

**IDAHO FIRST BANK**  
**INDEPENDENT AUDITOR'S REPORT**  
**AND FINANCIAL STATEMENTS**  
**DECEMBER 31, 2009 AND 2008**

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**INDEPENDENT AUDITOR'S REPORT**

Board of Directors and Stockholders  
Idaho First Bank  
McCall, Idaho

We have audited the accompanying statements of financial condition of Idaho First Bank (the Bank) as of December 31, 2009 and 2008, and the related statements of operations, changes in stockholders' equity, comprehensive loss, and cash flows for the years ended December 31, 2009 and 2008. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years ended December 31, 2009 and 2008, 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 is not expected to maintain regulatory capital requirements. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Notes 2 and 15. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.



Spokane, Washington  
March 18, 2010

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

**ASSETS**

	December 31,	
	2009	2008
Cash and due from banks	\$ 840,393	\$ 964,104
Interest-bearing demand deposits due from banks	939,671	14,407
Cash and cash equivalents	1,780,064	978,511
Federal funds sold	-	660,000
Time deposits with banks	3,260,000	-
Securities available for sale	10,213,437	8,988,411
Federal Home Loan Bank stock, at cost	270,000	180,000
Loans receivable	57,398,510	51,664,632
Allowance for loan losses	(1,312,738)	(741,245)
Net loans receivable	56,085,772	50,923,387
Premises and equipment, net	409,841	539,788
Accrued interest receivable	342,937	313,443
Cash surrender value of Bank-owned life insurance	594,000	1,149,000
Other real estate owned	824,397	458,626
Other assets	295,085	184,071
<b>TOTAL ASSETS</b>	<b>\$ 74,075,533</b>	<b>\$ 64,375,237</b>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

Deposits		
Noninterest-bearing demand	\$ 7,272,359	\$ 6,178,476
Interest-bearing demand	2,307,615	3,658,435
Savings	7,095,851	6,569,921
Time deposits, less than \$100,000	16,195,589	24,524,633
Time deposits from \$100,000 to \$249,999	18,811,779	8,424,792
Time deposits of \$250,000 and more	12,855,442	3,970,215
Total deposits	64,538,635	53,326,472
Borrowings from Federal Home Loan Bank	5,000,000	4,000,000
Accrued interest payable	108,434	147,553
Other liabilities	375,603	392,301
Total liabilities	70,022,672	57,866,326
COMMITMENTS AND CONTINGENCIES (Note 8)		
STOCKHOLDERS' EQUITY		
Preferred stock \$1,000 par value; 10,000 shares authorized; none issued or outstanding	-	-
Common stock \$5 par value; 5,000,000 shares authorized; 1,398,284 and 1,376,584 shares issued and outstanding, respectively	6,991,420	6,882,920
Additional paid-in capital	4,858,262	4,932,259
Accumulated deficit	(7,868,308)	(5,599,008)
Accumulated other comprehensive income	71,487	292,740
Total stockholders' equity	4,052,861	6,508,911
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 74,075,533</b>	<b>\$ 64,375,237</b>

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

	Year Ended December 31,	
	2009	2008
Interest income		
Loans, including fees	\$ 3,335,815	\$ 2,866,015
Securities	274,111	398,060
Federal funds sold	2,360	47,621
Other interest income	10,436	8,318
Total interest income	<u>3,622,722</u>	<u>3,320,014</u>
Interest expense		
Time deposits	1,202,875	1,072,969
Savings	57,942	130,268
Interest-bearing demand	14,009	26,186
Borrowed funds	163,062	113,733
Total interest expense	<u>1,437,888</u>	<u>1,343,156</u>
Net interest income	<u>2,184,834</u>	<u>1,976,858</u>
Provision for loan losses	<u>1,800,000</u>	<u>1,050,000</u>
Net interest income after provision for loan losses	<u>384,834</u>	<u>926,858</u>
Noninterest income		
Mortgage banking income	331,238	161,264
Service charges on deposits	100,105	90,091
Increase in cash surrender value of Bank-owned life insurance	36,285	45,000
Realized gain on securities available for sale	335,588	8,822
Other income	71,830	62,114
Total noninterest income	<u>875,046</u>	<u>367,291</u>
Noninterest expenses		
Salaries and employee benefits	1,267,485	1,469,797
Occupancy	641,264	645,919
Equipment	173,885	189,393
Professional services	413,790	177,133
Data processing	316,003	338,811
FDIC insurance	210,834	66,473
Losses on other real estate owned	150,766	-
Telephone	83,214	77,758
Training, travel, and other employee	72,036	72,823
Advertising and promotion	66,300	108,284
Supplies and postage	52,073	78,075
Other operating	81,530	76,720
Total noninterest expenses	<u>3,529,180</u>	<u>3,301,186</u>
Loss before income taxes	<u>(2,269,300)</u>	<u>(2,007,037)</u>
Income tax expense	-	-
NET LOSS	<u>\$ (2,269,300)</u>	<u>\$ (2,007,037)</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 (Loss)	Total
BALANCE, December 31, 2007	910,964	\$ 4,554,820	\$ 4,950,332	\$ (3,591,971)	\$ 90,717	\$ 6,003,898
Net loss	-	-	-	(2,007,037)	-	(2,007,037)
Equity compensation expense	-	-	14,010	-	-	14,010
Issuance of stock, net	465,620	2,328,100	(32,083)	-	-	2,296,017
Change in other comprehensive income	-	-	-	-	202,023	202,023
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
Change in other comprehensive income	-	-	-	-	(221,253)	(221,253)
BALANCE, December 31, 2009	<b>1,398,284</b>	<b>\$ 6,991,420</b>	<b>\$ 4,858,262</b>	<b>\$ (7,868,308)</b>	<b>\$ 71,487</b>	<b>\$ 4,052,861</b>

