

IDAHO FIRST BANK
INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

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INDEPENDENT AUDITOR'S REPORT

Board of Directors and Stockholders
Idaho First Bank
McCall, Idaho

We have audited the accompanying statements of financial condition of Idaho First Bank (the Bank) as of December 31, 2008 and 2007, and the related statements of operations, changes in stockholders' equity, comprehensive loss, and cash flows for the years ended December 31, 2008 and 2007. These financial statements are the responsibility of the Bank's management. 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years ended December 31, 2008 and 2007, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming the Bank will continue as a going concern. As discussed in Note 15 to the financial statements, the Bank has suffered recurring losses from operations and has regulatory capital requirements that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Notes 2 and 15. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.



Spokane, Washington
June 29, 2009

IDAHO FIRST BANK
STATEMENT OF FINANCIAL CONDITION

ASSETS

	December 31,	
	2008	2007
Cash and due from banks	\$ 964,104	\$ 685,058
Interest-bearing deposits due from banks	14,407	309,504
Cash and cash equivalents	978,511	994,562
Federal funds sold	660,000	600,000
Securities available for sale	8,988,411	7,755,196
Federal Home Loan Bank stock, at cost	180,000	36,500
Loans receivable	51,664,632	27,122,951
Allowance for loan losses	(741,245)	(400,000)
Net loans receivable	50,923,387	26,722,951
Premises and equipment, net	539,788	608,770
Accrued interest receivable	313,443	216,798
Cash surrender value of Bank-owned life insurance	1,149,000	1,104,000
Other real estate owned	458,626	-
Other assets	184,071	168,586
TOTAL ASSETS	\$ 64,375,237	\$ 38,207,363

LIABILITIES AND STOCKHOLDERS' EQUITY

Deposits		
Noninterest-bearing demand	\$ 6,178,476	\$ 5,271,447
Interest-bearing demand	3,658,435	2,217,646
Savings	6,569,921	8,984,773
Time deposits, less than \$100,000	24,524,633	5,895,439
Time deposits of \$100,000 and more	12,395,007	9,512,689
Total deposits	53,326,472	31,881,994
Borrowings from Federal Home Loan Bank	4,000,000	-
Accrued interest payable	147,553	114,735
Other liabilities	392,301	206,736
Total liabilities	57,866,326	32,203,465

COMMITMENTS AND CONTINGENCIES (Note 8)

STOCKHOLDERS' EQUITY

Preferred stock \$1,000 par value; 10,000 shares authorized at December 31, 2008, none issued or outstanding	-	-
Common stock \$5 par value; 5,000,000 shares authorized; 1,376,584 and 910,964 shares issued and outstanding, respectively	6,882,920	4,554,820
Additional paid-in capital	4,932,259	4,950,332
Accumulated deficit	(5,599,008)	(3,591,971)
Accumulated other comprehensive income	292,740	90,717
Total stockholders' equity	6,508,911	6,003,898
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 64,375,237	\$ 38,207,363

IDAHO FIRST BANK
STATEMENT OF OPERATIONS

	Year Ended December 31,	
	2008	2007
Interest income		
Loans, including fees	\$ 2,866,015	\$ 2,086,176
Securities	398,060	278,259
Federal funds sold	47,621	104,441
Other interest income	8,318	65,922
Total interest income	3,320,014	2,534,798
Interest expense		
Time deposits, less than \$100,000	645,779	341,799
Time deposits of \$100,000 and more	427,190	396,995
Savings	130,268	291,321
Interest-bearing demand	26,186	32,581
Borrowed funds	113,733	-
Total interest expense	1,343,156	1,062,696
Net interest income	1,976,858	1,472,102
Provision for loan losses	1,050,000	108,500
Net interest income after provision for loan losses	926,858	1,363,602
Noninterest income		
Mortgage banking income	161,264	141,243
Service charges on deposits	90,091	62,316
Increase in cash surrender value of Bank-owned life insurance	45,000	42,882
Realized gain on securities available for sale	8,822	-
Other income	62,114	48,324
	367,291	294,765
Noninterest expenses		
Salaries and employee benefits	1,469,797	1,423,762
Occupancy	645,919	337,312
Equipment	189,393	138,391
Data processing	338,811	287,954
Professional services	177,133	289,817
Advertising and promotion	108,284	251,395
Supplies and postage	78,075	68,178
Telephone	77,758	51,946
Training, travel, and other employee	72,823	164,158
FDIC insurance	66,473	12,829
Other operating	76,720	79,596
	3,301,186	3,105,338
Loss before income taxes	(2,007,037)	(1,446,971)
Income tax expense	-	-
NET LOSS	\$ (2,007,037)	\$ (1,446,971)

See accompanying notes.

