IDAHO BANCORP
2007 ANNUAL REPORT

CHALLENGES

Idaho Bancorp

2007 Annual Report

Mission Statement

Our mission is to be rewarded with continued corporate independence through providing excellent quality service to our clients; fair and rewarding opportunities to our employees; and an increasingly attractive stock value to our shareholders.

Our Core Values

At our Company, strict commitment and constant practices to some key corporate values will become our signature in the market. Adherence to these values is critical to attainment of our mission and will form the bedrock governing conduct of all IBC employees. These values are:

Honesty - Absolute honesty and integrity will govern all interactions with customers, prospective customers and employees.

Discipline - We will instill and perpetuate a disciplined culture that supports our mission.

Quality Service - We have a fanatical commitment to prompt, friendly, professional service. The Company's most important asset is our clients and we honor and value that.

Respect – We offer respect in all interpersonal transactions. We respect and embrace diversity.

Teamwork – It is this Bank's employees that enable us to attract and retain our customers. We will always deal in a fair and forthright manner with our associates and work together to enhance the value of the Bank for all of its stakeholders.

Profit-Driven – The steady and continuous growth in shareholder value guides all decisions made within the Bank.

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IDAHO BANCORP AND SUBSIDIARY
CONSOLIDATED FINANCIAL HIGHLIGHTS

(dollars in thousands, except per share)

			Change	
At December 31:	**2007**	**2006**	**$**	**%**
Loans	$ 190,366	$ 171,188	$ 19,178	11%
Assets	234,456	219,941	14,515	7%
Deposits	189,226	181,589	7,637	4%
Shareholders' equity	17,438	15,769	1,669	11%
Book value per share	9.61	8.73	0.88	10%

			Change	
For the year ended December 31:	**2007**	**2006**	**$**	**%**
Net interest income	$ 9,080	$ 8,687	$ 393	5%
Provision for loan losses	310	360	(50)	-14%
Noninterest income	1,341	1,457	(116)	-8%
Noninterest expense	7,861	7,779	82	1%
Net income before tax	2,250	2,005	245	12%
Net income	1,441	1,370	71	5%
Earnings per share				
Basic	0.79	0.77	0.02	3%
Diluted	0.78	0.75	0.03	4%

Five-Year Historical Trends

	2007	**2006**	**2005**	**2004**	**2003**
Net income	$ 1,441	$ 1,370	$ 1,175	$ 812	$ 362
Diluted earnings per share	0.78	0.75	0.65	0.46	0.21
Period End Balances					
Loans	190,366	171,188	137,285	121,009	88,612
Assets	234,456	219,941	187,707	171,261	139,497
Deposits	189,226	181,589	150,930	148,585	120,112
Shareholders' equity	17,438	15,769	13,797	12,354	11,371
Book value per share	9.61	8.73	7.84	7.18	6.70
Ratios					
Return on average assets	0.63%	0.65%	0.65%	0.52%	0.29%
Return on average equity	8.59%	9.12%	8.89%	6.87%	3.26%
Net interest margin, tax equivalent	4.24%	4.44%	4.23%	3.84%	3.44%

IDAHO BANCORP AND SUBSIDIARY
SHAREHOLDER STOCK INFORMATION

Idaho Bancorp stock is listed on NASDAQ's Over-the-Counter Bulletin Board under the symbol IDBC. High and low trading prices and closing bid prices for the past two years were as follows:

	2007		
	Low Price	High Price	Closing Bid
1st Quarter	$ 16.60	$ 17.50	$ 16.50
2nd Quarter	15.26	17.00	16.00
3rd Quarter	14.50	17.00	15.75
4th Quarter	12.10	16.00	12.10

	2006		
	Low Price	High Price	Closing Bid
1st Quarter	$ 15.75	$ 16.50	$ 15.95
2nd Quarter	14.05	16.00	15.00
3rd Quarter	14.10	16.50	15.60
4th Quarter	16.00	18.00	16.60

Shareholders wishing to buy or sell stock may use their own broker or contact the following market maker:

Joey Warmenhoven
McAdams Wright Ragen
Portland, Oregon
866-662-0351

Shareholders with lost certificates or name and address changes may contact our transfer agent:

Register & Transfer Company
10 Commerce Drive
Cranford, New Jersey 07016
800-368-5948

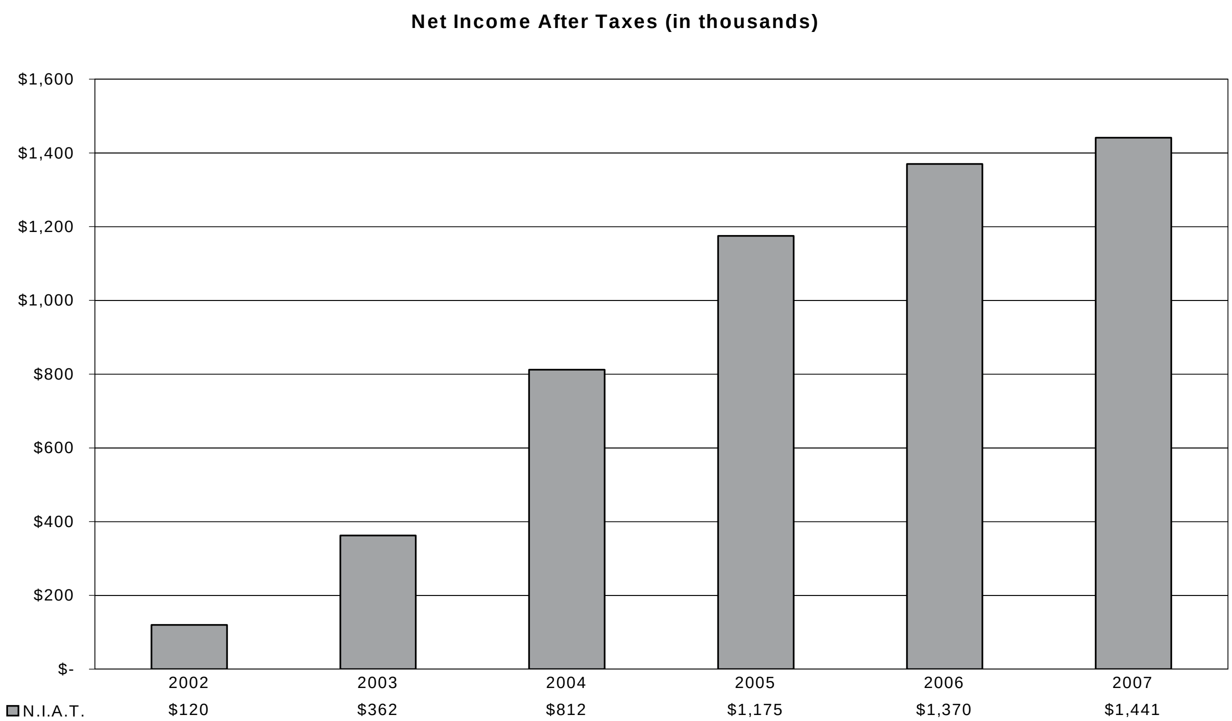
IDAHO BANCORP AND SUBSIDIARY
LETTER TO SHAREHOLDERS

Dear Shareholders:

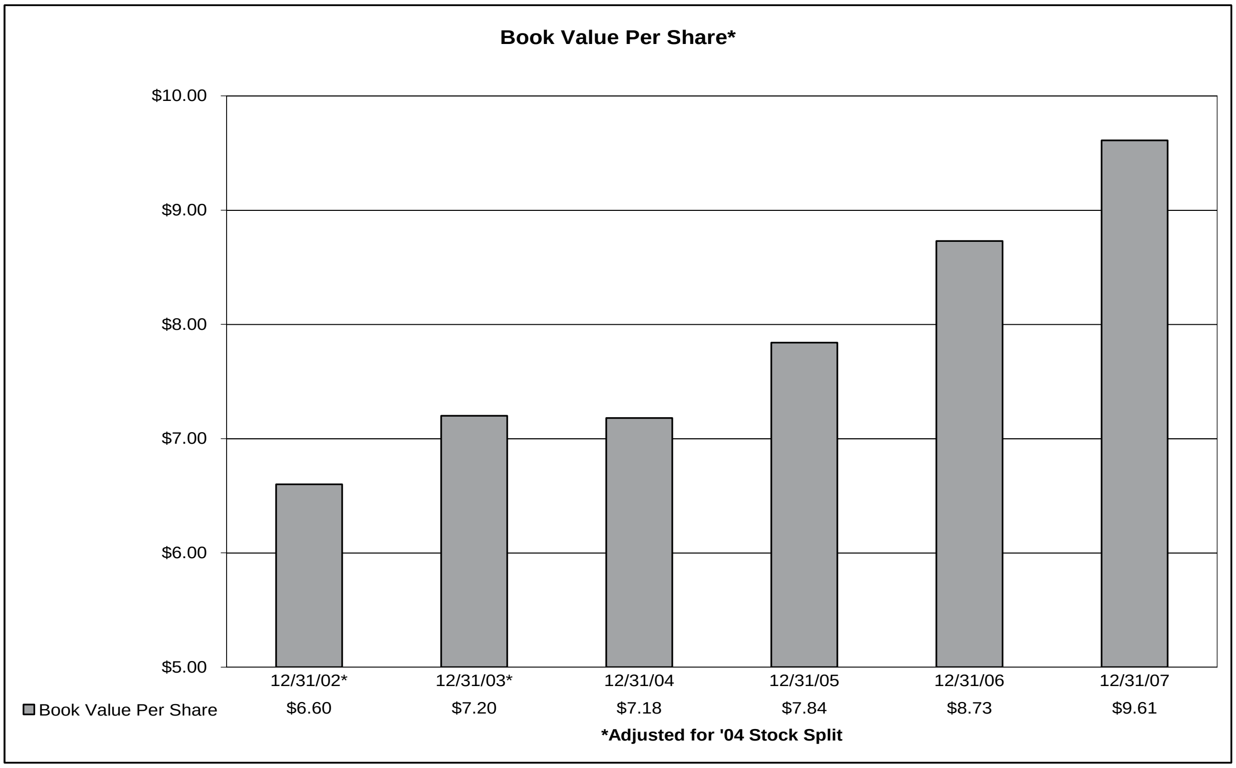
The nation's economy was marked with turbulence in the financial sector in 2007 and although the fundamentals in Idaho's Treasure Valley remained solid, our local market was not immune to some of the national repercussions. The stock market was rocked with news of the collapse in the value of sub-prime residential instruments as the country's major banks wrote down over $60 billion in these assets in the 4th quarter and speculation increased that the economy was headed into a recession. During the year the vast majority of the nation's metropolitan statistical areas (MSAs) experienced at least a 25% contraction in originations of 1 to 4 family residential mortgages and this quickly translated into increasing delinquencies in both residential construction and land development loan portfolios. As a result of declining economic trends, the Federal Open Market Committee (FOMC) responded with 100 basis points in rate reductions during the 3rd and 4th quarters and another 125 basis points in January 2008. Whether the action by FOMC will stave off an impending recession remains to be seen but without a doubt 2008 will be at least as challenging for the banking industry as 2007.

