

**IDAHO FIRST BANK**  
**INDEPENDENT AUDITOR'S REPORT AND**  
**FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006 AND 2005**

## **TABLE OF CONTENTS**

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INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
Statement of financial condition	2
Statement of operations	3
Statement of changes in stockholders' equity	4
Statement of comprehensive loss	5
Statement of cash flows	6-7
Notes to financial statements	8-22

**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 as of December 31, 2006 and 2005, and the related statements of operations, changes in stockholders' equity, comprehensive loss, and cash flows for the year ended December 31, 2006 and the period from March 2, 2005 (inception), to December 31, 2005. These financial statements are the responsibility of Idaho First 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 Idaho First Bank as of December 31, 2006 and 2005, and the results of its operations and its cash flows for the year ended December 31, 2006 and the period from March 2, 2005 (inception), to December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.



Spokane, Washington  
March 12, 2007

**IDAHO FIRST BANK**  
**STATEMENT OF FINANCIAL CONDITION**

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**ASSETS**

	December 31,	
	<u>2006</u>	<u>2005</u>
Cash and due from banks	\$ 776,302	\$ 395,784
Interest-bearing deposits with banks	1,000,000	-
Federal funds sold	2,120,000	9,080,000
Securities available for sale	4,851,367	-
Loans receivable	20,520,956	2,751,377
Allowance for loan losses	(291,500)	(45,000)
Net loans receivable	20,229,456	2,706,377
Premises and equipment, net	183,303	166,389
Accrued interest receivable	166,933	11,172
Cash surrender value of Bank-owned life insurance	1,061,118	-
Other assets	149,659	121,955
<b>TOTAL ASSETS</b>	<b>\$ 30,538,138</b>	<b>\$ 12,481,677</b>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

Deposits		
Noninterest-bearing demand	\$ 4,128,412	\$ 1,294,856
Interest-bearing demand	1,840,319	1,349,088
Savings	6,276,008	784,049
Time deposits, less than \$100,000	9,119,143	679,080
Time deposits, more than \$100,000	5,822,116	3,897,981
Total deposits	27,185,998	8,005,054
Accrued interest payable	128,656	29,670
Other liabilities	120,857	61,190
Total liabilities	27,435,511	8,095,914

**COMMITMENTS AND CONTINGENCIES**

**STOCKHOLDERS' EQUITY**

Common stock \$5 par value; 2,000,000 shares authorized; 543,868 and 541,368 shares issued and outstanding, respectively	2,719,340	2,706,840
Additional paid-in capital	2,527,965	2,517,228
Accumulated deficit	(2,145,000)	(838,305)
Accumulated other comprehensive income	322	-
Total stockholders' equity	3,102,627	4,385,763
<b>TOTAL LIABILITIES AND     STOCKHOLDERS' EQUITY</b>	<b>\$ 30,538,138</b>	<b>\$ 12,481,677</b>

**IDAHO FIRST BANK**  
**STATEMENT OF OPERATIONS**

	<b>Year Ended December 31, 2006</b>	March 2, 2005 (Inception) to December 31, 2005
Interest income		
Loans, including fees	\$ 1,070,316	\$ 23,172
Securities	191,122	-
Federal funds sold	187,172	76,867
Other interest income	11,210	22,091
Total interest income	<u>1,459,820</u>	<u>122,130</u>
Interest expense		
Deposits	613,057	34,567
Other interest expense	-	752
Total interest expense	<u>613,057</u>	<u>35,319</u>
Net interest income	<u>846,763</u>	<u>86,811</u>
Provision for loan losses	<u>246,500</u>	<u>45,000</u>
Net interest income after provision for loan losses	<u>600,263</u>	<u>41,811</u>
Noninterest income		
Mortgage banking income	72,154	-
Increase in cash surrender value of bank-owned life insurance	41,118	-
Service charges on deposits	16,402	628
Other income	23,740	2,031
	<u>153,414</u>	<u>2,659</u>
Noninterest expenses		
Salaries and employee benefits	1,101,826	370,227
Professional services	307,287	218,407
Data processing	183,047	25,763
Advertising and promotion	127,604	67,958
Equipment	63,240	38,485
Training and other employee	87,424	46,203
Occupancy	78,598	44,202
Supplies and postage	33,166	32,409
Telephone	27,402	8,822
Other operating	50,778	30,299
	<u>2,060,372</u>	<u>882,775</u>
Loss before income taxes	<u>(1,306,695)</u>	<u>(838,305)</u>
Income tax expense	-	-
NET LOSS	<u>\$ (1,306,695)</u>	<u>\$ (838,305)</u>