IDAHO FIRST BANK
STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

	Shares	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
BALANCE, December 31, 2006	543,868	\$ 2,719,340	\$ 2,527,965	\$ (2,145,000)	\$ 322	\$ 3,102,627
Net loss	-	-	-	(1,446,971)	-	(1,446,971)
Exercise of stock options	467	2,335	2,335	-	-	4,670
Equity compensation expense	-	-	15,877	-	-	15,877
Issuance of stock, net	366,629	1,833,145	2,404,155	-	-	4,237,300
Other comprehensive income	-	-	-	-	90,395	90,395
BALANCE, December 31, 2007	910,964	4,554,820	4,950,332	(3,591,971)	90,717	6,003,898
Net loss	-	-	-	(2,007,037)	-	(2,007,037)
Equity compensation expense	-	-	14,010	-	-	14,010
Issuance of stock, net	465,620	2,328,100	(32,083)	-	-	2,296,017
Other comprehensive income	-	-	-	-	202,023	202,023
BALANCE, December 31, 2008	<u>1,376,584</u>	<u>\$ 6,882,920</u>	<u>\$ 4,932,259</u>	<u>\$ (5,599,008)</u>	<u>\$ 292,740</u>	<u>\$ 6,508,911</u>

IDAHO FIRST BANK
STATEMENT OF COMPREHENSIVE LOSS

	Year Ended December 31,	
	<u>2008</u>	<u>2007</u>
Net loss	<u>\$ (2,007,037)</u>	<u>\$ (1,446,971)</u>
Other comprehensive income		
Change in holding gains on securities available for sale	322,450	148,288
Gains realized in income	<u>8,822</u>	<u>-</u>
Change in unrealized gains on securities available for sale	331,272	148,288
Income tax provision	<u>(129,249)</u>	<u>(57,893)</u>
Other comprehensive income	<u>202,023</u>	<u>90,395</u>
COMPREHENSIVE LOSS	<u>\$ (1,805,014)</u>	<u>\$ (1,356,576)</u>

IDAHO FIRST BANK
STATEMENT OF CASH FLOWS

	Year Ended December 31,	
	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (2,007,037)	\$ (1,446,971)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	145,138	111,634
Provision for loan losses	1,050,000	108,500
Net accretion of securities' discounts and premiums	(8,783)	(27,982)
Gain on sale of securities available for sale	(8,822)	-
Net amortization of deferred loan fees and costs	(113,166)	(71,528)
Increase in cash surrender value of life insurance	(45,000)	(42,882)
Originations of loans held for sale	(2,287,042)	(6,643,663)
Proceeds from sale of loans held for sale	2,449,909	6,944,447
Gain on sale of loans	(24,992)	(59,649)
Loss on disposal of premises and equipment	10,951	5,049
Equity compensation expense	14,010	15,877
Change in accrued interest receivable and other assets	(132,266)	(75,474)
Change in accrued interest payable and other liabilities	89,134	13,920
	<u>(867,966)</u>	<u>(1,168,722)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net change in federal funds sold	(60,000)	1,520,000
Securities available for sale:		
Maturities, prepayments, and calls	1,300,559	3,265,861
Sales	805,753	-
Purchases	(2,990,650)	(5,993,420)
Purchase of FHLB stock	(247,000)	(36,500)
Proceeds from sale of FHLB stock	103,500	-
Net increase in loans	(25,733,771)	(6,771,602)
Proceeds from sale of premises and equipment	2,400	-
Purchases of premises, equipment, and software	(69,371)	(535,323)
	<u>(26,888,580)</u>	<u>(8,550,984)</u>

IDAHO FIRST BANK
STATEMENT OF CASH FLOWS

	Year Ended December 31,	
	2008	2007
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	\$ 21,444,478	\$ 4,695,996
Borrowings from Federal Home Loan Bank	7,300,000	-
Repayments of borrowings from Federal Home Loan Bank	(3,300,000)	-
Proceeds from issuance of common stock, net	2,296,017	4,241,970
Net cash provided by financing activities	27,740,495	8,937,966
NET CHANGE IN CASH AND CASH EQUIVALENTS	(16,051)	(781,740)
Cash and cash equivalents, beginning of year	994,562	1,776,302
Cash and cash equivalents, end of year	\$ 978,511	\$ 994,562
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION		
Cash paid during the year for:		
Interest	\$ 1,310,338	\$ 1,076,617
Income taxes	\$ -	\$ -
Transfer of loans to other real estate owned	\$ 458,626	\$ -

IDAHO FIRST BANK

NOTES TO FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies

Bank organization:

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

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

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, other real estate owned, and deferred 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 due from banks:

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

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 and surrounding areas. The ability of the Bank's debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area.

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

Note 1 - Summary of Significant Accounting Policies (Continued)

Loans receivable and allowances for loan losses (continued):

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

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

The accrual of interest on impaired loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due or the loan has been in default for a period of 90 days or more. Loans that are in default over 90 days may continue to accrue interest if the loan is well collateralized and in the process of collection. Thereafter, no interest is taken into income unless received in cash or until such time as the borrower demonstrates the ability to resume payments of principal and interest.

