$100,000	4,037,888	5,962,701
Time deposits from \$100,000 to \$249,999	42,576,037	34,415,116
Time deposits of \$250,000 and more	4,656,914	3,696,949
Total deposits	95,691,435	79,878,303
Borrowings from Federal Home Loan Bank	1,000,000	1,000,000
Accrued interest payable	39,634	41,590
Other liabilities	354,240	458,802
Total liabilities	<u>97,085,309</u>	<u>81,378,695</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; 40,000,000 shares authorized; 19,763,547 and 16,190,546 shares issued and outstanding, respectively	19,248,409	18,069,319
Accumulated deficit	(6,788,535)	(8,510,837)
Accumulated other comprehensive loss	(24,700)	(69,339)
Total stockholders' equity	<u>12,435,174</u>	<u>9,489,143</u>
Total liabilities and stockholders' equity	<u>\$ 109,520,483</u>	<u>\$ 90,867,838</u>

**IDAHO FIRST BANK**  
**STATEMENTS OF INCOME**

	Years Ended December 31,	
	2014	2013
Interest income		
Loans, including fees	\$ 4,402,618	\$ 3,846,150
Securities	57,291	49,509
Other interest income	9,224	9,886
Total interest income	4,469,133	3,905,545
Interest expense		
Time deposits	448,081	519,943
Savings	23,938	23,872
Interest-bearing demand	6,831	6,859
Borrowed funds	34,169	49,934
Total interest expense	513,019	600,608
Net interest income	3,956,114	3,304,937
Provision for loan losses	291,000	410,000
Net interest income after provision for loan losses	3,665,114	2,894,937
Noninterest income		
Mortgage banking income	2,152,680	2,532,781
Service charges on deposits	87,300	91,307
Increase in cash surrender value of Bank-owned life insurance	18,000	18,000
Other income	199,211	184,700
	2,457,191	2,826,788
Noninterest expenses		
Salaries and employee benefits	3,333,793	3,259,518
Occupancy	402,994	397,655
Equipment	186,731	99,162
Professional services	403,242	367,397
Data processing	401,660	345,856
FDIC insurance	132,372	154,291
Advertising and promotion	129,747	85,055
Employee expenses	105,092	98,956
Telephone	104,786	80,681
Loan expenses	85,681	76,165
Supplies and postage	72,717	81,574
Collection and other real estate owned expenses	29,211	47,402
Other real estate owned losses and provisions	25,645	76,850
Other operating	76,332	87,385
	5,490,003	5,257,947
Income before income taxes	632,302	463,778
Income tax benefit	(1,090,000)	(752,000)
Net income	\$ 1,722,302	\$ 1,215,778
Net income per share	\$ 0.10	\$ 0.10
Diluted net income per share	\$ 0.08	\$ 0.10

See accompanying notes.

**IDAHO FIRST BANK**  
**STATEMENTS OF COMPREHENSIVE INCOME**

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	Years Ended December 31,	
	<u>2014</u>	<u>2013</u>
Net income	<u>\$ 1,722,302</u>	<u>\$ 1,215,778</u>
Other comprehensive income (loss)		
Change in unrealized gains (losses) on securities available for sale	73,199	(141,179)
Income tax benefit (provision)	<u>(28,560)</u>	<u>55,084</u>
Other comprehensive income (loss)	<u>44,639</u>	<u>(86,095)</u>
Comprehensive income	<u><u>\$ 1,766,941</u></u>	<u><u>\$ 1,129,683</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, 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 income, 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
Net income	-	-	1,722,302	-	1,722,302
Issuance of stock, net	3,573,001	1,179,090	-	-	1,179,090
Other comprehensive loss, net of tax	-	-	-	44,639	44,639
BALANCE, December 31, 2014	<u>19,763,547</u>	<u>\$ 19,248,409</u>	<u>\$(6,788,535)</u>	<u>\$ (24,700)</u>	<u>\$ 12,435,174</u>



