

INTERMOUNTAIN COMMUNITY BANCORP
Form 10-K
March 13, 2012

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K
(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934
For the year ended December 31, 2011

OR
☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
For the transition period from to

COMMISSION FILE NUMBER 000-50667

INTERMOUNTAIN COMMUNITY BANCORP
(Exact name of registrant as specified in its charter)
Idaho
(State or other jurisdiction of
incorporation or organization)

82-0499463
(IRS Employer
Identification No.)

414 Church Street, Sandpoint, ID 83864
(Address of principal executive offices) (Zip code)
Registrant's telephone number, including area code:
(208) 263-0505

Securities registered pursuant to Section 12(b) of the Act:

None
(Title of each class) None
(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act:

Common Stock (no par value)
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☒
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

As of June 30, 2011, the aggregate market value of the common equity held by non-affiliates of the registrant, computed by reference to the average of the bid and asked prices on such date as reported on the OTC Bulletin Board, was \$8,183,000.

The number of shares outstanding of the registrant's Common Stock, no par value per share, as of March 7, 2012 was 20,770,214.

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PART I

Forward-Looking Statements

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, but are not limited to, statements about our plans, objectives, expectations and intentions that are not historical facts, and other statements identified by words such as “expects,” “anticipates,” “intends,” “plans,” “believes,” “will likely,” “should,” “projects,” “seeks,” “estimates” or words of similar meaning. Forward-looking statements are based on current beliefs and expectations of management and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change. In addition to the factors set forth in the sections titled “Risk Factors,” “Business” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, as applicable, in this report, the following factors, among others, could cause actual results to differ materially from the anticipated results:

- further deterioration in economic conditions that could result in increased loan losses;
- risks associated with concentrations in real estate-related loans;
- declines in real estate values supporting loan collateral;
- regulatory limits on our subsidiary bank’s ability to pay dividends to the Company;
- applicable laws and regulations and legislative or regulatory changes, including the ultimate financial and operational burden of the recently enacted financial regulatory reform legislation and related regulations;
- inflation and interest rate levels, and market and monetary fluctuations;
- the risks associated with lending and potential adverse changes in credit quality;
- changes in market interest rates and spreads, which could adversely affect our net interest income and profitability;
- increased delinquency rates;
- trade, monetary and fiscal policies and laws, including interest rate and income tax policies of the federal government;
- the timely development and acceptance of new products and services of Intermountain;
- the willingness of customers to substitute competitors’ products and services for Intermountain’s products and services;
- technological and management changes;
- our ability to recruit and retain key management and staff;
- changes in estimates and assumptions used in financial accounting;
- the Company’s critical accounting policies and the implementation of such policies;
- growth and acquisition strategies;
- lower-than-expected revenue or cost savings or other issues in connection with mergers and acquisitions;
- changes in consumer spending, saving and borrowing habits;
- the strength of the United States economy in general and the strength of the local economies in which Intermountain conducts its operations;
- our ability to attract new deposits and loans;
- competitive market pricing factors;
- stability of funding sources and continued availability of borrowings;
- the Company’s success in gaining regulatory approvals, when required;
- the costs of effects of any legal and regulatory restrictions including the results of regulatory examinations or reviews that could restrict growth and that may adversely impact our ability to increase market share and control expenses;
- our ability to raise capital on reasonable terms;
- future legislative or administrative changes to the Troubled Asset Relief Program (“TARP”) Capital Purchase Program;
- the impact of the Emergency Economic Stabilization Act of 2008 (“EESA”), the American Recovery and Reinvestment Act of 2009 (“ARRA”) and the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”) and related rules and regulations on our business operations and competitiveness, including the impact of executive compensation restrictions, which may affect our ability to retain and recruit executives in competition with other firms who do not operate under those restrictions; and

Intermountain's success at managing the risks involved in the foregoing.

Please take into account that forward-looking statements speak only as of the date of this report. We do not undertake any obligation to publicly correct or update any forward-looking statement whether as a result of new information, future events or otherwise.

Additional Information

This document does not constitute an offer to sell or a solicitation of an offer to buy securities, nor shall there be any sale of securities in any state or jurisdiction in which such an offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such state or jurisdiction.

Item 1. BUSINESS

General

Overview & History

Intermountain Community Bancorp (“Intermountain” or the “Company”) is a bank holding company registered under the Bank Holding Company Act of 1956, as amended. The Company was formed as Panhandle Bancorp in October 1997 under the laws of the State of Idaho in connection with a holding company reorganization of Panhandle State Bank (the “Bank”) that was approved by the shareholders on November 19, 1997 and became effective on January 27, 1998. In June 2000, Panhandle Bancorp changed its name to Intermountain Community Bancorp.

