REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS

IDAHO FIRST BANK

December 31, 2020 and 2019

MOSSADAMS

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Report of Independent Auditors

Board of Directors and Stockholders
Idaho First Bank

Report on the Financial Statements

We have audited the accompanying financial statements of Idaho First Bank, which comprise the statements of financial condition as of December 31, 2020 and 2019, and the related statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Idaho First Bank as of December 31, 2020 and 2019, 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
April 20, 2021

Idaho First Bank
Statements of Financial Condition

ASSETS

	December 31, 2020	December 31, 2019
Cash and due from banks	$ 6,761,868	$ 3,762,832
Interest-bearing deposits due from banks	34,866,619	11,907,781
Cash and cash equivalents	41,628,487	15,670,613
Securities available for sale, at fair value	12,809,027	21,440,241
Equity securities	905,346	584,346
Mortgage loans held for sale	3,627,400	2,217,570
Loans receivable	815,489,806	172,028,335
Allowance for loan losses	(3,169,168)	(2,095,928)
Net loans receivable	812,320,638	169,932,407
Premises and equipment, net	6,173,396	6,235,736
Accrued interest receivable	4,684,455	680,604
Net deferred tax asset	1,628,366	1,710,986
Cash surrender value of bank-owned life insurance	793,259	776,013
Other assets	976,623	828,374
Total assets	$ 885,546,997	$ 220,076,890

See accompanying notes.

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 2020	December 31, 2019
Deposits		
Noninterest-bearing demand	$ 126,824,427	$ 47,822,991
Interest-bearing demand	38,322,461	18,123,086
Savings	123,734,559	73,862,756
Time deposits	59,299,419	46,379,900
Total deposits	348,180,866	186,188,733
Paycheck Protection Program Loan Funds	485,932,627	-
Borrowed funds	13,000,000	5,000,000
Accrued interest payable	1,167,201	119,360
Other liabilities	3,418,024	940,810
Total liabilities	851,698,718	192,248,903
Commitments and contingencies (Note 7)		
Stockholders' Equity		
Preferred stock $1,000 par value; 10,000 shares authorized; none issued or outstanding	-	-
Common stock - no par value; 9,000,000 shares authorized; 4,967,294 and 4,526,109 shares issued and outstanding, respectively	35,239,536	32,478,276
Accumulated deficit	(1,656,907)	(4,705,884)
Accumulated other comprehensive income	265,650	55,595
Total stockholders' equity	33,848,279	27,827,987
Total liabilities and stockholders' equity	$ 885,546,997	$ 220,076,890

See accompanying notes.

Idaho First Bank
Statements of Income

	Years Ended December 31, 2020	2019
INTEREST INCOME		
Loans, including fees	$ 18,914,382	$ 8,807,743
Securities	416,880	381,627
Other interest income	159,750	559,875
Total interest income	19,491,012	9,749,245
INTEREST EXPENSE		
Time deposits	735,794	1,015,999
Savings	510,099	709,362
Interest-bearing demand	22,331	25,972
Borrowed funds	1,553,143	123,783
Total interest expense	2,821,367	1,875,116
Net interest income	16,669,645	7,874,129
PROVISION FOR LOAN LOSSES	1,070,000	290,000
Net interest income after provision for loan losses	15,599,645	7,584,129
NONINTEREST INCOME		
Mortgage banking income	917,100	763,973
Service charges on deposits	174,159	167,485
Increase in cash surrender value of bank-owned life insurance	17,246	17,013
Other income	418,679	402,108
	1,527,184	1,350,579
NONINTEREST EXPENSES		
Salaries and employee benefits	7,424,877	4,544,532
Occupancy	630,392	630,710
Equipment	262,692	225,289
Data processing	1,174,315	1,003,424
Professional services	930,429	288,003
Employee expenses	165,250	171,900
FDIC insurance	145,046	80,521
Telephone	197,628	189,063
Loan expenses	91,748	63,130
Supplies and postage	153,980	117,449
Advertising and promotion	293,143	141,466
Other operating expenses	1,491,352	94,054
	12,960,852	7,549,541
INCOME BEFORE TAXES	4,165,977	1,385,167
INCOME TAX PROVISION	1,117,000	382,000
NET INCOME	$ 3,048,977	$ 1,003,167
NET INCOME PER SHARE	$ 0.65	$ 0.30
DILUTED NET INCOME PER SHARE	$ 0.59	$ 0.24

See accompanying notes.

	Years Ended December 31, 2020	Years Ended December 31, 2019
NET INCOME	$ 3,048,977	$ 1,003,167
OTHER COMPREHENSIVE INCOME		
Change in unrealized gains on securities available for sale	285,676	350,183
Income tax provision	(75,621)	(92,696)
Other comprehensive income	210,055	257,487
Comprehensive income	$ 3,259,032	$ 1,260,654

See accompanying notes.