**IDAHO FIRST BANK**  
**STATEMENTS OF CASH FLOWS**

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	Years Ended December 31,	
	<u>2014</u>	<u>2013</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 1,722,302	\$ 1,215,778
Adjustments to reconcile net income to net cash from operating activities		
Net accretion of deferred loan fees and costs	(193,966)	(153,285)
Net amortization of securities' discounts and premiums	66,951	85,242
Provision for loan losses	291,000	410,000
Originations of loans held for sale	(65,229,191)	(72,525,960)
Proceeds from sale of loans held for sale	65,747,906	82,259,637
Gain on sale of loans	(1,328,259)	(1,558,200)
Increase in cash surrender value of life insurance	(18,000)	(18,000)
Loss on disposal of premises and equipment	3,346	-
Depreciation and amortization	251,157	151,259
Net losses and provisions on other real estate owned	25,645	76,850
Deferred income tax benefit	(1,090,000)	(752,000)
Change in accrued interest receivable and other assets	(6,145)	(133,279)
Change in accrued interest payable and other liabilities	(132,997)	110,063
	<u>109,749</u>	<u>9,168,105</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Securities available for sale		
Maturities, prepayments and calls	1,698,956	1,800,390
Purchases	(2,635,227)	(2,534,042)
Redemption of Federal Home Loan Bank stock	10,300	9,800
Purchase of Federal Home Loan Bank stock	-	(12,300)
Net increase in loans	(13,693,834)	(11,345,751)
Purchases of premises, equipment, and software	(219,856)	(4,788,894)
Proceeds from sale of premises and equipment	250	-
Proceeds from sale of other real estate owned	880,272	698,051
	<u>(13,959,139)</u>	<u>(16,172,746)</u>

**IDAHO FIRST BANK**  
**STATEMENTS OF CASH FLOWS**

	Years Ended December 31,	
	2014	2013
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net increase in deposits	\$ 15,813,132	\$ 1,540,055
Borrowings from Federal Home Loan Bank	17,000,000	11,000,000
Repayments of borrowings from Federal Home Loan Bank	(17,000,000)	(12,000,000)
Proceeds from issuance of common stock, net	1,179,090	3,158,037
	<u>16,992,222</u>	<u>3,698,092</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	3,142,832	(3,306,549)
Cash and cash equivalents, beginning of year	<u>4,548,491</u>	<u>7,855,040</u>
Cash and cash equivalents, end of year	<u>\$ 7,691,323</u>	<u>\$ 4,548,491</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION</b>		
Cash paid during the year for		
Interest	<u>\$ 514,975</u>	<u>\$ 608,536</u>
Income taxes	<u>\$ -</u>	<u>\$ -</u>
<b>NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Net change in unrealized gains (losses) on securities available for sale, net of tax	<u>\$ 44,639</u>	<u>\$ (86,095)</u>
Loans provided for the sale of other real estate owned	<u>\$ 214,057</u>	<u>\$ 324,700</u>
Transfer of loans to other real estate owned	<u>\$ 784,895</u>	<u>\$ 822,800</u>
Issuance of common stock for purchase of premises	<u>\$ -</u>	<u>\$ 200,000</u>

# IDAHO FIRST BANK

## NOTES TO FINANCIAL STATEMENTS

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### 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 serving McCall and Boise, Idaho, and contiguous areas. The Bank also operates two mortgage offices in Boise, Idaho.

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

**IDAHO FIRST BANK**  
**NOTES TO FINANCIAL STATEMENTS**

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**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, 2014 or 2013. The Federal Home Loan Bank of Seattle has entered into an agreement to be acquired by the Federal Home Loan Bank of Des Moines. The acquisition is not expected to have an impact on the value of the Bank’s stock ownership.

**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.

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

## IDAHO FIRST BANK

### NOTES TO FINANCIAL STATEMENTS

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#### **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.

**IDAHO FIRST BANK**  
**NOTES TO FINANCIAL STATEMENTS**

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**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 \$14,700 at December 31, 2014, and \$105,000 at December 31, 2013.

**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, 2014 or 2013.

**Advertising** – Advertising and promotion costs are charged to noninterest expense when incurred. Advertising and promotion expense for the years ended December 31, 2014 and 2013, was \$129,747 and \$85,055, 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.

## IDAHO FIRST BANK

### NOTES TO FINANCIAL STATEMENTS

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#### **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 Bank's net operating loss carry forwards to reflect management's estimate of the realizable amount of its deferred tax assets at December 31, 2014.

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, 2014, 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, 2014. 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 net income per share is calculated taking into account the dilutive impact of stock warrants.

**Reclassifications** – Certain reclassifications have been made in the December 31, 2013, financial statements in order to conform with the December 31, 2014, presentation with no effect on previously reported net income or stockholders' equity.