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

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	Year Ended December 31,	
	<u>2009</u>	<u>2008</u>
Net loss	<u>\$ (2,269,300)</u>	<u>\$ (2,007,037)</u>
Other comprehensive income		
Change in holding gains on securities available for sale	(27,218)	340,094
Gains realized in income	<u>(335,588)</u>	<u>(8,822)</u>
Change in unrealized gains on securities available for sale	(362,806)	331,272
Income tax provision	<u>141,553</u>	<u>(129,249)</u>
Other comprehensive income (expense)	<u>(221,253)</u>	<u>202,023</u>
COMPREHENSIVE LOSS	<u>\$ (2,490,553)</u>	<u>\$ (1,805,014)</u>

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

	Year Ended December 31,	
	<b>2009</b>	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (2,269,300)	\$ (2,007,037)
Adjustments to reconcile net loss to net cash used by operating activities:		
Net amortization of deferred loan fees and costs	(101,869)	(113,166)
Net amortization of securities' discounts and premiums	46,391	(8,783)
Provision for loan losses	1,800,000	1,050,000
Originations of loans held for sale	(4,342,192)	(2,287,042)
Proceeds from sale of loans held for sale	3,485,108	2,449,909
Gain on sale of loans	(30,842)	(24,992)
Increase in cash surrender value of life insurance	(36,285)	(45,000)
Gain on sale of securities available for sale	(335,588)	(8,822)
Loss on disposal of premises and equipment	7,644	10,951
Equity compensation expense	11,718	14,010
Depreciation and amortization	132,493	145,138
Losses on other real estate owned	150,766	-
Change in accrued interest receivable and other assets	(146,786)	(132,266)
Change in accrued interest payable and other liabilities	85,736	89,134
	<b>(1,543,006)</b>	<b>(867,966)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net change in federal funds sold	660,000	(60,000)
Net change in time deposits with banks	(3,260,000)	-
Securities available for sale:		
Maturities, prepayments and calls	1,628,219	1,300,559
Sales	5,963,658	805,753
Purchases	(8,890,512)	(2,990,650)
Purchase of FHLB stock	(90,000)	(247,000)
Proceeds from sale of FHLB stock	-	103,500
Net increase in loans	(6,555,627)	(25,733,771)
Purchases of premises, equipment, and software	(3,912)	(69,371)
Proceeds from sale of premises and equipment	-	2,400
Proceeds from surrender of Bank-owned life insurance	591,285	-
Proceeds from sale of other real estate owned	66,500	-
	<b>(9,890,389)</b>	<b>(26,888,580)</b>

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

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	Year Ended December 31,	
	<b>2009</b>	2008
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net increase in deposits	\$ <b>11,212,163</b>	\$ 21,444,478
Borrowings from Federal Home Loan Bank	<b>3,000,000</b>	7,300,000
Repayments of borrowings from Federal Home Loan Bank	<b>(2,000,000)</b>	(3,300,000)
Proceeds from issuance of common stock, net	<b>22,785</b>	2,296,017
	<b>12,234,948</b>	27,740,495
NET CHANGE IN CASH AND CASH EQUIVALENTS	<b>801,553</b>	(16,051)
Cash and cash equivalents, beginning of year	<b>978,511</b>	994,562
Cash and cash equivalents, end of year	<b>\$ 1,780,064</b>	\$ 978,511
 <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION</b>		
Cash paid during the year for:		
Interest	<b>\$ 1,477,007</b>	\$ 1,310,338
Income taxes	<b>\$ -</b>	\$ -
Transfer of loans to other real estate owned	<b>\$ 583,037</b>	\$ 458,626

# 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, 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 FDIC. As of December 31, 2009, there were balances of \$3,260,000 of time deposits with banks. The time deposits all had original terms of 90 days or less and all mature before February 28, 2010. The weighted average yield on time deposits outstanding at December 31, 2009, was 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.

