

**IDAHO FIRST BANK**  
**INDEPENDENT AUDITOR'S REPORT**  
**AND FINANCIAL STATEMENTS**  
**DECEMBER 31, 2007 AND 2006**

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**INDEPENDENT AUDITOR'S REPORT**

Board of Directors and Stockholders  
Idaho First Bank  
McCall, Idaho

We have audited the accompanying statements of financial condition of Idaho First Bank as of December 31, 2007 and 2006, and the related statements of operations, changes in stockholders' equity, comprehensive loss, and cash flows for the years ended December 31, 2007 and 2006. 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, 2007 and 2006, and the results of its operations and its cash flows for the years ended December 31, 2007 and 2006, in conformity with accounting principles generally accepted in the United States of America.



Spokane, Washington  
February 29, 2008

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

**ASSETS**

	December 31,	
	<u>2007</u>	<u>2006</u>
Cash and due from banks	\$ 685,058	\$ 776,302
Interest-bearing due from banks	<u>309,504</u>	<u>1,000,000</u>
Cash and cash equivalents	994,562	1,776,302
Federal funds sold	600,000	2,120,000
Securities available for sale	7,755,196	4,851,367
Federal Home Loan Bank stock, at cost	36,500	-
Loans receivable	27,122,951	20,520,956
Allowance for loan losses	<u>(400,000)</u>	<u>(291,500)</u>
Net loans receivable	26,722,951	20,229,456
Premises and equipment, net	608,770	183,303
Accrued interest receivable	216,798	166,933
Cash surrender value of Bank-owned life insurance	1,104,000	1,061,118
Other assets	<u>168,586</u>	<u>149,659</u>
TOTAL ASSETS	<u>\$ 38,207,363</u>	<u>\$ 30,538,138</u>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

Deposits		
Noninterest-bearing demand	\$ 5,271,447	\$ 4,128,412
Interest-bearing demand	2,217,646	1,840,319
Savings	8,984,773	6,276,008
Time deposits, less than \$100,000	5,895,439	9,119,143
Time deposits of \$100,000 and more	<u>9,512,689</u>	<u>5,822,116</u>
Total deposits	31,881,994	27,185,998
Accrued interest payable	114,735	128,656
Other liabilities	<u>206,736</u>	<u>120,857</u>
Total liabilities	<u>32,203,465</u>	<u>27,435,511</u>

COMMITMENTS AND CONTINGENCIES (Note 7)

STOCKHOLDERS' EQUITY

Common stock \$5 par value; 5,000,000 shares authorized; 910,964 and 543,868 shares issued and outstanding, respectively	4,554,820	2,719,340
Additional paid-in capital	4,950,332	2,527,965
Accumulated deficit	(3,591,971)	(2,145,000)
Accumulated other comprehensive income	<u>90,717</u>	<u>322</u>
Total stockholders' equity	<u>6,003,898</u>	<u>3,102,627</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 38,207,363</u>	<u>\$ 30,538,138</u>

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

	Year Ended December 31,	
	2007	2006
Interest income		
Loans, including fees	\$ 2,086,176	\$ 1,070,316
Securities	278,259	191,122
Federal funds sold	104,441	187,172
Other interest income	65,922	11,210
Total interest income	<u>2,534,798</u>	<u>1,459,820</u>
Interest expense		
Time deposits of \$100,000 and more	396,995	211,112
Time deposits, less than \$100,000	341,799	220,781
Savings	291,321	153,991
Interest-bearing demand	32,581	27,173
Total interest expense	<u>1,062,696</u>	<u>613,057</u>
Net interest income	<u>1,472,102</u>	<u>846,763</u>
Provision for loan losses	<u>108,500</u>	<u>246,500</u>
Net interest income after provision for loan losses	<u>1,363,602</u>	<u>600,263</u>
Noninterest income		
Mortgage banking income	141,243	72,154
Service charges on deposits	62,316	16,402
Increase in cash surrender value of Bank-owned life insurance	42,882	41,118
Other income	48,324	23,740
	<u>294,765</u>	<u>153,414</u>
Noninterest expenses		
Salaries and employee benefits	1,423,762	1,101,826
Occupancy	337,312	78,598
Equipment	138,391	63,240
Professional services	289,817	307,287
Data processing	287,954	183,047
Advertising and promotion	251,395	127,604
Training, travel and other employee	164,158	87,424
Supplies and postage	68,178	33,166
Telephone	51,946	27,402
Other operating	92,425	50,778
	<u>3,105,338</u>	<u>2,060,372</u>
Loss before income taxes	<u>(1,446,971)</u>	<u>(1,306,695)</u>
Income tax expense	-	-
NET LOSS	<u>\$ (1,446,971)</u>	<u>\$ (1,306,695)</u>