Idaho First Bank
Statements of Changes in Stockholders' Equity

	Common Stock		Accumulated	Accumulated Other Comprehensive	
	Shares	Amount	Deficit	Income (Loss)	Total
BALANCE, December 31, 2018	3,099,452	$ 23,985,894	$ (5,709,051)	$ (201,892)	$ 18,074,951
Net income	-	-	1,003,167	-	1,003,167
Issuance of stock, net	1,426,657	8,492,382	-	-	8,492,382
Other comprehensive income, net of tax	-	-	-	257,487	257,487
BALANCE, December 31, 2019	4,526,109	32,478,276	(4,705,884)	55,595	27,827,987
Net income	-	-	3,048,977	-	3,048,977
Issuance of stock, net	441,185	2,761,260	-	-	2,761,260
Other comprehensive income, net of tax	-	-	-	210,055	210,055
BALANCE, December 31, 2020	4,967,294	$ 35,239,536	$ (1,656,907)	$ 265,650	$ 33,848,279

See accompanying notes.

	Years Ended December 31, 2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 3,048,977	$ 1,003,167
Adjustments to reconcile net income to net cash from operating activities		
Net accretion of deferred loan fees, costs and premiums	(5,477,338)	(157,767)
Net amortization of securities' discounts and premiums	95,171	36,173
Provision for loan losses	1,070,000	290,000
Originations of loans held for sale	(29,920,940)	(25,281,706)
Proceeds from sale of loans held for sale	29,134,903	25,312,300
Gain on sale of loans	(623,793)	(503,401)
Increase in cash surrender value of life insurance	(17,246)	(17,013)
Loss on disposal of premises, equipment and software	17,126	1,860
Depreciation and amortization	313,288	298,676
Amortization of operating right-of-use assets	96,473	96,473
Net change in operating lease liabilities	(97,385)	(93,363)
Deferred income tax provision	1,117,000	382,000
Stock based compensation expense	120,913	146,076
Net change in accrued interest receivable and other assets	(4,338,573)	(243,622)
Net change in accrued interest payable and other liabilities	2,602,440	368,136
Net cash (used in) from operating activities	(2,858,985)	1,637,989
CASH FLOWS FROM INVESTING ACTIVITIES		
Securities available for sale		
Maturities, prepayments and calls	8,821,718	4,050,708
Purchases	-	(12,671,709)
Redemption of equity securities	4,996,800	64,000
Purchase of equity securities	(5,317,800)	(71,200)
Net increase in loans	(637,980,893)	(7,093,950)
Purchases of premises, equipment, and software	(268,073)	(2,099,578)
Net cash used in investing activities	(629,748,248)	(17,821,729)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	161,992,133	5,942,755
Borrowings from the Paycheck Protection Program Liquidity Facility	593,383,856	-
Repayments of Paycheck Protection Program Liquidity Facility borrowings	(107,451,229)	-
Borrowings from Federal Home Loan Bank	104,000,000	1,000,000
Repayments of borrowings from Federal Home Loan Bank	(96,000,000)	(1,000,000)
Proceeds from issuance of common stock, net	2,640,347	8,346,306
Net cash from financing activities	658,565,107	14,289,061
NET CHANGE IN CASH AND CASH EQUIVALENTS	25,957,874	(1,894,679)
CASH AND CASH EQUIVALENTS, beginning of year	15,670,613	17,565,292
CASH AND CASH EQUIVALENTS, end of year	$ 41,628,487	$ 15,670,613
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION		
Cash paid during the year for		
Interest	$ 1,773,526	$ 1,864,582
Income taxes	$ 90,000	$ -

Note 1 – Summary of Significant Accounting Policies

Bank organization – Idaho First Bank (Bank) provides a full range of banking services to its commercial and consumer customers through its offices in southwestern Idaho, serving McCall, Boise, Eagle, and New Meadows and in late 2020, opened a loan production office in Bend, Oregon.

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

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

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

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

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

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

Note 1 – Summary of Significant Accounting Policies (continued)

The Bank evaluates, at the end of each quarter, each of its investments in debt and equity securities with a decline in fair value below the amortized cost of the investment to determine whether or not the decline is deemed to be other-than-temporary. If it is determined the impairment is other-than-temporary for equity securities, the impairment loss is recognized in earnings equal to the difference between the investment's cost and its fair value. If it is determined the impairment is other-than-temporary for debt securities, the 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 (stock in other institutions) – The Bank is a member of the Federal Home Loan Bank (FHLB) system and owns equity securities of the FHLB of Des Moines. Members are required to own a certain amount of stock based on the level of borrowings and other factors, therefore stock is periodically purchased and sold. The FHLB stock was carried at a cost of $855,000 and $534,000 at December 31, 2020 and 2019, respectively. There is no determinable fair value for these equity securities as all purchases and redemptions occur at the $100 par value of the stock. The equity securities are periodically evaluated for impairment based upon ultimate recovery at par value. The securities were not considered to be impaired at December 31, 2020 or 2019.