Idaho Banking Company fared better than many of our peers last year. 2007 was another year in record profits with a 5% increase in net income over the previous year to $1,441,068. Expense control was solid with only a minimal 1% year-over-year increase. We did see our net interest margin compress from 4.40% in the 4th quarter of 2006 to 4.13% in the 4th quarter of 2007. In part this was due to the interest rate reductions by the FOMC during the last two quarters but a more significant factor was the extreme level of competition by financial institutions in the Treasure Valley for deposits. Rates for certificates of deposit in the greater Boise market continue to be in the upper quartile in the nation. Looking forward into 2008 we see little abatement in either of these factors and expect continued compression through at least the first half of the year.

During the past year we generated annual growth in our average loans and deposits of 15% and 10%, respectively. Our balance sheet growth combined with diligent expense control enabled us to achieve our 5th consecutive year of record profits. Below is a graph which illustrates the trend in our Company's net income over the past six years.

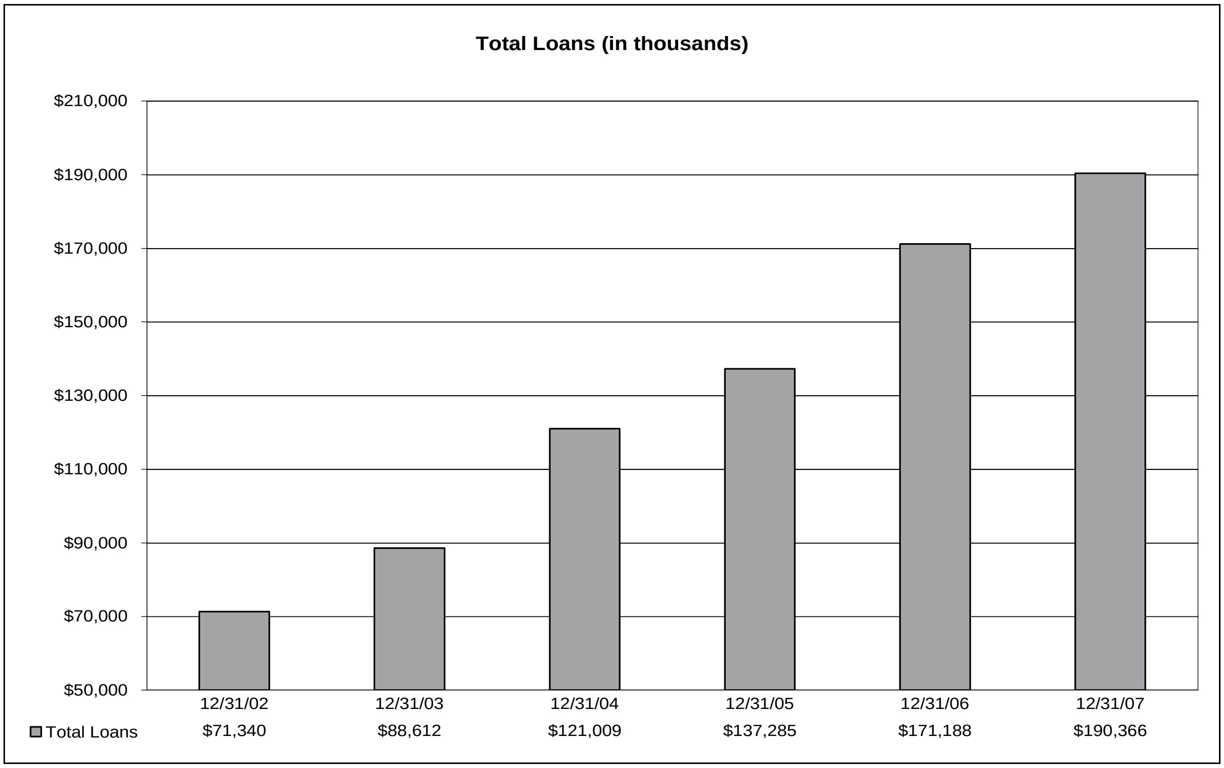


Our challenge in 2008 will be to sustain the performance level that our shareholders have come to expect. The sub-prime securitization meltdown and increased evidence of measurable declines in credit quality severely impacted the market value of multi-national and regional bank stocks. Although the impact on community bank stocks was less, the broad sell-off of bank and thrift stocks through January affected Northwest community banks, including us, as well. Since we have no control over the quoted Bid and Ask price for IDBC common stock, the market price of our stock is not one of management's key performance indicators. Instead we target book value per share, or more simply total equity divided by the number of shares of common stock outstanding, as a tangible goal for increasing the value of your investment. Below is an illustration of the increases to our book value per share since December 31, 2002.



In the 4th quarter we placed three real estate secured loans into non-accruing status and took the prudent action in writing these loans down to the current value of the underlying collateral. Over the past four quarters we have monitored construction and land development activity in the Treasure Valley very closely and grew increasingly cautious as the year progressed. Sound credit quality has become a hallmark that we've prided ourselves upon and we've been very proactive in our underwriting and subsequent monitoring of our real estate secured portfolio. We maintained our Allowance for Loan Losses at 1.38% of total loans which we believe is a satisfactory level but likely will build our reserves during the first half of this year. We do not engage in sub-prime lending and have no direct exposure to the securitization issues surrounding these types of mortgages. We will continue to closely monitor current economic conditions and will focus significant energies on ensuring that the overall quality of our loan portfolio remains both diversified and sound.

Speaking of loans, it is worthwhile to take a few moments to review both the growth of our loan portfolio from December 31, 2002, to December 31, 2007, as well as comment on certain loan quality measurements. During this five year period we delivered an average annualized growth rate of 21.69%. According to statistics prepared by the Idaho Department of Finance, the average net loan loss and nonaccruing loans to total loans for all banks in the United States was 0.53% and 1.20% respectively as of September 30, 2007. After four years without any net loan losses, we ended 2007 with a very modest 0.06% in net loan losses and 0.48% in nonaccruing loans. Both percentages compare very favorably with the general banking industry.



Earlier in this letter we mentioned that 2008 will present many challenges to our Bank. But there will be great opportunities as well. We will continue to seek sound prudent loans and do business with quality borrowers that value the hands-on approach our bankers bring to the table. Some banks may well react to this downturn by curtailing lending in the near term. That is one of the reasons why we elected to open the Nampa Loan Production Office in spite of looming economic storm clouds on the horizon. We continue to pursue new avenues to service all of our customers. For example, we introduced our remote deposit product last year to enable clients to conduct their deposit business with us regardless of their proximity to one of our branches. We are always looking for ways to enhance all channels open to our customers. Whether it is improvements to our online banking service, a remodel of our Eagle Branch last year or a new ParkCenter Branch in 2008, we believe in long term customer relationships and are willing to invest accordingly.

Six years ago we made a pledge to our shareholders that never again would “we sacrifice loan quality at the altar of production”. We have stayed true to that pledge. And we’ve stayed true to our Mission Statement. 2008 will be rough but with the strong loyalty of our employees, customers and shareholders, Idaho Banking Company will emerge more focused on that mission than ever.

Sincerely,

Thomas J. Morgan
Chairman, Board of Directors

IDAHO BANCORP AND SUBSIDIARY
ANALYSIS OF CONSOLIDATED FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Summary:
Net income was $1,441,068 in 2007, 5% higher than the previous year. Diluted earnings per share were $0.78 in 2007, compared to $0.75 in 2006. The major cause for the increase in net income in 2007 was the 5% increase in net interest income. Total assets increased 7% to end the year at $234,455,800. Loans increased by 11% to $190,365,682.

Net interest income and margin:
Net interest income of $9,080,083 increased 5% from the prior year. Tax equivalent net interest margin decreased from 4.44% in 2006 to 4.24% in 2007. Average loans outstanding increased by 15% over the prior year.

Allowance and provision for loan losses:
The allowance for loan losses grew 8% during 2007 to $2,622,937. This rate of growth was lower than the 11% growth in loans, causing the allowance-to-loan ratio to decrease from 1.41% last year to 1.38% at December 31, 2007. For the first time in five years, loan charge-offs exceeded loan recoveries. The net charge-offs for 2007 were $106,068 and the Bank had $911,197 in nonperforming assets at the end of 2007. The provision for loan losses was $310,000 in 2007, compared to $360,000 in 2006.

Noninterest income:
Noninterest income decreased during 2007. While service charges on deposit accounts increased by 15% or $31,935, this was more than offset by a reduction of $249,824 in mortgage banking income. The mortgage business slowed dramatically in 2007 as a result of higher rates in the first half of the year and national sub-prime lending concerns in the latter half of the year. The Bank did recognize a gain of $79,997 on the sale of a security and gains of $23,517 on the sale of fixed assets.

Noninterest expense:
Noninterest expenses grew only 1% from the prior year. Compensation and benefits were virtually unchanged from the 2006 levels. Occupancy expense was up 18% primarily due to occupancy of the administrative offices for the entire year in 2007, compared to six months in 2006, and the opening of the Nampa Loan Production Office in November of 2007. Other services were down $141,006 or 22% primarily due to lower legal fees and directors retirement expenses. Other expenses were up 94% or 107,982 primarily due to Federal Deposit Insurance Corporation insurance increases.