**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, 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	543,868	2,719,340	2,527,965	(2,145,000)	322	3,102,627
Net loss	-	-	-	(1,446,971)	-	(1,446,971)
Exercise of stock options	467	2,335	2,335	-	-	4,670
Equity compensation expense	-	-	15,877	-	-	15,877
Issuance of stock, net	366,629	1,833,145	2,404,155	-	-	4,237,300
Other comprehensive income	-	-	-	-	90,395	90,395
BALANCE, December 31, 2007	<b>910,964</b>	<b>\$ 4,554,820</b>	<b>\$ 4,950,332</b>	<b>\$ (3,591,971)</b>	<b>\$ 90,717</b>	<b>\$ 6,003,898</b>

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

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	Year Ended December 31,	
	<u>2007</u>	<u>2006</u>
Net loss	<u>\$ (1,446,971)</u>	<u>\$ (1,306,695)</u>
Other comprehensive income		
Change in unrealized gains on securities available for sale	<b>148,288</b>	467
Income tax provision	<u>(57,893)</u>	<u>(145)</u>
Other comprehensive income	<u>90,395</u>	<u>322</u>
<b>COMPREHENSIVE LOSS</b>	<u><b>\$ (1,356,576)</b></u>	<u><b>\$ (1,306,373)</b></u>

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

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	Year Ended December 31,	
	<u>2007</u>	<u>2006</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (1,446,971)	\$ (1,306,695)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	111,634	54,321
Provision for loan losses	108,500	246,500
Net accretion of securities' discounts and premiums	(27,982)	(40,632)
Net amortization of deferred loan fees and costs	(71,528)	(77,891)
Increase in cash surrender value of life insurance	(42,882)	(41,118)
Originations of loans held for sale	(6,643,663)	(5,203,100)
Proceeds from sale of loans held for sale	6,944,447	4,919,510
Gain on sale of loans	(59,649)	(72,154)
(Gain) loss on disposal of premises and equipment	5,049	(1,549)
Equity compensation expense	15,877	6,737
Change in accrued interest receivable and other assets	(75,474)	(196,701)
Change in accrued interest payable and other liabilities	13,920	158,508
	<u>(1,168,722)</u>	<u>(1,554,264)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net decrease in federal funds sold	1,520,000	6,960,000
Securities available for sale:		
Maturities, prepayments, and calls	3,265,861	873,197
Purchases	(5,993,420)	(5,683,465)
Purchase of FHLB stock	(36,500)	-
Proceeds from sale of premises and equipment	-	3,847
Net increase in loans	(6,771,602)	(17,335,944)
Purchases of Bank-owned life insurance	-	(1,020,000)
Purchases of premises, equipment and software	(535,323)	(60,297)
	<u>(8,550,984)</u>	<u>(16,262,662)</u>

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

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	Year Ended December 31,	
	<b>2007</b>	2006
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance of common stock, net	\$ 4,241,970	\$ 16,500
Net increase in deposits	<b>4,695,996</b>	19,180,944
Net cash provided by financing activities	<b>8,937,966</b>	19,197,444
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>(781,740)</b>	1,380,518
Cash and cash equivalents, beginning of year	<b>1,776,302</b>	395,784
Cash and cash equivalents, end of year	<b>\$ 994,562</b>	\$ 1,776,302
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION</b>		
Cash paid during the year for:		
Interest on deposits	<b>\$ 1,076,617</b>	\$ 514,071
Income taxes	<b>\$ -</b>	\$ -

# 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, both interest-bearing and noninterest-bearing.

#### ***Loans receivable and allowances for loan losses:***

The Bank grants mortgage, commercial, and consumer loans to customers. A substantial portion of the loan portfolio is represented by loans in McCall and surrounding areas. The ability of the Bank's debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area.

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

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

***Loans receivable and allowances for loan losses (continued):***

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

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

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

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

***Securities available for sale:***

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

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

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

***Securities available for sale (continued):***

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.

***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 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.

***Advertising:***

Advertising and promotion costs are charged to noninterest expense when incurred. Advertising and promotion expense for the years ended December 31, 2007 and 2006, was \$251,395 and \$127,604, 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, 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.

**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, 2007 or 2006.

***Stock options:***

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*.