The Bank also owns stock of Bankers' Bank of the West located in Denver, Colorado. Bankers' Bank of the West provides correspondent banking services and is owned by community banks in its market area. These securities were carried at a cost of $50,346 at December 31, 2020 and 2019.

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

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

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

Note 1 – Summary of Significant Accounting Policies (continued)

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

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

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

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

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

Note 1 – Summary of Significant Accounting Policies (continued)

In conjunction with the passage of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) in March 2020, financial institutions have been provided the option, for loans meeting specific criteria, to temporarily suspend certain requirements under GAAP related to Troubled Debt Restructurings (TDRs) for a limited time to assist borrowers experiencing financial hardship due to the COVID-19 Pandemic (the Pandemic). As a result, the Bank has not recognized eligible CARES Act loan modifications as TDRs. Additionally, loans qualifying for these modifications are not required to be reported as delinquent, nonaccrual, impaired, or criticized solely as a result of loan modification resulting from the economic effects of the Pandemic. Modifications include deferral of payments and interest only periods. The Bank accrues and recognizes interest income on loans under payment relief based on the original contractual interest rates. Loan principal and accrued interest balances are assessed for collectability on a periodic basis.

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

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

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

Other real estate owned – Other real estate owned includes real estate acquired through foreclosure or deed taken in lieu of foreclosure. Property is recorded at the lower of recorded investment or fair value less estimated costs to sell. Any required write-down from the recorded investment to fair value, at the time of foreclosure, is charged to the allowance for loan losses. Subsequent write-downs and gains or losses recognized upon sale of the property are included in noninterest income or expense. The Bank may have a valuation allowance for probable losses on disposition of other real estate owned, which is allocated on a specific property by property basis. There was no other real estate owned at December 31, 2020 or 2019.

Note 1 – Summary of Significant Accounting Policies (continued)

Right-of-use assets and liabilities – These amounts were determined based on the present value of remaining minimum lease payments, discounted using the Bank's incremental borrowing rate as of the date of adoption of the standard on January 1, 2019. Disclosures about the Bank's leasing activities are presented in Note 7.

Long-lived assets – The Bank evaluates the carrying value of long-lived assets based on current and anticipated discounted cash flows and recognizes impairment when such cash flows will be less than the carrying value of the asset. There was no impairment during the years ended December 31, 2020 or 2019.

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

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

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

Advertising – Advertising and promotion costs are charged to noninterest expense when incurred. Advertising and promotion expense for the years ended December 31, 2020 and 2019, was $293,143 and $141,466, respectively.

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

Note 1 – Summary of Significant Accounting Policies (continued)

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

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

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion of the deferred tax assets will not be realized. Management considers among other things, the scheduled reversal of deferred tax liabilities, projected future taxable income, tax planning strategies, and positions taken by taxing authorities on the various issues related to the deductibility of certain costs in making this assessment. A valuation allowance has been recorded against the Bank's Idaho state investment tax credits at December 31, 2020 and 2019.

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, 2020 and 2019, 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, 2020 or 2019. 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.

Note 1 – Summary of Significant Accounting Policies (continued)

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

Net income per share – Net income per share is calculated by taking the net income for the year divided by the average weighted number of shares of common stock outstanding during the year, which were 4,692,370 and 3,317,523 in 2020 and 2019, respectively.

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

Fair value of financial instruments – Fair values of financial instruments are estimated using relevant market information and other assumptions and are more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

Reclassifications – Certain reclassifications have been made in the December 31, 2019, financial statements in order to be in accordance with the December 31, 2020, presentation with no effect on previously reported net income or stockholders' equity.

Recent accounting pronouncements – In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases*, which changes the accounting for leases. Under current accounting standards operating leases are not reflected in assets nor in liabilities. The new standard requires most leases to be recorded on the balance sheet. For example, the right to use a leased asset would be recorded as an asset and the lease payments payable to the lessor would be recorded as a liability. The new accounting standard will become effective in 2020. While implementation of the new standard is expected to increase assets and liabilities on the financial statements, it is not expected to have a material effect on net income or stockholders' equity.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses*, which will change accounting standards for establishing allowances for credit losses. Specifically, this will affect the calculation of the Bank's allowance for loan losses. Under current accounting standards the focus is on probable credit losses at the date of the financial statement. The new standard shifts the focus to a current estimate of all expected credit losses, considering future events. While the new accounting standard is not expected to have a material impact on the financial statements of the Bank, it is expected to increase the documentation required to support the estimation of the allowance for loan losses. The new accounting standard is scheduled to become effective for the Bank in 2023.