Income taxes:
The provision for income taxes was $809,000 in 2007. The effective tax rate rose from 32% in 2006 to 36% in 2007. The increase in the effective tax rate was primarily due to the nonrecurring tax valuation adjustment in 2006 and a $47,149 tax liability due to the surrender of nine bank-owned life insurance policies.

Shareholders' equity:
Book value per share increased 10% from $8.73 at the beginning of the year to $9.61 at the close of 2007. Shareholders' equity grew by 11%. In addition to the growth from net income, the exercising of stock options resulted in an additional $417,499 of equity during 2007. Under the stock repurchase plan in 2007, purchases and sales of treasury stock caused a net decrease in equity of $430,150. The Board of Directors approved continuation of the stock repurchase plan under which the Company may make net purchases of common stock of $314,665. Subsequent to that approval, the Company has placed temporary restrictions on the repurchase of any Company stock.

IDAHO BANCORP AND SUBSIDIARY
CONSOLIDATED AVERAGE BALANCES/TAX EQUIVALENT YIELDS AND RATES

Year ended December 31, 2007:	Daily Average Balance	Interest Income/ Expense	Average Yield/Rate
Earning assets:			
Federal funds sold and deposits with banks	$ 3,639,043	$ 184,259	5.06 %
Investments, tax equivalent adjustment of $139,733	32,194,613	1,290,711	4.44
Loans	181,718,719	15,818,967	8.71
	$ 217,552,375	17,293,937	8.01
Interest-bearing liabilities:			
Interest-bearing demand	$ 11,453,318	150,657	1.32
Savings	52,089,272	1,957,487	3.76
Time deposits of less than $100,000	38,688,720	1,974,682	5.10
Time deposits of $100,000 and more	55,755,741	2,867,696	5.14
Borrowed funds	24,350,209	1,263,332	5.19
Total interest-bearing liabilities	$ 182,337,260	8,213,854	4.50
Net interest income		$ 9,080,083	
Impact of interest-free funds and nonearning assets			(0.73)
Cost of supporting funds			3.78
NET INTEREST MARGIN, TAX EQUIVALENT			4.24 %

Year ended December 31, 2006:	Daily Average Balance	Interest Income/ Expense	Average Yield/Rate
Earning assets:			
Federal funds sold and deposits with bank	$ 4,282,632	$ 206,924	4.83 %
Investments, tax equivalent adjustment of $136,246	35,845,066	1,330,852	4.09
Loans	158,680,466	13,628,830	8.59
	$ 198,808,164	15,166,606	7.70
Interest-bearing liabilities:			
Interest-bearing demand	$ 15,094,564	226,100	1.50
Savings	46,873,811	1,588,710	3.39
Time deposits of less than $100,000	20,400,675	831,261	4.07
Time deposits of $100,000 and more	56,821,989	2,658,783	4.68
Borrowed funds	24,608,100	1,174,407	4.77
Total interest-bearing liabilities	$ 163,799,139	6,479,261	3.96
Net interest income		$ 8,687,345	
Impact of interest-free funds and nonearning assets			(0.70)
Cost of supporting funds			3.26
NET INTEREST MARGIN, TAX EQUIVALENT			4.44 %

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Stockholders
Idaho Bancorp and Subsidiary
Boise, Idaho

We have audited the accompanying consolidated statement of financial condition of Idaho Bancorp and Subsidiary as of December 31, 2007 and 2006, and the related consolidated statements of income, changes in stockholders' equity, comprehensive loss, and cash flows for the years ended December 31, 2007 and 2006. These consolidated financial statements are the responsibility of Idaho Bancorp and Subsidiary's management. Our responsibility is to express an opinion on these consolidated 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 consolidated 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 presentations. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Idaho Bancorp and Subsidiary as of December 31, 2007 and 2006, and the consolidated 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.

Moss Adams LLP

Spokane, Washington
February 14, 2008

IDAHO BANCORP AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
As of December 31,

ASSETS

	2007	2006
Cash and due from banks	**$ 4,399,469**	$ 5,515,764
Interest-bearing deposits with banks	**315,888**	101,160
Federal funds sold	**5,781,897**	2,538,954
Debt securities:		
Available for sale	**25,335,934**	14,988,611
Held to maturity (2006 market value $17,030,231)	-	17,149,550
Equity securities	**1,682,425**	1,581,925
Loans receivable	**190,365,682**	171,188,203
Allowance for loan losses	**(2,622,937)**	(2,419,005)
Net loans receivable	**187,742,745**	168,769,198
Accrued interest receivable	**1,148,528**	1,112,545
Premises and equipment, net	**4,291,250**	3,758,450
Deferred tax assets	**643,670**	627,824
Cash value of bank-owned life insurance	**2,589,215**	3,320,000
Other assets	**524,779**	476,553
TOTAL ASSETS	**$ 234,455,800**	$ 219,940,534

LIABILITIES

	2007	2006
Deposits		
Noninterest-bearing demand	**$ 25,662,873**	$ 33,241,531
Interest-bearing demand	**12,931,053**	12,784,106
Savings	**43,165,821**	57,984,186
Time deposits of less than $100,000	**48,472,322**	21,162,914
Time deposits of $100,000 and more	**58,993,731**	56,416,457
Total deposits	**189,225,800**	181,589,194
Federal funds purchased and securities sold under agreements to repurchase	**9,216,641**	6,739,771
Subordinated debentures	**7,217,000**	4,124,000
Other borrowings	**9,800,000**	10,300,000
Accrued interest payable	**885,543**	763,634
Other liabilities	**673,295**	654,578
Total liabilities	**217,018,279**	204,171,177

SHAREHOLDERS' EQUITY

	2007	2006
Common stock $1 par value: 20,000,000 shares authorized; (At December 31, 2007, 1,851,252 issued and 1,814,222 outstanding at December 31, 2006, 1,815,382 issued and 1,805,772 outstanding)	**1,851,252**	1,815,382
Capital surplus	**11,990,779**	11,539,685
Treasury stock at cost (37,030 and 9,610 shares, respectively)	**(573,922)**	(142,787)
Retained earnings	**4,097,458**	2,656,390
Accumulated other comprehensive income (loss)	**71,954**	(99,313)
Total shareholders' equity	**17,437,521**	15,769,357
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$ 234,455,800**	$ 219,940,534

See accompanying notes.

IDAHO BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
For the years ended December 31,

	2007	2006
Interest income		
Loans receivable	$ 15,818,967	$ 13,628,830
Debt securities	1,242,193	1,293,768
Interest-bearing deposits with banks	82,749	53,964
Federal funds sold	101,510	152,960
Equity security dividends	48,518	37,084
Total interest income	17,293,937	15,166,606
Interest expense		
Deposits	6,950,522	5,304,854
Subordinated debentures	371,627	260,637
Other	891,705	913,770
Total interest expense	8,213,854	6,479,261
Net interest income	9,080,083	8,687,345
Provision for loan losses	310,000	360,000
Net interest income after provision for loan losses	8,770,083	8,327,345
Noninterest income		
Mortgage banking	715,147	964,971
Service charges on deposit accounts	242,726	210,791
Fee income	129,846	158,458
Gain (loss) on sale of investment	79,997	(1,250)
Increase in cash value of Bank-owned life insurance	118,550	111,204
Other income	54,339	13,084
	1,340,605	1,457,258
Noninterest expenses		
Compensation and benefits	4,962,715	4,965,599
Occupancy	654,511	552,533
Equipment	309,022	313,589
Data processing services	598,865	571,912
Other services	501,365	642,371
Advertising and promotional	290,553	261,873
Travel, entertainment, and education	163,272	190,652
Supplies and postage	158,060	151,864
Provision for off-balance-sheet credit exposure	-	15,000
Other	222,257	114,275
Total noninterest expense	7,860,620	7,779,668
Income before income taxes	2,250,068	2,004,935
Provision for income tax	809,000	635,000
NET INCOME	$ 1,441,068	$ 1,369,935
Earnings per share		
Basic	$ 0.79	$ 0.77
Diluted	0.78	0.75

See accompanying notes.

IDAHO BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the two years ended December 31, 2007

	Common Stock	Capital Surplus	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
BALANCE, December 31, 2005	$ 1,765,500	$ 11,017,274	$ (70,000)	$ 1,286,455	$ (202,184)	$ 13,797,045
Net income	-	-	-	1,369,935	-	1,369,935
Issuance of 49,882 shares of stock from the exercise of stock options	49,882	323,597	-	-	-	373,479
Tax benefit from stock options	-	162,740	-	-	-	162,740
Stock option compensation cost	-	34,254		-	-	34,254
Purchase of 9,210 shares for Treasury	-	-	(137,187)	-	-	(137,187)
Sale of 4,600 shares from Treasury	-	1,820	64,400	-	-	66,220
Other comprehensive income	-	-	-	-	102,871	102,871
BALANCE, December 31, 2006	1,815,382	11,539,685	(142,787)	2,656,390	(99,313)	15,769,357
Net income	**-**	**-**	**-**	**1,441,068**	**-**	**1,441,068**
Issuance of 35,870 shares of stock from the exercise of stock options	**35,870**	**272,363**	**-**	**-**	**-**	**308,233**
Tax benefit from stock options	**-**	**109,266**	**-**	**-**	**-**	**109,266**
Stock option compensation cost	**-**	**68,480**	**-**	**-**	**-**	**68,480**
Purchase of 27,720 shares for Treasury	**-**	**-**	**(435,335)**	**-**	**-**	**(435,335)**
Sale of 300 shares from Treasury	**-**	**985**	**4,200**	**-**	**-**	**5,185**
Transfer of held to maturity securities to available for sale	**-**	**-**	**-**	**-**	**118,909**	**118,909**
Other comprehensive income	**-**	**-**	**-**	**-**	**52,358**	**52,358**
BALANCE, December 31, 2007	**$ 1,851,252**	**$ 11,990,779**	**$ (573,922)**	**$ 4,097,458**	**$ 71,954**	**$ 17,437,521**

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the years ended December 31,

	2007	2006
Net income	**$ 1,441,068**	$ 1,369,935
Other comprehensive income (loss)		
Change in holding gains on securities available for sale	**200,842**	169,936
Gains (losses) realized in income	**79,997**	(1,250)
Change in net unrealized gains on securities available for sale	**280,839**	168,686
Income tax provision	**109,572**	65,815
Other comprehensive income	**171,267**	102,871
COMPREHENSIVE INCOME	**$ 1,612,335**	$ 1,472,806

See accompanying notes.