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.

Securities available for sale:

Securities available for sale are recorded at fair value. Unrealized holding gains and losses on securities available for sale are reported as a net amount in other comprehensive income. Premiums and discounts are recognized in interest income using the interest method over the period to maturity.

Declines in the fair value of individual securities available for sale below their cost that are other than temporary result in write-downs of the individual securities to their fair value. Related write-downs are included in earnings as realized losses. No such write-downs have occurred.

IDAHO FIRST BANK

NOTES TO FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies (Continued)

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 market 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 the 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 15 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.

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 lower of recorded investment or market value less estimated costs to sell. Any required write-down from the recorded investment to market 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.

Advertising:

Advertising and promotion costs are charged to noninterest expense when incurred. Advertising and promotion expense for the years ended December 31, 2008 and 2007, was \$108,284 and \$251,395, respectively.

Income taxes:

Deferred income taxes are reported for temporary differences between items of income or expense reported in the financial statements and those reported for income tax purposes. Deferred taxes are computed using the asset and liability approach as prescribed in Statement of Financial Accounting Standards (SFAS) No. 109, *Accounting for Income Taxes*. Under this method, a deferred tax asset or liability is determined based on management's estimate of the enacted tax rates that will be in effect when the differences between the financial statement carrying amounts and tax basis of existing assets and liabilities are expected to be reported in the Bank's income tax returns. The deferred tax provision for the year is equal to the net change in the net deferred tax asset from the beginning to the end of the year, less amounts applicable to the change in value related to investments available for sale. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date.

IDAHO FIRST BANK
NOTES TO FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies (Continued)

Income taxes (continued):

Financial Accounting Standards Board (FASB) Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes*, requires recognition and measurement of uncertain tax positions using a “more-likely-than-not” approach. The Bank’s approach to FIN No. 48 consisted of an examination of its 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, 2008, 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, 2008. 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 has entered into 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 become 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.

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, 2008 or 2007.

Stock options:

SFAS No. 123 (revised 2004), *Share Based Payment*, requires the recognition of the compensation cost in the financial statements of the Bank. The Bank applied the modified prospective application method of reporting, which provides for no restatement of prior periods and no cumulative adjustment to equity accounts. 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.

Reclassifications:

Certain reclassifications have been made in the December 31, 2007, financial statements in order to conform with the December 31, 2008, presentation with no effect on previously reported net loss or stockholders’ equity.

IDAHO FIRST BANK

NOTES TO FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies (Continued)

Recent accounting pronouncements:

Effective January 1, 2008, the Bank adopted SFAS No. 157, *Fair Value Measurements*. This statement defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Fair value is the price to sell an asset or transfer a liability in an orderly transaction between market participants. It represents an exit price at the measurement date. Market participants are buyers and sellers who are independent, knowledgeable, and willing and able to transact in the principal (or most advantageous) market for the asset or liability being measured. Current market conditions, including imbalances between supply and demand, are considered in determining fair value.

In February 2008, the FASB issued Final Staff Position (FSP) SFAS No. 157-2, *Effective Date of FASB Statement No. 157*. SFAS No. 157-2 delays the effective date of SFAS No. 157 for fair value measurements of nonfinancial assets and nonfinancial liabilities until fiscal years beginning after November 15, 2008, except assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). SFAS No. 157-2 is not expected to have a material impact on the Bank's financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133*. The statement is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand the effects of derivative instruments on an entity's financial position, financial performance, and cash flows. SFAS No. 161 is effective for any reporting period beginning after November 15, 2008. SFAS No. 161 is not expected to have a material impact on the Bank's financial condition or results of operations.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*. The objective of SFAS No. 162 is to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. generally accepted accounting principles (GAAP) for nongovernmental entities. The Public Company Accounting Oversight Board (PCAOB) has proposed an auditing standard that would remove the GAAP hierarchy from its interim auditing standards. SFAS No. 162 was effective November 15, 2008. SFAS No. 162 did not have a material impact on the Bank's financial condition or results of operations.

In September 2008, the FASB issued FSP No. 133-1 and FIN No. 45-4, *Disclosures About Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161*. The FSP amends and enhances the disclosure requirements for sellers of credit derivatives (including hybrid instruments that have embedded credit derivatives) and financial guarantees. The new disclosures must be provided for reporting periods ending after November 15, 2008, although earlier application is encouraged. The FSP also clarifies the effective date of SFAS

IDAHO FIRST BANK
NOTES TO FINANCIAL STATEMENTS

No. 161 is for any reporting period beginning after November 15, 2008. The FSP did not have a material impact on the Bank's financial condition or results of operations.

Note 1 - Summary of Significant Accounting Policies (Continued)

Recent accounting pronouncements (continued):

In October 2008, the FASB issued FSP No. 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*. The FSP clarifies the application of SFAS No. 157, *Fair Value Measurements*, in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. The FSP was effective on October 10, 2008. The FSP did not have a material impact on the Bank's financial condition or results of operations.