**IDAHO FIRST BANK**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 1 – Summary of Significant Accounting Policies (continued)**

**Subsequent events review** – Subsequent events are events or transactions that occur after the date of the statement of financial condition but before the financial statements are issued. The 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 17, 2015, which is the date the financial statements are available to be issued.

**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, 2014. As of December 31, 2014, securities available for sale, with an estimated market value of \$1,967,297 were pledged as collateral for \$1,167,408 of uninsured public deposits. The carrying amounts of securities available for sale and their approximate fair values were as follows:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Market Value</u>
As of December 31, 2014				
U.S. government agency securities	\$ 3,012,450	\$ 3,252	\$ (35,623)	\$ 2,980,079
Mortgage-backed securities	<u>2,924,050</u>	<u>7,672</u>	<u>(15,803)</u>	<u>2,915,919</u>
	<u>\$ 5,936,500</u>	<u>\$ 10,924</u>	<u>\$ (51,426)</u>	<u>\$ 5,895,998</u>
As of December 31, 2013				
U.S. government agency securities	\$ 3,041,560	\$ 5,967	\$ (99,858)	\$ 2,947,669
Mortgage-backed securities	<u>2,025,620</u>	<u>11,654</u>	<u>(31,464)</u>	<u>2,005,810</u>
	<u>\$ 5,067,180</u>	<u>\$ 17,621</u>	<u>\$ (131,322)</u>	<u>\$ 4,953,479</u>



**IDAHO FIRST BANK**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 2 – Securities Available for Sale (continued)**

Information for securities with unrealized losses is as follows:

	Securities with Unrealized Losses			Securities with Unrealized Losses for 12 Consecutive Months or Longer			Securities with Unrealized Losses for less than 12 Consecutive Months		
	Amortized Cost	Gross Unrealized Losses	Estimated Market Value	Amortized Cost	Gross Unrealized Losses	Estimated Market Value	Amortized Cost	Gross Unrealized Losses	Estimated Market Value
December 31, 2014									
U.S. government agency securities	\$2,002,920	\$ (35,623)	\$1,967,297	\$1,010,633	\$ (34,334)	\$ 976,299	\$ 992,287	\$ (1,289)	\$ 990,998
Mortgage-backed securities	2,381,479	(15,803)	2,365,676	831,508	(8,001)	823,507	1,549,971	(7,802)	1,542,169
	<u>\$4,384,399</u>	<u>\$ (51,426)</u>	<u>\$4,332,973</u>	<u>\$1,842,141</u>	<u>\$ (42,335)</u>	<u>\$1,799,806</u>	<u>\$2,542,258</u>	<u>\$ (9,091)</u>	<u>\$2,533,167</u>
December 31, 2013									
U.S. government agency securities	\$1,021,489	\$ (99,858)	\$ 921,631	\$1,021,489	\$ (99,858)	\$ 921,631	\$ -	\$ -	\$ -
Mortgage-backed securities	1,176,790	(31,464)	1,145,326	-	-	-	1,176,790	(31,464)	1,145,326
	<u>\$2,198,279</u>	<u>\$ (131,322)</u>	<u>\$2,066,957</u>	<u>\$1,021,489</u>	<u>\$ (99,858)</u>	<u>\$ 921,631</u>	<u>\$1,176,790</u>	<u>\$ (31,464)</u>	<u>\$1,145,326</u>

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 2014 or 2013.

At December 31, 2014 and 2013, five and two securities, respectively, have unrealized losses.

**IDAHO FIRST BANK**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 2 – Securities Available for Sale (continued)**

Maturities of securities available for sale at December 31, 2014, are summarized below. Actual maturities may differ from contractual maturities due to call provisions.

