REPORT OF INDEPENDENT AUDITORS
AND CONSOLIDATED FINANCIAL STATEMENTS

PEAK BANCORP, INC.

December 31, 2021 and 2020

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MOSSADAMS

Report of Independent Auditors

Board of Directors and Stockholders
Peak Bancorp, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Peak Bancorp, Inc., which comprise the consolidated statements of financial condition as of December 31, 2021 and 2020, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Peak Bancorp, Inc. as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Peak Bancorp, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Peak Bancorp, Inc.'s ability to continue as a going concern for a reasonable period of time.

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

Moss Adams LLP

Spokane, Washington
April 18, 2022

Peak Bancorp, Inc.
Consolidated Statements of Financial Condition

ASSETS

	December 31, 2021	December 31, 2020
Cash and due from banks	$ 7,990,259	$ 6,761,868
Interest-bearing deposits due from banks	103,131,106	34,866,619
Cash and cash equivalents	111,121,365	41,628,487
Securities available for sale, at fair value	32,802,646	12,809,027
Equity securities	1,655,846	905,346
Mortgage loans held for sale	912,000	3,627,400
Loans receivable	398,087,327	815,489,806
Allowance for loan losses	(4,587,622)	(3,169,168)
Net loans receivable	393,499,705	812,320,638
Premises and equipment, net	7,819,077	6,173,396
Accrued interest receivable	1,387,554	4,684,455
Net deferred tax asset	934,250	1,628,366
Cash surrender value of bank-owned life insurance	810,821	793,259
Other assets	3,802,584	976,623
Total assets	$ 554,745,848	$ 885,546,997

 See accompanying notes.

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 2021	December 31, 2020
Deposits		
Noninterest-bearing demand	$ 184,100,232	$ 126,824,427
Interest-bearing demand	47,739,786	38,322,461
Savings	205,927,775	123,734,559
Time deposits	32,687,335	59,299,419
Total deposits	470,455,128	348,180,866
Line of credit	5,340,625	-
Paycheck Protection Program Loan Funds	19,757,777	485,932,627
Borrowed funds	12,000,000	13,000,000
Accrued interest payable	111,334	1,167,201
Other liabilities	4,449,262	3,418,024
Total liabilities	512,114,126	851,698,718
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; 5,344,686 and 4,967,294 shares issued and outstanding, respectively	38,522,464	35,239,536
Retained Earings (Accumulated deficit)	4,019,524	(1,656,907)
Accumulated other comprehensive income	89,734	265,650
Total stockholders' equity	42,631,722	33,848,279
Total liabilities and stockholders' equity	$ 554,745,848	$ 885,546,997

Peak Bancorp, Inc.
Consolidated Statements of Income

	Years Ended December 31, 2021	2020
INTEREST INCOME		
Loans, including fees	$ 22,494,787	$ 18,914,382
Securities	288,099	416,880
Other interest income	112,565	159,750
Total interest income	22,895,451	19,491,012
INTEREST EXPENSE		
Time deposits	311,722	735,794
Savings	403,926	510,099
Interest-bearing demand	17,825	22,331
Borrowed funds	1,104,993	1,553,143
Total interest expense	1,838,466	2,821,367
Net interest income	21,056,985	16,669,645
PROVISION FOR LOAN LOSSES	1,500,000	1,070,000
Net interest income after provision for loan losses	19,556,985	15,599,645
NONINTEREST INCOME		
Mortgage banking income	1,518,422	917,100
Service charges on deposits	200,183	174,159
Increase in cash surrender value of bank-owned life insurance	17,562	17,246
Other income	613,963	418,679
	2,350,130	1,527,184
NONINTEREST EXPENSES		
Salaries and employee benefits	8,631,589	7,424,877
Occupancy	764,467	630,392
Equipment	241,672	262,692
Data processing	1,436,909	1,174,315
Professional services	970,167	930,429
Employee expenses	200,346	165,250
FDIC insurance	368,842	145,046
Telephone	204,334	197,628
Loan expenses	134,609	91,748
Supplies and postage	149,097	153,980
Advertising and promotion	414,248	293,143
Other operating expenses	695,404	1,491,352
	14,211,684	12,960,852
INCOME BEFORE TAXES	7,695,431	4,165,977
INCOME TAX PROVISION	2,019,000	1,117,000
NET INCOME	$ 5,676,431	$ 3,048,977
NET INCOME PER SHARE	$ 1.10	$ 0.65
DILUTED NET INCOME PER SHARE	$ 1.08	$ 0.59

See accompanying notes.