IDAHO BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31,

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 1,441,068	$ 1,369,935
Adjustments to reconcile net income to net cash flows provided (used) by operating activities:		
Provision for loan losses	310,000	360,000
Depreciation and amortization	404,228	386,647
Gain on sale of fixed assets	(23,518)	-
Amortization of net deferred loan origination fees	(559,522)	(627,191)
Net amortization of securities' premiums and discounts	45,795	108,134
Gain on sale of securities	(79,997)	1,250
Noncash stock option compensation cost	68,480	34,254
Origination of loans available for sale	(35,992,169)	(42,642,140)
Sale of loans held for sale	37,778,369	41,506,640
Deferred income taxes	(125,248)	(103,340)
Increase in cash value of Bank-owned life insurance	(118,550)	(111,204)
Change in assets and liabilities:		
Accrued interest receivable and other assets	(120,623)	(592,781)
Accrued interest payable and other liabilities	140,626	187,287
Net cash flows provided (used) by operating activities	3,168,939	(122,509)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net change in interest-bearing demand deposits with banks	(214,728)	897,789
Net change in federal funds sold	(3,242,943)	(2,513,954)
Purchase of securities available for sale	(2,037,624)	(803,955)
Maturity or call of securities available for sale	4,286,061	5,384,295
Sale of securities available for sale	2,018,344	1,998,750
Purchase of securities held to maturity	-	(3,976,005)
Maturity or call of securities held to maturity	2,850,486	1,949,209
Purchase of equity securities	(100,500)	(190,000)
Net change in loans receivable	(20,510,225)	(32,096,641)
Proceeds of sale of assets	110,323	-
Purchase of premises and equipment	(987,588)	(892,168)
Proceeds from surrender (purchase) of bank-owned life insurance	849,335	(544,796)
Net cash used by investing activities	(16,979,059)	(30,787,476)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in deposits	7,636,606	30,658,814
Net change in federal funds purchased and securities sold under agreements to repurchase	2,476,870	2,031,397
Net change in other borrowings	(500,000)	(2,350,000)
Issuance of debentures	3,093,000	-
Tax benefits of exercise of stock options	109,266	162,740
Issuance of common stock	308,233	373,479
Purchase of Treasury stock	(435,335)	(137,187)
Sale of Treasury stock	5,185	66,220
Net cash provided by financing activities	12,693,825	30,805,463
Net change in cash and due from banks	(1,116,295)	(104,522)
Cash and due from banks, beginning of year	5,515,764	5,620,286
Cash and due from banks, end of year	$ 4,399,469	$ 5,515,764
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION		
Cash paid during the year for:		
Interest	$ 8,091,944	$ 6,211,529
Income taxes	$ 686,000	$ 965,505

See accompanying notes.

Note 1 - Summary of Significant Accounting Policies

Nature of business:
Idaho Bancorp (the Company) was incorporated under the laws of the state of Idaho on September 30, 2004. Pursuant to a Plan of Exchange, approved by shareholders on December 7, 2004, Idaho Banking Company (the Bank) became a wholly owned subsidiary of Idaho Bancorp. Shareholders of Idaho Banking Company received one share of Idaho Bancorp stock in exchange for each share of Idaho Banking Company stock. Idaho Banking Company opened for business in 1996. The Bank's deposits are insured by the Federal Deposit Insurance Corporation (FDIC). The Bank is a member of the Federal Reserve. The Bank's primary market area is southwestern Idaho.

Basis of consolidated financial statement presentation:
The consolidated financial statements include the accounts of Idaho Bancorp and its wholly owned subsidiary Idaho Banking Company. Idaho Bancorp Statutory Trust I was formed in November 2005 to facilitate the issuance of trust-preferred securities. The Company formed Idaho Bancorp Statutory Trust II in June 2007. The accounts of Idaho Bancorp Statutory Trust I and Idaho Bancorp Statutory Trust II are not included in these consolidated financial statements. References to "Company" may be references to either Idaho Bancorp as a separate legal entity or to Idaho Bancorp as a consolidated accounting entity. The consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America.

Use of estimates:
Management is required to make estimates and assumptions that affect the reported amounts of certain assets and liabilities as of the date of the balance sheets and certain income 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, deferred income taxes and the estimation of depreciable lives of premises and equipment.

Reclassifications:
Certain prior year amounts have been reclassified to conform to the current presentation. These reclassifications had no impact on net income or shareholders' equity.

Cash and due from banks:
Cash and due from banks consists of vault cash, cash items in the process of collection and noninterest-bearing deposits with financial institutions. These deposits may exceed the FDIC-insured amount of $100,000. The Company considers cash and due from banks as cash equivalents.

Interest-bearing deposits with banks:
Interest-bearing deposits with banks may consist of either demand or time deposits. Time deposits with banks generally mature within five years and are carried at cost.

Securities:
Debt securities are classified as available for sale or held to maturity depending upon management's intent when the securities are purchased. Debt securities available for sale may be sold as part of the Company's asset and liability management strategy, to provide liquidity or for other reasons. Debt securities available for sale are carried at market value, with the unrealized gains and losses, net of income taxes, reported as a component of accumulated other comprehensive income or loss. Debt securities held to maturity are those securities the Company has the intent and ability to hold to maturity. Debt securities held to maturity are carried at cost, adjusted for amortization of premiums and accretion of discounts using a constant yield method. If the value of debt securities becomes permanently impaired, those impaired securities are adjusted to the lower of cost or market through current year earnings. Equity securities are carried at cost.

Note 1 - Summary of Significant Accounting Policies – continued

Loans receivable:

Loans are stated at the principal amount outstanding, less net deferred loan origination fees. Interest income on loans is calculated using the simple interest method on daily balances of the principal amount outstanding, and includes the amortization of net deferred loan origination fees. Loans are considered impaired when, based on current information and events, the full collection of interest or principal is not expected within the terms of the original agreement. The accrual of interest income is discontinued when, in management's opinion, the borrower may be unable to meet payment obligations as they become due and the earned interest is reversed. The Company also follows regulatory provisions that dictate certain actions at certain stages of delinquency. Interest payments received on nonaccrual loans are applied to principal. In determining impaired status, management considers payment status, collateral value and the probability of collecting payments due according to the contractual terms of the loan arrangement. Impairment on commercial or construction loans is measured on a loan-by-loan basis. Impairment may be measured by either the present value of expected future cash flows, the loan's market price, or the fair value of collateral if the loan is collateral dependent. Mortgage loans originated and intended for sale are carried at the lower of cost or estimated market value. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income.

Allowance for loan losses:

The allowance for loan losses is increased by provisions charged to operations and is reduced by net loan charge-offs. The allowance for loan losses is maintained at a level considered by management adequate to provide for probable loan losses. The estimate of additions to the allowance for loan losses, and resulting charge to expense, is based upon management's continuing review. This review includes consideration of actual loan loss experience and changes in the size and character of the loan portfolio. Management evaluates known problem loans, levels of adversely classified and nonperforming loans, general economic conditions, and other relevant information in determining the proper level of the allowance. As a result of changes in economic and other conditions, it is reasonably possible that the allowance for loan losses could materially change within the year. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses. Such agencies may require the Company to recognize additions to the allowance based on their judgments of information available to them at the time of their examination. An allowance for off-balance sheet credit exposure is maintained in a separate account included in other liabilities.

Premises and equipment:

Premises and equipment are stated at cost, net of accumulated depreciation. Depreciation is charged to noninterest expense and is computed using the straight-line method over the estimated useful lives of the assets, which range from 24 months to 30 years. Maintenance and repairs are charged to occupancy or equipment expense as incurred, while improvements are capitalized.

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 market value less estimated costs to sell. Any write-down from the recorded investment to market value required at the time of foreclosure is charged to the allowance for loan losses. Subsequent write-downs and gains or losses recognized on the sale of these properties are included in noninterest income or expense.

Advertising:

Advertising costs are charged to noninterest expense as incurred. Advertising and promotional costs were $290,553 in 2007 and $261,873 in 2006.

Income taxes:

Deferred taxes are recognized for the future tax consequences of temporary differences between the financial statement carrying amounts and tax basis of assets and liabilities, based upon enacted tax rates. Valuation allowances for deferred tax assets are recognized when management believes that it is unlikely that the benefit will be realized within the foreseeable future.

Note 1 - Summary of Significant Accounting Policies – continued

Stock options:
Beginning on January 1, 2006, the Company implemented SFAS No. 123 (revised 2004), Share Based Payment, which requires the recognition of compensation cost in the financial statements of the Company. 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. Stock compensation expense was $68,480 and $34,254 for the years ended December 31, 2007 and 2006, respectively. This had the impact of lowering 2007 and 2006 net income by $41,761 and $20,889, respectively. This accounting change also lowered both basic earnings per share and diluted earnings per share for 2007 and 2006 by one cent. The implementation of this new accounting standard had no impact upon the cash flow of the Company, as it was a noncash accounting entry. The accounting offset to the compensation expense was an increase in capital surplus for the same amount.

New accounting pronouncements:
SFAS No. 155, *Accounting for Certain Hybrid Instruments* allows certain embedded derivatives to be accounted for on a fair value basis, if the whole instrument is accounted for on a fair value basis. This accounting pronouncement was effective on January 1, 2007. The Company has adopted this standard and has found there to be no material impact on its financial position or results of operations.