Note 2 - Going Concern

The financial statements have been prepared assuming the Bank will continue as a going concern. The Bank is considered "well-capitalized" as of December 31, 2008, as discussed in Note 15. Due to market conditions discussed below, recurring operating losses and regulatory capital requirements, there is uncertainty about the Bank's ability to retain its status as a well-capitalized bank.

As a part of its capital raising efforts, launched during the first quarter of 2008, the Bank is reviewing all strategic opportunities available to the Bank. The principal focus of this effort has been on selling additional capital to private investors. In addition, the Bank has applied to participate in the Capital Purchase Program component of the Treasury's Troubled Asset Relief Program (TARP CPP). The combination of private equity and TARP would be sufficient to maintain the Bank's regulatory capital at a level in excess of the well-capitalized minimum amounts. It is the Bank's belief the general concern about the U.S. economy and prospects for expanded government regulation has been a more significant impediment to securing capital commitments than the Bank's condition or prospects.

There are a number of financial institutions of similar size and condition that have not been successful in raising capital during the past year. However, the Bank has successfully raised capital in each of the past two years. The Bank will continue to vigorously pursue contacts and discussions with prospective investors and is confident that if the conditions in the capital markets improve over the coming months, the prospects for success in these efforts will substantially increase.

There can be no assurances the Bank's actions referred to above will be successful. The uncertainty over obtaining additional capital raises substantial doubt regarding the Bank's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

IDAHO FIRST BANK
NOTES TO FINANCIAL STATEMENTS

Note 3 - Securities Available for Sale

Securities have been classified in the statement of financial condition according to management's intent and ability. All investment securities were classified as available for sale at December 31, 2008. As of December 31, 2008, all securities available for sale were pledged as collateral for potential borrowings from the Federal Home Loan Bank of Seattle and for public deposits requiring collateral. The carrying amounts of securities available for sale and their approximate fair values were as follows:

	December 31, 2008			Estimated Market Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
U.S. government agency securities	\$ 5,897,312	\$ 355,557	\$ -	\$ 6,252,869
Mortgage-backed securities	2,611,072	124,470	-	2,735,542
	\$ 8,508,384	\$ 480,027	\$ -	\$ 8,988,411
	December 31, 2007			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Treasury securities	\$ 499,584	\$ 2,606	\$ -	\$ 502,190
U.S. government agency securities	5,240,510	120,606	-	5,361,116
Mortgage-backed securities	1,866,347	25,543	-	1,891,890
	\$ 7,606,441	\$ 148,755	\$ -	\$ 7,755,196

As of December 31, 2008 and 2007, there are no investment securities with unrealized losses. In 2008, the Bank received proceeds of \$805,753 and realized a gain of \$8,822 from the sale of securities available for sale. There were no sales of securities in 2007.

IDAHO FIRST BANK
NOTES TO FINANCIAL STATEMENTS

Note 3 - Securities Available for Sale (Continued)

Maturities of securities available for sale at December 31, 2008, are summarized below. Actual maturities may differ from contractual maturities due to call provisions.

	<u>Amortized Cost</u>	<u>Estimated Market Value</u>
Maturing in less than one year	\$ -	\$ -
Maturing in one to five years	4,992,158	5,329,214
Maturing in five to ten years	905,154	923,655
Mortgage-backed securities	2,611,072	2,735,542
	<u>\$ 8,508,384</u>	<u>\$ 8,988,411</u>

Note 4 - Loans Receivable and Allowance for Loan Losses

Major classifications of loans at December 31 were as follows:

	<u>2008</u>	<u>2007</u>
Real estate - residential	\$ 13,941,222	\$ 6,523,547
Real estate - commercial	13,408,327	7,143,930
Construction and land development loans	9,965,339	8,485,156
Commercial	9,717,603	2,918,313
Consumer loans	4,771,276	2,031,798
	51,803,767	27,102,744
Loans held for sale	-	137,875
Deferred fees and costs	(139,135)	(117,668)
Allowance for loan losses	(741,245)	(400,000)
	<u>\$ 50,923,387</u>	<u>\$ 26,722,951</u>
NET LOANS RECEIVABLE		

IDAHO FIRST BANK
NOTES TO FINANCIAL STATEMENTS

Note 4 - Loans Receivable and Allowance for Loan Losses (Continued)

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

	<u>2008</u>	<u>2007</u>
Fixed	\$ 13,459,460	\$ 8,663,382
Variable	<u>38,344,307</u>	<u>18,439,362</u>
	<u>\$ 51,803,767</u>	<u>\$ 27,102,744</u>

An analysis of the changes in the allowance for loan losses is as follows:

	<u>2008</u>	<u>2007</u>
Balance, beginning of year	\$ 400,000	\$ 291,500
Provision charged to expense	1,050,000	108,500
Loans charged off	<u>(708,755)</u>	<u>-</u>
Balance, end of year	<u>\$ 741,245</u>	<u>\$ 400,000</u>

A summary of nonperforming assets as of and for the period ended December 31 follows:

	<u>2008</u>	<u>2007</u>
Impaired loans on accrual status and 90 days or more past due	\$ 500,000	\$ -
Unimpaired loans on accrual status and 90 days or more past due	5,176	-
Impaired loans on nonaccrual status with no specific reserve	-	147,130
Impaired loans on nonaccrual status with specific reserve	644,743	348,238
Other real estate owned	<u>458,626</u>	<u>-</u>
Total nonperforming assets	<u>\$ 1,608,545</u>	<u>\$ 495,368</u>
Specific reserve for impaired loans	\$ 107,500	\$ 156,000
Annual average balance of impaired loans	413,002	150,471
Interest income recognized on impaired loans	37,235	-

IDAHO FIRST BANK
NOTES TO FINANCIAL STATEMENTS

Note 5 - Premises and Equipment

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

	<u>2008</u>	<u>2007</u>
Leasehold improvements	\$ 140,031	\$ 137,394
Furniture and equipment	<u>627,142</u>	<u>584,202</u>
Total cost	767,173	721,596
Less accumulated depreciation	<u>227,385</u>	<u>112,826</u>
NET BOOK VALUE	<u>\$ 539,788</u>	<u>\$ 608,770</u>

Depreciation and amortization expense for the years ended December 31, 2008 and 2007, was \$125,002 and \$89,807, respectively.

Note 6 - Deposits

The following is a schedule by years of maturities for time deposits at December 31, 2008:

Years ending December 31,	
2009	\$ 29,075,744
2010	5,317,529
2011	452,465
2012	346,087
2013	<u>1,727,815</u>
	<u>\$ 36,919,640</u>

The aggregate amount of time deposits exceeding \$100,000 was \$10,895,007 and \$8,512,689 at December 31, 2008 and 2007, respectively.

Included in time deposits of \$100,000 or more at December 31, 2008, are approximately \$6,924,792 of time deposits in denominations of more than \$100,000 but not exceeding \$250,000. These time deposits qualify for expanded FDIC insurance coverage through December 31, 2009.

IDAHO FIRST BANK
NOTES TO FINANCIAL STATEMENTS

Note 7 - Borrowings

The Bank had a \$2,000,000 unsecured line of credit with Pacific Coast Bankers' Bank at December 31, 2008. This line is reviewed annually and may be reduced or withdrawn at anytime and without prior notice. The Bank had no balance outstanding on the line as of December 31, 2008 or 2007.

The Bank has a borrowing line in place with the Federal Reserve Bank. The borrowing line fluctuates according to the balances of loans pledged. As of December 31, 2008, the Bank had a borrowing line of \$18,483,212, secured by loans with a principal balance of \$24,312,640. The Bank had no balance outstanding on the line as of December 31, 2008.

The Bank has a line of credit with the Federal Home Loan Bank of Seattle, under which the Bank can borrow up to 10% of its assets. Borrowings must be collateralized with loans or securities. At December 31, 2008, loans with a principal balance of \$7,149,809 and securities with an estimated market value of \$3,161,039 were pledged as collateral. The loans and securities in the collateral account in excess of collateral requirements are not restricted and can be withdrawn at any time. At December 31, 2008, the Bank had \$4,000,000 of borrowings from the Federal Home Loan Bank. There were no borrowings at December 31, 2007. Borrowings from the Federal Home Loan Bank have penalties for early payment.

The weighted average rates and scheduled repayment dates of the borrowings at December 31, 2008, are as follows:

Years ending December 31:	<u>Amount</u>	<u>Average Rate</u>
2009	\$ 2,000,000	2.20%
2010	1,000,000	3.94%
2012	<u>1,000,000</u>	3.49%
	<u>\$ 4,000,000</u>	2.96%

IDAHO FIRST BANK
NOTES TO FINANCIAL STATEMENTS

Note 8 - Commitments and Contingencies

Lease commitments and contracts:

The Bank has entered into various leases for property and equipment. Total rental expense, net of sublease income, for premises and equipment operating leases amounted to \$572,348 and \$308,158 in 2008 and 2007, respectively. The future minimum annual rental payments under operating leases at December 31, 2008, are summarized as follows:

Years ending December 31:	
2009	\$ 596,486
2010	594,888
2011	621,486
2012	594,646
2013	572,124
Thereafter	<u>4,407,044</u>
	<u>\$ 7,386,674</u>

Commitments to extend credit:

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

At December 31, 2008, the Bank had \$8,650,640 in commitments to extend credit. The Bank also had \$105,000 of standby letters of credit.

The Bank does not anticipate material losses as a result of these commitments but maintained an allowance for off-balance sheet credit exposure of \$15,000 at December 31, 2008.