***Reclassifications:***

Certain reclassifications have been made in the December 31, 2006, financial statements in order to conform with the December 31, 2007, presentation with no effect on previously reported net loss or stockholders' equity.

***Recent accounting pronouncements:***

In February 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Bank does not expect the adoption of SFAS No. 159 will have a material effect on their financial statements.

## IDAHO FIRST BANK

### NOTES TO FINANCIAL STATEMENTS

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

##### *New accounting standards (continued):*

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements. The definition of fair value retains the exchange price notion in earlier definitions of fair value. SFAS No. 157 clarifies that the exchange price is the price in an orderly transaction between market participants to sell the asset or transfer the liability in the market in which the reporting entity would transact for the asset or liability. The definition focuses on the price that would be received to sell the asset or paid to transfer the liability (an exit price), not the price that would be paid to acquire the asset or received to assume the liability (an entry price). SFAS No. 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Bank does not expect the adoption of SFAS No. 157 will have a material effect on their financial statements.

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.

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.

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

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

*New accounting standards (continued):*

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.

The provisions of FIN No. 48 are effective for fiscal years beginning after December 15, 2007. 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 had no 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, 2007. As of December 31, 2007, all securities available for sale were pledged as collateral for potential borrowings from the Federal Home Loan Bank of Seattle and for public deposits requiring collateral. The carrying amounts of securities available for sale and their approximate fair values were as follows:

	December 31, 2007			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Treasury securities	\$ 499,584	\$ 2,606	\$ -	\$ 502,190
U.S. government agency securities	5,240,510	120,606	-	5,361,116
Mortgage-backed securities	1,866,347	25,543	-	1,891,890
	\$ 7,606,441	\$ 148,755	\$ -	\$ 7,755,196

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

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

	December 31, 2006			Estimated Market Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
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
	<u>\$ 4,850,901</u>	<u>\$ 6,894</u>	<u>\$ (6,428)</u>	<u>\$ 4,851,367</u>

As of December 31, 2007, there are no investment securities with unrealized losses. The Bank did not sell any securities available for sale during 2007 or 2006.

Maturities of securities available for sale at December 31, 2007, 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	\$ 749,442	\$ 752,230
Maturing in one to five years	4,004,142	4,116,200
Maturing in five to ten years	986,510	994,876
Mortgage-backed securities	1,866,347	1,891,890
	<u>\$ 7,606,441</u>	<u>\$ 7,755,196</u>

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

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

Major classifications of loans at December 31 were as follows:

	<u>2007</u>	<u>2006</u>
Real estate	\$ 13,667,477	\$ 10,924,225
Construction and land development loans	8,485,156	6,192,039
Commercial	2,918,313	2,494,744
Consumer loans	<u>2,031,798</u>	<u>629,931</u>
	27,102,744	20,240,939
Loans held for sale	137,875	379,010
Deferred fees	(117,668)	(98,993)
Allowance for loan losses	<u>(400,000)</u>	<u>(291,500)</u>
 NET LOANS RECEIVABLE	 <u>\$ 26,722,951</u>	 <u>\$ 20,229,456</u>

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

	<u>2007</u>	<u>2006</u>
Fixed	\$ 8,663,382	\$ 4,624,260
Variable	<u>18,439,362</u>	<u>15,616,679</u>
	<u>\$ 27,102,744</u>	<u>\$ 20,240,939</u>

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

	<u>2007</u>	<u>2006</u>
Balance, beginning of year	\$ 291,500	\$ 45,000
Provision charged to expense	108,500	246,500
Loans charged off	<u>-</u>	<u>-</u>
Balance, end of year	<u>\$ 400,000</u>	<u>\$ 291,500</u>

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

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

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

	<u>2007</u>	<u>2006</u>
Impaired loans on accrual status at December 31	\$ -	\$ 199,899
Impaired loans on nonaccrual status with no specific reserve	<b>147,130</b>	224,905
Impaired loans on nonaccrual status with specific reserve	<b>348,238</b>	-
Specific reserve for impaired loans	<b>156,000</b>	-
Annual average balance of impaired loans	<b>150,471</b>	49,975
Interest income recognized on impaired loans	-	4,465

There were two impaired loans, both of which were on nonaccrual status, and no loans past due 90 days or more and still accruing interest as of December 31, 2007. There were no loans past due 90 days or more and still accruing interest as of December 31, 2006.