Note 1 – Summary of Significant Accounting Policies (continued)

Subsequent events review – Subsequent events are events or transactions that occur after the date of the statement of financial condition but before the financial statements are issued. The 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 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 April 20, 2021, 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, 2020 and 2019. As of December 31, 2020, securities available for sale, with an estimated market value of $4,175,000 and $5,410,000 were pledged as collateral for public deposits and to the Federal Home Loan Bank of Des Moines to support the Bank's available credit line, respectively. The carrying amounts of securities available for sale and their approximate fair values were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
As of December 31, 2020				
U.S. government agency securities	$ 7,143,657	$ 255,291	$ -	$ 7,398,948
Mortgage-backed securities	5,304,085	105,994	-	5,410,079
	$ 12,447,742	$ 361,285	$ -	$ 12,809,027
As of December 31, 2019				
U.S. government agency securities	$ 10,831,402	$ 82,646	$ (7,913)	$ 10,906,135
Mortgage-backed securities	10,533,230	43,867	(42,991)	10,534,106
	$ 21,364,632	$ 126,513	$ (50,904)	$ 21,440,241

Note 2 – Securities Available for Sale (continued)

There were no securities with unrealized losses at December 31, 2020. There were 12 securities with unrealized losses at December 31, 2019. Information for securities with unrealized losses at December 31, 2019, is as follows:

	December 31, 2019		
	U.S. Government Agency Securities	Mortgage-backed Securities	Total
Securities with unrealized losses for 12 consecutive months or longer			
Amortized cost	$ 1,999,173	$ 2,054,050	$ 4,053,223
Gross unrealized losses	(6,974)	(16,923)	(23,897)
Estimated market value	1,992,199	2,037,127	4,029,326
Securities with unrealized losses for less than 12 consecutive months			
Amortized cost	$ 1,000,000	$ 4,024,202	$ 5,024,202
Gross unrealized losses	(939)	(26,068)	(27,007)
Estimated market value	999,061	3,998,134	4,997,195
Total securities with unrealized losses			
Amortized cost	$ 2,999,173	$ 6,078,252	$ 9,077,425
Gross unrealized losses	(7,913)	(42,991)	(50,904)
Estimated market value	2,991,260	6,035,261	9,026,521

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

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

There were no sales of securities in 2020 or 2019.

Note 2 – Securities Available for Sale (continued)

Maturities of securities available for sale at December 31, 2020, are summarized below.

	Amortized Cost	Estimated Market Value
Maturing within one year	$ 1,997,289	$ 2,009,896
Maturing in one to five years	4,005,564	4,174,521
Maturing in six to ten years	1,140,804	1,214,531
Mortgage-backed securities	5,304,085	5,410,079
	$ 12,447,742	$ 12,809,027

Note 3 – Loans Receivable and Allowance for Loan Losses

Major classifications of loans at December 31 were as follows:

	2020	2019
Real Estate - Commercial	$ 136,538,975	$ 79,754,728
Real Estate - Residential	50,939,437	37,059,494
Commercial	41,486,878	38,441,671
Paycheck Protection Program	548,171,408	-
Construction and land development	32,819,526	10,093,718
Consumer	5,533,582	6,678,724
	815,489,806	172,028,335
Allowance for loan losses	(3,169,168)	(2,095,928)
Net loans receivable	$ 812,320,638	$ 169,932,407

Deferred fees and costs were a net credit of $5,869,741 and $398,790 at December 31, 2020 and 2019, respectively, and were included in the loan balances above. Premiums associated with the purchase of loans were $5,101 and $139,273 at December 31, 2020 and 2019, respectively, and were included in the loan balances above.

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

	2020	2019
Fixed	$ 613,477,870	$ 21,607,993
Variable	202,011,936	150,420,342
	$ 815,489,806	$ 172,028,335

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

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

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

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

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

Impaired loans – 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.

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

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

An analysis of changes in the allowance for loan losses for the years ended December 31, 2020 and 2019, measured by the Bank's other loan segments, is included in the following tables. The following tables show the amount of the allowance for loan losses and the amount of loans receivable segregated by impaired loans and unimpaired loans as of December 31, 2020 and 2019:

	Real Estate Commercial	Real Estate Residential	Commercial	Construction and Land Development	Consumer	Paycheck Protection Program	Unallocated	Total
Balance at December 31, 2019	$ 1,314,835	$ 214,406	$ 269,538	$ 38,859	$ 107,994	$ -	$ 150,296	$ 2,095,928
Provision (recapture)	471,374	124,726	497,164	178,823	(68,192)	-	(133,895)	1,070,000
Loans charged off	-	-	-	-	-	-	-	-
Loan recoveries	-	-	3,240	-	-	-	-	3,240
Balance at December 31, 2020	$ 1,786,209	$ 339,132	$ 769,942	$ 217,682	$ 39,802	$ -	$ 16,401	$ 3,169,168
Balance at December 31, 2020								
Allowance for impaired loans	$ -	$ -	$ 47,807	$ -	$ -	$ -	$ -	$ 47,807
Allowance for unimpaired loans	1,786,209	339,132	722,135	217,682	39,802	-	16,401	3,121,361
Total allowance for loan losses	$ 1,786,209	$ 339,132	$ 769,942	$ 217,682	$ 39,802	$ -	$ 16,401	$ 3,169,168
Impaired loans receivable	$ 4,616,000	$ -	$ 398,786	$ -	$ -	$ -		$ 5,014,786
Unimpaired loans receivable	131,922,975	50,939,437	41,088,092	32,819,526	5,533,582	548,171,408		810,475,020
Total loans receivable	$136,538,975	$ 50,939,437	$ 41,486,878	$ 32,819,526	$ 5,533,582	$548,171,408		$815,489,806
Allowance for loan losses to loans receivable by segment	1.31%	0.67%	1.86%	0.66%	0.72%			0.39%

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

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

The Bank had no loans past due over 30 days as of December 31, 2020. The Bank had $3,646,640 in commercial real estate loans and $2,499,037 in commercial loans that were 30-89 days past due as of December 31, 2019. There were no accruing loans more than 90 days past due as of December 31, 2020 and 2019.

The Bank had no loans on nonaccrual status at December 31, 2020. Commercial real estate loans on nonaccrual status at December 31, 2019, were $153,115.

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, 2020 and 2019, by type of loan and by internal loan grades:

	Real Estate Commercial	Real Estate Residential	Commercial	Paycheck Protection Program	Construction and Land Development	Consumer	Total
As of December 31, 2020							
Grade							
Pass	$ 127,240,004	$ 50,765,245	$ 40,432,833	$ 548,171,408	$ 32,819,526	$ 5,533,582	$ 804,962,598
Special mention	4,684,246	174,192	654,679	-	-	-	5,513,117
Substandard	4,614,725	-	399,366	-	-	-	5,014,091
Doubtful	-	-	-	-	-	-	-
Total	$ 136,538,975	$ 50,939,437	$ 41,486,878	$ 548,171,408	$ 32,819,526	$ 5,533,582	$ 815,489,806

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

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

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

	Recorded Impaired Loan Balance	Unpaid Principal Balance	Specific Reserve in Allowance
As of December 31, 2020			
With no specific reserve in allowance			
Real Estate - Commercial	$ 4,616,000	$ 4,616,000	$ -
Commercial	180,743	180,743	-
With specific reserve in allowance			
Commercial	218,043	218,043	47,807
Total	$ 5,014,786	$ 5,014,786	$ 47,807
As of December 31, 2019			
With no specific reserve in allowance			
Real Estate - Residential	$ 428,714	$ 428,714	$ -
Real Estate - Commercial	153,115	153,115	-
Commercial	424,060	424,060	-
Total	$ 1,005,889	$ 1,005,889	$ -

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:

	2020		2019	
	Average Balance	Interest Income Recognized	Average Balance	Interest Income Recognized
Real Estate - Commercial	$ 4,616,000	$ 276,960	$ 156,471	$ 7,747
Real Estate - Residential	-	-	428,714	26,331
Commercial	325,929	16,722	432,652	18,197
Total	$ 4,941,929	$ 293,682	$ 1,017,837	$ 52,275

As of December 31, 2020 and 2019, the Bank had no troubled debt restructurings. There were no newly restructured loans in 2020 or 2019, nor were there any loans that defaulted on the timely payment of principal and interest within 12 months of being restructured.

Note 4 – Premises and Equipment

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

	2020	2019
Land	$ 459,000	$ 459,000
Buildings and improvements	5,751,228	5,733,573
Furniture and equipment	1,386,068	1,306,218
Construction in process	823,689	786,877
Total cost	8,419,985	8,285,668
Less accumulated depreciation and amortization	2,246,589	2,049,932
	$ 6,173,396	$ 6,235,736

Depreciation and amortization expense for the years ended December 31, 2020 and 2019, were $313,288 and $298,676, respectively.

Note 5 – Deposits

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

Years ending December 31,	Amount	Average Rate
2021	$ 48,488,988	0.56%
2022	5,649,452	1.61%
2023	2,394,182	0.79%
2024	2,413,406	2.81%
2025	353,391	0.97%
	$ 59,299,419	0.76%

The Bank had $4,119,000 and $6,796,000 of time deposits of over $250,000 as of December 2020 and 2019, respectively.