SFAS No. 156, *Accounting for Servicing of Financial Assets - an amendment of FASB Statement No. 140*, simplifies the accounting for servicing assets and liabilities. The standard clarifies when an obligation to service financial assets should be recognized as a separate asset to be initially measured at fair value. This accounting pronouncement was effective on January 1, 2007. The Company has adopted this standard and has found there to be no material impact on its financial position or results of operations.

SFAS No. 157, *Fair Value Measurements*, establishes a framework for measuring fair value and expands disclosures about the measurements of fair values. The standard does not require any new fair value measurements. The Company does not expect a significant impact on its financial position or results from operations from the adoption of this accounting pronouncement January 1, 2008.

Emergency Issues Task Force (EITF) 06-4, *Accounting for Deferred Compensation and Postretirement Aspects of Endorsement Spilt-Dollar Life Insurance Arrangements,* addresses the accounting for arrangements where the Company has promised to share with an employee or director a portion of the death benefits of the underlying bank-owned life insurance policy. The accounting guidance requires that the Company accrue a liability for the present value of the death benefit over the employee's required service period. The Company does not expect a significant impact on its financial position or results from operations from the adoption of this accounting pronouncement January 1, 2008.

Financial Accounting Standards Board issued Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes*, clarifies the accounting for uncertainty in income taxes. The standard provides direction in evaluating certain tax positions taken by the Company and the likelihood of those positions being sustained during examination or litigation. The Company adopted this pronouncement on January 1, 2007 and had no unrecognized tax benefits at January 1, 2007 or December 31, 2007. The Company recognizes interest accrued and penalties related to unrecognized tax benefits in tax expense. During the years ended December 31, 2007 and 2006, the Company recognized no interest and penalties related to unrecognized tax benefits and the Company is no longer subject to U.S. federal or state/local income tax examinations by tax authorities for years before 2004.

SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, 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. The Company does not expect a significant impact on its financial position or results from operations from the adoption of this accounting pronouncement January 1, 2008.

Note 2 - Cash and Due from Banks

The Federal Reserve Bank requires the Bank to maintain reserve balances based upon checking account balances. These reserve balances may be kept in coin and currency or in a noninterest-bearing account with the Federal Reserve Bank. As of December 31, 2007 and 2006 the required balances were $773,000 and $1,026,000, respectively. In association with the issuance of official checks, the Company was required to keep on deposit with another financial institution, balances of $308,000 and $285,000 at December 31, 2007 and 2006, respectively.

Note 3 - Interest-bearing Deposits with Banks

The Company maintains interest-bearing deposits with other banks and depository institutions. Amounts up to $100,000 per institution are insured by the FDIC. At December 31, 2007, the Company had $215,888 in an interest-bearing demand deposit account at the Federal Home Loan Bank of Seattle. The Company had one certificate of deposit at another bank for $100,000, which will mature on July 7, 2009.

Note 4 - Federal Funds Sold

The Company regularly sells excess funds to financial institutions on an overnight basis. Management regularly reviews each institution's creditworthiness and financial strength. No collateral is required on these balances.

Note 5 - Debt Securities

During December of 2007, the Company transferred its entire portfolio of held-to-maturity securities to available-for-sale to meet the additional liquidity needs associated with increasing commercial banking activities. As a result, the amortized cost, gross unrealized gains and gross unrealized losses of $14,200,220, $139,302 and $20,393, respectively, were transferred to the available-for-sale category. As part of its liquidity management, the Company does not intend to classify any securities as held-to-maturity in the foreseeable future.

The amortized cost, gross unrealized gains and losses and estimated market value of debt securities are summarized below:

	December 31, 2007			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Available for sale:				
U.S. government agencies	$ 5,996,741	$ 69,642	$ (11,290)	$ 6,055,093
Municipal bonds	8,113,547	66,874	(11,731)	8,168,690
Mortgage-backed securities	11,107,659	45,924	(41,432)	11,112,151
Total	$ 25,217,947	$ 182,440	$ (64,453)	$ 25,335,934

Note 5 - Debt Securities - continued

	December 31, 2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Available for sale:				
U.S. government agencies	$ 1,996,236	$ -	$ (35,326)	$ 1,960,910
Municipal bonds	2,701,348	9,292	(2,726)	2,707,914
Mortgage-backed securities	10,453,877	9,170	(143,260)	10,319,787
Total	$ 15,151,461	$ 18,462	$ (181,312)	$ 14,988,611
Held to maturity:				
U.S. government agencies	$ 6,992,018	$ 24,554	$ (89,362)	$ 6,927,210
Municipal bonds	6,228,475	18,685	(61,860)	6,185,300
Mortgage-backed securities	3,929,057	12,038	(23,374)	3,917,721
Total	$ 17,149,550	$ 55,277	$ (174,596)	$ 17,030,231

As shown on the previous table, there were 22 securities with gross unrealized losses of $64,453 on available for sale debt securities at December 31, 2007. The carrying value of available-for-sale securities has been adjusted to reflect these unrealized losses. None of the unrealized losses on debt securities are related to credit issues but are a function of interest rate changes. Since these unrealized losses could change to unrealized gains with a drop in interest rates, they are not considered to be permanent in nature. Therefore, none of the debt securities require an adjustment to the lower of cost or market. The following table shows gross unrealized losses by the length of time that individual securities have been in a continuous unrealized loss position at December 31, 2007.

	Less than One Year		One Year or More		Total	
	Unrealized Loss	Estimated Market Value	Unrealized Loss	Estimated Market Value	Unrealized Loss	Estimated Market Value
Available for sale:						
U.S. government agencies	$ -	$ -	$ 11,290	$ 3,982,342	$ 11,290	$ 3,982,342
Municipal bonds	-	-	11,731	2,767,847	11,731	2,767,847
Mortgage-backed securities	-	-	41,432	5,578,414	41,432	5,578,414
Total	$ -	$ -	$ 64,453	$ 12,328,603	$ 64,453	$ 12,328,603

During 2007 and 2006, proceeds received from the sale of available for sale securities were $2,018,344 and $1,998,750, respectively. The sale of those securities resulted in a realized gain of $79,997 in 2007 and a realized loss of $1,250 in 2006.

Note 5 - Debt Securities - continued

Maturities of debt securities at December 31, 2007, are summarized below. Actual maturities may differ from contractual maturities due to call provisions.

	Available for sale	
	Amortized Cost	Estimated Market Value
U.S. government agencies and municipal		
Maturing within one year	$ 2,871,117	$ 2,862,420
Maturing after one but within five years	7,306,144	7,381,667
Maturing after five but within ten years	3,581,692	3,628,118
Maturing after ten years	351,335	351,578
Total	14,110,288	14,223,783
Mortgage-backed securities	11,107,659	11,112,151
Total	$ 25,217,947	$ 25,335,934

Note 6 - Equity Securities

The Company owns stock in various banking entities. The Federal Home Loan Bank of Seattle requires the Bank to purchase stock of the Federal Home Loan Bank based upon the Bank's residential mortgage loans and securities and the amount of borrowings from the Federal Home Loan Bank. As of December 31, 2007 and 2006, the required stock holdings were $352,800 and $469,000, respectively. The Bank is not restricted from selling its excess stock, but the excess stock provides the ability to borrow additional funds from the Federal Home Loan Bank of Seattle. The Bank is required to own stock in the Federal Reserve Bank of San Francisco based upon the Bank's capital and surplus. The following equity securities were owned as of December 31 and are recorded at cost:

	2007	2006
Federal Home Loan Bank of Seattle	**$ 724,000**	$ 724,000
Federal Reserve Bank of San Francisco	**556,500**	456,000
Bankers' Bank of the West Bancorp, Inc.	**211,925**	211,925
Pacific Coast Bankers' Bancshares	**190,000**	190,000
Total	**$ 1,682,425**	$ 1,581,925

Note 7 - Loans Receivable and Allowance for Loan Losses

The following are major categories of loans outstanding at December 31:

	2007		2006	
	Amount	**Percent**	Amount	Percent
Real estate - construction	**$ 52,636,192**	**27.6%**	$ 46,433,697	27.2%
Real estate - residential held for sale	**1,713,700**	**0.9%**	3,499,900	2.0%
Real estate - other residential	**24,952,309**	**13.1%**	19,070,298	11.1%
Real estate - other	**65,992,930**	**34.7%**	59,482,414	34.8%
Commercial	**41,092,887**	**21.6%**	38,383,191	22.4%
Consumer and other	**3,977,664**	**2.1%**	4,318,703	2.5%
Total	**$ 190,365,682**	**100%**	$ 171,188,203	100%

Rates on loans receivable can either be fixed or vary according to changes in various indexes. At December 31, 2007, 86% of loans receivable had variable interest rates, compared to 85% on December 31, 2006.

The Company's loans are primarily to customers within Idaho. Credit risk on loans is managed through limits on amounts loaned to individual borrowers, underwriting standards and loan monitoring procedures. Collateral for loans varies, but may include real estate, equipment, accounts receivable, inventory, and securities. The Company's interest in collateral is obtained through filing mortgages and liens, and some cases, by possession of the collateral.

Nonperforming loans are loans that are 90 days past due and still accruing interest or loans that are on nonaccrual status. Nonperforming assets are nonperforming loans and repossessed collateral, either real estate or personal property. At December 31, 2007, the Company had nonperforming assets of $911,197. No nonperforming assets existed at December 31, 2006, and consequently, no specific allocations were included in the December 31, 2006, year end allowance. All nonperforming assets were written down to the lower of cost or market as of December 31, 2007, and as a result, no reserves are recorded.