**Note 4 - Premises and Equipment**

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

	<u>2007</u>	<u>2006</u>
Leasehold improvements	\$ <b>137,394</b>	\$ 29,759
Furniture and equipment	<b>584,202</b>	206,997
Total cost	<b>721,596</b>	236,756
Less accumulated depreciation	<b>112,826</b>	53,453
NET BOOK VALUE	<b>\$ 608,770</b>	\$ 183,303

Depreciation and amortization expense for the years ended December 31, 2007 and 2006, was \$89,807 and \$41,085, 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, 2007:

Years ending December 31,	
2008	\$ 13,288,897
2009	1,029,110
2010	744,117
2011	12,225
2012	333,779
	<hr/>
	\$ 15,408,128

**Note 6 - Borrowings**

The Bank has a \$1,500,000 unsecured line of credit with Pacific Coast Bankers' Bank at December 31, 2007. This line will mature on June 30, 2008. The Bank had no balance outstanding on the line as of December 31, 2007.

The Bank established a line of credit with the Federal Home Loan Bank of Seattle. The Bank can borrow up to 10% of its assets under this line of credit. Borrowings must be collateralized with certain mortgage based assets or securities. No borrowings were made under this line during 2007. Subsequent to December 31, 2007, the Bank borrowed \$3,000,000 under this credit facility with maturities ranging from December 31, 2009, to January 20, 2012. Rates on these borrowings are fixed and range from 3.49% to 3.94%.

**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 \$308,158 and \$50,583 in 2007 and 2006, respectively. The future minimum annual rental payments under operating leases at December 31, 2007, are summarized as follows:

Years ending December 31:	
2008	\$ 671,308
2009	684,814
2010	684,196
2011	677,338
2012	643,774
Thereafter	5,464,636
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	\$ 8,826,066

# 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 customer. Collateral held varies but may include securities, accounts receivable, inventory, fixed assets, and/or real estate properties. The distribution of commitments to extend credit approximates the distribution of loans outstanding.

At December 31, 2007, the Bank had \$7,169,318 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 but maintained an allowance for off-balance sheet credit exposure of \$5,000 at December 31, 2007.

### 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. The Bank has no intention of paying cash dividends in the foreseeable future.

### Note 9 - Income Taxes

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

	<u>2007</u>	<u>2006</u>
Current tax expense		
Federal	\$ -	\$ -
State	-	-
Deferred tax benefit		
Federal	504,200	455,475
State	92,182	71,312
Change in valuation allowance	<u>(596,382)</u>	<u>(526,787)</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 liabilities in the statements of financial condition are as follows:

	<b>2007</b>	2006
Deferred tax assets:		
Net operating loss carryforward	\$ 1,404,674	\$ 836,809
Allowance for loan losses	74,020	29,556
Tax credit carryforwards	18,756	6,017
Equity compensation expense	8,823	-
Other	4,233	-
	<b>1,510,506</b>	872,382
Total deferred tax assets		
Less valuation allowance	<b>(1,453,918)</b>	(857,536)
Deferred tax liabilities:		
Unrealized gain on securities available for sale	(58,038)	(145)
Book-tax depreciation	(31,418)	(14,846)
Deferred loan origination costs	(25,170)	-
	<b>(114,626)</b>	(14,991)
Total deferred tax liabilities		
NET DEFERRED TAX LIABILITY	<b>\$ (58,038)</b>	\$ (145)

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:

	<b>2007</b>	2006
Federal income tax benefit at expected rate	\$ (491,971)	\$ (444,276)
State tax benefit	(82,709)	(65,544)
Effect of tax exempt income	(21,790)	(19,265)
Effect of permanent differences	88	2,298
Change in valuation allowance	596,382	526,787
INCOME TAX BENEFIT	<b>\$ -</b>	\$ -

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

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

Operating loss carryforwards as of December 31, 2007, 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	1,352,292
December 31, 2027	<u>1,448,227</u>	<u>1,549,082</u>
	<u>\$ 3,579,027</u>	<u>\$ 3,744,117</u>

State tax credit carryforwards as of December 31, 2007, for tax purposes were as follows:

<u>Expiration Dates</u>	<u>Amount</u>
December 31, 2019	\$ 4,823
December 31, 2020	8,249
December 31, 2021	<u>15,347</u>
	<u>\$ 28,419</u>

The Bank adopted the provisions of FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes*, on January 1, 2007. The Bank had no unrecognized tax benefits that would require an adjustment to the January 1, 2007, beginning balance of retained earnings. The Bank had no unrecognized tax benefits at January 1, 2007, or at December 31, 2007.