Panhandle State Bank, a wholly owned subsidiary of the Company, was first opened in 1981 to serve the local banking needs of Bonner County, Idaho. Panhandle State Bank is regulated by the Idaho Department of Finance, the State of Washington Department of Financial Institutions, the Oregon Division of Finance and Corporate Securities and by the Federal Deposit Insurance Corporation (“FDIC”), its primary federal regulator and the insurer of its deposits. Since opening in 1981, the Bank has continued to grow by opening additional branch offices throughout Idaho and has also expanded into the states of Oregon and Washington. During 1999, the Bank opened its first branch under the name of Intermountain Community Bank, a division of Panhandle State Bank, in Payette, Idaho. Over the next several years, the Bank continued to open branches under both the Intermountain Community Bank and Panhandle State Bank names. In January 2003, the Bank acquired a branch office from Household Bank F.S.B. located in Ontario, Oregon, which is now operating under the Intermountain Community Bank name. In 2004, Intermountain acquired Snake River Bancorp, Inc. (“Snake River”) and its subsidiary bank, Magic Valley Bank, and the Bank now operates three branches under the Magic Valley Bank name in south central Idaho. In 2005 and 2006, the Company opened branches in Spokane Valley and downtown Spokane, Washington, respectively, and operates these branches under the name of Intermountain Community Bank of Washington. It also opened branches in Kellogg under the Panhandle State Bank name and Fruitland, Idaho under the Intermountain Community Bank name.

In 2006, Intermountain also opened a Trust & Wealth Management division, and purchased a small investment company, Premier Alliance. The combined unit now operates as Intermountain’s Trust & Investment Services division. The acquisition and development of these services improves the Company’s ability to provide a full-range of financial services to its targeted customers.

Intermountain offers banking and financial services that fit the needs of the communities it serves. Lending activities include consumer, commercial, commercial real estate, residential construction, mortgage and agricultural loans. A full range of deposit services are available including checking, savings and money market accounts as well as various types of certificates of deposit. Trust and wealth management services, investment and insurance services, and business cash management solutions round out the Company’s product offerings.

The Company’s equity investments include Panhandle State Bank, as previously noted, and Intermountain Statutory Trust I and Intermountain Statutory Trust II, financing subsidiaries formed in January 2003 and March 2004, respectively. Each Trust has issued \$8.0 million in preferred securities, the purchasers of which are entitled to receive cumulative cash dividends from the Trusts. The Company has issued junior subordinated debentures to the Trusts, and payments from these debentures are used to make the cash dividends to the holders of the Trusts’ preferred securities.

Business Strategy & Opportunities

Intermountain seeks to differentiate itself by attracting, retaining and motivating highly experienced employees who are local market leaders, and supporting them with advanced technology, training and compensation systems. This approach allows the Bank to provide local marketing and decision-making to respond quickly to customer opportunities and build leadership in its communities. Simultaneously, the Bank has focused on standardizing and centralizing administrative and operational functions to improve risk management, efficiency and the ability of the

branches to serve customers effectively.

Intermountain continues to work through the challenges of the current economic downturn, while positioning itself to prosper in the economy and markets of the future. Its strengths provide the foundation for future growth and profitability, lower risk exposure, and include the following:

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A strong, loyal and low-cost deposit franchise with proven growth capabilities: 68% of Intermountain's deposits at December 31, 2011 are in low-cost transaction accounts, resulting in a cost of funds that has consistently been below its peer group. Intermountain has maintained this low-cost deposit focus while growing since 1999 from the 8th ranked bank by deposit market share to the 3rd in the core markets it serves (Source: FDIC Deposit Market Share and Federal Financial Institutions Examination Council ("FFIEC") Uniform Bank Performance Report ("UBPR") data). A high net interest margin (3.94% and 4.02% for the quarter and year ended December 31, 2011, respectively) relative to peers, even in a very challenging market rate environment. Its low cost of funds continues to provide the Company with some protection against asset yield compression caused by historically low interest rates and keen competition for quality loans and investments. An improving economy or rising rates would provide opportunities for additional revenue and margin growth.

A sophisticated, and increasingly effective, risk management system and overall much lower risk exposure: Tempered by its experiences during the current downturn, Intermountain has developed a refined credit loss forecasting system, an integrated approach to credit, liquidity, capital and other risk factors, and a well-seasoned credit administration function. Its current non-performing asset (NPA) to total asset ratio ranks below many of its northwest peers, and solvency and liquidity risk exposure is relatively low, especially given the Company's successful completion of a \$47.3 million capital raise in January 2012.

An operational and compliance infrastructure built for future profitable growth: During the past several years, Intermountain has focused on upgrading talent, technology and operational processes to facilitate further balance sheet growth while simultaneously reducing the expenses associated with these upgrades. Operating expenses are down significantly from prior years and should continue to decrease as additional initiatives are implemented.

A young, but highly experienced, management team: The executive and senior management team averages about 50 years old, but still generally exceeds 20 years in banking experience, most of which has been in the Company's defined core and growth markets.