	Years Ended December 31,	
	2021	2020
NET INCOME	$ 5,676,431	$ 3,048,977
OTHER COMPREHENSIVE INCOME (LOSS)		
Change in unrealized gains (losses) on securities available for sale	(239,801)	285,676
Income tax provision	63,885	(75,621)
Other comprehensive income (loss)	(175,916)	210,055
Comprehensive income	$ 5,500,515	$ 3,259,032

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

	Common Stock		Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount			
BALANCE, December 31, 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 common stock	396,340	2,673,049	-	-	2,673,049
Equity compensation	44,845	88,211	-	-	88,211
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
Net income	-	-	5,676,431	-	5,676,431
Issuance of common stock	363,296	2,807,847	-	-	2,807,847
Equity compensation	14,096	475,081	-	-	475,081
Other comprehensive loss, net of tax	-	-	-	(175,916)	(175,916)
BALANCE, December 31, 2021	5,344,686	$ 38,522,464	$ 4,019,524	$ 89,734	$ 42,631,722

See accompanying notes.

	Years Ended December 31, 2021	Years Ended December 31, 2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 5,676,431	$ 3,048,977
Adjustments to reconcile net income to net cash from operating activities		
Net accretion of deferred loan fees, costs and premiums	(7,074,000)	(5,477,338)
Net amortization of securities' discounts and premiums	75,436	95,171
Provision for loan losses	1,500,000	1,070,000
Originations of loans held for sale	(45,836,224)	(29,920,940)
Proceeds from sale of loans held for sale	49,588,605	29,134,903
Gain on sale of loans	(1,036,981)	(623,793)
Increase in cash surrender value of life insurance	(17,562)	(17,246)
Loss on disposal of premises, equipment and software	4,424	17,126
Depreciation and amortization	339,780	313,288
Amortization of operating right-of-use assets	190,574	96,473
Net change in operating lease liabilities	-	(97,385)
Deferred income tax provision	2,019,000	1,117,000
Equity based compensation expense	438,739	120,913
Net change in accrued interest receivable and other assets	(980,633)	(4,338,573)
Net change in accrued interest payable and other liabilities	(24,629)	2,602,440
Net cash from (used in) operating activities	4,862,961	(2,858,985)
CASH FLOWS FROM INVESTING ACTIVITIES		
Securities available for sale		
Maturities, prepayments and calls	4,974,232	8,821,718
Purchases	(25,283,088)	-
Redemption of equity securities	1,287,700	4,996,800
Purchase of equity securities	(2,038,200)	(5,317,800)
Net change in loans	424,394,933	(637,980,893)
Purchases of premises, equipment, and software	(1,989,985)	(268,073)
Proceeds from sale of premises, equipment and software	100	-
Net cash from (used in) investing activities	401,345,692	(629,748,248)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	122,274,262	161,992,133
Borrowings from Line of credit	5,337,500	-
Borrowings from the Paycheck Protection Program Liquidity Facility	231,866,878	593,383,856
Repayments of Paycheck Protection Program Liquidity Facility borrowings	(698,041,728)	(107,451,229)
Additions to FHLB advances and other borrowings	30,000,000	104,000,000
Repayments of borrowings from Federal Home Loan Bank	(31,000,000)	(96,000,000)
Amortization of line of credit origination fee	3,125	-
Proceeds from issuance of common stock, net	2,844,189	2,640,347
Net cash (used in) from financing activities	(336,715,774)	658,565,107
NET CHANGE IN CASH AND CASH EQUIVALENTS	69,492,878	25,957,874
CASH AND CASH EQUIVALENTS, beginning of year	41,628,487	15,670,613
CASH AND CASH EQUIVALENTS, end of year	$ 111,121,365	$ 41,628,487
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION		
Cash paid during the year for		
Interest	$ 2,894,333	$ 1,773,526
Income taxes	$ 2,605,000	$ 90,000

Note 1 – Summary of Significant Accounting Policies

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

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

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

Intercompany transactions and balances are eliminated in consolidation.

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

Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan losses 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 Company's allowance for loan losses. Such agencies may require the Company to recognize additions to the allowance based on their judgments of information available to them at the time of their examination.