	<u>Amortized Cost</u>	<u>Estimated Market Value</u>
Maturing in one to five years	\$ 2,001,817	\$ 2,003,780
Maturing in five to ten years	1,010,633	976,299
Mortgage-backed securities	<u>2,924,050</u>	<u>2,915,919</u>
	<u>\$ 5,936,500</u>	<u>\$ 5,895,998</u>

**Note 3 – Loans Receivable and Allowance for Loan Losses**

Major classifications of loans at December 31 were as follows:

	<u>2014</u>	<u>2013</u>
Real estate - commercial	\$ 27,234,558	\$ 25,447,645
Real estate - residential	24,159,388	23,020,083
Commercial	23,336,726	13,891,570
Construction and land development	6,727,885	7,352,107
Consumer	<u>4,515,345</u>	<u>3,095,904</u>
	85,973,902	72,807,309
Allowance for loan losses	<u>(1,274,319)</u>	<u>(1,133,688)</u>
Net loans receivable	<u>\$ 84,699,583</u>	<u>\$ 71,673,621</u>

Deferred fees and costs were a net credit of \$293,088 at December 31, 2014, and a net credit of \$226,509 at December 31, 2013.

## IDAHO FIRST BANK

### NOTES TO FINANCIAL STATEMENTS

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

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

	<u>2014</u>	<u>2013</u>
Fixed	\$ 16,971,999	\$ 21,286,717
Variable	<u>69,001,903</u>	<u>51,520,592</u>
	<u>\$ 85,973,902</u>	<u>\$ 72,807,309</u>

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.

**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 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 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 the changes in the allowance for loan losses for the years ended December 31, 2014 and 2013, 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, 2014 and 2013.

	Real Estate Commercial	Real Estate Residential	Commercial	Construction and Land Development	Consumer	Unallocated	Total
Balance at December 31, 2013	\$ 464,966	\$ 314,321	\$ 134,136	\$ 122,780	\$ 48,915	\$ 48,570	\$ 1,133,688
Provision (recapture)	34,822	141,107	123,064	2,873	3,761	(14,627)	291,000
Loans charged off	-	(167,542)	(22,125)	-	(524)	-	(190,191)
Loan recoveries	9,078	7,432	20,462	2,850	-	-	39,822
Balance at December 31, 2014	<u>\$ 508,866</u>	<u>\$ 295,318</u>	<u>\$ 255,537</u>	<u>\$ 128,503</u>	<u>\$ 52,152</u>	<u>\$ 33,943</u>	<u>\$ 1,274,319</u>
Balances as of December 31, 2014							
Allowance for impaired loans	\$ 10,035	\$ 6,188	\$ -	\$ -	\$ -	\$ -	\$ 16,223
Allowance for unimpaired loans	498,831	289,130	255,537	128,503	52,152	33,943	1,258,096
Total allowance for loan losses	<u>\$ 508,866</u>	<u>\$ 295,318</u>	<u>\$ 255,537</u>	<u>\$ 128,503</u>	<u>\$ 52,152</u>	<u>\$ 33,943</u>	<u>\$ 1,274,319</u>
Impaired loans receivable	\$ 771,361	\$ 720,000	\$ -	\$ -	\$ -		\$ 1,491,361
Unimpaired loans receivable	26,463,197	23,439,388	23,336,726	6,727,885	4,515,345		84,482,541
Total loans receivable	<u>\$ 27,234,558</u>	<u>\$ 24,159,388</u>	<u>\$ 23,336,726</u>	<u>\$ 6,727,885</u>	<u>\$ 4,515,345</u>		<u>\$ 85,973,902</u>
Allowance for loan losses to loans receivable by segment	1.87%	1.22%	1.09%	1.91%	1.15%		1.48%

  

	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 (recapture)	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	<u>\$ 464,966</u>	<u>\$ 314,321</u>	<u>\$ 134,136</u>	<u>\$ 122,780</u>	<u>\$ 48,915</u>	<u>\$ 48,570</u>	<u>\$ 1,133,688</u>
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	<u>\$ 464,966</u>	<u>\$ 314,321</u>	<u>\$ 134,136</u>	<u>\$ 122,780</u>	<u>\$ 48,915</u>	<u>\$ 48,570</u>	<u>\$ 1,133,688</u>
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	<u>\$ 25,447,645</u>	<u>\$ 23,020,083</u>	<u>\$ 13,891,570</u>	<u>\$ 7,352,107</u>	<u>\$ 3,095,904</u>		<u>\$ 72,807,309</u>
Allowance for loan losses to loans receivable by segment	1.83%	1.37%	0.97%	1.67%	1.58%		1.56%

The Bank had one residential real estate loan of \$146,089 and one consumer loan of \$5,160 that were 30-59 days past due as of December 31, 2014. There were no loans that were 60 or more days past due as of December 31, 2014. 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 60 or more days past due as of December 31, 2013.