Note 9 - Dividend Restriction

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

IDAHO FIRST BANK
NOTES TO FINANCIAL STATEMENTS

Note 10 - Income Taxes

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

	<u>2008</u>	<u>2007</u>
Current tax expense		
Federal	\$ -	\$ -
State	-	-
Deferred tax benefit		
Federal	692,938	504,200
State	105,967	92,182
Change in valuation allowance	<u>(798,905)</u>	<u>(596,382)</u>
 INCOME TAX BENEFIT	 <u>\$ -</u>	 <u>\$ -</u>

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

	<u>2008</u>	<u>2007</u>
Deferred tax assets:		
Net operating loss carryforward	\$ 2,120,385	\$ 1,404,674
Allowance for loan losses	166,426	74,020
Tax credit carryforwards	13,923	18,756
Equity compensation expense	14,289	8,823
Other	10,568	4,233
 Total deferred tax assets	 <u>2,325,591</u>	 <u>1,510,506</u>
 Less valuation allowance	 <u>(2,252,823)</u>	 <u>(1,453,918)</u>
Deferred tax liabilities:		
Unrealized gain on securities available for sale	(187,287)	(58,038)
Book-tax depreciation	(39,976)	(31,418)
Deferred loan origination costs	(32,792)	(25,170)
 Total deferred tax liabilities	 <u>(260,055)</u>	 <u>(114,626)</u>
 NET DEFERRED TAX LIABILITY	 <u>\$ (187,287)</u>	 <u>\$ (58,038)</u>

The net deferred income tax liability above is recorded in other liabilities.

IDAHO FIRST BANK
NOTES TO FINANCIAL STATEMENTS

Note 10 - Income Taxes (Continued)

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

	<u>2008</u>	<u>2007</u>
Federal income tax benefit at expected rate	\$ (682,393)	\$ (491,971)
State tax benefit	(101,896)	(82,709)
Effect of tax exempt income	(26,129)	(21,790)
Effect of permanent differences	11,513	88
Change in valuation allowance	<u>798,905</u>	<u>596,382</u>
INCOME TAX BENEFIT	<u>\$ -</u>	<u>\$ -</u>

Operating loss carryforwards as of December 31, 2008, for tax purposes were as follows:

<u>Expiration Dates</u>	<u>Federal</u>	<u>State</u>
December 31, 2025	\$ 842,743	\$ 842,743
December 31, 2026	1,288,057	1,352,291
December 31, 2027	1,445,539	1,546,374
December 31, 2028	<u>1,815,124</u>	<u>1,986,020</u>
	<u>\$ 5,391,463</u>	<u>\$ 5,727,428</u>

State tax credit carryforwards as of December 31, 2008, for tax purposes were as follows:

<u>Expiration Dates</u>	<u>Amount</u>
December 31, 2019	\$ 4,813
December 31, 2020	2,239
December 31, 2021	12,190
December 31, 2022	<u>1,853</u>
	<u>\$ 21,095</u>

The Bank adopted the provisions of FIN No. 48, *Accounting for Uncertainty in Income Taxes*, on January 1, 2007. The Bank had no unrecognized tax benefits at December 31, 2008, or at December 31, 2007.

IDAHO FIRST BANK
NOTES TO FINANCIAL STATEMENTS

Note 10 - Income Taxes (Continued)

The Bank recognizes interest accrued and penalties related to unrecognized tax benefits in tax expense. During the years ended December 31, 2008 and 2007, the Bank recognized no interest and penalties.

The Bank files income tax returns in the U.S. federal jurisdiction and the state of Idaho. The Bank is not subject to U.S. federal or state/local income tax examinations by tax authorities for years before December 31, 2005.

Note 11 - Employee Retirement Benefits

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

Annual contributions to the ESOP by the Bank, the employer, are equal to 3% of the eligible compensation of all eligible employees. For Bank contribution purposes, compensation after one year of service is eligible. The Bank contributions are fully vested under Safe Harbor Provisions. The compensation expense relating to the required employer contributions for the years ended December 31, 2008 and 2007, was \$25,916 and \$20,208, 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 market value. At December 31, 2008, there are no shares subject to this repurchase requirement.

The Bank purchased a single-premium life insurance policy on its president and chief executive officer (CEO). The cash surrender value of the policy is reflected as an asset of the Bank. In 2007, the Bank entered into a Joint Beneficiary Agreement with the president and CEO, whereby in the event of his death, his designated beneficiary will receive an insurance death benefit of \$750,000.

Note 12 - Related Party Transactions

In the normal course of business, the Bank accepts deposits and makes loans to its executive officers, directors, and companies affiliated with these individuals. There were approximately \$376,000 and \$536,000 of deposits from related parties at December 31, 2008 and 2007, respectively.