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

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

Note 1 – Summary of Significant Accounting Policies (continued)

The Company evaluates, at the end of each quarter, each of its investments in debt and equity securities with a decline in fair value below the amortized cost of the investment to determine whether or not the decline is deemed to be other-than-temporary. If it is determined the impairment is other-than-temporary for equity securities, the impairment loss is recognized in earnings equal to the difference between the investment's cost and its fair value. If it is determined the impairment is other-than-temporary for debt securities, the Company will recognize the credit component of an other-than-temporary impairment in earnings and the noncredit component in other comprehensive income when the Company does not intend to sell the security and it is more likely than not the Company will not be required to sell the security prior to recovery. In evaluating investments with declines in value, the Company considers the length of the time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the Company's intent or plans to sell with regard to the investment.

Equity securities (stock in other institutions) – The Bank is a member of the Federal Home Loan Bank (FHLB) system and owns equity securities of the FHLB of Des Moines. Members are required to own a certain amount of stock based on the level of borrowings and other factors, therefore stock is periodically purchased and sold. The FHLB stock was carried at a cost of $1,605,500 and $855,000 at December 31, 2021 and 2020, 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, 2021 or 2020.

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, 2021 and 2020.

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

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

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

Note 1 – Summary of Significant Accounting Policies (continued)

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

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

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

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

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

Note 1 – Summary of Significant Accounting Policies (continued)

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

Premises and equipment – Premises and equipment are stated at cost less accumulated depreciation over estimated useful lives, which range from 3 to 35 years. 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 founder, who retired from the Bank in 2021. The Bank-owned life insurance is recorded, at the balance sheet date, at the amount that can be realized under the insurance contract, which is the cash surrender value.

Other real estate owned – Other real estate owned includes real estate acquired through foreclosure or deed taken in lieu of foreclosure. Property is recorded at the lower of recorded investment or fair value less estimated costs to sell. Any required write-down from the recorded investment to fair value, at the time of foreclosure, is charged to the allowance for loan losses. Subsequent write-downs and gains or losses recognized upon sale of the property are included in noninterest income or expense. The Company may have a valuation allowance for probable losses on disposition of other real estate owned, which is allocated on a specific property by property basis. There was no other real estate owned at December 31, 2021 or 2020.

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 Company's incremental borrowing rate as of the date the asset was available for use. Disclosures about the Company's leasing activities are presented in Note 7.

Long-lived assets – The Company evaluates the carrying value of long-lived assets based on current and anticipated discounted cash flows and recognizes impairment when such cash flows will be less than the carrying value of the asset. There was no impairment during the years ended December 31, 2021 or 2020.

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

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

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

Advertising – Advertising and promotion costs are charged to noninterest expense when incurred. Advertising and promotion expense for the years ended December 31, 2021 and 2020, was $414,248 and $293,143, 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 Company has completed its related performance obligation, and when the amount of that income is measurable. Gain or loss on held for sale loans, servicing charges on deposits, and ATM/debit card fees are all examples of revenue to the Company that falls within the scope of ASC 606.

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

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion of the deferred tax assets will not be realized. Management considers among other things, the scheduled reversal of deferred tax liabilities, projected future taxable income, tax planning strategies, and positions taken by taxing authorities on the various issues related to the deductibility of certain costs in making this assessment. A valuation allowance has been recorded against the Company's Idaho state investment tax credits at December 31, 2021 and 2020.

The Company recognizes and measures uncertain tax positions using a more-likely-than-not approach. The Company's approach consisted of an examination of its consolidated financial statements, its income tax provision, and its federal and state income tax returns. The Company analyzed its tax positions including the permanent and temporary differences as well as the major components of income and expense. As of December 31, 2021 and 2020, the Company did not believe that it had any uncertain tax positions that would rise to the level of having a material effect on its consolidated financial statements. In addition, the Company had no accrued interest or penalties as of December 31, 2021 or 2020.

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

Note 1 – Summary of Significant Accounting Policies (continued)

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

Net income per 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 5,160,540 and 4,692,370 in 2021 and 2020, respectively. Diluted net income per share includes the dilutive effect of additional common shares issuable under stock warrants and options, which totaled 111,706 and 514,988 at December 31, 2021 and 2020, respectively.

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

Fair value of financial instruments – Fair values of financial instruments are estimated using relevant market information and other assumptions and are more fully disclosed in 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, 2020, financial statements in order to be in accordance with the December 31, 2021, presentation with no effect on previously reported net income or stockholders' equity.

