

IDAHO FIRST BANK
REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

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REPORT OF INDEPENDENT AUDITORS

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, 2010 and 2009, and the related statements of operations, changes in stockholders' equity, comprehensive loss, and cash flows for the years ended December 31, 2010 and 2009. 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, 2010 and 2009, and the results of its operations and its cash flows for the years ended December 31, 2010 and 2009, 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.

Moss Adams LLP

Spokane, Washington
April 11, 2011

IDAHO FIRST BANK
STATEMENT OF FINANCIAL CONDITION

ASSETS

	December 31,	
	2010	2009
Cash and due from banks	\$ 888,356	\$ 840,393
Interest-bearing demand deposits due from banks	13,986,890	939,671
Cash and cash equivalents	14,875,246	1,780,064
Time deposits with banks	4,800,000	3,260,000
Securities available for sale	3,001,010	10,213,437
Federal Home Loan Bank stock, at cost	270,000	270,000
Loans receivable	53,081,497	57,398,510
Allowance for loan losses	(1,024,565)	(1,312,738)
Net loans receivable	52,056,932	56,085,772
Premises and equipment, net	296,932	409,841
Accrued interest receivable	216,542	342,937
Cash surrender value of Bank-owned life insurance	615,000	594,000
Other real estate owned	1,064,222	824,397
Other assets	209,348	295,085
TOTAL ASSETS	\$ 77,405,232	\$ 74,075,533

LIABILITIES AND STOCKHOLDERS' EQUITY

Deposits		
Noninterest-bearing demand	\$ 10,416,810	\$ 7,272,359
Interest-bearing demand	2,243,814	2,307,615
Savings	7,417,882	7,095,851
Time deposits, less than \$100,000	11,714,092	16,195,589
Time deposits from \$100,000 to \$249,999	29,045,179	18,811,779
Time deposits of \$250,000 and more	7,443,533	12,855,442
Total deposits	68,281,310	64,538,635
Borrowings from Federal Home Loan Bank	4,000,000	5,000,000
Accrued interest payable	87,004	108,434
Other liabilities	226,860	375,603
Total liabilities	72,595,174	70,022,672

COMMITMENTS AND CONTINGENCIES (Note 8)

STOCKHOLDERS' EQUITY

Preferred stock \$1,000 par value; 10,000 shares authorized; none issued or outstanding	-	-
Common stock - no par and \$5 par value, 20,000,000 shares authorized; 7,926,132 and 1,398,284 shares issued and outstanding, respectively	14,649,189	6,991,420
Additional paid-in capital	-	4,858,262
Accumulated deficit	(9,845,931)	(7,868,308)
Accumulated other comprehensive income	6,800	71,487
Total stockholders' equity	4,810,058	4,052,861
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 77,405,232	\$ 74,075,533

IDAHO FIRST BANK
STATEMENT OF OPERATIONS

	Year Ended December 31,	
	2010	2009
Interest income		
Loans, including fees	\$ 3,253,099	\$ 3,335,815
Securities	313,173	274,111
Other interest income	42,155	12,796
Total interest income	<u>3,608,427</u>	<u>3,622,722</u>
Interest expense		
Time deposits	1,261,333	1,202,875
Savings	64,688	57,942
Interest-bearing demand	9,348	14,009
Borrowed funds	159,190	163,062
Total interest expense	<u>1,494,559</u>	<u>1,437,888</u>
Net interest income	<u>2,113,868</u>	<u>2,184,834</u>
Provision for loan losses	<u>1,550,000</u>	<u>1,800,000</u>
Net interest income after provision for loan losses	<u>563,868</u>	<u>384,834</u>
Noninterest income		
Mortgage banking income	671,090	331,238
Service charges on deposits	84,303	100,105
Increase in cash surrender value of Bank-owned life insurance	21,000	36,285
Realized gains on securities available for sale	321,303	335,588
Other income	88,989	71,830
	<u>1,186,685</u>	<u>875,046</u>
Noninterest expenses		
Salaries and employee benefits	1,451,443	1,267,485
Occupancy	550,206	641,264
Equipment	162,465	173,885
Professional services	322,622	413,790
Data processing	303,693	316,003
FDIC insurance	303,104	210,834
Net losses on other real estate owned	208,541	150,766
Telephone	79,409	83,214
Collection and other real estate owned expenses	75,751	30,400
Advertising and promotion	59,356	66,300
Supplies and postage	58,773	52,073
Training, travel, and other employee	54,537	72,036
Other operating	98,276	51,130
	<u>3,728,176</u>	<u>3,529,180</u>
Loss before income taxes	<u>(1,977,623)</u>	<u>(2,269,300)</u>
Income tax expense	-	-
NET LOSS	<u>\$ (1,977,623)</u>	<u>\$ (2,269,300)</u>