**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.

***Equity securities:***

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, 2009.

***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 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.

## **IDAHO FIRST BANK**

### **NOTES TO FINANCIAL STATEMENTS**

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

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

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.

##### ***Loans held for sale:***

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

##### ***Premises and equipment:***

Premises and equipment are stated at cost less accumulated depreciation over estimated useful lives, which range from 3 to 15 years. Leasehold improvements are amortized over the terms of the related lease or the estimated useful lives of the improvements, whichever is shorter. Depreciation and amortization expense is computed using the straight-line method for financial statement purposes. Accelerated depreciation methods are used for income tax purposes. Normal costs of maintenance and repairs are charged to expense as incurred.

##### ***Other real estate owned:***

Other real estate owned includes real estate acquired through foreclosure or deed taken in lieu of foreclosure. Property is recorded at lower of recorded investment or market value less estimated costs to sell. Any required write-down from the recorded investment to market value, at the time of foreclosure, is charged to the allowance for loan losses. Subsequent write-downs and gains or losses recognized upon sale of the property are included in noninterest income or expense.

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

Advertising and promotion costs are charged to noninterest expense when incurred. Advertising and promotion expense for the years ended December 31, 2009 and 2008, was \$66,300 and \$108,284, 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 Company's net operating loss carry forwards to reflect management's estimate of the realizable amount of its deferred tax assets at December 31, 2009.

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 Company analyzed its tax positions including the permanent and temporary differences as well as the major components of income and expense. As of December 31, 2009, the Bank did not believe that it had any uncertain tax positions that would rise to the level of having a material effect on its financial statements. In addition, the Bank had no accrued interest or penalties as of December 31, 2009. It is the Bank's policy to record interest and penalties as a component of income tax expense.

***Off-balance sheet financial instruments:***

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

***Long-lived assets:***

The Bank evaluates the carrying value of long-lived assets based on current and anticipated discounted cash flows and recognizes impairment when such cash flows will be less than the carrying value of the asset. There was no impairment during the years ended December 31, 2009 or 2008.

## IDAHO FIRST BANK

### NOTES TO FINANCIAL STATEMENTS

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

##### ***Stock options:***

The cost resulting from all share based payment transactions must be recognized in the financial statements of the Bank. The Bank applied the modified prospective application method of reporting, which provides for no restatement of prior periods and no cumulative adjustment to equity accounts. Compensation expense is recorded on a straight-line attribution basis over the vesting period of the options. The compensation expense of options is calculated using the Black-Scholes option pricing model.

##### ***Reclassifications:***

Certain reclassifications have been made in the December 31, 2008, financial statements in order to conform with the December 31, 2009, presentation with no effect on previously reported net loss or stockholders' equity.

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

On April 9, 2009, the FASB issued FSP FAS 157-4 (codified in ASC 820-10), *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*. The FSP provides additional guidance for estimating fair value of an asset or liability in accordance with FASB Statement No. 157, *Fair Value Measurements*, when the volume and level of activity for the asset or liability have significantly decreased. FSP No. 157-4 also includes guidance on identifying circumstances that indicate a transaction is not orderly. The FSP is effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The FSP did not have a material impact on the Bank's financial condition or results of operations.

On April 9, 2009, the FASB issued FSP FAS 115-2 and FAS 124-2 (codified in ASC 320-10-35), *Recognition and Presentation of Other-Than-Temporary Impairments*. The FSP amends the other-than-temporary impairment guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. FSP Nos. 115-2 and 124-2 is effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The FSP did not have a material impact on the Bank's financial condition or results of operations.

On May 28, 2009, the FASB issued Statement No. 165, *Subsequent Events* (codified in ASC 855-10). ASC 855-10 is intended to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. Entities are required to disclose the date through, which subsequent events were evaluated as well as the rationale for why that date was selected. ASC 855-10 is effective for interim and annual periods ending after June 15, 2009. The statement did not have a material impact on the Bank's financial condition or results of operations.