Note 6 – Borrowings

The Bank had a $10,000,000 line of credit with Bankers' Bank of the West, a $5,000,000 line of credit with Pacific Coast Bankers' Bank, and a $3,000,000 line of credit with Zions Bank at December 2020. These lines were unsecured. There was no balance outstanding on the lines as of December 31, 2020 or 2019.

The Bank has borrowings of approximately $485,933,000 at an annual rate of 0.35% under the Paycheck Protection Program Liquidity Facility as of December 31, 2020. These borrowings are secured by PPP loans at par and are non-recourse to the Bank. The related loans and borrowings are excluded from regulatory capital, liquidity, and other measures when pledged on this basis mitigating credit, liquidity, and other risks.

The Bank has a credit arrangement with the Federal Home Loan Bank of Des Moines (FHLB), under which the Bank can borrow up to 45% of its assets. Borrowings must be collateralized with loans or securities. Loans with a principal balance of $144,268,000 and $91,600,000 were pledged as collateral at December 31, 2020 and 2019, respectively. Mortgage backed securities with a market value of $5,410,000 million and $0 were pledged as collateral at December 31, 2020 and 2019, respectively. At December 2020 and 2019, the Bank had $13,000,000 and $5,000,000, respectively, of borrowings from the FHLB. Borrowings from the FHLB have penalties for early payment. The following table shows weighted average rates and scheduled maturities for borrowings from the FHLB at December 2020:

Years ending December 31,	Amount	Average Rate
2021	$ 1,000,000	2.77%
2022	7,000,000	0.94%
2023	2,000,000	2.27%
2024	2,000,000	2.37%
2025	1,000,000	1.21%
	$ 13,000,000	1.53%

As of December 31, 2020, FHLB had issued $22,370,000 of letters of credit on the Bank's behalf to collateralize public deposits of the Bank. At December 31, 2019, FHLB had issued $11,070,000 of letters of credit on the Bank's behalf to collateralize public deposits of the Bank

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 $77,032 and $106,488 in 2020 and 2019, respectively. The future minimum annual rental payments under all leases at December 31, 2020, are summarized as follows:

Years ending December 31		
2021	$	261,481
2022		345,699
2023		379,339
2024		388,313
2025		398,021
2026		407,972
2027		418,171
2028		428,625
2029		216,958
	$	3,244,579

The Bank has agreed to an eight-year lease that is expected to commence in the second half of 2021, which is included in the future minimum annual rental payments under all leases disclosed. Leases are classified as operating or financing leases at the lease commencement date. Lease expense for operating leases and short-term leases is recognized on a straight-line basis over the lease term. Right-of-use assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term.

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

Right-of-use assets are classified on the balance sheet with other assets and were $64,315 and $160,788 as of December 31, 2020 and 2019, respectively. The associated liabilities are classified on the balance sheet with other liabilities and were $66,513 and $163,898 as of December 31, 2020 and 2019, respectively.

Commitments to extend credit – In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities that are not presented in the accompanying financial statements. The commitments and contingent liabilities include various guarantees and commitments to extend credit. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the commitment letter. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if it is deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the customer. Collateral held varies but may include securities, accounts receivable, inventory, fixed assets, or real estate properties. The distribution of commitments to extend credit approximates the distribution of loans outstanding.

Note 7 – Commitments and Contingencies (continued)

At December 31, 2020 and 2019, the Bank had $83,939,948 and $44,512,594, respectively, in commitments to extend credit.

The Bank does not anticipate material losses as a result of these commitments. At December 31, 2020 and 2019, the Bank had $50,000 in an allowance for off-balance-sheet credit exposure.

Note 8 – Dividend Restriction

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

Note 9 – Income Taxes

The components of income tax provision consist of the following:

	2020	2019
Current tax expense		
Federal	$ 833,758	$ -
State	280,000	-
Deferred tax expense		
Federal	6,848	303,660
State	152	75,960
Change in valuation allowance	(3,758)	2,380
Income tax provision	$ 1,117,000	$ 382,000

Note 9 – Income Taxes (continued)

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

	2020	2019
Deferred tax assets		
Net operating loss carryforward	$ -	$ 1,354,662
Allowance for loan and credit losses	792,863	503,136
Nonaccrual interest income	-	353
Held for sale loans	31,207	19,078
SBA fee income	1,254,657	-
Other	39,970	43,728
Total deferred tax assets	2,118,697	1,920,957
Less valuation allowance	(39,970)	(43,728)
Deferred tax liabilities		
Deferred loan origination costs	(261,323)	(106,347)
Book-tax depreciation	(32,950)	(37,978)
Unrealized gain on securities available for sale	(95,635)	(20,015)
Other	(60,453)	(1,903)
Total deferred tax liabilities	(450,361)	(166,243)
Net deferred tax asset	$ 1,628,366	$ 1,710,986

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

	2020	2019
Federal income tax expense at expected rate	$ 814,272	$ 290,885
State tax expense at expected rate	289,545	94,574
Effect of tax exempt income	(4,565)	(4,503)
Change in valuation allowance	(3,758)	2,380
Other	21,506	(1,336)
Income tax provision	$ 1,117,000	$ 382,000

The Bank had no unrecognized tax benefits at December 31, 2020 and 2019.