Management believes that the economic and financial crises of the past several years have fundamentally changed the future landscape for community banks. In a slower growth, more conservative environment, further consolidation of the industry is inevitable. Those banks and management teams with strong market positions, solid infrastructure, and staying power will be able to capitalize on the opportunities created by this changing environment. Management has defined potential opportunities in terms of prospects within the Company's core markets of north, southwest rural, and south central Idaho, and within its growth markets of Spokane, Boise, and contiguous eastern Washington and northern Idaho counties. While the Company cannot guarantee that it will pursue, or be successful in pursuing opportunities in this new environment, it believes it is increasingly well-positioned to succeed in the changing landscape.

Lending conditions remain very challenging, with moderate borrowing demand, keen competition for quality borrowers, historically low rates, and challenging appraisal conditions. Management is responding by diversifying its current portfolio and positioning for prudent growth opportunities. It believes these prospects will include pursuing attractive commercial credits in its markets, originating commercial real estate loans to strong borrowers at lower real estate prices, originating and seasoning mortgage loans to strong borrowers at conservative loan-to-values in rural and smaller suburban areas not well-served by current secondary market appraisal standards, expanding and diversifying its agricultural portfolio, and expanding its already strong government-guaranteed loan marketing efforts. Compressed loan rates are likely to continue until either market rates increase or some market consolidation occurs. These conditions will be difficult for all financial institutions. However, management believes it is better positioned than many of its peers, given its low-cost of funds, strong market position and high levels of capital and liquidity. We believe local deposit growth and pricing will continue to be a cornerstone of the Company's success. As demonstrated by its past successes, the growth of low-cost core deposits has always been a focus. Management will continue this core focus, while pursuing opportunities to gain additional market share from larger banks and smaller, more stressed competitors in its defined core and growth markets. In the current constrained environment, management has taken strong steps to reduce its current deposit and borrowing rates, which will continue to produce lower interest expense in future periods. We see some additional opportunity to decrease its cost of funds and interest

expense by continuing to reprice down maturing CDs, and pay off or replace higher rate wholesale funding vehicles. Management continues to undertake significant efforts to improve its efficiency, with successful results demonstrated in its financial statements in 2011. Management believes that it can continue to lower operating expenses in 2012 while maintaining the infrastructure that has been built for future Company expansion.

Non-interest revenue growth will remain challenged by new regulatory restrictions, particularly on overdraft income. However, management continues to take steps to expand and diversify its revenue sources. These include expanding its trust and investment service opportunities to both new and existing customers, increasing debit and credit card accounts and

usage, and restructuring and enhancing its deposit and cash management service fees.

In addition to the above, management believes that disruption and consolidation in the market may lead to other opportunities as well. Subject to regulatory and capital constraints, we believe that attractive acquisition opportunities within our footprint will soon appear and that Intermountain could be in a unique position to capitalize on them. Intermountain is one of the largest publicly traded bank holding companies headquartered in Idaho, with branches located throughout the state and has strong capital and liquidity positions, which may help facilitate future transactions. Even if these opportunities are not available, large disruptions create potential opportunities to attract strong new employees and customers.

Primary Market Area

The Company conducts its primary banking business through its bank subsidiary, Panhandle State Bank. The Bank maintains its main office in Sandpoint, Idaho and has 18 other branches. In addition to the main office, seven branch offices operate under the name of Panhandle State Bank. Eight branches are operated under the name Intermountain Community Bank, a division of Panhandle State Bank, and three branches operate under the name Magic Valley Bank, a division of Panhandle State Bank. Sixteen of the Company's branches are located throughout Idaho in the cities of Bonners Ferry, Caldwell, Coeur d'Alene, Fruitland, Gooding, Kellogg, Nampa, Payette, Ponderay, Post Falls, Priest River, Rathdrum, Sandpoint, Twin Falls (2) and Weiser. One branch is located in Spokane Valley, Washington and one branch is located in downtown Spokane, Washington. In addition, the Company has one branch located in Ontario, Oregon. The Company focuses its banking and other services on individuals, professionals, and small to medium-sized businesses throughout its market area.

After several challenging years, the Idaho economy showed signs of stability and improvement in 2011. Population growth in the state was the 4th fastest of any state over the period from 2000 to 2010, increasing by 21 percent during this time period. Population growth slowed in 2009 through 2011, with total 2011 growth estimated at 0.9%. Based on U.S. Census Bureau estimates, the State is projected to sustain future population growth rates in excess of the national average for the next 10 years. Idaho experienced rapid employment growth during the period of 2000 to 2008 (14% versus U.S. 8%), sustained net job losses in 2009, and then rebounded slightly in 2010 and 2011 (Source: Idaho Department of Labor). The unemployment rate at the end of 2011 was 8.4% down from 9.5% at the end of the prior year and slightly below the national average of 8.5%. The Idaho Department of Labor forecasts employment rising between 14% and 16% between now and 2018. These prospects are based on a diverse economic base, including agriculture, health care, technology, light manufacturing, retirement, tourism, education and professional services segments, a low-cost of living and doing business, favorable state government policies, and a strong quality of life. The Oregon, Washington and California governments have all recently enacted unfriendly business policies, which should increase the attractiveness of doing business in Idaho. While Idaho has faced difficult state budget issues as well, the conservative legislature has balanced the budget without increasing taxes or creating new burdensome business regulations, and experienced an increase in tax revenues in 2011.