*See accompanying notes.*

**IDAHO FIRST BANK**  
**STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**

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	Shares	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
BALANCE, period from inception March 2, 2005	-	\$ -	\$ -	\$ -	\$ -	\$ -
Issuance of stock	541,368	2,706,840	2,706,840	-	-	5,413,680
Net loss	-	-	-	(838,305)	-	(838,305)
Stock issuance costs	-	-	(189,612)	-	-	(189,612)
BALANCE, December 31, 2005	541,368	2,706,840	2,517,228	(838,305)	-	4,385,763
Net loss	-	-	-	(1,306,695)	-	(1,306,695)
Issuance of stock	2,500	12,500	12,500	-	-	25,000
Equity compensation expense	-	-	6,737	-	-	6,737
Stock issuance costs	-	-	(8,500)	-	-	(8,500)
Other comprehensive income	-	-	-	-	322	322
BALANCE, December 31, 2006	<b>543,868</b>	<b>\$ 2,719,340</b>	<b>\$ 2,527,965</b>	<b>\$ (2,145,000)</b>	<b>\$ 322</b>	<b>\$ 3,102,627</b>

**IDAHO FIRST BANK**  
**STATEMENT OF COMPREHENSIVE LOSS**

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	<b>Year Ended December 31, 2006</b>	March 2, 2005 (inception), to December 31, 2005
Net loss	<u>\$ (1,306,695)</u>	<u>\$ (838,305)</u>
Other comprehensive income		
Change in unrealized gains on securities available for sale	466	-
Income tax provision	<u>(144)</u>	<u>-</u>
Other comprehensive income	<u>322</u>	<u>-</u>
COMPREHENSIVE LOSS	<u>\$ (1,306,373)</u>	<u>\$ (838,305)</u>

**IDAHO FIRST BANK**  
**STATEMENT OF CASH FLOWS**

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	<b>Year Ended December 31, 2006</b>	March 2, 2005 (Inception), to December 31, 2005
	<u>2006</u>	<u>2005</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (1,306,695)	\$ (838,305)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	54,321	14,780
Provision for loan losses	246,500	45,000
Net accretion of discounts on securities	(40,632)	-
Increase in cash surrender value of life insurance	(41,118)	-
Originations of loans held for sale	(5,203,100)	-
Proceeds from sale of loans held for sale	4,919,510	-
Gain on sale of loans	(72,154)	-
Gain on sale of premises and equipment	(1,549)	-
Equity compensation expense	6,737	-
Change in assets and liabilities:		
Accrued interest receivable	(155,761)	(11,172)
Other assets	(40,940)	(121,955)
Other liabilities	59,667	61,190
Deferred tax liability	(145)	-
Accrued interest payable	98,986	29,670
	<u>(1,476,373)</u>	<u>(820,792)</u>
Net cash used by operating activities		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net increase in interest-bearing deposits with other banks	(1,000,000)	-
Net (increase) decrease in federal funds sold	6,960,000	(9,080,000)
Securities available for sale:		
Maturities, prepayments, and calls	873,197	-
Purchases	(5,683,465)	-
Proceeds from sale of premises and equipment	3,847	-
Net increase in loans	(17,413,835)	(2,751,377)
Purchases of Bank-owned life insurance	(1,020,000)	-
Purchases of premises and equipment	(60,297)	(181,169)
	<u>(17,340,553)</u>	<u>(12,012,546)</u>
Net cash used by investing activities		

**IDAHO FIRST BANK**  
**STATEMENT OF CASH FLOWS**

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	<b>Year Ended December 31, 2006</b>	March 2, 2005 (Inception), to December 31, 2005
	<u>          </u>	<u>          </u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance of common stock, net	\$ 16,500	\$ 5,224,068
Net increase in deposits	<u>19,180,944</u>	<u>8,005,054</u>
Net cash provided by financing activities	<u>19,197,444</u>	<u>13,229,122</u>
<b>NET CHANGE IN CASH AND DUE FROM BANKS</b>	<b>380,518</b>	395,784
Cash and due from banks, beginning of year	<u>395,784</u>	<u>-</u>
Cash and due from banks, end of year	<u>\$ 776,302</u>	<u>\$ 395,784</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION</b>		
Cash paid during the year for:		
Interest on deposits	<u>\$ 514,071</u>	<u>\$ 4,450</u>
Income taxes	<u>\$ -</u>	<u>\$ -</u>

# IDAHO FIRST BANK

## NOTES TO FINANCIAL STATEMENTS

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### **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 and deferred taxes. In connection with the determination of the allowance for loan losses, management obtains independent appraisals for significant loans.