IDAHO FIRST BANK
NOTES TO FINANCIAL STATEMENTS

Note 12 - Related Party Transactions (Continued)

It is management's opinion that loans to the Bank's officers and directors 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 collectibility. The activity for these loans is as follows:

	<u>2008</u>	<u>2007</u>
Balance, beginning of year	\$ 521,610	\$ 628,138
Advances	400,943	322,213
Payments	<u>(296,683)</u>	<u>(428,741)</u>
Balance, end of year	<u>\$ 625,870</u>	<u>\$ 521,610</u>

Note 13 - Stock Options

The Bank has granted both incentive stock options and nonqualified stock options under various plans and agreements. Equity compensation expense, associated with stock options, was \$14,010 and \$15,877 during the years ended December 31, 2008 and 2007, respectively. The accounting offset to equity compensation expense was an increase to additional paid-in capital for the same amount.

The vesting of stock options ranges from immediate vesting to five year vesting. As of December 31, 2008, there were 6,533 incentive stock options available for grant under the Incentive Stock Option Plan of 2005 and 11,848 nonqualified options available for grant under the Director Non-Qualified Stock Option Plan of 2005. All outstanding options have an original term of 10 years.

IDAHO FIRST BANK
NOTES TO FINANCIAL STATEMENTS

Note 13 - Stock Options (Continued)

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

	<u>2008</u>		<u>2007</u>	
	<u>Shares</u>	<u>Weighted-Average Exercise Price</u>	<u>Shares</u>	<u>Weighted-Average Exercise Price</u>
Outstanding options at beginning of period	111,972	\$ 10.37	98,705	\$ 10.05
Granted	2,100	5.00	20,299	12.00
Exercised	-	-	(467)	10.00
Forfeited	<u>(9,243)</u>	<u>10.76</u>	<u>(6,565)</u>	10.65
Outstanding at end of year	<u>104,829</u>	\$ 10.23	<u>111,972</u>	\$ 10.37
Options exercisable at year end	<u>89,292</u>	\$ 10.09	<u>70,261</u>	\$ 10.00

The following table shows the assumptions used in arriving at the fair value of stock options granted during the following two years:

	<u>2008</u>	<u>2007</u>
Options granted	<u>2,100</u>	<u>20,299</u>
Expected volatility	15%	15%
Expected dividends	None	None
Expected term - years	6	6
Risk-free interest rate	2.96%	4.51%
Weighted average fair value	\$ 1.15	\$ 3.33
Aggregate compensation cost of options granted	\$ 2,415	\$ 67,596

IDAHO FIRST BANK
NOTES TO FINANCIAL STATEMENTS

Note 13 - Stock Options (Continued)

The following is additional information on options as of December 31, 2008:

	<u>Outstanding</u>	<u>Exercisable</u>
Options at December 31, 2008	104,829	89,292
Aggregate market value, assuming price of \$4.75	\$ 497,938	\$ 424,137
Aggregate exercise price	1,072,098	901,020
 AGGREGATE INTRINSIC VALUE	 \$ -	 \$ -
 Weighted average contractual term - years	 7.1	 6.8

As of December 31, 2008, there was unrecognized compensation cost of \$29,433 related to nonvested stock options. The cost is expected to be recognized over a weighted-average period of 2.6 years.

Note 14 - Concentrations of Credit Risk

Most of the Bank's loans, commitments, and standby letters of credit have been granted to customers in the Bank's market area, which is the state of Idaho. As such, significant changes in economic conditions in Idaho or with its primary industries could adversely affect the Bank's ability to collect loans. Substantially all such customers are depositors of the Bank. The concentrations of credit by type of loan are set forth in Note 3. The distribution of commitments to extend credit approximates the distribution of loans outstanding. Under banking regulations, the Bank is not allowed to extend credit to any single borrower or group of related borrowers in excess of \$1,394,000 at December 31, 2008.

The Bank places its cash with high credit quality institutions. Federal Deposit Insurance Corporation (FDIC) deposit insurance changes provides for unlimited FDIC insurance coverage on demand deposits, thus eliminate potential credit risk with these institutions.

Note 15 - Stockholders' Equity and Regulatory Matters

In connection with the stock offering in 2008, the Bank issued warrants allowing each warrant holder the right to purchase a share of the \$5.00 par value common stock of the Bank at a price of \$7.00 per share. These warrants are exercisable by the warrant holder at any time before the warrants expire on September 30, 2011. None of these warrants were exercised in 2008. At December 31, 2008, there were 232,810 warrants outstanding.

IDAHO FIRST BANK

NOTES TO FINANCIAL STATEMENTS

Note 15 - Stockholders' Equity and Regulatory Matters (Continued)

At a special meeting of the shareholders held on December 11, 2008, the issuance of up to 10,000 shares of \$1,000 par value preferred stock was approved. The Bank sought approval from shareholders for this change in the Bank's articles of incorporation in order to provide the Bank with the flexibility in raising additional capital.