Real estate valuations throughout the state have shown considerable variability, based on specific geographical location and type of property. In general, Idaho continued to experience higher than average foreclosure rates over the past year, which is reflected in the Home Price Index decline of 9.2% (Source: FDIC Third Quarter, 2011 State Profile). However, the rate of decline in foreclosures and other indicators appear to suggest a firming of the real estate market, particularly in Boise, southwest rural Idaho, and parts of north Idaho.

The Bank's primary service area covers four distinct geographical regions. The north Idaho and eastern Washington region encompasses the four northernmost counties in Idaho, including Boundary County, Bonner County, Shoshone County and Kootenai County and Spokane County in eastern Washington. Bonner and Boundary Counties are heavily forested and contain numerous lakes. As such, the economies of these counties are primarily based on tourism, real estate development and natural resources, including logging, mining and agriculture. Bonner County has also experienced expansion in the areas of light industrial, commercial, retirement and retail development over the past ten years, and management believes both counties are likely to continue benefiting from Canadian spending and investment as the dollar has weakened against the Canadian currency. Shoshone County continues to experience expansion in the areas of residential and tourism development relating to the outdoor recreation industry in the area

and has seen a resurgence in mining activity as mineral prices have rebounded. Kootenai County is more diverse than the other northern Idaho counties, with light industrial, high-tech, commercial, retail, medical, tourism and real estate development all contributing to the economic base. It, along with Spokane County in Washington, should also benefit from additional Canadian investment.

In general, the northern Idaho and eastern Washington economy lagged the rest of the country and state in terms of feeling the impacts of the recession. In 2010 and 2011, however, the recession caught up with the area.

Unemployment rates exceeded 10% in both 2010 and 2011, but showed signs of improvement in the latter part of 2011. Diversification, strengthening mining prices, less aggressive development in earlier periods, favorable business cost structures, continuing tourism activity and Canadian investment have helped cushion the downturns experienced in the real estate development,

retail and service industries. Although the unemployment rates are high in north Idaho, they have historically been high, so the relative impact is not as significant. Spokane has weathered the jobs downturn a little better, with an unemployment rate of 9.1% in December 2011, essentially unchanged since December 2010 (Washington State Employment Security Department Labor Market & Economic Analysis). Strength in health care, agri-business, private education, technology and transportation have offset losses in real estate, government and tourism-related industries. Spokane was recently selected as a site for a large Caterpillar operation and has experienced other promising manufacturing trends recently.

Data on real estate activity is limited for much of this region, but it generally appears that residential home price declines have ranged from 15% to 35% from their peak, while lot prices are down 40% to 60% based on type of home and location. Commercial real estate activity and pricing has softened, although there is not a significant overhang of commercial properties in this region. Intermountain holds 57% of its loans and 48% of its deposits in this region.

The second region served by the Bank encompasses two counties in southwestern Idaho (Payette, and Washington) and one county in southeastern Oregon (Malheur). The economies of these counties are primarily based on agriculture and related or supporting businesses. A variety of crops are grown in the area including beans, onions, corn, apples, peaches, cherries and sugar beets. Livestock, including cattle, sheep and pigs, are also raised. Agriculture has been strong over the past several years, cushioning the impact of the national downturn on these counties. Unemployment is historically high in this area, and stood at 8.7% in December 2011, but real estate values have held up much better, given the predominance of agricultural land in the region. Commercial real estate property is relatively limited and has not grown significantly. The Company holds 20% of its loans and 21% of its deposits in this region.

The third region, known as the greater Boise area, is comprised of two counties, Ada and Canyon. The cities of Boise, Nampa and Caldwell were hit hard earlier in the recession because of excessive residential and commercial real estate development, volatility in the area's high-tech industries, and reductions in other corporate and state and local government activity. The local economy appears to have stabilized, though, as private sector hiring has picked up, government employment has stopped declining and some of the excess real estate inventory has been absorbed.

Unemployment in the Boise Metropolitan Statistical area was 8.4% in December 2011, down from 9.9% in December 2010. After steep declines early in the recession, home price declines have moderated over the past year. Overall, home price reductions have ranged from 25% to 40% since the peak and bare land and subdivision development properties are down 50% to 75%. There is still excess supply of commercial real estate, particularly office and retail, which will slow improvement in this sector. 11% of the Company's loans and 10% of its deposits are in this region.