Management believes that 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.

#### ***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 fee, 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 operating expense. 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, which 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 are recorded at fair value. Unrealized holding gains and losses on available for sale securities 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.

## IDAHO FIRST BANK

### NOTES TO FINANCIAL STATEMENTS

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#### **Note 1 - Summary of Significant Accounting Policies (Continued)**

##### ***Securities (continued):***

Declines in the fair value of individual available for sale securities 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.

##### ***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 that 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 7 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.

##### ***Advertising:***

Advertising and promotion costs are charged to noninterest expense when incurred. Advertising and promotion expense for the year and ten months ended December 31, 2006 and 2005, was \$127,604 and \$67,958, 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*.

##### ***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, commitments under credit card arrangements, performance standby letters of credit, and home equity lines of credit. Such financial instruments are recorded in the consolidated financial statements when they become funded. These instruments involve, to varying degrees, elements of credit risk in excess of the amounts recognized in the consolidated statements of financial condition.

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

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**Note 1 - Summary of Significant Accounting Policies (Continued)**

***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 recorded during the years ended December 31, 2006 or 2005.

***Stock options:***

Beginning on January 1, 2006, the Bank implemented SFAS No. 123 (revised 2004), *Share Based Payment*, which requires the recognition of the compensation cost in the financial statements of the Bank. The Bank has elected 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. Prior to 2006, the Bank accounted for stock options using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*. There was \$6,737 of equity compensation expense recorded in compensation during the year ended December 31, 2006. This had the impact of increasing the 2006 net loss by \$6,737. The implementation of this new accounting standard had no impact upon the cash flow of the Bank, as it was a noncash accounting entry. The accounting offset to compensation expense was an increase to additional paid-in capital for the same amount.

If compensation expense associated with stock options had been included in the Bank's statement of operations it would have increased noninterest expenses and increased the net loss and had the following impact on the loss for the period ended December 31, 2005.

	<u>2005</u>
Net loss, as reported	\$ (838,305)
Deduct total equity-based employee compensation expense determined under intrinsic value based method for all awards	<u>(12,118)</u>
PRO FORMA NET LOSS	<u>\$ (850,423)</u>

***Reclassifications:***

Certain reclassifications have been made in the December 31, 2005, consolidated financial statements in order to conform with the December 31, 2006, presentation with no effect on previously reported net loss or stockholders' equity.

## IDAHO FIRST BANK

### NOTES TO FINANCIAL STATEMENTS

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#### Note 1 - Summary of Significant Accounting Policies (Continued)

##### ***Recent accounting pronouncements:***

##### EITF 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements*

On September 7, 2006, the Emerging Issues Task Force (EITF) reached a final consensus on Issue 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements*. Under the new guidance contained in the final consensus, a policy holder (employer) will be required to determine whether the employer has promised the participant (i) a death benefit, or (ii) to maintain the split-dollar arrangement and share some portion of the death benefits of the underlying life insurance policy with the participant. If the policy holder has promised to provide a death benefit, then a liability for the present value of the death benefit must be accrued over the employee's required service period as described in the tentative conclusion. If the policy holder has promised to maintain the split dollar arrangement and underlying life insurance policy, then the postretirement cost of insurance must be accrued over the employee's required service period. The standard is effective January 1, 2008, for the Bank. Management is currently evaluating EITF 06-4 and the impact on the Bank.

##### FIN No. 48, *Accounting for Uncertainty in Income Taxes*

On July 13, 2006, FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes - An Interpretation of SFAS No. 109*, was issued. FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. FIN No. 48 also prescribes a consistent recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The new FASB standard also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

The evaluation of a tax position in accordance with FIN No. 48 is a two-step process. The first step is a recognition process whereby the enterprise determines whether it is more likely than not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. In evaluating whether a tax position has met the more-likely-than-not recognition threshold, the enterprise should presume that the position will be examined by the appropriate taxing authority that has full knowledge of all relevant information. The second step is a measurement process whereby a tax position that meets the more-likely-than-not recognition threshold is calculated to determine the amount of benefit to recognize in the financial statements. The tax position is measured at the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement.