The Bank recognizes interest accrued and penalties related to unrecognized tax benefits in tax expense. During the years ended December 31, 2020 and 2019, the Bank recognized no interest and penalties.

Note 9 – Income Taxes (continued)

On March 27, 2020, the CARES Act was enacted in response to the COVID-19 pandemic. The CARES Act, among other things, permits NOL carryover and carrybacks to offset 100% of taxable income for taxable years beginning before 2021. In addition, the CARES Act allows NOLs incurred in 2018, 2019, and 2020 to be carried back to each of the five preceding taxable years to generate a refund of previously paid income taxes. The Bank has evaluated the impact of the CARES Act and determined that none of the changes would result in a material income tax benefit to the Bank. On December 27, 2020, the Consolidated Appropriations Act of 2021 was signed into law and extends several provisions of the CARES Act. As of December 31, 2020, the Bank has determined that neither this Act nor changes to income tax laws or regulations in other jurisdictions have a significant impact on our effective tax rate.

Note 10 – Employee Retirement Benefits

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

For the years ended December 31, 2020 and 2019, the Bank made a matching contribution of 50% of the first 8% of employee contribution. In effect, this limits the matching contribution to 4% of eligible compensation. The compensation expense relating to employer contributions for the years ended December 31, 2020 and 2019, was $138,846 and $83,258, respectively.

Bank contributions are made in the form of common stock of the Bank. At December 31, 2020, the ESOP owned 79,911 shares, or 1.6% of the Bank’s common stock. At December 31, 2019, the ESOP owned 77,200 shares, or 1.7% of the Bank’s common stock.

The Bank is required by regulation to provide a repurchase option to participants holding the Bank’s stock, as the stock is not widely traded. The Bank is required to repurchase stock at fair market value, as determined by an independent appraisal. At December 31, 2020, 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 $6,105,000 and $1,755,000 of deposits from related parties at December 31, 2020 and 2019, 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:

	2020	2019
Balance, beginning of year	$ 6,166,159	$ 3,769,829
Advances	7,510,304	4,897,128
Payments	(3,593,905)	(2,500,798)
Balance, end of year	$ 10,082,558	$ 6,166,159

Note 12 – Stock Options and Stock Grants

The Bank issued 863,276 warrants in connection with a stock offering, which entitled warrant holders to purchase an equal number of shares of common stock at a price of 110% of the book value per share as of the last quarter prior to the exercise of the warrant. These warrants carry an expiration date of December 27, 2021. There were no warrants exercised in 2019, and there were 348,288 warrants exercised in 2020 at a weighted average exercise price of $6.81. There were 815,224 and 514,988 warrants outstanding as of December 31, 2019, and 2020, respectively.

Shareholders approved the Idaho First Bank 2014 Long-Term Equity Incentive Plan at the 2014 Annual Shareholders' Meeting. The plan allows the Bank to grant up to 500,000 shares of nonqualified stock options, incentive stock options, restricted stock, and restricted stock unit awards. Restricted stock awards generally carry terms that allow for annual vesting periods of three to five years from the award date. The Bank granted 32,500 and 9,000 shares of restricted stock to certain employees as provided by the plan in 2020 and 2019, respectively. The fair value of the stock was determined using independent third-party appraised value. The Bank has not granted any other options or grants under this plan. The Bank recognized $38,942 and $41,080 in equity compensation expense related to the restricted stock awards in 2020 and 2019, respectively. Unrecognized compensation cost related to the nonvested shares granted under the Plan was $191,938 and $15,080 as of December 31, 2020 and 2019, respectively.

Note 13 – Concentrations of Credit Risk

Most of the Bank's loans, commitments, and standby letters of credit have been granted to customers in the Bank's market area, which includes the states of Idaho and Oregon. As such, significant changes in economic conditions in Idaho or with its primary industries could adversely affect the Bank's ability to collect loans. Substantially all such customers are depositors of the Bank. The concentrations of credit, by type of loan, are set forth in Note 3. The distribution of commitments to extend credit approximates the distribution of loans outstanding. Under banking regulations, the Bank is not allowed to extend credit to any single borrower or group of related borrowers in excess of $7,360,000 at December 31, 2020.

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

Note 14 – Stockholders' Equity and Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by state and federal banking agencies. If the Bank does not meet minimum capital standards, regulators can take actions that they deem necessary to return the Bank to a safe and sound condition. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classifications are also subject to qualitative judgments by the regulators.