The fourth region served by the Bank encompasses two counties in south central Idaho (Twin Falls and Gooding), also known as the Magic Valley region. The economies of these counties are primarily based on agriculture and related or supporting businesses. A variety of crops are grown in the area including beans, peas, corn, hay, sugar beets and potatoes. Fish farms, dairies and beef cattle are also contributors to the local economy. The area is also experiencing growth in light manufacturing and retail development, including the announcement of a significant new yogurt plant being constructed and expected to add 400 direct jobs to the region.

Twin Falls' strong agricultural base, along with its status as the commercial, medical, retail, retirement and services hub for the area has cushioned it somewhat from the impacts of the recession, resulting in a December 2011 unemployment rate of 7.7%. In addition, the region maintains a conservative character with little evidence of significant overbuilding or excess inventory. The Company has little exposure to the dairy industry, which has been the one significantly weaker sector in agriculture. Residential valuation declines have been relatively moderate, in the 5% to 20% range for homes and 20% to 50% range for development land. The Company has 7% of its loans and 9% of its deposits in the Magic Valley region.

As demonstrated by the loan and deposit totals in each market, Intermountain pursues a long-term strategy of balancing loan and deposit balances in each of its regions. As it enters new markets, it may lead with either a heavier emphasis on loans or deposits depending on specific market opportunities. Over the long-term, however, management believes that both Intermountain and the local markets are well-served by pursuing a balanced strategy and the discipline this requires.

Intermountain has also segmented its market area into core and growth markets to facilitate future planning activities. The Company defines its core market as including the four counties of northern Idaho listed above, Canyon, Payette

and Washington Counties in southwestern Idaho, Malheur County in eastern Oregon, and Gooding and Magic Valley Counties in Southwest Idaho. Deposits in this market totaled \$6.0 billion, of which Intermountain held \$701 million or 11.6% (Source: FDIC Survey of Banking Institutions). The Company's growth markets consist of Spokane County in Washington, and Ada County in Idaho (where Boise is located), as well as counties contiguous to its existing markets in north Idaho and eastern Washington. Deposits in Ada and Spokane County totaled \$12.7 billion at June 30, 2011 and Intermountain held \$39 million or 0.3% of deposits in this market at the time. The Company believes that it has significant future opportunities in these growth markets because of an established brand presence, strong market contacts in other banking institutions, and the presence of distressed competitors.

Competition

The Company competes with a number of international banking groups, out-of-state banking companies, state-wide banking organizations, and several local community banks, as well as savings banks, savings and loans, credit unions and other non-bank competitors throughout its market area. Banks and similar financial institutions compete based on a number of factors, including price, customer service, convenience, technology, local market knowledge, operational efficiency, advertising and promotion, and reputation. In competing against other institutions, the Company focuses on delivering highly personalized customer service with an emphasis on local involvement and empowerment. It recruits, retains and motivates seasoned, knowledgeable bankers who have worked in the Company's market areas for extended periods of time and supports them with current technology. Product offerings, pricing and location convenience are generally competitive with other community banks in its market areas. The Company seeks to differentiate itself based on the high skill levels and local knowledge of its staff, combined with sophisticated relationship management and profit systems that pinpoint marketing and service opportunities.

The Company has employed these competitive tools to grow market share over the past twelve years, since it began expanding beyond its Sandpoint, Idaho base. During this time period, the Company has grown from eighth overall in market share in its defined core markets to third, with a consolidated market share of 11.6%. Based on the June 2011 FDIC Survey of Banking Institutions, the Company is the market share leader in deposits in five of the eleven counties in which it operates. As noted previously, the Spokane and Boise market areas represent potential future growth markets for the Company, as total market deposits in these two counties exceed by a two-to-one margin the total market deposits in the Company's core markets. The Company has a relatively small, but growing presence in Spokane County with strong local market talent. The Company does not have any branches in Ada County, which includes Boise, but has a number of key managers who came from or worked in the Boise area. The Company also sees opportunities in the Idaho and eastern Washington counties contiguous to its current service area, as they contain a number of smaller struggling competitors, and management is familiar with many of the bankers and customers in these markets.

As discussed above, the Company's principal market area is divided into four separate regions based upon population and the presence of banking offices. In northern Idaho/eastern Washington, the primary competitors include US Bank, Wells Fargo, Washington Trust Bank, Sterling Savings Bank, Banner Bank and Bank of America, all large international or regional banks, and Idaho Independent Bank and Mountain West Bank, both community banks. Primary competitors in the Company's other regions in southwestern and south central Idaho and eastern Oregon include international or regional banks, US Bank, Wells Fargo, Key Bank, Bank of America, Banner Bank and Zions Bank, and community banks, Bank of the Cascades, Idaho Independent Bank, DL Evans Bank, First Federal Savings Bank and Farmers National Bank.

The severe economic downturn and additional regulatory changes are altering Intermountain's competitive landscape. Many non-FDIC insured competitors, including residential mortgage brokers, commercial finance operations, and commercial real estate mortgage brokers have exited the market. Significant consolidation of the banking industry is forecast over the next few years, as smaller community banks face a constrained revenue environment and increasing costs and capital requirements. These events will likely present both opportunities and challenges to Intermountain. Previous sections have highlighted various opportunities that may arise, such as additional growth through attracting strong employees and customers from disaffected institutions, and potential acquisition opportunities. Potential challenges include stronger remaining competitors, additional regulatory constraints, and continuing low interest rates.