There were no loans on nonaccrual status at December 31, 2014. There was one commercial loan, in the amount of \$868,700, on nonaccrual status at December 31, 2013.

**IDAHO FIRST BANK**  
**NOTES TO FINANCIAL STATEMENTS**

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

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, 2014 and 2013, 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, 2014						
Grade						
Pass	\$ 27,040,485	\$ 22,898,019	\$ 23,336,726	\$ 5,917,982	\$ 4,515,345	\$ 83,708,557
Special mention	-	758,307	-	-	-	758,307
Substandard	194,073	503,062	-	809,903	-	1,507,038
Total	<u>\$ 27,234,558</u>	<u>\$ 24,159,388</u>	<u>\$ 23,336,726</u>	<u>\$ 6,727,885</u>	<u>\$ 4,515,345</u>	<u>\$ 85,973,902</u>
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	<u>\$ 25,447,645</u>	<u>\$ 23,020,083</u>	<u>\$ 13,891,570</u>	<u>\$ 7,352,107</u>	<u>\$ 3,095,904</u>	<u>\$ 72,807,309</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.

The tables show amounts as of December 31, 2014 and 2013.

	Recorded Impaired Loan Balance	Unpaid Principal Balance	Specific Reserve in Allowance
As of December 31, 2014			
With no specific reserve in allowance			
Real estate - commercial	\$ 485,685	\$ 485,685	
With specific reserve in allowance			
Real estate - commercial	\$ 285,676	\$ 285,676	\$ 10,035
Real estate - residential	720,000	720,000	6,188
Total	\$ 1,005,676	\$ 1,005,676	\$ 16,223
Total			
Real estate - commercial	\$ 771,361	\$ 771,361	\$ 10,035
Real estate - residential	720,000	720,000	6,188
Total	\$ 1,491,361	\$ 1,491,361	\$ 16,223
As of December 31, 2013			
With no specific reserve in allowance			
Real estate - residential	\$ 495,973	\$ 495,973	
Construction and land development	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

**IDAHO FIRST BANK**  
**NOTES TO FINANCIAL STATEMENTS**

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

The Bank allocated specific reserves of \$16,223 and \$41,662 as of December 31, 2014 and 2013, 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, 2014 and 2013, to customers with outstanding loans that are classified as troubled debt restructurings.

There were no newly restructured loans in 2014 or 2013, 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:

	2014		2013	
	Average Balance	Interest Income Recognized	Average Balance	Interest Income Recognized
Real estate - commercial	\$ 778,988	\$ 32,453	\$ 1,564,270	\$ 55,591
Real estate - residential	793,264	25,062	840,655	24,827
Commercial	402,640	36,849	622,662	39,127
Construction and land development	-	-	91,693	-
Total	\$ 1,974,892	\$ 94,364	\$ 3,119,280	\$ 119,545

**Note 4 - Premises and Equipment**

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

	2014	2013
Land	\$ 459,000	\$ 459,000
Buildings and improvements	4,440,203	4,314,945
Furniture and equipment	894,430	703,894
Fixed assets in process	-	168,000
Total cost	5,793,633	5,645,839
Less accumulated depreciation	785,662	595,587
Net book value	\$ 5,007,971	\$ 5,050,252

**IDAHO FIRST BANK**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 4 – Premises and Equipment (continued)**

Depreciation and amortization expense for the years ended December 31, 2014 and 2013, was \$244,255 and \$145,696, respectively.

**Note 5 – Deposits**

The following table shows weighted average rates and scheduled maturities for time deposits at December 31, 2014:

Years ending December 31,	<u>Amount</u>	<u>Average Rate</u>
2015	\$ 30,324,882	0.69%
2016	14,204,332	0.79%
2017	1,886,555	1.05%
2018	593,752	1.16%
2019	4,012,318	1.73%
2020	<u>249,000</u>	2.00%
	<u>\$ 51,270,839</u>	0.82%

The Bank had \$4,656,914 of time deposits of \$250,000 and more as of December 31, 2014. Of this amount, there was one time deposit of \$250,000, and \$4,406,914 was in time deposits exceeding \$250,000.

**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, 2014. These lines are unsecured. There was no balance outstanding on the lines as of December 31, 2014 or 2013.