The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. Banks (Basel III rules) became effective for the Bank on January 1, 2015, with full compliance being phased in over a multi-year schedule ending on January 1, 2019. The Basel III rules establish minimum capital ratios for a Tier 1 Leverage Ratio, a Common Equity Tier 1 Risk-based Capital Ratio, a Tier 1 Risk-based Capital Ratio, and a Total Risk-based Capital Ratio. Unrealized gains or losses on the Bank's securities available for sale are not included in regulatory capital calculations.

The Bank is also required to maintain a capital conservation buffer of 2.5% in excess of the adequately capitalized risk-based capital ratios. The Bank's capital conservation buffer was 4.29% as of December 31, 2020. An institution that does not meet the capital conservation buffer requirement may be subject to restrictions on certain activities including payment of dividends, stock repurchases, and discretionary bonuses to executive officers.

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

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

During the years 2020 and 2019, all notifications from the Idaho State Department of Finance and the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. Management believes that no conditions or events since the most recent notification would change the Bank's category. Management believes that the Bank met all regulatory capital requirements to which it is subject to as of December 31, 2020 and 2019, as summarized in the following table:

	Actual Capital		Minimum Capital Requirements		Well-Capitalized Capital Requirements	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2020						
Tier 1 leverage	$ 33,394,000	8.69%	$ 15,379,000	4.00%	$ 19,224,000	5.00%
Common equity tier 1 risk-based capital	33,394,000	11.21%	13,408,000	4.50%	19,367,000	6.50%
Tier 1 risk-based capital	33,394,000	11.21%	17,878,000	6.00%	23,837,000	8.00%
Total risk-based capital	36,613,000	12.29%	23,837,000	8.00%	29,796,000	10.00%
December 31, 2019						
Tier 1 leverage	$ 26,417,000	12.14%	$ 8,704,000	4.00%	$ 10,880,000	5.00%
Common equity tier 1 risk-based capital	26,417,000	14.46%	8,220,000	4.50%	11,873,000	6.50%
Tier 1 risk-based capital	26,417,000	14.46%	10,960,000	6.00%	14,613,000	8.00%
Total risk-based capital	28,563,000	15.64%	14,613,000	8.00%	18,266,000	10.00%

Note 15 – Fair Value Measurement

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

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

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

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

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

Note 15 – Fair Value Measurement (continued)

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

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2020				
Assets measured at fair value on a recurring basis				
Securities available for sale				
U.S. government agency securities	$ 7,398,948	$ -	$ 7,398,948	$ -
Mortgage-backed securities	5,410,079	-	5,410,079	-
Total securities available for sale	$ 12,809,027	$ -	$ 12,809,027	$ -
December 31, 2019				
Assets measured at fair value on a recurring basis				
Securities available for sale				
U.S. government agency securities	$ 10,906,135	$ -	$ 10,906,135	$ -
Mortgage-backed securities	10,534,106	-	10,534,106	-
Total securities available for sale	$ 21,440,241	$ -	$ 21,440,241	$ -

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

The Bank had no assets measured at fair value on a nonrecurring basis, using Level 3 measurements, at December 31, 2020 and 2019.

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

Note 15 – Fair Value Measurement (continued)

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

	2020		2019	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial Assets				
Cash and cash equivalents	$ 41,628,487	$ 41,628,487	$ 15,670,613	$ 15,670,613
Securities available for sale	12,809,027	12,809,027	21,440,241	21,440,241
Equity securities	905,346	931,532	584,346	610,532
Mortgage loans held for sale	3,627,400	3,627,400	2,217,570	2,217,570
Net loans receivable	812,320,638	823,730,744	169,932,407	167,459,883
Accrued interest receivable	4,684,455	4,684,455	680,604	680,604
Financial Liabilities				
Noninterest-bearing demand	126,824,427	126,824,427	47,822,991	47,822,991
Interest-bearing demand	38,322,461	38,322,461	18,123,086	18,123,086
Savings	123,734,559	123,734,559	73,862,756	73,862,756
Time deposits	59,299,419	59,754,061	46,379,900	46,628,978
Paycheck Protection Program Loan Funds	485,932,627	485,932,627	-	-
Borrowed funds	13,000,000	13,297,461	5,000,000	5,081,887
Accrued interest payable	1,167,201	1,167,201	119,360	119,360

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

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

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

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

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

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

Note 15 – Fair Value Measurement (continued)

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

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

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.

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

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

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

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

Note 16 – Subsequent Events

Subsequent events review – Subsequent events are events or transactions that occur after the date of the statement of financial condition but before the financial statements are issued. The Bank recognizes in the financial statements, the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial condition, including the estimates inherent in the process of preparing 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.

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