Services Provided

Lending Activities

The Bank offers and encourages applications for a variety of secured and unsecured loans to help meet the needs of its communities. While specific credit programs may vary from time to time, based on Bank policies and market conditions, the Bank makes every effort to encourage applications for the following credit services throughout its communities.

Commercial Loans. The Bank offers a wide range of loans and open-end credit arrangements to businesses of small and moderate size, from small sole proprietorships to larger corporate entities, with purposes ranging from working capital and inventory acquisition to equipment purchases and business expansion. The Bank also participates in the

Small Business Administration (“SBA”) and United States Department of Agriculture (“USDA”) financing programs. Operating loans or lines of credit typically carry annual maturities. Straight maturity notes are also available, in which the maturities match the anticipated receipt of specifically identified repayment sources. Term loans for purposes such as equipment purchases, expansion, term working capital, and other purposes generally carry terms that match the borrower’s cash flow capacity and/or collateral life, typically with maturities of three years or longer. Risk is controlled by applying sound, consistent underwriting guidelines, concentrating on relationship loans as opposed to transaction type loans, and requiring sound

alternative repayment sources, such as collateral or strong guarantor support. While underwriting guidelines vary depending on the type of loan, in general businesses are required to maintain a minimum 1.25 debt service coverage ratio ("DSC"). Loan-to-value ("LTV") guidelines generally range from a low of 40% on illiquid equipment and inventory to a high of 75% of liquidation value on easily convertible accounts receivable, inventory or equipment. Government guaranty programs are also utilized when appropriate, and are currently being emphasized, given favorable changes made by the federal government to the programs and the difficult credit environment.

The Bank also offers loans for agricultural and ranching purposes. These include expansion loans, short-term working capital loans, equipment loans, cattle or livestock loans, and real estate loans on a limited basis. Terms are generally up to one year for operating loans or lines of credit and up to seven years for term loans. As with other business loans, sound underwriting is applied by a staff of lending and credit personnel seasoned in this line of lending. Underwriting guidelines for agricultural credit lines depend on the type of loan and collateral, but generally require a minimum DSC of 1.25, and hard collateral coverage (collateral other than the crops being grown) of greater than 50% of peak borrowing. Term equipment loans generally require a minimum 1.25 DSC and maximum 75% liquidation LTV. Government guaranteed programs are utilized whenever appropriate and available. Agricultural real estate loans are considered for financially sound borrowers with strong financial and management histories. Many of the Company's agricultural customers are third or fourth generation family farmers with strong real estate equity and limited real estate debt.

Real Estate Loans. For consumers, the Bank offers first mortgage loans to purchase or refinance homes, home improvement loans and home equity loans and credit lines. Conforming first mortgage loans are offered with up to 30-year maturities, while typical maturities for second mortgages (home improvement and home equity loans and lines) are as stated below under "Consumer Loans." First mortgage loans are underwritten with the intention to sell the loans on the secondary market, so guidelines generally reflect secondary market standards. Lot acquisition and construction loans are also offered to consumer customers with typical terms up to 36 months (interest only loans are also available) and up to 12 months (with six months' extension), respectively, and are underwritten to both secondary market standards and with a solid take-out mortgage loan approval required.

Loans for purchase, construction, rehabilitation or repurchase of commercial and industrial properties are also available through the Bank. The Bank makes commercial real estate loans for both owner and non-owner occupied properties, but favors owner-occupied loans. Non-owner occupied commercial real estate loans are restricted to borrowers with established track records and the ability to fund potential project cash flow shortfalls from other income sources or liquid assets. Project due diligence is conducted by the Bank, to help provide for adequate contingencies, collateral and/or government guaranties. General underwriting requirements are dependent upon the type of property being taken as collateral and the occupancy status. For desirable property types, a minimum DSC of 1.25 and maximum of 75% is required.

With current housing market conditions, the Bank has drastically curtailed residential land acquisition, development or builder loans, and has significantly reduced its concentrations of these types of loans.

Consumer Loans. The Bank offers a variety of consumer loans, including personal loans, motor vehicle loans, boat loans, recreational vehicle loans, home improvement loans, home equity loans, open-end credit lines, both secured and unsecured, and overdraft protection credit lines. The Bank's terms and underwriting on these loans are consistent with what is offered by competing community banks and credit unions, which generally require sufficient verified and documented disposable income, solid credit histories, and equity in the collateral. Generally, underwriting guidelines include a maximum debt to income of 40%, credit scores exceeding 700, and maximum LTVs ranging from 80% on home equity loans and lines to 50% to 90% on other types of consumer collateral. Loans for the purchase of new autos typically range up to 60 months. Loans for the purchase of smaller RV's, pleasure crafts and used vehicles range up to 60 months. Loans for the purchase of larger RV's and larger pleasure crafts, mobile homes, and home equity loans range up to 120 months (180 months if credit factors and value warrant). Unsecured loans are usually limited to two years, except for credit lines, which may be open-ended but are reviewed by the Bank periodically. Relationship lending is emphasized, which, along with credit control practices, minimizes risk in this type of lending.