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

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**Note 1 - Summary of Significant Accounting Policies (Continued)**

*New accounting standards (continued):*

*FIN No. 48, Accounting for Uncertainty in Income Taxes (continued)*

The provisions of FIN No. 48 are effective for fiscal years beginning after December 15, 2006. Earlier application is permitted as long as the enterprise has not yet issued financial statements, including interim financial statements, in the period of adoption. The provisions of FIN No. 48 are to be applied to all tax positions upon initial adoption of this standard. Only tax positions that meet the more-likely-than-not recognition threshold at the effective date may be recognized or continue to be recognized upon adoption of FIN No. 48. The cumulative effect of applying the provisions of FIN No. 48 should be reported as an adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial condition) for that fiscal year. FIN No. 48 is not expected to have a material impact on the Bank.

**Note 2 - 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, 2006. The Bank had no investment securities at December 31, 2005. The carrying amounts of securities available for sale and their approximate fair values were as follows:

	December 31, 2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. treasury securities	\$ 996,758	\$ 436	\$ (294)	\$ 996,900
U.S. government agency securities	2,734,006	-	(4,857)	2,729,149
Mortgage-backed securities	1,120,137	6,458	(1,277)	1,125,318
	\$ 4,850,901	\$ 6,894	\$ (6,428)	\$ 4,851,367

As of December 31, 2006, there are 14 investment securities with unrealized losses totaling \$6,428 that has existed for less than 12 months. The Bank has evaluated these securities giving consideration to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. As management has the ability to hold securities for the foreseeable future, no declines are deemed to be other than temporary.

The Bank did not sell any securities available for sale during 2006 or 2005.

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

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**Note 2 - Securities Available for Sale (Continued)**

Maturities of securities available for sale at December 31, 2006, are summarized below. Actual maturities may differ from contractual maturities due to call provisions.

	Amortized Cost	Estimated Market Value
Maturing in less than one year	\$ 2,983,569	\$ 2,978,925
Maturing in one to five years	747,195	747,124
Mortgage-backed securities	1,120,137	1,125,318
	<u>\$ 4,850,901</u>	<u>\$ 4,851,367</u>

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

Major classifications of loans at December 31 were as follows:

	2006	2005
Commercial	\$ 2,494,744	\$ 1,008,732
Real Estate	14,435,442	1,207,215
Land development loans	2,680,822	-
Consumer loans	629,931	548,874
	<u>20,240,939</u>	<u>2,764,821</u>
Loans held for sale	379,010	-
Deferred fees	(98,993)	(13,444)
Allowance for loan losses	(291,500)	(45,000)
	<u>\$ 20,229,456</u>	<u>\$ 2,706,377</u>

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

	2006	2005
Fixed	\$ 4,624,260	\$ 1,254,479
Variable	15,616,679	1,510,342
	<u>\$ 20,240,939</u>	<u>\$ 2,764,821</u>

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

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

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

	<u>2006</u>	<u>2005</u>
Balance, beginning of year	\$ 45,000	\$ -
Provision charged to expense	246,500	45,000
Loans charged off	-	-
	<u>          </u>	<u>          </u>
Balance, end of year	<u>\$ 291,500</u>	<u>\$ 45,000</u>

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

	<u>2006</u>	<u>2005</u>
Impaired loans on accrual status at December 31	\$ 199,899	\$ -
Impaired loans on nonaccrual loans	224,905	-
Annual average balance of impaired loans	49,975	-
Interest income recognized on impaired loans	4,465	-

There were two impaired loans, one of which was on nonaccrual status, and no loans past due 90 days or more and still accruing interest as of December 31, 2006. There were no impaired loans, nonaccrual loans, or loans past due 90 days or more and still accruing interest as of December 31, 2005.

**Note 4 - Premises and Equipment**

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

	<u>2006</u>	<u>2005</u>
Leasehold improvements	\$ 29,759	\$ 29,759
Furniture, fixtures, and equipment	206,997	149,302
	<u>          </u>	<u>          </u>
Total cost	236,756	179,061
Less accumulated depreciation	53,453	12,672
	<u>          </u>	<u>          </u>
NET BOOK VALUE	<u>\$ 183,303</u>	<u>\$ 166,389</u>

Depreciation and amortization expense for the year ended December 31, 2006, and the period from March 2, 2005 (inception), to December 31, 2005, was \$54,321 and \$14,780, respectively.