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, 2008	1,376,584	\$ 6,882,920	\$ 4,932,259	\$ (5,599,008)	\$ 292,740	\$ 6,508,911
Net loss	-	-	-	(2,269,300)	-	(2,269,300)
Equity compensation expense	-	-	11,718	-	-	11,718
Issuance of stock, net	21,700	108,500	(85,715)	-	-	22,785
Other comprehensive expense	-	-	-	-	(221,253)	(221,253)
BALANCE, December 31, 2009	1,398,284	6,991,420	4,858,262	(7,868,308)	71,487	4,052,861
Change from \$5 par value to no par value	-	4,858,262	(4,858,262)	-	-	-
Net loss	-	-	-	(1,977,623)	-	(1,977,623)
Equity compensation expense	-	61,310	-	-	-	61,310
Issuance of stock, net	6,527,848	2,738,197	-	-	-	2,738,197
Other comprehensive expense	-	-	-	-	(64,687)	(64,687)
BALANCE, December 31, 2010	7,926,132	\$ 14,649,189	\$ -	\$ (9,845,931)	\$ 6,800	\$ 4,810,058

IDAHO FIRST BANK
STATEMENT OF COMPREHENSIVE LOSS

	Year Ended December 31,	
	<u>2010</u>	<u>2009</u>
Net loss	<u>\$ (1,977,623)</u>	<u>\$ (2,269,300)</u>
Other comprehensive expense		
Change in holding gains on securities available for sale	215,233	(27,218)
Gains realized in income	<u>(321,303)</u>	<u>(335,588)</u>
Change in unrealized gains on securities available for sale	(106,070)	(362,806)
Income tax provision	<u>41,383</u>	<u>141,553</u>
Other comprehensive expense	<u>(64,687)</u>	<u>(221,253)</u>
COMPREHENSIVE LOSS	<u>\$ (2,042,310)</u>	<u>\$ (2,490,553)</u>

IDAHO FIRST BANK
STATEMENT OF CASH FLOWS

	Year Ended December 31,	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (1,977,623)	\$ (2,269,300)
Adjustments to reconcile net loss to net cash used by operating activities:		
Net amortization of deferred loan fees and costs	(89,006)	(101,869)
Net amortization of securities' discounts and premiums	156,994	46,391
Provision for loan losses	1,550,000	1,800,000
Originations of loans held for sale	(23,865,751)	(4,342,192)
Proceeds from sale of loans held for sale	24,113,318	3,485,108
Gain on sale of loans	(304,462)	(30,842)
Increase in cash surrender value of life insurance	(21,000)	(36,285)
Gain on sale of securities available for sale	(321,303)	(335,588)
Loss on disposal of premises and equipment	5,360	7,644
Equity compensation expense	61,310	11,718
Depreciation and amortization	108,892	132,493
Net losses on other real estate owned	208,541	150,766
Change in accrued interest receivable and other assets	210,623	(146,786)
Change in accrued interest payable and other liabilities	(128,790)	85,736
Net cash used by operating activities	<u>(292,897)</u>	<u>(1,543,006)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net change in federal funds sold	-	660,000
Net change in time deposits with banks	(1,540,000)	(3,260,000)
Securities available for sale:		
Maturities, prepayments, and calls	2,412,056	1,628,219
Sales	10,528,551	5,963,658
Purchases	(5,669,941)	(8,890,512)
Purchase of FHLB stock	-	(90,000)
Net change in loans	1,288,809	(6,555,627)
Purchases of premises, equipment, and software	(1,034)	(3,912)
Proceeds from sale of premises and equipment	1,200	-
Proceeds from surrender of Bank-owned life insurance	-	591,285
Proceeds from sale of other real estate owned	887,566	66,500
Net cash provided (used) by investing activities	<u>7,907,207</u>	<u>(9,890,389)</u>

IDAHO FIRST BANK
STATEMENT OF CASH FLOWS

	Year Ended December 31,	
	2010	2009
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	\$ 3,742,675	\$ 11,212,163
Borrowings from Federal Home Loan Bank	2,000,000	3,000,000
Repayments of borrowings from Federal Home Loan Bank	(3,000,000)	(2,000,000)
Proceeds from issuance of common stock, net	2,738,197	22,785
	5,480,872	12,234,948
NET CHANGE IN CASH AND CASH EQUIVALENTS	13,095,182	801,553
Cash and cash equivalents, beginning of year	1,780,064	978,511
Cash and cash equivalents, end of year	\$ 14,875,246	\$ 1,780,064
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION		
Cash paid during the year for:		
Interest	\$ 1,515,989	\$ 1,477,007
Income taxes	\$ -	\$ -
Transfer of loans to other real estate owned	\$ 1,745,052	\$ 583,037
Loans provided for the sale of other real estate owned	\$ 409,120	\$ -

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 demand accounts due from banks, both interest-bearing and noninterest-bearing. Time deposits with banks are not included as cash equivalents.

Time deposits with banks:

The Bank invests excess funds in short-term certificates of deposit in other banks. All balances are fully insured by the Federal Deposit Insurance Corporation. As of December 31, 2010, there were balances of \$4,800,000 of time deposits with banks, with a weighted average yield of 0.72%. Each time deposit had an original term of one year or less. As of December 31, 2009, there were balances of \$3,260,000 with a weighted average yield of 1.05%.