Municipal Financing. Operating and term loans and leases are available to municipal entities, many of which qualify for financing on a tax-exempt basis. Operating loans are generally restricted by law to the duration of one fiscal year.

Term loans and leases, which under certain circumstances can extend beyond one year, typically range up to five years. Municipal financing is restricted to loans with sound purposes and with established tax bases or other revenue to adequately support repayment.

Deposit Services

The Bank offers the full range of retail deposit services typically available in most banks, including checking accounts, savings accounts, money market accounts and various types of certificates of deposit. The transaction accounts and certificates

of deposit are tailored to the Bank's primary market area at rates competitive with those offered in the area. All deposit accounts are insured by the FDIC to the maximum amount permitted by law. The Bank also offers a number of business-oriented deposit accounts, including various types of FDIC-insured checking, savings, money market and time deposit accounts, and non-FDIC insured alternatives including reverse repurchase agreements and sweep accounts. Its deposit product offerings are generally competitive with both large and small direct competitors and provide opportunities for fee income generation through direct service charges, transaction fee income, and fees associated with related services (see "Other Services" below).

Investment Services

The Bank provides non-FDIC insured investment services through its division, Trust and Investment Services. Products offered to its customers include annuities, equity and fixed income securities, mutual funds, insurance products and brokerage services. The Bank offers these products in a manner consistent with the principles of prudent and safe banking and in compliance with applicable laws, rules, regulations and regulatory guidelines. The Bank earns fees for providing these services, either on a per-product basis or through a percentage of the balances invested.

Trust & Wealth Management Services

The Bank provides trust and wealth management services to its higher net worth customers to assist them in investment, tax and estate planning and to serve as their trustee or other fiduciary. The Bank offers these services in a manner consistent with the principles of prudent and safe banking and in compliance with applicable laws, rules, regulations and regulatory guidelines. The Bank earns fees for managing client assets and providing trust services. The Company is one of the few smaller banking institutions in the northwest to offer in-house trust services, and activity and income from these services has increased continuously since its beginning in 2006. The Bank's Trust & Wealth Management Department operates under a Trust Charter through the FDIC and the Idaho Department of Finance. Due to the reciprocity arrangements with the states of Oregon and Washington applicable to the Bank's general banking business, the Bank is authorized to provide fiduciary services and to serve as a fiduciary in relationships located or sited in any of those three states. The Bank is also authorized to provide investment management services through the Trust & Wealth Management Department to clients in all fifty states.

Other Services

Other consumer-oriented services include automated teller machines ("ATMs"), debit cards, safe deposit boxes, internet and phone banking services, savings bonds, and VISA/MasterCard credit cards. The Bank is a member of the Star, Plus, Exchange, Interlink and Accell ATM networks. New consumer products and services introduced over the past several years include electronic statements, mobile-phone banking access, identity theft protection, and Certificate of Deposit Account Registry Service ("CDARS") certificates of deposit and money market accounts.

The Company also offers numerous business services that improve its customers' operations. Its online business product offerings allow companies to manage their financial operations efficiently from any location, including originating ACH entries for payroll, outgoing tax and other payments, and incoming collections. The system also allows transfers of funds to and from various accounts and operating credit lines. Credit card acceptance, remote deposit capture, night deposit and concentration account services make it more convenient for businesses to receive and deposit funds quickly, and the Company's Check Collect service assists them in collecting on returned checks. Intermountain's positive pay and credit card monitoring services help reduce fraud, and its employee benefits program enhances business customers' existing benefits programs by providing valuable banking services to their employees at a reduced cost. These services are generally competitive with those offered by larger institutions. They provide additional fee income to Intermountain, and management is currently evaluating and adjusting pricing on these services to enhance future revenue.

Loan Portfolio

The loan portfolio is the largest component of earning assets, and is comprised of net loans receivable and loans held for sale. In 2011, net loans receivable, which includes loans the Company generally intends to keep until repayment or maturity, decreased by 10.8% or \$61.0 million. Reflecting the challenging lending environment, most types of loans were either flat or down from the prior year, with the largest drop in land and land development loans, down \$22.5 million. Loans held for sale, primarily residential real estate loans originated for sale in the secondary market,

increased by \$2.1 million over the prior year, reflecting stronger refinance activity at year end.

In 2011, the Company continued to aggressively resolve problem loans through workouts with borrowers, refinances from other sources, and/or collateral liquidation, resulting in additional improvements in the quality of its credit portfolio. Negative external credit factors have also moderated, allowing the Company to begin shifting its focus to the origination of new loans. In general, the Company's underwriting standards remain more restrictive than prior to the recession and are

more similar to standards existing prior to 2000.