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

***Recent accounting pronouncements (continued):***

On June 12, 2009, the FASB issued SFAS No. 166, *Accounting for Transfers of Financial Assets* – an amendment of FASB Statement No. 140. SFAS No. 166 amends the derecognition guidance in statement No. 140 including the sale of participation loans that are not pro rata, contain tranches of payment streams, or contain recourse provisions. SFAS No. 166 is effective for financial asset transfers occurring after the beginning of an entity’s first fiscal year that begins after November 15, 2009. The statement is not expected to have a material impact on the Bank’s financial condition or results of operations.

On June 30, 2009, the FASB issued statement No. 168 (codified in ASC 105), *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* – a replacement of FASB Statement No. 162. Statement No. 162 identified the sources of accounting principles and the framework for selecting the principles used in preparing the financial statements of nongovernmental entities that are presented in conformity with accounting principles generally accepted in the United States of America (GAAP). ASC 105 divides nongovernmental U.S. GAAP into the authoritative Codification and guidance that is nonauthoritative, doing away with the previous four-level hierarchy. ASC 105 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The statement 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 March 18, 2010, 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. The Bank is considered “adequately-capitalized” as of December 31, 2009, as discussed in Note 15. Due to recurring operating losses and anticipated losses in 2010, it is management’s anticipation the Bank will be unable to retain its status as an adequately-capitalized bank. As described in Note 17, the Bank has agreed with the FDIC and the Idaho Department of Finance to maintain the Bank’s Tier 1 Capital to average asset ratio at a minimum of 10%. The Bank has until June 10, 2010, to obtain the additional capital. Without additional capital the Bank could become severely undercapitalized and be closed by regulators.

The Bank is currently seeking \$5 million of preferred equity from accredited investors in a private offering. This stock offering, if successful, will meet the necessary capital requirements for the foreseeable future. Because of the high number of banks seeking additional capital and weak investor demand for bank equities the raising of additional capital is difficult. However, Bank management and the Board of Directors are vigorously meeting with potential investors to successfully complete the stock offering.

## **IDAHO FIRST BANK**

### **NOTES TO FINANCIAL STATEMENTS**

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#### **Note 2 - Going Concern (Continued)**

The Bank faces further 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 \$1.4 million in 2009. If this level of losses were to continue in 2010 the Bank would become severely undercapitalized without a successful stock offering.

The Bank faces additional liquidity pressures because of its current financial condition. The bank is not permitted to accept brokered deposits. The Bank's credit line at the Federal Reserve Bank has been restricted so the Bank may not borrow for two or more consecutive days. In addition, the Bank is restricted on interest rates on deposits and can not pay rates that exceed national averages by more than 75 basis points.

The Bank has taken steps to reduce liquidity risk by significantly increasing liquid assets and by extending the maturities of certificates of deposits. At December 31, 2009, the balance of cash and cash equivalents, investment securities, and time deposits maturing within 90 days totaled \$15.3 million. All investment securities were free from collateral requirements at December 31, 2009, and were available for sale and were available to meet liquidity contingencies. The lengthening of certificate of deposit maturities has further improved the liquidity position of the Bank. At the end of 2008, approximately 79% of certificates of deposit had remaining maturities of 12 months or less. At the end of 2009, only 36% of certificates of deposit had remaining maturities of 12 months or less. During the fourth quarter of 2009, the Bank was able to secure significant nonbrokered deposits from other financial institutions. As the Bank is prohibited from accepting brokered deposits, the ability to attract nonbrokered deposits is an important component of the Bank's liquidity contingency plan.

While liquidity risks and asset quality risks can raise concerns about the Bank's future, the ability to raise additional capital is the most significant concern and the area of primary focus. There can be no assurance that the Bank will be able to raise additional capital. The uncertainty over obtaining additional capital raises substantial doubt regarding the Bank's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

#### **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, 2009. As of December 31, 2009, securities available for sale, with an estimated market value of \$1,479,994 were pledged as collateral for public deposits. As of December 31, 2009, there were no public deposits requiring collateral, so the securities could have been withdrawn from the collateral account if needed for liquidity purposes.