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. The Bank uses the specific identification method to determine the cost of securities sold.

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.

Note 1 - Summary of Significant Accounting Policies (Continued)

Equity securities:

The Bank is a member of the Federal Home Loan Bank (FHLB) system. Members are required to own a certain amount of stock based on the level of borrowings and other factors. The Bank owns equity securities of the Federal Home Loan Bank of Seattle. These securities are carried at cost. There is no determinable fair value for these equity securities as all purchases and redemptions occur at the par value of the stock. The equity securities were not considered to be impaired at December 31, 2010.

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.

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

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

The accrual of interest on impaired loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due or the loan has been in default for a period of 90 days or more. Loans that are in default over 90 days may continue to accrue interest if the loan is well collateralized and in the process of collection. 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.

IDAHO FIRST BANK
NOTES TO FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies (Continued)

Loans receivable and allowances for loan losses (continued):

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.

Loans held for sale:

The Bank originates mortgage loans for sale to investors in the secondary market. Loans held for sale are carried at the lower of cost or fair value as determined by outstanding commitments from investors. Gains and losses resulting from the sale of loans are determined on the specific-identification method and reflect the extent 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.

Bank-owned life insurance:

The Bank has purchased a life insurance policy on its chief executive officer. The Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

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 fair 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.

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, 2010 or 2009.

Advertising:

Advertising and promotion costs are charged to noninterest expense when incurred. Advertising and promotion expense for the years ended December 31, 2010 and 2009, was \$59,356 and \$66,300, respectively.

Note 1 - Summary of Significant Accounting Policies (Continued)

Income taxes:

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

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion of the deferred tax assets will not be realized. Management considers, among other things, the scheduled reversal of deferred tax liabilities, projected future taxable income, tax planning strategies, and positions taken by taxing authorities on the various issues related to the deductibility of certain costs in making this assessment. A valuation allowance has been recorded against the Bank's net operating loss carry forwards to reflect management's estimate of the realizable amount of its deferred tax assets at December 31, 2010.

The Bank recognizes and measures uncertain tax positions using a "more-likely-than-not" approach. The Bank's approach consisted of an examination of its financial statements, its income tax provision, and its federal and state income tax returns. The Bank analyzed its tax positions including the permanent and temporary differences as well as the major components of income and expense. As of December 31, 2010, the Bank did not believe 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, 2010. 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.

Equity compensation:

The cost resulting from all share-based payment transactions must be recognized in the financial statements of the Bank. Compensation expense is recorded on a straight-line attribution basis over the vesting period of the options. The compensation expense of options is calculated using the Black-Scholes option pricing model at the date of the grant. During 2010, stock and stock warrants were issued as compensation for lease amendments. The cost of that compensation was included in occupancy expense.

IDAHO FIRST BANK
NOTES TO FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies (Continued)

Reclassifications:

Certain reclassifications have been made in the December 31, 2009, financial statements in order to conform with the December 31, 2010, presentation with no effect on previously reported net loss or stockholders' equity.

Recent accounting pronouncements:

On January 21, 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU or the Update) 2010-06, *Improving Disclosures About Fair Value Measurements*. The Update amends ASC 820, *Fair Value Measurements and Disclosures*, to add new requirements for disclosures about transfers into and out of Levels 1 and 2 and separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements. It also clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair values. The guidance in ASU 2010-06 is effective for the first reporting period beginning after December 15, 2009. ASU 2010-06 did not have a material impact on the Bank's financial condition or results of operations.

In July 2010, the FASB issued ASU 2010-20, *Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. The ASU expands existing disclosures to require an entity to provide additional information in its disclosures about the credit quality of their financing receivables and the credit reserves held against them. Specifically, entities will be required to present a roll forward of activity in the allowance for credit losses, the nonaccrual status of financing receivables by class of financing receivables, and impaired financing receivables by class of financing receivables, all on a disaggregated basis. The ASU also requires an entity to provide additional disclosures on credit quality indicators of financing receivables at the end of the reporting period by class of financing receivables, the aging of past due financing receivables at the end of the reporting period by class of financing receivables, the nature and extent of troubled debt restructurings that occurred during the period by class of financing receivables and their effect on the allowance for credit losses, the nature and extent of financing receivables modified as troubled debt restructurings within the previous 12 months that defaulted during the reporting period by class of financing receivables and their effect on the allowance for credit losses, and significant purchases and sales of financing receivables during the reporting period disaggregated by portfolio segment. For public entities, the disclosures of period-end balances are effective for interim and annual reporting periods ending after December 15, 2010. For public entities, the disclosures of activity are effective for interim and annual reporting periods beginning on or after December 15, 2010. The effective date for troubled debt restructuring disclosures was temporarily deferred to be concurrent with the effective date for the proposed ASU, *Receivables: Clarifications to Accounting for Troubled Debt Restructurings by Creditors*. ASU 2010-20 did not have a material impact on the Bank's financial condition or results of operations.