The Bank recognizes interest accrued and penalties related to unrecognized tax benefits in tax expense. During the years ended December 31, 2007 and 2006, the Bank recognized no interest and penalties.

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

**Note 10 - Employee Retirement Benefits**

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

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

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**Note 10 - Employee Retirement Benefits (Continued)**

Annual contributions to the ESOP by the Bank, the employer, are equal to 3% of the eligible compensation of all eligible employees. For Bank contribution purposes, compensation after one year of service is eligible. The Bank contributions are fully vested under Safe Harbor Provisions. The compensation expense relating to the required employer contributions for the years ended December 31, 2007 and 2006, was \$20,208 and \$18,829, 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, 2007, there are no shares subject to this repurchase requirement.

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

**Note 11 - Related Party Transactions**

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 \$521,610 and \$628,138 of unpaid principal due from related parties at December 31, 2007 and 2006, respectively.

**Note 12 - 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 \$15,877 and \$6,737 during the years ended December 31, 2007 and 2006, respectively. The accounting offset to equity compensation expense was an increase to additional paid-in capital for the same amount.

The vesting of stock options ranges from immediate vesting to five year vesting. As of December 31, 2007, there were 4,433 incentive stock options available for grant under the Incentive Stock Option Plan of 2005 and 11,805 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**

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

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

	<u>2007</u>		<u>2006</u>	
	<u>Shares</u>	<u>Weighted-Average Exercise Price</u>	<u>Shares</u>	<u>Weighted-Average Exercise Price</u>
Outstanding options at beginning of period	<b>98,705</b>	<b>\$ 10.05</b>	95,677	\$ 10.00
Granted	<b>20,299</b>	<b>12.00</b>	6,128	10.82
Exercised	<b>(467)</b>	<b>10.00</b>	-	-
Forfeited	<b>(6,565)</b>	<b>10.65</b>	(3,100)	10.00
Outstanding at end of year	<b>111,972</b>	<b>\$ 10.37</b>	98,705	\$ 10.05
Options exercisable at year end	<b>70,261</b>	<b>\$ 10.00</b>	49,244	\$ 10.00

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

	<u>2007</u>	<u>2006</u>
Options granted	<b>20,299</b>	6,128
Expected volatility	<b>15%</b>	15%
Expected dividends	<b>None</b>	None
Expected term - years	<b>6</b>	6
Risk-free interest rate	<b>4.51%</b>	5.00%
Weighted average fair value	<b>\$ 3.33</b>	\$ 3.17
Aggregate compensation cost of options granted	<b>\$ 67,596</b>	\$ 19,426

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

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

The following is additional information on options as of December 31, 2007:

	<u>Outstanding</u>	<u>Exercisable</u>
Options at December 31, 2007	111,972	70,261
Aggregate market value, assuming price of \$11.50	\$ 1,287,678	\$ 808,002
Aggregate exercise price	1,161,028	702,610
 AGGREGATE INTRINSIC VALUE	 \$ 126,650	 \$ 105,392
 Weighted average contractual term - years	 8.1	 7.8

As of December 31, 2007, there was unrecognized compensation cost of \$52,401 related to nonvested stock options. The cost is expected to be recognized over a weighted-average period of 3.2 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 affect the Bank's ability to collect loans. Substantially all such customers are depositors of the Bank. The concentrations of credit by type of loan are set forth in Note 3. The distribution of commitments to extend credit approximates the distribution of loans outstanding. Under banking regulations, the Bank is not allowed to extend credit to any single borrower or group of related borrowers in excess of \$1,250,000.

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. 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.

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

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**Note 14 - Regulatory Matters (Continued)**

The Bank has agreed with regulators to maintain a 10% ratio of Tier I capital to total assets.

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, 2007 and 2006, 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:

	Actual		Capital Adequacy		To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>December 31, 2007</b>						
Tier 1 capital (to average assets):	<b>\$ 5,913,000</b>	<b>15.54%</b>	<b>\$ 1,522,000</b>	<b>4.00%</b>	<b>\$ 1,902,000</b>	<b>5.00%</b>
Tier 1 capital (to risk-weighted assets):	<b>5,913,000</b>	<b>18.47%</b>	<b>1,281,000</b>	<b>4.00%</b>	<b>1,921,000</b>	<b>6.00%</b>
Total capital (to risk-weighted assets):	<b>6,314,000</b>	<b>19.72%</b>	<b>2,562,000</b>	<b>8.00%</b>	<b>3,202,000</b>	<b>10.00%</b>
<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%