The Bank has a credit arrangement with the Federal Home Loan Bank of Seattle, under which the Bank can borrow up to 20% of its assets. Borrowings must be collateralized with loans or securities. At December 31, 2014, loans with a principal balance of \$18.3 million were pledged as collateral. At December 31, 2014, 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 3.19% and matures on July 2, 2024.



## **IDAHO FIRST BANK**

### **NOTES TO FINANCIAL STATEMENTS**

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#### **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 \$98,203 and \$175,392 in 2014 and 2013, respectively. As of December 31, 2014, the Bank has no significant leases with a remaining term of 12 months or more.

**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, 2014 and 2013, the Bank had \$15,218,188 and \$10,200,658, respectively, in commitments to extend credit. The Bank also had \$145,000 and \$30,000, respectively, of standby letters of credit.

The Bank does not anticipate material losses as a result of these commitments. At December 31, 2014 and 2013, the Bank had \$30,000 in an allowance for off-balance sheet credit exposure.

#### **Note 8 - Dividend Restriction**

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

**IDAHO FIRST BANK**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 9 – Income Taxes**

The components of income tax expense (benefit) consist of the following:

	<u>2014</u>	<u>2013</u>
Current tax expense		
Federal	\$ -	\$ -
State	-	-
Deferred tax benefit		
Federal	209,679	154,764
State	28,510	14,373
Change in valuation allowance	<u>(1,328,189)</u>	<u>(921,137)</u>
Income tax benefit	<u><u>\$ (1,090,000)</u></u>	<u><u>\$ (752,000)</u></u>

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

	<u>2014</u>	<u>2013</u>
Deferred tax assets		
Net operating loss carryforward	\$ 3,288,599	\$ 3,486,181
Allowance for loan and credit losses	133,859	66,943
Losses on other real estate owned	31,127	124,417
Held for sale loans	30,812	22,466
Tax credit carryforwards	24,898	22,747
Unrealized loss on securities available for sale	15,802	44,362
Other	<u>23,636</u>	<u>21,212</u>
Total deferred tax assets	<u>3,548,733</u>	<u>3,788,328</u>
Less valuation allowance	<u>(1,591,956)</u>	<u>(2,920,145)</u>
Deferred tax liabilities		
Deferred loan origination costs	(68,285)	(57,277)
Book-tax depreciation	<u>(30,690)</u>	<u>(14,544)</u>
Total deferred tax liabilities	<u>(98,975)</u>	<u>(71,821)</u>
Net deferred tax asset	<u><u>\$ 1,857,802</u></u>	<u><u>\$ 796,362</u></u>

**IDAHO FIRST BANK**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 9 - Income Taxes (continued)**

The net deferred income tax assets for December 31, 2014 and 2013, were recorded as assets.

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

	<u>2014</u>	<u>2013</u>
Federal income tax expense at expected rate	\$ 214,983	\$ 157,685
State tax expense	26,624	16,037
Effect of tax exempt income	(7,813)	(8,264)
Effect of permanent differences	4,395	3,679
Change in valuation allowance	<u>(1,328,189)</u>	<u>(921,137)</u>
Income tax benefit	<u><u>\$ (1,090,000)</u></u>	<u><u>\$ (752,000)</u></u>

Operating loss carryforwards as of December 31, 2014, for tax purposes were as follows:

<u>Expiration Dates</u>	<u>Federal</u>	<u>State</u>
December 31, 2026	\$ 840,949	\$ 963,573
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, 2034	<u>350</u>	<u>-</u>
	<u><u>\$ 8,353,095</u></u>	<u><u>\$ 8,942,326</u></u>

At a federal tax rate of 34% and an Idaho State tax rate of 7.4%, the above operating loss carryforwards represent a deferred tax asset of \$3,288,599 as of December 31, 2014. It is estimated that \$1,842,000 of this tax benefit might be realized in the three years from 2015 to 2017. The amount and timing of the realization of these tax benefits beyond 2017 is uncertain. Therefore, a valuation allowance has been established against that portion of the deferred tax asset.

**IDAHO FIRST BANK**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 9 – Income Taxes (continued)**

State tax credit carryforwards as of December 31, 2014, for tax purposes were as follows:

<u>Expiration Dates</u>	<u>Amount</u>
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	6,492
December 31, 2028	7,715
	<u>\$ 37,725</u>

The Bank had no unrecognized tax benefits at December 31, 2014 or 2013.