Subsequent events:

In preparing these financial statements, management has evaluated subsequent events, if any, through April 11, 2011, which is the date the audited financial statements were issued.

Note 2 - Going Concern

The financial statements have been prepared assuming the Bank will continue as a going concern. During a significant portion of 2010, due to high operating losses, the Bank was “under-capitalized”. However, as a result of the sale of \$2.7 million of new stock, the Bank returned to a “well-capitalized” level at December 31, 2010, as discussed in Note 15. Without the issuance of additional capital in 2011, it is likely the Bank will fall from “well-capitalized” to “adequately-capitalized” during 2011. Furthermore, due primarily to economic risks, it is possible the Bank could once again become “under-capitalized” and face adverse regulatory actions. If the Bank becomes “critically under-capitalized,” it could be closed by regulators.

The Bank faces significant risk from the economic environment in its primary market area of Valley County. With a high unemployment rate and depressed real estate market values, the Bank faces the risk of further deterioration in credit quality and unforeseen losses. Loan charge-offs and losses on other real estate totaled \$2.3 million in 2010. If this level of losses were to continue in 2011, the Bank could become “critically under-capitalized” without the addition of new capital.

Currently, the Bank is not permitted to accept brokered deposits. In addition, the Bank cannot pay rates on deposits that exceed national averages by more than 75 basis points. The Bank has full and unrestricted access to deposits from a network of other financial institutions. Deposits from the inter-bank network totaled \$19.6 million at December 31, 2010, and that source of funds provides significant contingent liquidity. The risk that regulatory changes might restrict access to this source of funds is the largest liquidity risk that faces the Bank.

The \$2.7 million of new capital raised in 2010 has significantly strengthened the Bank. With the additional capital the Bank now has the ability to increase loans to a level that will allow the Bank to reach profitability. If the Bank is profitable in 2011 it can be “adequately-capitalized” without raising additional capital. However, the Bank’s ability to achieve profitability in 2011, is contingent upon significant growth in the loan portfolio and upon a significant reduction in the provision for loan losses.

The Bank’s ability to continue as a going concern at the end of 2010 is significantly improved from the situation at the end of 2009. However, due to difficulty in achieving profitability, uncertain economic conditions, and difficulty in raising capital, there remains 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, 2010. As of December 31, 2010, securities available for sale, with an estimated market value of \$2,028,540, were pledged as collateral for \$189,412 of public deposits. The carrying amounts of securities available for sale and their approximate fair values were as follows:

	December 31, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. government agency securities	\$ 2,013,097	\$ 15,443	\$ -	\$ 2,028,540
Mortgage-backed securities	976,762	-	(4,292)	972,470
	\$ 2,989,859	\$ 15,443	\$ (4,292)	\$ 3,001,010

	December 31, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. government agency securities	\$ 5,241,288	\$ 22,860	\$ (12,608)	\$ 5,251,540
Mortgage-backed securities	4,854,928	106,969	-	4,961,897
	\$ 10,096,216	\$ 129,829	\$ (12,608)	\$ 10,213,437

As of December 31, 2010, there was one security with an unrealized loss of \$4,292. The security was not in an unrealized loss position for 12 consecutive months. As of December 31, 2009, there were two investment securities with unrealized losses of \$12,608. In 2010, the Bank received proceeds of \$10,528,551 and realized gains of \$321,303 from the sale of securities available for sale. In 2009, the Bank received proceeds of \$5,963,658 and realized gains of \$335,588 from the sale of securities available for sale.

IDAHO FIRST BANK
NOTES TO FINANCIAL STATEMENTS

Note 3 - Securities Available for Sale (Continued)

Maturities of securities available for sale at December 31, 2010, 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	\$ 1,007,197	\$ 1,013,690
Maturing in one to five years	1,005,900	1,014,850
Mortgage-backed securities	976,762	972,470
	<u>\$ 2,989,859</u>	<u>\$ 3,001,010</u>

Note 4 - Loans Receivable and Allowance for Loan Losses

Major classifications of loans at December 31 were as follows:

	<u>2010</u>	<u>2009</u>
Real estate - commercial	\$ 17,784,038	\$ 17,533,542
Real estate - residential	17,150,142	17,316,130
Commercial	10,992,774	13,268,369
Construction and land development loans	4,614,567	6,066,814
Consumer loans	1,688,806	2,448,900
	<u>52,230,327</u>	56,633,755
Loans held for sale	944,821	887,926
Deferred fees and costs	(93,651)	(123,171)
Allowance for loan losses	<u>(1,024,565)</u>	<u>(1,312,738)</u>
 NET LOANS RECEIVABLE	 <u>\$ 52,056,932</u>	 <u>\$ 56,085,772</u>

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

	<u>2010</u>	<u>2009</u>
Fixed	\$ 17,883,685	\$ 19,882,586
Variable	34,346,642	36,751,169
	<u>\$ 52,230,327</u>	<u>\$ 56,633,755</u>