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

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**Note 3 - Securities Available for Sale (Continued)**

The carrying amounts of securities available for sale and their approximate fair values were as follows:

	<b>December 31, 2009</b>			<b>Estimated Market Value</b>
	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	
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
	<b>\$ 10,096,216</b>	<b>\$ 129,829</b>	<b>\$ (12,608)</b>	<b>\$ 10,213,437</b>

  

	<b>December 31, 2008</b>			<b>Estimated Market Value</b>
	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	
U.S. government agency securities	\$ 5,897,312	\$ 355,557	\$ -	\$ 6,252,869
Mortgage-backed securities	2,611,072	124,470	-	2,735,542
	<b>\$ 8,508,384</b>	<b>\$ 480,027</b>	<b>\$ -</b>	<b>\$ 8,988,411</b>

As of December 31, 2009, there were two securities with unrealized losses totaling \$12,608. Neither of the securities was in an unrealized loss position for 12 consecutive months. As of December 31, 2008, there are no investment securities with unrealized losses. In 2009, the Bank received proceeds of \$5,963,658 and realized gains of \$335,588 from the sale of securities available for sale. In 2008, the Bank received proceeds of \$805,753 and realized gains of \$8,822 from the sale of securities available for sale.

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

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**Note 3 - Securities Available for Sale (Continued)**

Maturities of securities available for sale at December 31, 2009, are summarized below. Actual maturities may differ from contractual maturities due to call provisions.

	Amortized Cost	Estimated Market Value
	<u>                    </u>	<u>                    </u>
Maturing in less than one year	\$ 1,016,605	\$ 1,018,120
Maturing in one to five years	3,224,683	3,245,300
Maturing in five to ten years	1,000,000	988,120
Mortgage-backed securities	4,854,928	4,961,897
	<u>\$ 10,096,216</u>	<u>\$ 10,213,437</u>

**Note 4 - Loans Receivable and Allowance for Loan Losses**

Major classifications of loans at December 31 were as follows:

	2009	2008
	<u>                    </u>	<u>                    </u>
Real estate - commercial	\$ 17,533,542	\$ 13,408,327
Real estate - residential	17,316,130	13,941,222
Commercial	13,268,369	9,717,603
Construction and land development loans	6,066,814	9,965,339
Consumer loans	2,448,900	4,771,276
	<u>56,633,755</u>	51,803,767
Loans held for sale	887,926	-
Deferred fees and costs	(123,171)	(139,135)
Allowance for loan losses	(1,312,738)	(741,245)
	<u>                    </u>	<u>                    </u>
NET LOANS RECEIVABLE	<u>\$ 56,085,772</u>	<u>\$ 50,923,387</u>

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

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

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

	<u>2009</u>	<u>2008</u>
Fixed	<b>\$ 19,882,586</b>	\$ 13,459,460
Variable	<b>36,751,169</b>	38,344,307
	<b><u>\$ 56,633,755</u></b>	<b><u>\$ 51,803,767</u></b>

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

	<u>2009</u>	<u>2008</u>
Balance, beginning of year	<b>\$ 741,245</b>	\$ 400,000
Provision charged to expense	<b>1,800,000</b>	1,050,000
Loans charged off	<b>(1,228,746)</b>	(708,755)
Loan recoveries	<b>239</b>	-
Balance, end of year	<b><u>\$ 1,312,738</u></b>	<b><u>\$ 741,245</u></b>

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

	<u>2009</u>	<u>2008</u>
Impaired loans on accrual status and 90 days or more past due	<b>\$ -</b>	\$ 500,000
Unimpaired loans on accrual status and 90 days or more past due	<b>959,502</b>	5,176
Impaired loans on nonaccrual status with no specific reserve	<b>451,175</b>	-
Impaired loans on nonaccrual status with specific reserve	<b>1,939,130</b>	644,743
Other real estate owned	<b>824,397</b>	458,626
Total nonperforming assets	<b><u>\$ 4,174,204</u></b>	<b><u>\$ 1,608,545</u></b>
Specific reserve for impaired loans	<b>\$ 366,563</b>	\$ 107,500
Annual average balance of impaired loans	<b>1,601,115</b>	413,002
Interest income recognized on impaired loans	<b>-</b>	37,235

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

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**Note 5 - Premises and Equipment**

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

	<u>2009</u>	<u>2008</u>
Leasehold improvements	\$ 129,747	\$ 140,031
Furniture and equipment	<u>622,984</u>	<u>627,142</u>
Total cost	752,731	767,173
Less accumulated depreciation	<u>342,890</u>	<u>227,385</u>
NET BOOK VALUE	<u>\$ 409,841</u>	<u>\$ 539,788</u>

Depreciation and amortization expense for the years ended December 31, 2009 and 2008, was \$122,940 and \$125,002, respectively.