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

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**Note 5 - Deposits**

The following is a schedule by years of maturities for time deposits at December 31, 2006:

Years ending December 31,	
2007	\$ 13,802,241
2008	773,387
2009	323,989
2010	30,000
2011	11,642
	<hr/>
	\$ 14,941,259

**Note 6 - Borrowings**

The Bank has a \$1,500,000 unsecured line of credit with Pacific Coast Bankers' Bank at December 31, 2006. This line matures on June 30, 2007. The Bank had no balance outstanding on the line as of December 31, 2006.

**Note 7 - Commitments and Contingencies**

***Lease commitments and contracts:***

The Bank has entered into various leases for property and equipment. Total rental expense for premises and equipment operating leases amounted to \$50,583 and \$31,140 in 2006 and 2005, respectively. The Bank will be leasing a new building in McCall in mid-2007. The amount of rent has not yet been determined, but will consist of ground rent of \$4,202 per month and building rent. The building rent will be 9.9% of the estimated construction costs of \$2.9 million.

Assuming those estimates for the new McCall building and other operating leases, the future minimum annual rental payments under operating leases at December 31, 2006, are summarized as follows:

Years ending December 31:	
2007	\$ 203,240
2008	340,961
2009	337,521
2010	337,521
2011	337,521
Thereafter	3,712,727
	<hr/>
	\$ 5,269,491

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

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**Note 7 - Commitments and Contingencies (Continued)**

***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 counterparty. 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, 2006, the Bank had \$9,150,000 in commitments to extend credit. The Bank also had \$75,000 of standby letters of credit.

The Bank does not anticipate any material losses as a result of these commitments.

**Note 8 - 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.

**Note 9 - Income Taxes**

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

	<u>2006</u>	<u>2005</u>
Current tax expense		
Federal	\$ -	\$ -
State	-	-
Deferred tax benefit		
Federal	455,475	283,763
State	71,312	46,986
Change in valuation allowance	<u>(526,787)</u>	<u>(330,749)</u>
 INCOME TAX BENEFIT	 <u>\$ -</u>	 <u>\$ -</u>

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

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

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

	<u>2006</u>	<u>2005</u>
Deferred tax assets:		
Net operating loss carryforward	\$ 836,809	\$ 323,614
Allowance for loan losses	29,556	11,499
Tax credit carryforwards	<u>6,017</u>	<u>5,122</u>
Total deferred tax assets	<u>872,382</u>	<u>340,235</u>
Less valuation allowance	<u>(857,536)</u>	<u>(330,749)</u>
Deferred tax liabilities:		
Unrealized gain on securities available for sale	(145)	-
Organizational costs	-	(4,110)
Book-tax depreciation	<u>(14,846)</u>	<u>(5,376)</u>
Total deferred tax liabilities	<u>(14,991)</u>	<u>(9,486)</u>
NET DEFERRED TAX LIABILITY	<u>\$ (145)</u>	<u>\$ -</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>2006</u>	<u>2005</u>
Federal income tax benefit at expected rate	\$ (444,276)	\$ (285,023)
State tax benefit	(65,544)	(47,171)
Effect of tax exempt income	(19,265)	-
Effect of permanent differences	2,298	1,445
Change in valuation allowance	<u>526,787</u>	<u>330,749</u>
INCOME TAX BENEFIT	<u>\$ -</u>	<u>\$ -</u>

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

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

Operating loss carryforwards as of December 31, 2006, 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	1,293,783	1,358,018
	<u>\$2,136,526</u>	<u>\$2,200,761</u>

Tax credit carryforwards as of December 31, 2006, for tax purposes were as follows:

<u>Expiration Dates</u>	<u>Amount</u>
December 31, 2019	\$4,823
December 31, 2020	1,809
	<u>\$6,632</u>

**Note 10 - Employee Retirement Plan**

The Bank has a deferred compensation plan known as the Employee Stock Ownership Plan with 401(k) provisions (ESOP). Employees are eligible to participate in the ESOP after attaining age 21 and completing one year of service. Participants may make contributions to the ESOP.

Contributions to the ESOP by the Bank, the employer, are equal to 3% of the all eligible employees' compensation per year. The contributions are fully vested under Safe Harbor Provisions. The compensation expense relating to the required employer contributions for the year ended December 31, 2006, and the period from March 2, 2005 (inception), to December 31, 2005, was \$18,829 and \$6,072, respectively.