IDAHO FIRST BANK
NOTES TO FINANCIAL STATEMENTS

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

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

	<u>2010</u>	<u>2009</u>
Balance, beginning of year	\$ 1,312,738	\$ 741,245
Provision charged to expense	1,550,000	1,800,000
Loans charged off	(2,050,203)	(1,228,746)
Loan recoveries	212,030	239
Balance, end of year	<u>\$ 1,024,565</u>	<u>\$ 1,312,738</u>

The Bank had one loan on December 31, 2010, that was past-due more than 30 days and still accruing interest. The loan was a construction and land development loan in the amount of \$230,375 and was 30-59 days past due. The Bank had two loans that were past-due more than 30 days and still accruing interest on December 31, 2009; a commercial real estate loan of \$515,670 that was 60-89 days past due and a commercial loan of \$959,502 that was more than 90 days past due.

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, 2010, by type of loan and by internal loan grades:

	Real Estate Commercial	Real Estate Residential	Commercial	Construction and Land Development	Consumer	Total
Grade:						
Pass	\$ 15,480,243	\$ 14,989,106	\$ 9,993,282	\$ 2,565,093	\$ 1,688,806	\$ 44,716,530
Special mention	618,358	1,107,867	41,648	988,598	-	2,756,471
Substandard	1,685,437	1,028,419	957,844	1,060,876	-	4,732,576
Doubtful	-	24,750	-	-	-	24,750
Total	<u>\$ 17,784,038</u>	<u>\$ 17,150,142</u>	<u>\$ 10,992,774</u>	<u>\$ 4,614,567</u>	<u>\$ 1,688,806</u>	<u>\$ 52,230,327</u>

IDAHO FIRST BANK
NOTES TO FINANCIAL STATEMENTS

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

The following table shows information on impaired loans by loan classification. The “recorded loan balance” is net of any charge-off amount. The “unpaid principal balance” is total principal balance including amounts that the Bank determined to be a loss and charged-off. The “specific reserve in allowance” is the amount of impairment that has been specifically reserved for in the allowance for loan losses. The table is for amounts as of December 31, 2010, and December 31, 2009.

	Recorded Loan Balance	Unpaid Principal Balance	Specific Reserve in Allowance
As of December 31, 2010:			
With no specific reserve in allowance			
Real estate - commercial	\$ 102,266	\$ 102,266	
Real estate - residential	1,132,617	1,282,612	
Construction and land development	712,029	1,039,097	
Total	<u>\$ 1,946,912</u>	<u>\$ 2,423,975</u>	
With specific reserve in allowance			
Real estate - commercial	\$ 1,583,171	\$ 1,583,171	\$ 123,784
Construction and land development	176,432	176,432	27,855
Total	<u>\$ 1,759,603</u>	<u>\$ 1,759,603</u>	<u>\$ 151,639</u>
Total			
Real estate - commercial	\$ 1,685,437	\$ 1,685,437	\$ 123,784
Real estate - residential	1,132,617	1,282,612	-
Construction and land development	888,461	1,215,529	27,855
Total	<u>\$ 3,706,515</u>	<u>\$ 4,183,578</u>	<u>\$ 151,639</u>

IDAHO FIRST BANK
NOTES TO FINANCIAL STATEMENTS

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

	Recorded Loan Balance	Unpaid Principal Balance	Specific Reserve in Allowance
	<u> </u>	<u> </u>	<u> </u>
As of December 31, 2009:			
With no specific reserve in allowance			
Real estate - commercial	\$ 451,175	\$ 576,175	
Real estate - residential	174,854	174,854	
Commercial	163,099	163,099	
Construction and land development	<u>959,477</u>	<u>959,477</u>	
Total	<u>\$ 1,748,605</u>	<u>\$ 1,873,605</u>	
With specific reserve in allowance			
Real estate - commercial	\$ 835,313	\$ 835,313	\$ 167,000
Real estate - residential	279,509	279,509	56,800
Commercial	121,506	121,506	72,763
Consumer	<u>702,802</u>	<u>702,802</u>	<u>70,000</u>
Total	<u>\$ 1,939,130</u>	<u>\$ 1,939,130</u>	<u>\$ 366,563</u>
Total			
Real estate - commercial	\$ 1,286,488	\$ 1,411,488	\$ 167,000
Real estate - residential	454,363	454,363	56,800
Commercial	284,605	284,605	72,763
Construction and land development	959,477	959,477	-
Consumer	<u>702,802</u>	<u>702,802</u>	<u>70,000</u>
Total	<u>\$ 3,687,735</u>	<u>\$ 3,812,735</u>	<u>\$ 366,563</u>

IDAHO FIRST BANK
NOTES TO FINANCIAL STATEMENTS

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

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:

	<u>2010</u>		<u>2009</u>	
	<u>Average Balance</u>	<u>Interest Income Recognized</u>	<u>Average Balance</u>	<u>Interest Income Recognized</u>
Real estate - commercial	\$ 1,593,177	\$ 6,561	\$ 881,614	\$ 5,769
Real estate - residential	1,508,773	35,907	420,427	20,567
Commercial	73,920	2,553	35,051	1,445
Construction and land development	949,805	48,973	1,370,555	40,501
Consumer	270,308	-	54,062	-
Total	<u>\$ 4,395,983</u>	<u>\$ 93,994</u>	<u>\$ 2,761,709</u>	<u>\$ 68,282</u>

Loans on nonaccrual status, by type of loan, at December 31 follow:

	<u>2010</u>	<u>2009</u>
Real estate - commercial	\$ 1,583,171	\$ 1,193,071
Real estate - residential	24,750	279,509
Commercial	-	121,506
Construction and land development loans	263,401	93,417
Consumer loans	-	702,802
Total	<u>\$ 1,871,322</u>	<u>\$ 2,390,305</u>

The Bank has allocated \$51,639 of specific reserves to customers whose loan terms were modified in troubled debt restructurings as of December 31, 2010. No specific reserves were allocated to customers whose loan terms were modified in troubled restructurings as of December 31, 2009. The Bank has not committed to lend additional amounts as of December 31, 2010 and 2009, to customers with outstanding loans that are classified as troubled debt restructurings.

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>2010</u>	<u>2009</u>
Leasehold improvements	\$ 129,747	\$ 129,747
Furniture and equipment	<u>592,306</u>	<u>622,984</u>
Total cost	722,053	752,731
Less accumulated depreciation	<u>425,121</u>	<u>342,890</u>
NET BOOK VALUE	<u>\$ 296,932</u>	<u>\$ 409,841</u>

Depreciation and amortization expense for the years ended December 31, 2010 and 2009, was \$107,383 and \$122,940, respectively.

Note 6 - Deposits

The following is a schedule by years of maturities for time deposits at December 31, 2010:

Years ending December 31,	
2011	\$ 18,761,048
2012	17,502,768
2013	3,474,432
2014	6,332,671
2015	<u>2,131,885</u>
	<u>\$ 48,202,804</u>

The Bank had \$7,443,533 of time deposits of \$250,000 and more as of December 31, 2010. Of this amount, \$2,750,000 was in time deposits of \$250,000 and \$4,693,533 was in time deposits exceeding \$250,000.

Note 7 - Borrowings

The Bank had a \$1,500,000 line of credit with Pacific Coast Bankers' Bank at December 31, 2010. This line is reviewed annually and may be reduced or withdrawn at anytime and without prior notice. The line is not currently available because it requires collateral, which the Bank has not provided. The Bank had no balance outstanding on the line as of December 31, 2010 or 2009.

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, 2010, loans with a principal balance of \$15,159,839 were pledged as collateral. At December 31, 2010, the Bank had \$4,000,000 of borrowings from the Federal Home Loan Bank. Borrowings from the Federal Home Loan Bank have penalties for early payment.

Note 7 - Borrowings (Continued)

The weighted average rates and scheduled repayment dates of the borrowings at December 31, 2010, are as follows:

Years ending December 31:	<u>Amount</u>	<u>Average Rate</u>
2011	\$ 1,000,000	2.11%
2012	1,000,000	3.49%
2013	1,000,000	2.94%
2014	<u>1,000,000</u>	3.42%
	<u>\$ 4,000,000</u>	2.99%

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 \$429,068 and \$583,389 in 2010 and 2009, respectively. The future minimum annual rental payments under operating leases at December 31, 2010, are summarized as follows:

Years ending December 31:	
2011	\$ 319,840
2012	302,557
2013	291,296
2014	291,296
2015	291,296
Thereafter	<u>1,667,129</u>
	<u>\$ 3,163,414</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.

IDAHO FIRST BANK
NOTES TO FINANCIAL STATEMENTS

Note 8 - Commitments and Contingencies (Continued)

Commitments to extend credit (continued):

At December 31, 2010, the Bank had \$5,274,014 in commitments to extend credit. The Bank also had \$95,002 of standby letters of credit.

The Bank does not anticipate material losses as a result of these commitments. The Bank maintained an allowance for off-balance sheet credit exposure of \$20,000 at December 31, 2010, and at December 31, 2009.

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.