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

Note 1 – Summary of Significant Accounting Policies (continued)

Subsequent events review – Subsequent events are events or transactions that occur after the date of the statement of financial condition but before the financial statements are issued. The Company recognizes, in the financial statements, the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial condition, including the estimates inherent in the process of preparing the financial statements. The Company's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated statement of financial condition but arose after the date of the consolidated statement of financial condition and before the financial statements are available to be issued.

On February 2, 2022, the Company announced the signing of an agreement to sell 100% of the shares of Peak Bancorp, Inc. to BAWAG Group, a publicly listed holding company headquartered in Vienna, Austria for $65 million. The transaction is subject to shareholder and regulatory approval.

The Company has evaluated subsequent events through April 18, 2022, which is the date the consolidated financial statements are available to be issued.

Note 2 – Securities Available for Sale

Securities have been classified in the consolidated statements of financial condition according to management's intent and ability. All investment securities were classified as available for sale at December 31, 2021 and 2020. As of December 31, 2021, securities available for sale, with an estimated market value of $4,078,770 and $5,296,804 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, 2021				
U.S. treasuries and government agency securities	$ 27,418,235	$ 126,784	$ (27,381)	$ 27,517,638
Mortgage-backed securities	5,262,928	32,586	(10,506)	5,285,008
	$ 32,681,163	$ 159,370	$ (37,887)	$ 32,802,646
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

Note 2 – Securities Available for Sale (continued)

There were 7 securities with unrealized losses at December 31, 2021. There were no securities with unrealized losses at December 31, 2020. Information for securities with unrealized losses at December 31, 2021, is as follows:

	December 31, 2021		
	U.S. Treasuries and Government Agency Securities	Mortgage-backed Securities	Total
Securities with unrealized losses for 12 consecutive months or longer			
Amortized cost	$ -	$ -	$ -
Gross unrealized losses	-	-	-
Estimated market value	-	-	-
Securities with unrealized losses for less than 12 consecutive months			
Amortized cost	$ 12,056,204	$ 868,206	12,924,410
Gross unrealized losses	(27,381)	(10,506)	(37,887)
Estimated market value	12,028,823	857,700	12,886,523
Total securities with unrealized losses			
Amortized cost	$ 12,056,204	$ 868,206	12,924,410
Gross unrealized losses	(27,381)	(10,506)	(37,887)
Estimated market value	12,028,823	857,700	12,886,523

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

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

There were no sales of securities in 2021 or 2020.

Note 2 – Securities Available for Sale (continued)

Maturities of securities available for sale at December 31, 2021, are summarized below.

	Amortized Cost	Estimated Market Value
Maturing within one year	$ 3,526,789	$ 3,546,314
Maturing in one to five years	21,377,500	21,444,053
Maturing in six to ten years	2,513,946	2,527,272
Mortgage-backed securities	5,262,928	5,285,008
	$ 32,681,163	$ 32,802,646

Note 3 – Loans Receivable and Allowance for Loan Losses

Major classifications of loans at December 31 were as follows:

	2021	2020
Real Estate - Commercial	$ 185,239,037	$ 136,538,975
Real Estate - Residential	71,420,493	50,939,437
Construction and land development	57,641,635	32,819,526
Commercial	49,683,235	41,486,878
Paycheck Protection Program	29,646,614	548,171,408
Consumer	4,456,313	5,533,582
	398,087,327	815,489,806
Allowance for loan losses	(4,587,622)	(3,169,168)
Net loans receivable	$ 393,499,705	$ 812,320,638

Deferred fees and costs were a net credit of $1,782,171 and $5,869,741 at December 31, 2021 and 2020, respectively, and were included in the loan balances above. Premiums associated with the purchase of loans were $0 and $5,101 at December 31, 2021 and 2020, 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:

	2021	2020
Fixed	$ 97,649,503	$ 613,477,870
Variable	300,437,824	202,011,936
	$ 398,087,327	$ 815,489,806

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, 2021 and 2020, 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, 2021 and 2020:

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

	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%	0.00%		0.39%

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

The Bank had $24,998 in consumer real estate loans and $875,764 in PPP loans that were 30-89 days past due as of December 31, 2021. The Bank had no loans past due over 30 days as of December 31, 2020. There were no accruing loans more than 90 days past due as of December 31, 2021 and 2020.

The Bank had loans on nonaccrual status of $486,425 commercial real estate and $176,204 of residential real estate loans at December 31, 2021. The Bank had no loans on nonaccrual status at December 31, 2020.