The Bank is required by regulation to provide a repurchase option to participants holding the Bank's stock, as the stock is not readily tradable. The Bank is required to repurchase stock at market value. At December 31, 2006 and 2005, there are no shares subject to this repurchase requirement.

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

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**Note 11 - Related Party Transactions**

*Loans to related parties:*

In the normal course of business, the Bank makes loans to its executive officers, directors, and companies affiliated with these individuals. 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. There was \$628,138 of unpaid principal due from related parties at December 31, 2006. There were no loans to related parties at December 31, 2005.

The Bank also accepts deposits from its executive officers, directors, and affiliated companies on substantially the same terms as unrelated persons. The aggregate dollar amount of these deposits was approximately \$742,258 and \$864,824 at December 31, 2006 and 2005, respectively.

**Note 12 - Stock Options**

The Bank has granted both incentive stock options and nonqualified stock options under various plans and agreements. The vesting of stock options ranges from immediate vesting to three year vesting. As of December 31, 2006, there were 17,600 incentive stock options available for grant under the Incentive Stock Option Plan of 2005 and 14,872 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. A summary of activity for stock options for the years ended December 31 is presented below:

	2006		2005	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding options at beginning of period	<b>95,677</b>	<b>\$ 10.00</b>		
Granted	<b>6,128</b>	<b>10.82</b>	95,677	\$ 10.00
Exercised	-	-	-	-
Forfeited	<b>(3,100)</b>	<b>10.00</b>	-	-
Outstanding at end of year	<b>98,705</b>	<b>\$ 10.05</b>	95,677	\$ 10.00
Options exercisable at year end	<b>49,244</b>	<b>\$ 10.00</b>	26,177	\$ 10.00

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

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**Note 12 - Stock Options (Continued)**

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

	<u>2006</u>	<u>2005</u>
Options granted	<b>6,128</b>	95,677
Expected volatility	<b>15%</b>	None
Expected dividends	<b>None</b>	None
Expected term - years	<b>6</b>	7
Risk-free interest rate	<b>5.00%</b>	3.74%
Weighted average fair value	<b>\$ 3.17</b>	\$ 2.28

The following is additional information on options as of December 31, 2006:

	<u>Outstanding</u>	<u>Exercisable</u>
Options at December 31, 2006	98,705	49,244
Aggregate market value, assuming price of \$12.00	\$ 1,184,460	\$ 590,928
Aggregate exercise price	991,985	492,440
<b>AGGREGATE INTRINSIC VALUE</b>	<b>\$ 192,475</b>	<b>\$ 98,488</b>
Weighted average contractual term - years	8.8	8.8

As of December 31, 2006, there was unrecognized compensation cost of \$12,423 related to nonvested stock options. The cost is expected to be recognized over a weighted-average period of 1.7 years.

**Note 13 - Concentrations of Credit Risk**

Most of the Bank's loans, commitments, and standby letters of credit have been granted to customers in the Bank's market area, which is the state of Idaho. As such, significant changes in economic conditions in Idaho or with its primary industries could adversely effect 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. The Bank, as a matter of policy, does not extend credit to any single borrower or group of related borrowers in excess of \$600,000.

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

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**Note 13 - Concentrations of Credit Risk (Continued)**

The Bank places its cash with high credit quality institutions. The amount on deposit fluctuates, and at times exceeds the insured limit by the Federal Deposit Insurance Corporation, and this potentially subjects the Bank to credit risk.

**Note 14 - Regulatory Matters**

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 has agreed to maintain a ratio of Tier I capital to total assets of at least 8% during the first three years of operation.

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, 2006 and 2005, that 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 (dollars in thousands):

	Actual		Capital Adequacy		To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>December 31, 2006</b>						
Tier 1 capital (to average assets):	\$ 3,103,000	10.60%	\$ 1,171,480	4.00%	\$ 1,464,350	5.00%
Tier 1 capital (to risk-weighted assets):	3,103,000	12.93%	959,600	4.00%	1,439,400	6.00%
Total capital (to risk-weighted assets):	3,394,000	14.15%	1,919,200	8.00%	2,399,000	10.00%
<b>December 31, 2005</b>						
Tier 1 capital (to average assets):	\$ 4,386,000	46.52%	\$ 377,120	4.00%	\$ 4,771,400	5.00%
Tier 1 capital (to risk-weighted assets):	4,386,000	89.57%	195,880	4.00%	293,820	6.00%
Total capital (to risk-weighted assets):	4,431,000	90.48%	391,760	8.00%	489,700	10.00%