**Note 6 - Deposits**

The following is a schedule by years of maturities for time deposits at December 31, 2009:

Years ending December 31,	
2010	\$ 17,317,015
2011	14,103,219
2012	7,702,565
2013	2,639,191
2014	<u>6,100,820</u>
	<u>\$ 47,862,810</u>

The Bank had \$12,855,442 of time deposits of \$250,000 and more as of December 31, 2009. Of this amount, \$4,000,000 was in the amount of \$250,000 and \$8,855,442 was in excess of \$250,000.

**Note 7 - Borrowings**

The Bank had a \$1,500,000 line of credit with Pacific Coast Bankers' Bank at December 31, 2009. 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, 2009 or 2008.

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

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**Note 7 - Borrowings (Continued)**

The Bank has a borrowing line in place with the Federal Reserve Bank. The borrowing line fluctuates according to the balances of loans pledged. As of December 31, 2009, the Bank had a borrowing line of \$11,923,225, secured by loans with a principal balance of \$27,190,714. The Bank had no balance outstanding on the line as of December 31, 2009 or 2008.

The Bank has a line of credit with the Federal Home Loan Bank of Seattle, under which the Bank can borrow up to 10% of its assets. Borrowings must be collateralized with loans or securities. At December 31, 2009, loans with a principal balance of \$11,663,054 were pledged as collateral. At December 31, 2009, the Bank had \$5,000,000 of borrowings from the Federal Home Loan Bank. Borrowings from the Federal Home Loan Bank have penalties for early payment.

The weighted average rates and scheduled repayment dates of the borrowings at December 31, 2009, are as follows:

Years ending December 31:	<u>Amount</u>	<u>Average Rate</u>
2010	\$ 1,000,000	3.94%
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>\$ 5,000,000</u>	3.18%

**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 \$583,389 and \$572,348 in 2009 and 2008, respectively. The future minimum annual rental payments under operating leases at December 31, 2009, are summarized as follows:

Years ending December 31:	
2010	\$ 612,918
2011	639,516
2012	612,676
2013	590,154
2014	590,154
Thereafter	<u>3,980,695</u>
	<u>\$ 7,026,113</u>

# IDAHO FIRST BANK

## NOTES TO FINANCIAL STATEMENTS

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### Note 8 - 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, 2009, the Bank had \$5,700,522 in commitments to extend credit. The Bank also had \$286,684 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 and \$15,000 at December 31, 2009 and 2008, respectively.

### 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 consist of the following:

	<u>2009</u>	<u>2008</u>
Current tax expense		
Federal	\$ -	\$ -
State	-	-
Deferred tax benefit		
Federal	753,352	692,938
State	116,014	105,967
Change in valuation allowance	<u>(869,366)</u>	<u>(798,905)</u>
 INCOME TAX BENEFIT	 <u>\$ -</u>	 <u>\$ -</u>

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

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**Note 10 - Income Taxes (Continued)**

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

	<u>2009</u>	<u>2008</u>
Deferred tax assets:		
Net operating loss carryforward	\$ 2,791,351	\$ 2,120,385
Allowance for loan losses	280,741	166,426
Losses on other real estate owned	53,693	-
Interest on nonaccrual loans	26,453	4,716
Equity compensation expense	18,861	14,289
Tax credit carryforwards	13,744	13,923
Other	12,657	5,852
	<u>3,197,500</u>	<u>2,325,591</u>
 Less valuation allowance	 <u>(3,122,189)</u>	 <u>(2,252,823)</u>
 Deferred tax liabilities:		
Unrealized gain on securities available for sale	(45,735)	(187,287)
Deferred loan origination costs	(38,583)	(32,792)
Net book value of fixed assets	(36,728)	(39,976)
	<u>(121,046)</u>	<u>(260,055)</u>
 NET DEFERRED TAX LIABILITY	 <u>\$ (45,735)</u>	 <u>\$ (187,287)</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>2009</u>	<u>2008</u>
Federal income tax benefit at expected rate	\$ (771,562)	\$ (682,393)
State tax benefit	(117,204)	(101,896)
Effect of tax exempt income	(12,337)	(26,129)
Effect of permanent differences	31,737	11,513
Change in valuation allowance	869,366	798,905
 INCOME TAX BENEFIT	 <u>\$ -</u>	 <u>\$ -</u>

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

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**Note 10 - Income Taxes (Continued)**

Operating loss carryforwards as of December 31, 2009, 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	1,706,778	1,807,473
	<u>\$ 7,098,239</u>	<u>\$ 7,534,881</u>

State tax credit carryforwards as of December 31, 2009, for tax purposes were as follows:

<u>Expiration Dates</u>	<u>Amount</u>
December 31, 2019	\$ 4,461
December 31, 2020	2,239
December 31, 2021	12,200
December 31, 2022	1,863
December 31, 2023	60
	<u>\$ 20,823</u>

The Bank had no unrecognized tax benefits at December 31, 2009 or 2008.