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, 2021 and 2020, 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, 2021							
Grade							
Pass	$ 177,849,312	$ 71,219,291	$ 49,136,544	$ 29,646,614	$ 57,641,635	$ 4,454,314	$ 389,947,710
Special mention	2,541,800	-	515,750	-	-	-	3,057,550
Substandard	4,847,925	201,202	30,941	-	-	1,999	5,082,067
Doubtful	-	-	-	-	-	-	-
Total	$ 185,239,037	$ 71,420,493	$ 49,683,235	$ 29,646,614	$ 57,641,635	$ 4,456,313	$ 398,087,327

	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

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, 2021			
With no specific reserve in allowance			
Real Estate - Commercial	$ 4,361,500	$ 4,361,500	$ -
Real Estate - Residential	201,202	201,202	-
Commercial	9,356	9,356	-
With specific reserve in allowance			
Real Estate - Commercial	486,425	486,425	13,591
Commercial	21,585	21,585	10,793
Consumer & Other	1,999	1,999	1,999
Total	$ 5,082,067	$ 5,082,067	$ 26,383
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

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:

	2021		2020	
	Average Balance	Interest Income Recognized	Average Balance	Interest Income Recognized
Real Estate - Commercial	$ 4,978,037	$ 262,570	$ 4,616,000	$ 276,960
Real Estate - Residential	199,996	9,250	-	-
Commercial	186,545	10,104	-	-
Consumer & Other	1,903	266	325,929	16,722
Total	$ 5,366,482	$ 282,191	$ 4,941,929	$ 293,682

As of December 31, 2021 and 2020, the Bank had no troubled debt restructurings.

Note 4 – Premises and Equipment

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

	2021	2020
Land	$ 1,245,877	$ 459,000
Buildings and improvements	7,156,009	5,751,228
Furniture and equipment	1,851,713	1,386,068
Construction in process	5,000	823,689
Total cost	10,258,599	8,419,985
Less accumulated depreciation and amortization	2,439,522	2,246,589
	$ 7,819,077	$ 6,173,396

Depreciation and amortization expense for the years ended December 31, 2021 and 2020, were $339,780 and $313,288, respectively.

Note 5 – Deposits

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

Years Ending December 31,	Amount	Average Rate
2022	$ 18,821,528	0.62%
2023	7,814,566	0.35%
2024	4,672,184	1.58%
2025	1,212,217	0.58%
2026	166,840	0.43%
	$ 32,687,335	0.69%

The Bank had $2,276,616 and $4,119,000 of time deposits of over $250,000 as of December 31, 2021 and 2020, respectively.

Note 6 – Borrowings

The Company had a $10,000,000 line of credit with United Bankers’ Bank at December 31, 2021. Under the agreement, the Corporation makes quarterly payments for accrued interest, with the full outstanding balance of principal and interest due on July 1, 2023. Interest is assessed on the outstanding balance of the borrowing, at a rate of 3.25% at December 31, 2021. The Bank had an outstanding principal balance of $5,350,000 and $0 at December 31, 2021 and 2020, respectively. The borrowing is collateralized by 100% of the Bank’s stock.

The Bank had a $10,000,000 line of credit with Bankers’ Bank of the West, a $5,000,000 line of credit with Pacific Coast Bankers’ Bank, and a $3,000,000 line of credit with Zions Bank at December 31, 2021. These lines were unsecured. There was no balance outstanding on the lines as of December 31, 2021 or 2020.

The Bank has borrowings of $19,757,777 and $485,932,627 at an annual rate of 0.35% under the Paycheck Protection Program Liquidity Facility as of December 31, 2021 and 2020, respectively. These borrowings are secured by PPP loans at par and are non-recourse to the Bank. The related loans and borrowings are excluded from regulatory capital, liquidity, and other measures when pledged on this basis mitigating credit, liquidity, and 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 approximately $180,480,000 and $144,268,000 were pledged as collateral at December 31, 2021 and 2020, respectively. Securities with a market value of $5,297,000 and $5,410,000 were pledged as collateral at December 31, 2021 and 2020, respectively. At December 31, 2021 and 2020, the Bank had $12,000,000 and $13,000,000, respectively, of borrowings from the FHLB. Borrowings from the FHLB have penalties for early payment. The following table shows weighted average rates and scheduled maturities for borrowings from the FHLB at December 31, 2021:

Years Ending December 31,	Amount	Average Rate
2022	$ 7,000,000	0.94%
2023	2,000,000	2.27%
2024	2,000,000	2.37%
2025	1,000,000	1.21%
	$ 12,000,000	1.42%

The FHLB had issued $26,070,000 and $22,370,000 of letters of credit on the Bank’s behalf to collateralize public deposits of the Bank as of December 31, 2021 and 2020, respectively.