The Bank recognizes interest accrued and penalties related to unrecognized tax benefits in tax expense. During the years ended December 31, 2014 and 2013, 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, 2011.

**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, 2014, the Bank made a matching contribution of 50% of the first 4% of employee contribution. In effect, this limits the matching contribution to no more than 2% of eligible compensation. In addition to the matching contribution, the Board of Directors approved a profit sharing contribution of 1%, bringing the maximum contribution, per employee, to 3% for 2014. The 2013 contribution consisted of a 3.5% profit sharing contribution. Bank contributions do not begin until an employee has worked one year. The compensation expense relating to employer contributions for the years ended December 31, 2014 and 2013, was \$63,679 and \$74,376, respectively.

## IDAHO FIRST BANK

### NOTES TO FINANCIAL STATEMENTS

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#### Note 10 – Employee Retirement Benefits (continued)

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, 2014, 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 \$924,000 and \$1,162,000 of deposits from related parties at December 31, 2014 and 2013, 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:

	<u>2014</u>	<u>2013</u>
Balance, beginning of year	\$ 3,681,862	\$ 923,143
Advances	1,250,648	2,883,497
Payments	<u>(1,972,068)</u>	<u>(124,778)</u>
Balance, end of year	<u><u>\$ 2,960,442</u></u>	<u><u>\$ 3,681,862</u></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 5,000,000 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 the new plan. There was no equity compensation expense in 2014 or 2013.

The Bank has stock options outstanding that were granted under prior plans. The Bank has no intention to grant new options under the prior plans, and expects all options granted under the prior plans to expire without exercise. The vesting of prior stock options ranged from immediate vesting to five year vesting, with original terms of 10 years.

**IDAHO FIRST BANK**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 12 – Stock Options and Stock Grants (continued)**

A summary of activity for stock options, granted under prior plans, for the years ended December 31 is presented below:

	2014		2013	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding options at beginning of period	64,728	\$ 10.27	73,035	\$ 10.27
Forfeited	<u>(2,100)</u>	5.00	<u>(8,307)</u>	10.27
Outstanding at end of year	<u>62,628</u>	\$ 10.44	<u>64,728</u>	\$ 10.27
Options exercisable at year end	<u>62,628</u>	\$ 10.44	<u>64,728</u>	\$ 10.27

The following is additional information on options as of December 31, 2014:

	Outstanding	Exercisable
Options at December 31, 2014	<u>62,628</u>	<u>62,628</u>
Aggregate market value, assuming price of \$.65	\$ 40,708	\$ 40,708
Aggregate exercise price	<u>654,124</u>	<u>654,124</u>
Aggregate intrinsic value*	<u>\$ -</u>	<u>\$ -</u>
Weighted average contractual term - years	<u>1.1</u>	<u>1.1</u>

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

**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 \$2,753,000 at December 31, 2014.

## **IDAHO FIRST BANK**

### **NOTES TO FINANCIAL STATEMENTS**

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#### **Note 13 – Concentrations of Credit Risk (continued)**

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 issued stock warrants in connection with two stock offerings. At the beginning of 2014, there were 13,418,475 shares of warrants outstanding that entitled warrant holders to purchase common stock at \$0.42 per share at any time prior to the expiration of those warrants on December 27, 2017.

To provide an incentive for warrant holders to exercise warrants before December 27, 2017, the Board of Directors offered warrant holders a discounted exercise price of \$0.33 per share. In 2014, 3,573,001 warrants were exercised at \$0.33 per share resulting in \$1.2 million of additional capital. Of the remaining 9,845,474 warrants outstanding at December 31, 2014, there were 4,633,176 warrants exercisable at \$0.33 per share by January 30, 2015. If holders of the discounted warrants fail to exercise those warrants by January 30, 2015, the exercise price will revert to \$0.42 per share and the warrants will continue to be exercisable at any time before their expiration 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, 2014, the Bank was considered “well-capitalized.”