The Bank recognizes interest accrued and penalties related to unrecognized tax benefits in tax expense. During the years ended December 31, 2009 and 2008, the Bank recognized no interest and penalties.

The Bank files a United States federal income tax return and an Idaho 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, 2006.

**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.

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

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**Note 11 - Employee Retirement Benefits (Continued)**

Annual contributions to the ESOP by the Bank, the employer, were equal to 3% of the eligible compensation of 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, 2009 and 2008, was \$24,828 and \$25,916, 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, 2009, there are no shares subject to this repurchase requirement.

The Bank owned two single-premium life insurance policies on its president and chief executive officer (CEO). During 2009, one of these policies was surrendered. The cash surrender value of the remaining policy is reflected as an asset of the Bank. In 2009, the Bank cancelled the Joint Beneficiary Agreement with the president and CEO. Prior to its cancellation the agreement provided an insurance death benefit of \$750,000 to his designated beneficiary.

**Note 12 - Related Party Transactions**

In the normal course of business, the Bank accepts deposits and makes loans to its executive officers, directors, principal shareholders, and companies affiliated with these individuals. There were approximately \$430,000 and \$376,000 of deposits from related parties at December 31, 2009 and 2008, respectively.

It is management's opinion that loans to the Bank's executive officers, directors, principal shareholders, and companies affiliated with these individuals are on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and do not involve more than normal risk of collectibility. The activity for these loans is as follows:

	<u>2009</u>	<u>2008</u>
Balance, beginning of year	\$ 625,870	\$ 521,610
Advances	803,796	400,943
Payments	<u>(114,815)</u>	<u>(296,683)</u>
Balance, end of year	<u>\$ 1,314,851</u>	<u>\$ 625,870</u>

**Note 13 - Stock Options**

The Bank has granted both incentive stock options and nonqualified stock options under various plans and agreements. Equity compensation expense, associated with stock options, was \$11,718 and \$14,010 during the years ended December 31, 2009 and 2008, respectively. The accounting offset to equity compensation expense was an increase to additional paid-in capital for the same amount.

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

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**Note 13 - Stock Options (Continued)**

The vesting of stock options ranges from immediate vesting to five year vesting. As of December 31, 2009, there were 11,883 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.

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

	<u>2009</u>		<u>2008</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>104,829</b>	<b>\$ 10.23</b>	111,972	\$ 10.37
Granted			2,100	5.00
Forfeited	<u><b>(5,350)</b></u>	<b>10.09</b>	<u>(9,243)</u>	10.76
Outstanding at end of year	<u><b>99,479</b></u>	<b>\$ 10.23</b>	<u>104,829</u>	\$ 10.23
Options exercisable at year end	<u><b>89,912</b></u>	<b>\$ 10.21</b>	<u>89,292</u>	\$ 10.09

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

	<u>2009</u>	<u>2008</u>
Options granted	<u>-</u>	<u>2,100</u>
Expected volatility		15%
Expected dividends		None
Expected term - years		6
Risk-free interest rate		2.96%
Weighted average fair value		\$ 1.15
Aggregate compensation cost of options granted		\$ 2,415

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

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**Note 13 - Stock Options (Continued)**

The following is additional information on options as of December 31, 2009:

	<u>Outstanding</u>	<u>Exercisable</u>
Options at December 31, 2009	99,479	89,912
Aggregate market value, assuming price of \$1.05	\$ 104,453	\$ 94,408
Aggregate exercise price	1,018,098	917,994
 AGGREGATE INTRINSIC VALUE	 \$ -	 \$ -
 Weighted average contractual term - years	 6.1	 5.9

As of December 31, 2009, there was unrecognized compensation cost of \$16,591 related to nonvested stock options. The cost is expected to be recognized over a weighted-average period of 1.8 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 \$1,063,000 at December 31, 2009.

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**

In connection with the stock offering in 2008, the Bank issued warrants allowing each warrant holder the right to purchase a share of the \$5.00 par value common stock of the Bank at a price of \$7.00 per share. These warrants are exercisable by the warrant holder at any time before the warrants expire on September 30, 2011. At December 31, 2009, there were 232,810 warrants outstanding.

## **IDAHO FIRST BANK**

### **NOTES TO FINANCIAL STATEMENTS**

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

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

The Bank's capital as of September 30, 2009, and December 31, 2009, failed to meet the "Well Capitalized" regulatory requirements. As described in Note 2 the low level of capital raises serious concerns about the continued existence of the Bank.