Note 7 – Commitments and Contingencies

Lease commitments and contracts – The Bank has entered into various leases for property and equipment. Total rental expense for premises and equipment operating leases amounted to $113,207 and $77,032 in 2021 and 2020, respectively. The future minimum annual rental payments under all leases at December 31, 2021, are summarized as follows:

Years Ending December 31		
2022	$	351,394
2023		391,496
2024		410,003
2025		420,137
2026		430,525
2027		420,502
2028		426,861
2029		289,278
	$	3,140,196

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 $2,720,834 and $64,315 as of December 31, 2021 and 2020, respectively. The associated liabilities are classified on the balance sheet with other liabilities and were $2,746,734 and $66,513 as of December 31, 2021 and 2020, respectively.

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

Note 7 – Commitments and Contingencies (continued)

At December 31, 2021 and 2020, the Bank had $128,702,996 and $83,939,948, respectively, in commitments to extend credit.

The Bank does not anticipate material losses as a result of these commitments. At December 31, 2021 and 2020, 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:

	2021	2020
Current tax expense		
Federal	$ 737,122	$ 833,758
State	315,054	280,000
Deferred tax expense		
Federal	779,878	6,848
State	189,045	152
Change in valuation allowance	(2,099)	(3,758)
Income tax provision	$ 2,019,000	$ 1,117,000

Note 9 – Income Taxes (continued)

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

	2021	2020
Deferred tax assets		
Allowance for loan and credit losses	$ 1,212,043	$ 792,863
Nonaccrual interest income	4,768	-
Held for sale loans	7,746	31,207
SBA fee income	-	1,254,657
Book-tax equity compensation	19,841	-
Other	5,266	-
ITC tax carryforward	37,871	39,970
Total deferred tax assets	1,287,535	2,118,697
Less valuation allowance	(37,871)	(39,970)
Deferred tax liabilities		
Deferred loan origination costs	(223,378)	(261,323)
Book-tax depreciation	(60,286)	(32,950)
Unrealized gain on securities available for sale	(31,750)	(95,635)
Other	-	(60,453)
Total deferred tax liabilities	(315,414)	(450,361)
Net deferred tax asset	$ 934,250	$ 1,628,366

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:

	2021	2020
Federal income tax expense at expected rate	$ 1,510,998	$ 814,272
State tax expense at expected rate	500,203	289,545
Effect of tax exempt income	(5,730)	(4,565)
Change in valuation allowance	(2,099)	(3,758)
Other	15,628	21,506
Income tax provision	$ 2,019,000	$ 1,117,000

The Company had no unrecognized tax benefits at December 31, 2021 and 2020.

The Company recognizes interest accrued and penalties related to unrecognized tax benefits in tax expense. During the years ended December 31, 2021 and 2020, the Bank recognized no interest and penalties.

Note 10 – Employee Retirement Benefits

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

For the years ended December 31, 2021 and 2020, 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, 2021 and 2020, was $163,801 and $138,846, respectively.

Employer contributions are made in the form of common stock of the Company. At December 31, 2021 and 2020, the ESOP owned 79,911 shares, representing ownership of 1.5% and 1.6% of the Company's common stock, respectively.

The Bank is required by regulation to provide a repurchase option to participants holding the Bank's stock, as the stock is not widely traded. The Bank is required to repurchase stock at fair market value, as determined by an independent appraisal. At December 31, 2021, 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 $5,128,000 and $6,105,000 of deposits from related parties at December 31, 2021 and 2020, 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:

	2021	2020
Balance, beginning of year	$ 15,175,058	$ 6,166,159
Advances	7,571,421	12,602,804
Payments	(4,882,182)	(3,593,905)
Balance, end of year	$ 17,864,297	$ 15,175,058

Note 12 – Stock Options and Stock Grants

The Bank issued 863,276 warrants in connection with a stock offering during 2018 and 2019, which entitled warrant holders to purchase an equal number of shares of common stock at a price of 110% of the book value per share as of the last quarter prior to the exercise of the warrant. There were 363,296 warrants exercised in 2021 at a weighted average exercise price of $7.73. There were 348,288 warrants exercised in 2020 at a weighted average exercise price of $6.81. All warrants that were not exercised expired on December 27, 2021. There were 0 and 514,988 warrants outstanding as of December 31, 2021, 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. Stock option awards carry terms that allow for an annual vesting period of 5 years from the award date, and an expiration date of 10 years from the award date. The Company recognized $341,477 and $38,942 in equity compensation expense related to the equity awards in 2021 and 2020, respectively. Unrecognized compensation costs related to the equity awards granted under the Plan were $211,272 and $191,938 as of December 31, 2021 and 2020, respectively.