The activity in the allowance for loan losses for the years ended December 31:

	2007	2006
Balance, beginning of year	**$ 2,419,005**	$ 2,015,315
Loan charge-offs	**(124,722)**	-
Loan recoveries	**18,654**	43,690
Net loan (charge-offs)/recoveries	**(106,068)**	43,690
Provision charged to expense	**310,000**	360,000
BALANCE, END OF YEAR	**$ 2,622,937**	$ 2,419,005
Allowance as a percentage of loans receivable	**1.38%**	1.41%

The Company has made loans in the ordinary course of business, to certain directors, executive officers and principle shareholders of the Company. Loan activity to those parties for years ended December 31:

	2007	2006
Balance, beginning of year	**$ 835,832**	$ 772,406
Advances	**7,116,997**	14,443,805
Payments	**7,104,040**	14,380,379
BALANCE, END OF YEAR	**$ 848,789**	$ 835,832

Note 8 - Premises and Equipment

The following is a summary of premises and equipment at December 31:

	2007	2006
Land	**$ 1,734,146**	$ 1,229,200
Building and improvements	**2,444,287**	2,334,895
Construction in progress	**90,876**	10,141
Furniture, fixtures, and equipment	**1,975,222**	1,888,393
Total cost	**6,244,531**	5,462,629
Accumulated depreciation and amortization	**(1,953,281)**	(1,704,179)
Premises and equipment, net	**$ 4,291,250**	$ 3,758,450

Depreciation and amortization expense for the years ended December 31, 2007 and 2006 was $367,982 and $349,349, respectively.

In February 2007, the Company purchased land on Parkcenter Boulevard in southeast Boise for $591,706. A small portion of this land was sold in December 2007 for $99,215. This land will be the future site of the Company's ParkCenter branch, which is currently in a leased facility. The construction for this branch is expected to be finished in the third quarter of 2008.

Note 9 - Cash Value of Bank-Owned Life Insurance

The Company has purchased life insurance policies on selected directors and officers of the Company. The policies were purchased by paying a one-time premium. The premiums paid are reflected as an asset of the Company, as they represent the cash surrender value of the life insurance policies. The asset is increased as the cash value of the policies increase, and that increase is reflected as noninterest income. The Company regularly evaluates the credit worthiness of the insurance companies that issued the policies. Certain employees and directors have been offered split-dollar death benefits. Under those agreements, employees or directors may direct a portion of the death benefits to the beneficiaries of their choice. Income on the increase in cash value is being recorded as tax-free income. The Company surrendered nine policies for individuals who were once employed at the Bank. The surrender of these policies resulted in a positive cash flow of $849,335 and a negative cash flow of $544,796 and a tax consequence of $47,149 and $-0- in December 2007 and 2006, respectively. The following schedule shows the potential death benefits available as of December 31:

	2007	2006
Death benefits under Bank-owned life insurance policies	**$ 6,546,644**	$ 8,547,593
Split dollar benefits payable to beneficiaries	**(2,040,000)**	(2,285,000)
Cash value of Bank-owned life insurance	**(2,589,215)**	(3,320,000)
NET BENEFIT TO THE COMPANY	**$ 1,917,429**	$ 2,942,593

Note 10 - Deposits

The scheduled maturity of time deposits at December 31, 2007, is shown below:

Years ending December 31:	Amount	Percent
2008	$ 96,599,693	89.9%
2009	5,118,858	4.8%
2010	2,100,749	2.0%
2011	1,863,526	1.7%
2012	1,783,227	1.6%
	$ 107,466,053	100.0%

Deposits owned by directors, executive officers, or principal shareholders were $2,762,794 and $3,485,225 as of December 31, 2007 and December 31, 2006, respectively.

Note 11 - Federal Funds Purchased and Securities Sold Under Agreements to Repurchase

The Company periodically purchases federal funds on an unsecured overnight basis from other financial institutions. The Company has agreements allowing for the purchase of up to $31,940,000 of federal funds. The Company routinely enters into sales of securities to certain of its customers with simultaneous agreements to repurchase those securities. Balances and rate information for Federal funds purchased and securities sold under agreements to repurchase for the years ended December 31 is as follows:

	2007	2006
Average balance during the year	**$ 7,953,573**	$ 5,903,576
Average interest rate during the year	**4.68%**	4.62%
Maximum month end balance during the year	**$ 11,468,674**	$ 12,071,596
Year end balance of securities sold under agreement repurchase	**$ 9,216,641**	$ 6,739,771
Year end estimated market value of securities underlying agreements	**$ 12,228,665**	$ 8,947,730

Note 12 - Subordinate Debentures and Other Borrowings

In November 2005 the Company issued junior subordinated debentures of $4,124,000 to Idaho Bancorp Statutory Trust I (the Trust). These debentures mature on December 15, 2035, and carry a fixed interest rate of 6.32% until December 15, 2010. After that date, the interest rate converts to a variable rate of three-month LIBOR plus 1.42%, repricing quarterly. The debentures can be redeemed, at par, in whole or in part at the option of the Company on or after December 15, 2010. The Trust's major asset is the debentures receivable from the Company. The Trust's major liability is $4,000,000 of securities issued to third party investors with the same terms as the debentures between the Company and the Trust. The Company has provided a full and unconditional guarantee of the securities issued by the Trust. The Trust also has $124,000 of equity capital, which is reflected in the Company's assets as an investment in the Trust. Pursuant to financial accounting standards (FIN No. 46), the Trust is not included in these consolidated financial statements. For regulatory capital purposes, the $4,124,000 of debentures issued to the Trust, less the $124,000 capital investment in the Trust, are included in Tier 1 regulatory capital.

Note 12 - Subordinate Debentures and Other Borrowings - continued

In June 2007 the Company issued junior subordinated debentures of $3,093,000 to Idaho Bancorp Statutory Trust II (the Trust). These debentures mature on September 15, 2037, and carry a fixed interest rate of 7.098% until September 15, 2012. After that date, the interest rate converts to a variable rate of three-month LIBOR plus 1.55%, repricing quarterly. The debentures can be redeemed, at par, in whole or in part at the option of the Company on or after September 15, 2012. The Trust's major asset is the debentures receivable from the Company. The Trust's major liability is $3,000,000 of securities issued to third party investors with the same terms as the debentures between the Company and the Trust. The Company has provided a full and unconditional guarantee of the securities issued by the Trust. The Trust also has $93,000 of equity capital, which is reflected in the Company's assets as an investment in the Trust. Pursuant to financial accounting standards (FIN No. 46), the Trust is not included in these consolidated financial statements. For regulatory capital purposes, the $3,093,000 of debentures issued to the Trust, less the $93,000 capital investment in the Trust, are included in Tier 1 regulatory capital.

The Bank can borrow up to 20% of its assets from the Federal Home Loan Bank of Seattle. These advances must be collateralized with certain mortgage based assets or securities. As of December 31, 2007, loans of $59,001,272 and securities with an estimated fair value of $4,938,579 were available to meet collateral requirements. The pledged securities were held in a collateral account at the Federal Home Loan Bank to secure borrowings. The securities in the collateral account in excess of collateral requirements are not restricted and can be withdrawn at any time. At December 31, 2007, the Bank had $9,800,000 of term borrowings from the Federal Home Loan Bank. This compares with term borrowings of $10,300,000 on December 31, 2006. Term borrowings from the Federal Home Loan Bank have penalties for early payment. The weighted average rates and scheduled repayment dates of the term borrowings at December 31, 2007, are as follows:

Years ending December 31:	Amount	Average Rate
2008	$ 5,450,000	4.84%
2009	4,350,000	4.92%
Total	$ 9,800,000	4.87%

The Company has a $5 million revolving credit line in place with Bankers' Bank of the West. The credit line matures on December 1, 2008, and has a variable rate of interest at the prime rate less 0.50%. The credit line is secured by the stock of Idaho Banking Company. As of December 31, 2007 and 2006, there were no balances outstanding on this credit line.

Note 13 - Income Taxes

The Company’s federal statutory income tax rate is 34%. The state statutory income tax rate is 7.6%. The state income tax rate, net of the federal tax benefit, is 5.016%. The difference between income taxes at the federal tax rate and the Company’s actual provision is explained below for years ended December 31:

	2007	2006
Income taxes at federal statutory rate	**$ 765,024**	$ 681,678
Effect of state income taxes, net	**112,863**	100,568
Tax exempt income	**(86,405)**	(83,089)
Tax exempt income on bank-owned life insurance	**(46,253)**	(43,387)
Taxable income on surrender of bank-owned life insurance	**47,149**	-
Nondeductible expenses	**26,247**	17,366
Other	**(9,625)**	(38,136)
INCOME TAX EXPENSE	**$ 809,000**	$ 635,000

Note 13 - Income Taxes - continued

Deferred and current components of income taxes for years ended December 31 are as follows:

	2007	2006
Current		
Federal	$ 768,971	$ 620,416
State	165,277	117,924
Deferred		
Federal	(113,971)	(113,416)
State	(11,277)	10,076
INCOME TAX EXPENSE	$ 809,000	$ 635,000

A summary of deferred tax assets and liabilities at December 31 follows:

	2007	2006
Deferred tax assets:		
Allowance for loan losses and credit exposure	$ 810,371	$ 697,379
Net unrealized loss on securities available for sale	-	63,537
Loan fees and origination costs	30,764	54,201
Directors' retirement payable	42,809	28,466
Goodwill	19,175	22,016
Other	43,623	23,415
Total deferred income tax assets	946,742	889,014
Deferred tax liabilities:		
Fixed assets and EDP software	(221,416)	(225,568)
Federal Home Loan Bank stock dividends	(35,622)	(35,622)
Net unrealized gain on securities available for sale	(46,034)	-
Net deferred income tax liabilities	(303,072)	(261,190)
NET DEFERRED INCOME TAX ASSET	$ 643,670	$ 627,824

Note 14 - Earnings Per Share

Basic earnings per share are computed by dividing net income by the weighted average number of shares of common stock outstanding. Diluted earnings per share are computed by dividing net income by the number of shares outstanding, increased by additional shares considering the dilutive effect of stock options. The dilutive effect of the stock options is calculated by assuming that shares are issued for all stock options, offset by the tax benefit of options and by the purchase of treasury stock at current market prices. Calculations for the years ending December 31 follow:

	2007	2006
Net income	$ 1,441,068	$ 1,369,935
Weighted average shares outstanding for basic calculations	1,818,480	1,790,333
Effect of dilutive stock	34,896	43,824
Weighted average shares for diluted calculations	1,853,376	1,834,157
Basic earnings per share	$ 0.79	$ 0.77
Diluted earnings per share	$ 0.78	$ 0.75

Note 15 - Commitments

The Company has entered into various operating leases for property and equipment. Some lease payments adjust annually and some leases contain renewal options. Rental expense was $350,636 and $287,486 for 2007 and 2006, respectively. The future minimum annual rental payments, assuming no renewal options and known escalation rates, are summarized below.