**IDAHO FIRST BANK**  
**NOTES TO FINANCIAL STATEMENTS**

**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	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2014						
Tier 1 capital (to average assets)	\$ 11,077,000	10.53%	\$ 4,206,000	4.00%	\$ 5,257,000	5.00%
Tier 1 capital (to risk-weighted assets)	11,077,000	11.94%	3,712,000	4.00%	5,568,000	6.00%
Total capital (to risk-weighted assets)	12,239,000	13.19%	7,424,000	8.00%	9,280,000	10.00%
December 31, 2013						
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%

**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**

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**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, 2014				
Assets measured at fair value on a recurring basis				
Securities available for sale				
U.S. government agency securities	\$ 2,980,079	\$ -	\$ 2,980,079	\$ -
Mortgage-backed securities	2,915,919	-	2,915,919	-
Total securities available for sale	<u>\$ 5,895,998</u>	<u>\$ -</u>	<u>\$ 5,895,998</u>	<u>\$ -</u>
Assets measured at fair value on a nonrecurring basis				
Impaired loans	\$ 1,005,676	\$ -	\$ -	\$ 1,005,676
Other real estate owned	310,500	-	-	310,500
December 31, 2013				
Assets measured at fair value on a recurring basis				
Securities available for sale				
U.S. government agency securities	\$ 2,947,669	\$ -	\$ 2,947,669	\$ -
Mortgage-backed securities	2,005,810	-	2,005,810	-
Total securities available for sale	<u>\$ 4,953,479</u>	<u>\$ -</u>	<u>\$ 4,953,479</u>	<u>\$ -</u>
Assets measured at fair value on a nonrecurring basis				
Impaired loans	\$ 1,011,302	\$ -	\$ -	\$ 1,011,302
Other real estate owned	610,100	-	-	610,100

**IDAHO FIRST BANK**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 15 – Fair Value Measurement (continued)**

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

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

	December 31, 2014		
	Estimated Fair Value	Valuation Techniques	Unobservable Inputs
Impaired loans	\$ 1,005,676	Discounted cash flow	Restructured cash flow discounted at original rates ranging from 3.38% to 7.25%
Other real estate owned	310,500	Market approach	Appraised value less selling costs of 8% to 10%
	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 ranging from 3.38% to 7.25%
Other real estate owned	610,100	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.

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**

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**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:

	2014	
	Carrying Amount	Estimated Fair Value
<b>Financial Assets</b>		
Cash and cash equivalents	\$ 7,691,323	\$ 7,691,323
Securities available for sale	5,895,998	5,895,998
Federal Home Loan Bank stock	257,400	257,400
Mortgage loans held for sale	2,564,053	2,564,053
Net loans receivable	84,699,583	85,642,454
Accrued interest receivable	282,650	282,650
<b>Financial Liabilities</b>		
Noninterest-bearing demand	16,943,645	16,943,645
Interest-bearing demand	9,162,883	9,162,883
Savings	18,314,068	18,314,068
Time deposits	51,270,839	51,268,492
Borrowings from Federal Home Loan Bank	1,000,000	1,035,626
Accrued interest payable	39,634	39,634

The estimated fair value of standby letters of credit at December 31, 2014, is insignificant. Loan commitments in which the committed interest rate is less than the current market rate are also insignificant at December 31, 2014.

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 as classified as Level 2.

**IDAHO FIRST BANK**  
**NOTES TO FINANCIAL STATEMENTS**

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

**Federal Home Loan Bank stock** – 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.

**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 long-term debt and term advances, including FHLB advances, are estimated using discounted cash flow analyses, based on the Bank's current incremental borrowing rates for similar types of borrowing arrangements resulting in a Level 2 classification.

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

**IDAHO FIRST BANK**  
**NOTES TO FINANCIAL STATEMENTS**

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

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 per Share**

Basic net income per share is calculated by dividing net income 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 \$0.67 and \$0.42 for 2014 and 2013, respectively.

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

	<u>2014</u>	<u>2013</u>
Basic net income per share		
Net income	<u>\$ 1,722,302</u>	<u>\$ 1,215,778</u>
Weighted average common shares outstanding	<u>17,632,230</u>	<u>11,789,729</u>
Basic net income per share	<u>\$ 0.10</u>	<u>\$ 0.10</u>
Diluted net income per share		
Net income	<u>\$ 1,722,302</u>	<u>\$ 1,215,778</u>
Weighted average common shares outstanding	17,632,230	11,789,729
Stock warrants - common stock equivalent	<u>3,216,788</u>	<u>-</u>
Total	<u>20,849,018</u>	<u>11,789,729</u>
Diluted net income per share	<u>\$ 0.08</u>	<u>\$ 0.10</u>