The Company granted 111,706 stock options in 2021, and 0 in 2020 to certain employees as provided by the plan. The fair value of the options granted was determined using assumptions as of the grant date of a 1.05% risk-free interest rate, 10 year expected term, 38.6% expected volatility, and no dividends. All 111,706 options were unvested as of December 31, 2021, and all were set to expire in 2031.

During 2021 and 2020, the Company granted 0 and 32,500 shares of restricted stock to certain employees as provided by the plan, respectively. There were 27,000 unvested shares of restricted stock as of December 31, 2021.

During 2021 and 2020, the Company granted 14,096 and 12,345 to Directors of the Company as part of compensation for their services. The Company recognized $97,262 and $81,971 in professional services expense related to the grants in 2021 and 2020, 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 $10,303,000 at December 31, 2021.

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 4.7% as of December 31, 2021. 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 2021 and 2020, 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, 2021 and 2020, as summarized in the following table:

	Actual Capital		Minimum Capital Requirements		Well-Capitalized Capital Requirements	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2021						
Tier 1 leverage	$ 46,875,000	9.37%	$ 20,018,000	4.00%	$ 25,023,000	5.00%
Common equity tier 1 risk-based capital	46,875,000	11.57%	18,230,000	4.50%	26,332,000	6.50%
Tier 1 risk-based capital	46,875,000	11.57%	24,306,000	6.00%	32,408,000	8.00%
Total risk-based capital	51,513,000	12.72%	32,408,000	8.00%	40,511,000	10.00%
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%

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, 2021				
Assets measured at fair value on a recurring basis				
Securities available for sale				
U.S. treasuries and government agencies	$ 27,517,638	$ -	$ 27,517,638	$ -
Mortgage-backed securities	5,285,008	-	5,285,008	-
Total securities available for sale	$ 32,802,646	$ -	$ 32,802,646	$ -
Assets measured at fair value on a nonrecurring basis				
Impaired loans	$ 483,626	$ -	$ -	$ 483,626
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	$ -

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, 2021 and 2020.

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:

	2021		2020	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial Assets				
Cash and cash equivalents	$ 111,121,365	$ 111,121,365	$ 41,628,487	$ 41,628,487
Securities available for sale	32,802,646	32,802,646	12,809,027	12,809,027
Equity securities	1,655,846	1,691,973	905,346	931,532
Mortgage loans held for sale	912,000	912,000	3,627,400	3,627,400
Net loans receivable	393,499,705	393,746,221	812,320,638	823,730,744
Financial Liabilities				
Noninterest-bearing demand	184,100,232	184,100,232	126,824,427	126,824,427
Interest-bearing demand	47,739,786	47,739,786	38,322,461	38,322,461
Savings	205,927,775	205,927,775	123,734,559	123,734,559
Time deposits	32,687,335	32,791,515	59,299,419	59,754,061
Line of credit	5,340,625	5,315,476	-	-
Paycheck Protection Program Loan Funds	19,757,777	19,757,777	485,932,627	485,932,627
Borrowed funds	12,000,000	12,105,197	13,000,000	13,297,461

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

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

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

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

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

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

Note 15 – Fair Value Measurement (continued)

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

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

Deposits – The fair value disclosed for demand deposits is by definition equal to the amount payable on demand at the reporting date (that is, the carrying amount) resulting in a Level 1 classification. The carrying amount for variable-rate deposit accounts approximates fair value resulting in a Level 1 classification. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation, which applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on these deposits resulting in a Level 2 classification. Early withdrawals of fixed-rate certificates of deposit are not expected to be significant.

Line of Credit – The fair values of the Bank's outstanding line of credit are estimated using discounted cash flow analyses, based on the Bank's current incremental borrowing rates for similar types of borrowing arrangements resulting in a Level 2 classification.

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

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

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

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