Years ending December 31:		
2008	$	384,479
2009		356,134
2010		288,290
2011		127,384
2012		26,456
	$	1,182,743

In the normal course of business, the Company makes commitments to extend credit that are not presented in the accompanying balance sheets. These loan commitments are agreements to lend to a customer, as long as there is no violation of any condition established in the contract. The commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of these commitments are expected to expire without being fully drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Commitments are primarily to customers within Idaho. The Company's exposure to loan loss in the event of nonperformance by the customer is represented by the commitment amount. To control this credit risk, the Company uses the same underwriting standards that it uses for loans recorded on the balance sheet. The Company maintains an allowance in other liabilities for possible loss on off-balance sheet credit exposure. A summary of commitments and the allowance at December 31 follows:

		2007		2006
Loan commitments exceeding one year	**$**	**49,104,618**	$	34,230,918
Loan commitments of one year or less		**9,555,694**		19,054,131
Letters of credit		**782,741**		1,959,194
Allowance for off-balance-sheet credit exposure		**75,000**		75,000

Note 16 - Shareholders' Equity and Regulatory Matters

The Company has never paid cash dividends and does not intend to pay cash dividends in the foreseeable future. Since the Company has no source of outside income, it is dependent upon dividends received from the Bank to meet its cash needs. Banking regulations restrict the amount of cash dividends that can be paid by the Bank to the Company. The Bank paid cash dividends to the Company of $290,000 in 2007 and $295,000 in 2006. The Bank's dividends to the Company in 2008 can not exceed $2,876,972 plus the year-to-date net income in 2008 at the time of the dividend declaration.

The Company purchased 27,720 shares of Treasury stock in 2007, at an average cost of $15.70 under its stock repurchase plan. The Company also sold 300 Treasury shares at an average price of $17.28. The Company also sold 4,600 Treasury shares at an average price of $14.40.

As of December 31, 2007 and 2006, 37,030 and 9,610 shares, respectively, were held in Treasury at an average cost of $15.50 and $14.86, respectively. The Company has authorized $314,665 of net purchases of Treasury stock in 2008.

Note 16 - Shareholders' Equity and Regulatory Matters - continued

Both the Company and the Bank are subject to various regulatory capital requirements, as administered by federal and state banking agencies. The failure to meet minimum capital requirements can cause regulators to initiate certain actions that could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines. Those guidelines involve quantitative measures of assets and certain off-balance-sheet items. Capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

The following calculations show for both the consolidated Company and for the Bank the calculation of regulatory capital ratios as of December 31, 2007:

	Consolidated	Bank Only
Capital for financial reporting purposes	$ 17,437,521	$ 23,801,569
Accumulated other comprehensive income	(71,954)	(71,954)
Subordinated debentures	7,217,000	-
Investment in Idaho Bancorp Statutory Trust I	(124,000)	-
Investment in Idaho Bancorp Statutory Trust II	(93,000)	-
Tier 1 regulatory capital	24,365,567	23,729,615
Tier 2 permitted allowances	2,697,937	2,697,937
Total risk-based regulatory capital	$ 27,063,504	$ 26,427,552
Total risk-based capital	$ 27,063,504	$ 26,427,552
Risk weighted assets	222,033,722	221,993,529
Total risk-based capital ratio	12.19%	11.90%
Tier 1 risk-based capital	$ 24,365,567	$ 23,729,615
Risk weighted assets	222,033,722	221,993,529
Tier 1 risk-based capital ratio	10.97%	10.69%
Total risk-based capital	$ 24,365,567	$ 23,729,615
Quarterly average assets	238,798,350	238,515,664
Risk-based leverage ratio	10.20%	9.95%

Quantitative measures established by regulation to ensure capital adequacy require the Company and Bank to maintain minimum amounts and ratios. Management believes, as of December 31, 2007, that the Company and Bank meet all capital adequacy requirements to which they are subject. The most recent notification from the Federal Reserve Bank and the state of Idaho, dated January 4, 2007, categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum amounts and ratios as set forth in the table below. There are no conditions or events since that notification that management believes have changed the Bank's category. Idaho Banking Company's required and actual capital amounts and ratios at December 31 are presented below:

	Required to be Adequately Capitalized		Required to be Well Capitalized		Actual	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2007						
Total risk-based capital	**$ 17,759,482**	**8.00%**	**$ 22,199,353**	**10.00%**	**$ 26,427,552**	**11.90%**
Tier 1 risk-based capital	**8,879,741**	**4.00%**	**13,319,612**	**6.00%**	**23,729,615**	**10.69%**
Risk-based leverage	**9,540,627**	**4.00%**	**11,925,783**	**5.00%**	**23,729,615**	**9.95%**
2006						
Total risk-based capital	$ 15,716,071	8.00%	$ 19,645,089	10.00%	$ 21,328,521	10.86%
Tier 1 risk-based capital	7,858,035	4.00%	11,787,053	6.00%	18,872,412	9.61%
Risk-based levereage	8,870,864	4.00%	11,088,579	5.00%	18,872,412	8.51%

Note 17 - Employee and Director Benefit Plans

The Company has a 401(k) Profit Sharing Plan (the Plan) for the benefit of its employees. The expense for contributions to the Plan was $128,462 in 2007 and $115,409 in 2006. For both 2007 and 2006 matching contributions were 50% of the amount deferred by employees, up to 2.5% of pay. In 2007 the profit sharing contribution was 0.5% of eligible pay. In 2006 the profit sharing contribution was 1.0%.

The Company established a retirement benefit for Directors in 2004. Benefits are based upon length service. The timing of benefits is based upon the age of the director. Using a 6.50% rate of return, the present value of this obligation was $109,720 at December 31, 2007. The expense of these benefits is calculated without consideration of the death benefits under Bank-owned life insurance policies. The potential benefits to the Company from the Bank-owned life insurance policies exceed the cost of the benefits for the years ended December 31:

	2007	2006
Beginning balance	**$ 72,959**	$ 71,246
Expense	**36,761**	91,713
Payments	**-**	(90,000)
ENDING BALANCE	**$ 109,720**	$ 72,959

Note 18 - Stock Options and Restricted Stock

The Company has two stock-based compensation plans (the Plans). Both Plans allow the granting of qualified and nonqualified stock options, while only the 2004 Incentive Stock Plan allows shares of restricted stock to be granted. Current options granted under the Plans include incentive stock options as well as nonqualified options. The Company receives a tax benefit for nonqualified stock options that are exercised. For tax purposes, the Company is allowed to deduct the difference between the market price and option price of the options exercised. Options are granted at exercise prices equal to the market value on the grant date and expire 10 years from the date of grant. The vesting of the stock options varies according to individualized agreements. Vesting periods range up to five years. The compensation cost recorded for these Plans was $68,480 for 2007 and $34,254 for 2006. The income tax benefit related to the exercise of stock options in 2007 was $109,266 and in 2006 was $13,365.

The 2004 Incentive Stock Plan (the Plan) was approved by shareholders in December 2004. This Plan allows up to 200,000 shares of stock options to be awarded to employees and up to 40,000 shares of restricted stock to be granted to employees and directors. Outstanding options under the 2004 Incentive Stock Plan, when combined with outstanding options under the 1998 Stock Option Plan, are limited to 15% of the outstanding common shares of the Company. As of December 31, 2007, there were 41,695 options and 9,195 shares of restricted stock outstanding, with 158,305 options and 30,805 shares of restricted stock available for future grants.

The Company’s 1998 Stock Option Plan, as amended by shareholders at the 2003 Annual Meeting, authorizes 430,000 shares of stock to be granted to employees and directors. At December 31, 2007, there were 131,000 option shares outstanding and 7,096 option shares available for future grant.

Note 18 - Stock Options - continued

Stock option activity for both Plans is summarized in the following table for years ended December 31:

	2007		2006	
	Number of Options	**Weighted-Average Exercise Price**	Number of Options	Weighted-Average Exercise Price
Outstanding options at beginning of year:	**188,850**	**$ 10.39**	223,672	$ 9.35
Options granted	**18,500**	**16.25**	21,300	15.67
Options exercised	**(35,870)**	**8.59**	(49,882)	7.49
Options forfeited	**(7,980)**	**12.51**	(6,240)	14.18
Outstanding at end of year	**163,500**	**$ 11.35**	188,850	10.39

Further information on stock options as of December 31, 2007 follows:

	Outstanding	Vested	Unvested
Number of options	163,500	113,180	50,320
Weighted average exercise price	$ 11.35	$ 9.94	$ 14.52
Weighted average remaining contrctual life - years	5.6	4.7	7.3
Aggregate intrinstic value asuming bid price of $12.10	$ 122,625	$ 244,469	$ -

Stock option compensation cost is calculated using the Black-Scholes option valuation model. The Black-Scholes model uses the option's exercise price, the estimated life of the option, the risk-free rate for that life, future dividend payments, and the volatility of the Company's stock prices on NASDAQ's Over-the-Counter Bulletin Board. The assumptions and values used in the valuation model are listed below. The following is information on options granted during the years ended December 31:

	2007	2006
Option shares granted	**18,500**	21,300
Estimated life - years	**5**	5
Weighted average risk-free rate	**4.60%**	4.96%
Assumed future dividend payments	**None**	None
Assumed volatility	**19.00%**	18.00%
Weighted average exercise price	**$ 16.25**	$ 15.67
Weighted average fair value at grant	**$ 4.44**	$ 4.32
Aggregate compensation cost of options granted	**$ 82,140**	$ 92,049

The following is information on the exercise of options during the years ended December 31:

	2007	2006
Option shares exercised	**35,870**	49,882
Fair value of shares exercised	**$ 588,995**	$ 790,588
Proceeds from the exercise of options	**308,233**	373,479
INTRINSTIC VALUE OF OPTIONS EXERCISED	**$ 280,762**	$ 417,109

Note 18 - Stock Options - continued

The compensation cost of options is recognized on a straight-line method over the vesting period of the option. As of December 31, 2007, there was $138,341 of unrecognized compensation cost on unvested options that will be recognized in the future, over a weighted average period of 3.5 years.