Note 10 - Income Taxes

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

	<u>2010</u>	<u>2009</u>
Current tax expense		
Federal	\$ -	\$ -
State	-	-
Deferred tax benefit		
Federal	674,108	753,352
State	103,612	116,014
Change in valuation allowance	<u>(777,720)</u>	<u>(869,366)</u>
 INCOME TAX BENEFIT	 <u>\$ -</u>	 <u>\$ -</u>

IDAHO FIRST BANK
NOTES TO FINANCIAL STATEMENTS

Note 10 - Income Taxes (Continued)

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

	<u>2010</u>	<u>2009</u>
Deferred tax assets:		
Net operating loss carryforward	\$ 3,718,624	\$ 2,791,351
Losses on other real estate owned	87,724	53,693
Allowance for loan losses	80,119	280,741
Equity compensation expense	21,479	18,861
Stock warrant expense	21,303	-
Tax credit carryforwards	13,694	13,744
Interest on nonaccrual loans	4,994	26,453
Other	8,426	12,657
	<u>3,956,363</u>	<u>3,197,500</u>
Total deferred tax assets		
Less valuation allowance	<u>(3,899,909)</u>	<u>(3,122,189)</u>
Deferred tax liabilities:		
Deferred loan origination costs	(33,322)	(38,583)
Net book value of fixed assets	(23,132)	(36,728)
Unrealized gain on securities available for sale	(4,351)	(45,735)
	<u>(60,805)</u>	<u>(121,046)</u>
Total deferred tax liabilities		
NET DEFERRED TAX LIABILITY	<u>\$ (4,351)</u>	<u>\$ (45,735)</u>

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

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

	<u>2010</u>	<u>2009</u>
Federal income tax benefit at expected rate	\$ (672,392)	\$ (771,562)
State tax benefit	(99,138)	(117,204)
Effect of tax exempt income	(12,413)	(12,337)
Effect of permanent differences	6,223	31,737
Change in valuation allowance	777,720	869,366
INCOME TAX BENEFIT	<u>\$ -</u>	<u>\$ -</u>

IDAHO FIRST BANK
NOTES TO FINANCIAL STATEMENTS

Note 10 - Income Taxes (Continued)

Operating loss carryforwards as of December 31, 2010, 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	1,815,122	1,986,000
December 31, 2029	1,736,476	1,837,028
December 31, 2030	2,336,157	2,420,266
	<u>\$ 9,464,094</u>	<u>\$ 9,984,702</u>

State tax credit carryforwards as of December 31, 2010, for tax purposes were as follows:

<u>Expiration Dates</u>	<u>Amount</u>
December 31, 2019	\$ 4,441
December 31, 2020	2,239
December 31, 2021	12,153
December 31, 2022	1,768
December 31, 2023	117
December 31, 2024	31
	<u>\$ 20,749</u>

The Bank had no unrecognized tax benefits at December 31, 2010 or 2009.

The Bank recognizes interest accrued and penalties related to unrecognized tax benefits in tax expense. During the years ended December 31, 2010 and 2009, the Bank recognized no interest and penalties.

The Bank files a United States federal income tax return and an Idaho state income tax return. With few exceptions, the Bank is no longer subject to U. S. federal or state/local income tax examinations by tax authorities for years before December 31, 2007.

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 are flexible and subject to annual approval by the Board of Directors. Contributions were equal to 1.5% and 3.0% of the eligible compensation of eligible employees in 2010 and 2009, respectively. For Bank contribution purposes, compensation after one year of service is eligible. The compensation expense relating to employer contributions for the years ended December 31, 2010 and 2009, was \$16,957 and \$24,828, 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, 2010, there were no shares subject to this repurchase requirement.

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 \$353,000 and \$430,000 of deposits from related parties at December 31, 2010 and 2009, respectively.

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:

	2010	2009
Balance, beginning of year	\$ 1,314,851	\$ 625,870
Advances	10,191	803,796
Payments	(838,317)	(114,815)
	\$ 486,725	\$ 1,314,851
Balance, end of year	\$ 486,725	\$ 1,314,851

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 \$6,710 and \$11,718 during the years ended December 31, 2010 and 2009, respectively. The accounting offset to equity compensation expense was an increase to common stock for the same amount.

The vesting of stock options ranges from immediate vesting to five year vesting. As of December 31, 2010, there were 13,733 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:

	2010		2009	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding options at beginning of period	99,479	\$ 10.21	104,829	\$ 10.23
Forfeited	<u>(1,850)</u>	10.27	<u>(5,350)</u>	10.09
Outstanding at end of year	<u>97,629</u>	\$ 10.23	<u>99,479</u>	\$ 10.23
Options exercisable at year end	<u>92,369</u>	\$ 10.23	<u>89,912</u>	\$ 10.21

The following is additional information on options as of December 31, 2010:

	Outstanding	Exercisable
Options at December 31, 2010	<u>97,629</u>	<u>92,369</u>
Aggregate market value, assuming price of \$0.42	\$ 41,004	\$ 38,795
Aggregate exercise price	<u>999,098</u>	<u>944,798</u>
AGGREGATE INTRINSIC VALUE	<u>\$ -</u>	<u>\$ -</u>
Weighted average contractual term - years	<u>5.1</u>	<u>5.0</u>

As of December 31, 2010, there was unrecognized compensation cost of \$8,757 related to nonvested stock options. The cost is expected to be recognized over a weighted-average period of 1.4 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 4. 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 \$1,170,000 at December 31, 2010.

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 eliminating potential credit risk with these institutions.