The Bank has been in violation of an informal agreement with regulators to maintain an 8% ratio of Tier 1 capital to total assets since September 30, 2009. As further described in Note 17 the Bank has agreed with regulators to raise additional capital by June 10, 2010, and maintain a 10% ratio of Tier 1 capital to total assets. The failure to raise the additional capital by this date could subject the Bank to further regulatory actions and restrictions.

On November 23, 2009, the Bank commenced a private offering of 5,000 to 6,000 shares of noncumulative convertible preferred stock at a price of \$1,000 per share to accredited investors. Each share of preferred stock is convertible to 1,000 shares of common stock on December 31, 2012. No dividends will be paid on the preferred stock. Each share of preferred stock will be entitled to the same voting rights as 1,000 shares of common stock. A minimum of 5,000 shares must be subscribed for and accepted before the preferred stock will be issued. The offering will expire on March 28, 2010.

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). The failure to raise additional capital by this date could subject the Bank to further regulatory actions and restrictions.

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

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

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, 2009</b>						
Tier 1 capital (to average assets):	<b>\$ 3,981,000</b>	<b>5.14%</b>	\$ 3,099,000	<b>4.00%</b>	\$ 3,874,000	<b>5.00%</b>
Tier 1 capital (to risk-weighted assets):	<b>3,981,000</b>	<b>6.77%</b>	2,352,000	<b>4.00%</b>	3,528,000	<b>6.00%</b>
Total capital (to risk-weighted assets):	<b>4,724,000</b>	<b>8.03%</b>	4,704,000	<b>8.00%</b>	5,880,000	<b>10.00%</b>
December 31, 2008						
Tier 1 capital (to average assets):	\$ 6,216,000	9.90%	\$ 2,512,000	4.00%	\$ 3,140,000	5.00%
Tier 1 capital (to risk-weighted assets):	6,216,000	10.96%	2,268,000	4.00%	3,402,000	6.00%
Total capital (to risk-weighted assets):	6,925,000	12.22%	4,535,000	8.00%	5,669,000	10.00%

**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, 2009 and 2008, the Bank had \$594,000 and \$1,149,000, respectively, of Bank-owned life insurance 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. At December 31, 2008, the Bank had \$8,988,411 in securities available for sale measured on a recurring basis, using Level 2 measurements.

## **IDAHO FIRST BANK**

### **NOTES TO FINANCIAL STATEMENTS**

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#### **Note 16 - Fair Value Measurement (Continued)**

At December 31, 2009, the Bank had \$1,939,130 of impaired loans and \$824,397 of other real estate owned measured at the lower of cost or fair value on a nonrecurring basis, using Level 3 measurements. At December 31, 2008, the Bank had \$1,144,743 of impaired loans and \$458,626 of other real estate owned measured at the lower of cost or fair value, using Level 3 measurements. Impaired loans are valued at the fair value of underlying collateral, as determined by a qualified independent appraiser, less the estimated cost to foreclose, sell and carry the collateral. Other real estate owned is valued at fair value as determined by a qualified independent appraiser, less estimated selling costs. For the year ended December 31, 2009, the Bank recognized losses of \$1,228,238 on impaired loans. The Bank also recognized losses of \$150,766 on other real estate owned.

#### **Note 17 - Subsequent Events**

On February 10, 2010, the Bank entered into a formal agreement, called a Consent Order, with the FDIC and the Idaho Department of Finance. The following is a summary of the agreements contained in the Consent Order (Order).

1. The Bank agrees to maintain qualified management, including chief executive officer, chief financial officer, and senior lending officer. The FDIC and the Idaho Department of Finance must be notified 30 days in advance so that they may review proposed additions to the Board of Directors or replacement of management.
2. Within 120 days, from the effective date of the Order, the Bank must increase and thereafter maintain its Tier 1 capital in such an amount to insure the Bank's leverage ratio equals or exceeds 10%.
3. The Bank agrees to not pay cash dividends without prior written consent.
4. Within 90 days, the Bank is to formulate a written plan to reduce the risk exposure of adversely classified assets.
5. Within 30 days, the Bank is to revise and update its liquidity and funds management plan.
6. By March 31, 2010, the Bank is to develop a comprehensive budget for 2010 and 2011 that addresses the retention of profits and reduction of overhead expenses.
7. The Bank agrees to make quarterly progress reports to the FDIC and the Idaho Department of Finance.
8. The Bank must notify shareholders of the Order.