The Bank is subject to various regulatory capital requirements administered by state and federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

The Bank's capital as of December 31, 2008, is not adequate to insure the continued operation and viability of the Bank in 2009 unless the Bank is able to raise additional capital in excess of its operating loss. The Bank is expected to have an operating loss in 2009 caused by a low interest rate environment that negatively impacts net interest income, a weak economy causing increased provisions for credit losses and by high operating costs. In the past, the Bank has been able to offset operating losses by raising additional capital. In 2007 and 2008, the Bank raised \$4.2 million and \$2.3 million, respectively, of new capital. The Bank's continued existence is dependent upon successfully raising additional capital in 2009.

The Bank has agreed with regulators to maintain an 8% ratio of Tier 1 capital to total assets, compared to the 5% ratio normally required of "Well Capitalized" banks. If the Bank falls below the "Well Capitalized" standards detailed below, the Bank may face additional regulatory restrictions and actions, including the possible closure of the Bank.

Most banks that fail to meet the "Well Capitalized" regulatory capital requirements face severe liquidity pressures because they are prohibited from accepting brokered deposits and they usually face restrictions in borrowing from the Federal Reserve Bank and the Federal Home Loan Bank. The Bank took actions in 2008 to strengthen its liquidity position by establishing a credit facility with the Federal Reserve Bank and participating in the FDIC's Temporary Liquidity Guarantee Program, which provides full FDIC insurance coverage on all of the Bank's transaction accounts. The management of the Bank and the Board of Directors closely monitor the liquidity of the Bank and are prepared to implement liquidity contingency plans if necessary.

IDAHO FIRST BANK
NOTES TO FINANCIAL STATEMENTS

Note 15 - Stockholders' Equity and Regulatory Matters (Continued)

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to total assets (as defined). Management believes, as of December 31, 2008 and 2007, the Bank met all capital adequacy requirements to which it is subject.

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

	Actual		Capital Adequacy		To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2008						
Tier 1 capital (to average assets):	\$ 6,216,000	9.90%	\$ 2,512,000	4.00%	\$ 3,140,000	5.00%
Tier 1 capital (to risk-weighted assets):	6,216,000	10.96%	2,268,000	4.00%	3,402,000	6.00%
Total capital (to risk-weighted assets):	6,925,000	12.22%	4,535,000	8.00%	5,669,000	10.00%
December 31, 2007						
Tier 1 capital (to average assets):	\$ 5,913,000	15.54%	\$ 1,522,000	4.00%	\$ 1,902,000	5.00%
Tier 1 capital (to risk-weighted assets):	5,913,000	18.47%	1,281,000	4.00%	1,921,000	6.00%
Total capital (to risk-weighted assets):	6,314,000	19.72%	2,562,000	8.00%	3,202,000	10.00%

Note 16 - Fair Value Measurement

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

Accounting standards contain a framework of determining fair values as follows:

- **Level 1** - Quoted prices in active markets for identical instruments.
- **Level 2** - Quoted prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations based on observable market data such as interest rates or yield curves
- **Level 3** - Valuations determined by unobservable data based upon subjective judgments or appraisals.

At December 31, 2008, the Bank had \$8,988,411 of securities available for sale measured on a recurring basis, using Level 2 measurements.

IDAHO FIRST BANK
NOTES TO FINANCIAL STATEMENTS

Note 16 - Fair Value Measurement (Continued)

At December 31, 2008, the Bank had \$1,144,743 of impaired loans and \$458,626 of other real estate owned measured at the lower of cost or fair value on a nonrecurring basis, using Level 3 measurements. Impaired loans are valued at the fair value of underlying collateral, as determined by a qualified independent appraiser, less the estimated cost to foreclose, sell and carry the collateral. Other real estate owned is value at fair value as determined by a qualified independent appraiser, less estimated selling costs. For the year ended December 31, 2008, the Bank recognized losses of \$703,704 on impaired loans. There were no losses recognized on other real estate owned.

Note 17 - Subsequent Events

On May 22, 2009, the FDIC adopted a final rule imposing a five basis point special assessment on each insured depository institution's assets minus Tier 1 capital as of June 30, 2009. The amount of the special assessment for any institution will not exceed ten basis points times the institution's assessment base for the second quarter 2009. The special assessment will be collected on September 30, 2009. An additional special assessment of up to five basis points later in 2009 is probable, but the amount is uncertain.

In the second quarter of 2009, the Bank charged off a nonaccrual, unsecured consumer loan with a balance of \$595,000. The loan was granted on February 13, 2009, and was granted based upon what appears to be fraudulent financial statements. The Bank is in contact with appropriate law enforcement agencies concerning the transaction.

In order to maintain the Bank at the "Well Capitalized" level for June 30, 2009, the Bank sold \$5.6 million of investments securities and realized a gain of \$336,000 in the second quarter of 2009. While the realized gain will have a beneficial impact on the Bank's capital at June 30, 2009, the sale of investment securities will have a negative impact on future net interest income.