Note 15 - Stockholders' Equity and Regulatory Matters

At the annual stockholders' meeting on April 27, 2010, stockholders approved increasing the authorized shares of common stock to 20,000,000 and changing the common stock from \$5.00 par value to no par value. The change in par value had no impact on book value per share or market price per share.

In 2010, in order to obtain lease concessions from landlords, the Bank issued 50,000 shares of new stock and a warrant to purchase 130,000 shares. The cost of the stock issued was \$17,500 and the cost of the warrants issued was \$54,600. The noncash expense of the stock and warrants was reflected as occupancy expense in 2010. The expense associated with the warrants will continue to be adjusted, based upon the market value of the Bank's common stock until the warrants are exercised.

The Bank issued stock warrants in connection with the 2010 stock offering and lease concessions. Stock warrants outstanding as of December 31, 2010, are summarized below:

<u>Year Issued</u>	<u>Number of Shares</u>	<u>Exercise Price per Share</u>	<u>Warrant Expiration</u>
2008	232,810	\$ 7.00	September 30, 2011
2010	130,000	-	July 1, 2012
2010	6,442,675	0.42	December 31, 2013

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.

On February 10, 2010, the Bank entered into a formal agreement, called a Consent Order, with the FDIC and the Idaho Department of Finance. In the Consent Order the Bank agreed to increase and maintain its Tier 1 capital to a level that would ensure the Bank's Tier 1 leverage ratio equals or exceeds 10%. The Bank has been unable to achieve this level and reported a Tier 1 leverage ratio of 5.88% at December 31, 2010. The Bank would have needed approximately \$3.4 million of additional capital at December 31, 2010, in order to meet the agreed upon Tier 1 leverage ratio.

On March 31, 2010, the Bank became "under-capitalized". In response to that capital level, the FDIC issued a Prompt Corrective Action (PCA) Notification on May 4, 2010, requiring the Bank to submit a capital restoration plan by June 15, 2010. On August 20, 2010, the FDIC issued a PCA Directive requiring the Bank to become adequately capitalized within 30 days. The Bank was able to raise sufficient capital in December to meet the terms of the PCA Directive and become "well-capitalized". The PCA Directive was terminated on January 3, 2011.

Even though the Bank has not met the capital requirements of the Consent Order, the Bank expects no regulatory actions against the Bank as long as the Bank remains "adequately-capitalized". As described in Note 2, there are risks that the Bank could become "under-capitalized" causing serious concerns about the continued existence of the Bank.

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). As of December 31, 2010, the Bank failed to meet the 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, 2010						
Tier 1 capital (to average assets):	\$ 4,803,000	5.88%	\$ 3,269,000	4.00%	\$ 4,086,000	5.00%
Tier 1 capital (to risk-weighted assets):	4,803,000	8.99%	2,137,000	4.00%	3,206,000	6.00%
Total capital (to risk-weighted assets):	5,476,000	10.25%	4,274,000	8.00%	5,343,000	10.00%
December 31, 2009						
Tier 1 capital (to average assets):	\$ 3,981,000	5.14%	\$ 3,099,000	4.00%	\$ 3,874,000	5.00%
Tier 1 capital (to risk-weighted assets):	3,981,000	6.77%	2,352,000	4.00%	3,528,000	6.00%
Total capital (to risk-weighted assets):	4,724,000	8.03%	4,704,000	8.00%	5,880,000	10.00%

Note 16 - Fair Value Measurement

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

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

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

At December 31, 2010 and 2009, the Bank had \$615,000 and \$594,000, respectively, of Bank-owned life insurance measured on a recurring basis, using Level 2 measurements. The fair value is based on the cash surrender value.

Note 16 - Fair Value Measurement (Continued)

At December 31, 2010, the Bank had \$2,028,540 of U.S. government agency securities and \$972,470 of mortgage-backed securities measured on a recurring basis, using Level 2 measurements. At December 31, 2009, the Bank had \$5,251,540 of U.S. government agency securities and \$4,961,897 of mortgage-backed securities measured on a recurring basis, using Level 2 measurements. These securities are included under Level 2 because there may or may not be daily trades in each of the individual securities or because the valuation of these securities may be based on instruments that are not exactly identical to those owned by the Bank.

At December 31, 2010, the Bank had \$1,896,115 of impaired loans and \$1,064,222 of other real estate owned measured at fair value on a nonrecurring basis, using Level 3 measurements. At December 31, 2009, the Bank had \$2,023,742 of impaired loans and \$824,397 of other real estate owned measured at fair value on a nonrecurring basis, using Level 3 measurements.

If collateral dependent, impaired loans are valued at the fair value of underlying collateral, as determined by a qualified independent appraiser, less the estimated cost to foreclose, sell and carry the collateral. Impaired loans that are not collateral dependent are measured on the present value of expected future cash flows discounted at the loan's effective interest rate. Other real estate owned is valued at fair value as determined by a qualified independent appraiser, less estimated selling costs. For the year ended December 31, 2010, the Bank recognized losses of \$2,050,203 on impaired loans. The Bank also recognized net losses of \$208,541 on other real estate owned.