Information regarding unvested stock options and their weighted average fair value, at the date of grant, is shown below for the year ended December 31, 2007.

	Unvested Options	Weighted-Average Fair Value at Grant
Unvested options at beginning of year	59,880	$ 2.15
Options granted	18,500	4.44
Options vested	(20,080)	2.63
Options forfeited	(7,980)	3.16
UNVESTED OPTIONS AT END OF YEAR	50,320	$ 2.75

The total fair value of shares vested was $302,000 and $365,000 for the years ended December 31, 2007 and 2006, respectively.

The 2004 Plan permits the Company to grant restricted stock to its directors and employees. During 2007, the Company granted 9,195 shares at a market price of $16.25. The shares granted in 2007 vest over a five-year period. The compensation cost of restricted stock is recognized on a straight-line method over the vesting period of the stock. No shares of restricted stock had vested as of December 31, 2007.

The total fair value of restricted stock grants was $111,260 for the year ended December 31, 2007.

Note 19 - Fair Value of Financial Instruments

The following represent the book value and estimated fair value of financial instruments as of December 31:

	2007		2006	
	Book Value	**Estimated Fair Value**	Book Value	Estimated Fair Value
Financial assets				
Cash and due from banks	**$ 4,399,469**	**$ 4,399,469**	$ 5,515,764	$ 5,515,764
Interest-bearing deposits with banks	**315,888**	**315,888**	101,160	100,326
Federal funds sold	**5,781,897**	**5,781,897**	2,538,954	2,538,954
Debt securities:				
Available for sale	**25,335,934**	**25,335,934**	14,988,611	14,988,611
Held to maturity	**-**	**-**	17,149,550	17,030,231
Equity securities	**1,682,425**	**1,787,075**	1,581,925	1,645,175
Net loans receivable	**187,742,744**	**187,237,776**	168,769,198	168,089,636
Cash value of Bank-owned life insurance	**2,589,215**	**2,589,215**	3,320,000	3,320,000
Accrued interest receivable	**1,148,528**	**1,148,528**	1,112,545	1,112,545
Financial liabilities				
Demand and savings deposits	**81,759,747**	**81,759,747**	104,009,823	104,009,823
Time deposits	**107,466,053**	**107,553,711**	77,579,371	77,486,565
Federal funds purchased and securities sold under agreements to repurchase	**9,216,641**	**9,216,641**	6,739,771	6,739,771
Subordinate debentures	**7,217,000**	**7,570,121**	4,124,000	4,096,864
Other borrowings	**9,800,000**	**9,755,741**	10,300,000	10,234,258
Accrued interest payable	**885,543**	**885,543**	763,634	763,634

Note 19 - Fair Value of Financial Instruments - continued

Estimated fair values require subjective judgments and are not necessarily representative of amounts that could be realized in actual market transactions, nor of the underlying value of the Company. The value of depositor relationships (core deposit intangibles) is not reflected. Changes in the following methodologies and assumptions could significantly affect the estimates.

Financial assets:
The estimated fair value of cash and due from banks and federal funds sold approximates book value. The estimated fair value of interest-bearing time deposits with banks is estimated by discounting future cash flows using current interest rates. For debt securities, the fair value is based on quoted market prices at year end. Equity securities of the Federal Reserve Bank and Federal Home Loan Bank of Seattle are valued at cost. Other equity securities are valued at market value. The fair value of fixed-rate loans is estimated by discounting future cash flows using current rates at which loans with similar terms and credit quality would be made. For variable-rate loans that reprice frequently and have no significant change in credit risk, fair value approximates book value.

Financial liabilities:
The estimated fair value of demand and savings deposits approximates book value. The fair value of time certificates of deposit is estimated by discounting future cash flows using current rates. For Federal funds purchased and securities sold under agreements to repurchase, the fair value approximates book value. For subordinate debentures and other borrowings the fair value of fixed-rate borrowings is estimated by discounting future cash flows using current rates offered on similar borrowings.

Off-balance sheet financial instruments:
Loan commitments to extend credit and letters of credit are off-balance sheet financial instruments. The fair value of those instruments approximates the notational value.

Thomas J. Morgan, Chairman of the Board
Retired President and CEO
SYSCO Food Services of Idaho

V. Dale Babbitt, Secretary
President & CEO of N.L. Terteling Family Interests, Inc.,
Tereco and J.A. Terteling & Sons Co.

M. Dean Buffington
Buffington Mohr McNeal,
Registered Investment Advisor, Partner

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Intermountain Eye and Laser Centers
Professor Emeritus of Ophthalmology University of Utah

B. Randy Harris
Harris Ranch - Cattle and Development

Thomas F. Kealey
President of Silver Creek Holding Company;
Managing Member of Chicago Connection LLC;
Venture Partner – Buerk Dale Victor LLC

EXECUTIVE OFFICER

Gary D. Quast
Interim President and Chief Executive Officer
Chief Credit Officer

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Dawn Davis Assistant Vice President, Manager - ParkCenter Branch
Cassie Fontaine Vice President, Business Banking Officer
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Dave Dickey Senior Vice President, Branch Administration
Becky Fowers Vice President, Manager - Eagle Branch
Natalie Grieger Assistant Vice President, Compliance Officer
Patricia Johnson Vice President, Manager - Construction
Michael Lilly Vice President, Business Banking Officer
Jacquie Rieb Vice President, Manager - Audit
Michael Shepard Vice President, Loan Officer - Construction
Cheri Smirnov Senior Vice President, Manager - Corporate Support
Julie Vick Assistant Vice President, Manager - Marketing
Mike Westover Vice President, Manager - Fairview Branch
Mike Worthington Assistant Vice President, Controller

What people are saying...

▪ "Of all the banks we contacted, Idaho Banking Company was the only one to take the time to truly understand our business. They came to visit to learn our processes and what we planned to do. Idaho Banking Company made a lifelong dream come true for my wife and me."

Mike & Malinda Matzdorff
Mike's Sand and Gravel – Boise, Idaho

▪ "Tri State Electric has been an Idaho Banking Company customer for the last four years and has been extremely satisfied. Whether in negotiating company credit lines or personnel accounts, they've handled it all. We appreciate the personal touch and service that all of their employees bring to our business."

Max Stith

▪ "If you must have a business partner, then choose one who can be trusted to stay with you through thick and thin. That's the kind of partner I have in Idaho Banking Company. Trust builds confidence; confidence leads to opportunities; and opportunities produce profits.
A better partner would be hard to find."

Steven Ricks

▪ "We can always count on being treated like family at Idaho Banking Company. We have been customers for eight years and they have really gotten to know us both personally and professionally. Friendly and caring service is the reason that Idaho Banking Company has become a second family to us."

Tom and Debbie Long
Owners, Cascade Raft and Kayak

▪ "Since the day I opened my practice nine years ago, Idaho Banking Company has been by my side. From the first day, they have had unbelievable faith in me. Their belief started prior to my first business deposit and has continued through the construction of my new office building. They have been very involved in the success of my business and I look forward to working with them throughout my career. I consider the employees of Idaho Banking Company to be more than my bankers, they are also my friends."

Laura Lineberry, DDS, MS
Lineberry Orthodontics – Boise, Idaho

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The art of banking.

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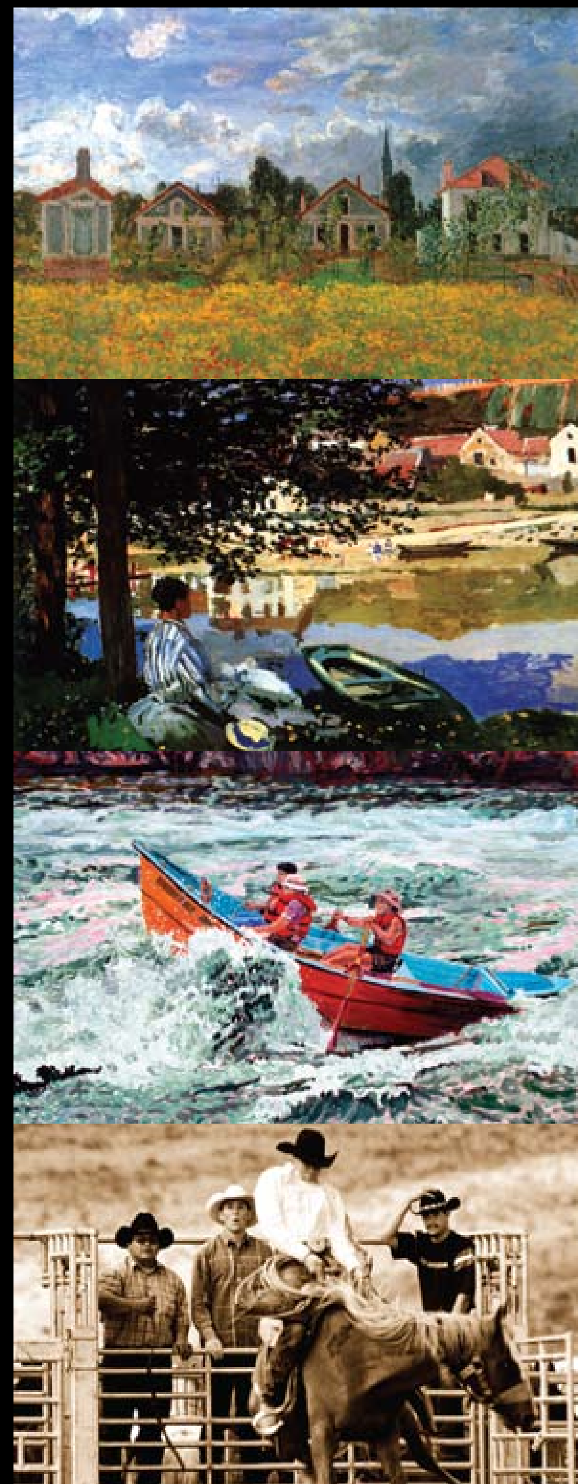

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