Overall demand for commercial and commercial real estate loans has improved moderately but remains weak, and high quality borrowers are being targeted by all competitors. The decrease in agricultural loans reflected reduced borrowing needs as farmers maintained large cash positions resulting from strong performance in 2010 and 2011. In this difficult economic climate, the Bank continues to pursue quality conventional loans using conservative underwriting and control practices, and is actively marketing SBA, USDA and other financing assistance programs to borrowers who are financially weaker. Residential and multi-family activity picked up in 2011, with particularly strong refinancing activity in the fourth quarter. Higher levels of activity in these sectors are projected to continue in 2012. Bank lending staff continues to utilize relationship pricing models and other techniques to manage interest rate risk and increase customer profitability.

The Company's average loan yield decreased from 6.01% in 2010 to 5.94% in 2011 as Federal Reserve actions, ongoing economic concerns and strong competition for quality borrowers compressed yields. These trends are projected to continue at least through 2012 and likely into 2013 and even 2014, constraining revenue growth for financial institutions.

Loan Portfolio Concentrations

The Bank continuously monitors concentrations of loan categories in regards to industries, loan types and market areas. Concentration guidelines are established and then approved by the Board of Directors at least annually, and are reviewed by management and the Board monthly. Circumstances affecting industries and market areas involved in loan concentrations are reviewed as to their impact as they occur, and appropriate action is determined regarding the loan portfolio and/or lending strategies and practices.

Construction and Development Loans

Management has focused over the past several years on shifting the mix of the loan portfolio away from too high a concentration in residential construction, acquisition and development loans to a more balanced mix of commercial, agriculture, commercial real estate, and residential real estate loans. It has done this through a combination of more conservative underwriting practices on construction and land development lending, limited marketing, and aggressive resolution and disposal of loans in these categories. As a result, combined loan balances in the commercial construction, land and land development, and residential construction categories have declined by \$34.6 million from December 31, 2010 to December 31, 2011 and by \$68.7 million from December 31, 2009 to December 31, 2010. After the aggressive reduction efforts of the last two years, the land development and construction loan components pose much lower concentration risk for the total loan portfolio. Management plans to continue resolving remaining problem loans in this sector and applying prudent underwriting standards that appropriately reflect ongoing excess inventory to new loan requests.

Commercial Loans

Although the impacts of the economic downturn are still being felt in the Bank's commercial, and particularly SBA portfolio, management does not consider this portfolio to present a particular "concentration risk" at this time. Management believes there is adequate diversification by type, industry, and geography to mitigate excessive risk. The commercial portfolio includes a mix of term loan facilities and operating loans and lines made to a variety of different business types in the markets it serves. The Company utilizes SBA, USDA and other government-assisted or guaranteed financing programs whenever advantageous to further mitigate risk in this area. With the exception of the agricultural portfolio, there is no other significant concentration of industry types in its loan portfolio, and no dominant employer or industry across all the markets it serves. Underwriting focuses on the evaluation of potential future cash flows to cover debt requirements, sufficient collateral margins to buffer against devaluations, credit history of the business and its principals, and additional support from willing and capable guarantors.

Agricultural Loans

The agricultural portfolio represents a larger percentage of the loans in the Bank's southern Idaho region. At December 31, 2011, agricultural loans and agricultural real estate loans totaled \$81.3 million or 15.8% of the total loan portfolio. The agricultural portfolio consists of loans secured by livestock, crops and real estate. To mitigate credit risk, specific underwriting is applied to retain only borrowers that have proven track records in the agricultural industry. Many of Intermountain's agricultural borrowers are third or fourth generation farmers and ranchers with

limited real estate debt, which reduces overall debt coverage requirements and provides extra flexibility and collateral for equipment and operating borrowing needs. In addition, the Bank has hired senior lenders with significant experience in agricultural lending to administer these loans. Further mitigation is provided through frequent collateral inspections, adherence to farm operating

budgets, and annual or more frequent review of financial performance. The Company has minimal exposure to the dairy industry, the one significant agricultural segment that has been under more pressure for the past few years.

Commercial Real Estate Loans

Difficult economic conditions and oversupply continue to create risk in the commercial real estate portfolio. However, in comparison to peers, the Company has less overall exposure to commercial real estate and a stronger mix of owner-occupied (where the borrower occupies and operates in at least part of the building) versus non-owner occupied loans. The loans represented in this category are spread across the Company's footprint, and there are no significant concentrations by industry type or borrower. The most significant property types represented in the portfolio are office 17.2%, industrial 13.9%, retail 9.8%, and health care 8.3%. The other 37.4% is a mix of property types with smaller concentrations, including religious facilities, auto-related properties, restaurants, convenience stores, storage units, motels and commercial investment land.

While 68% of the Company's commercial real estate portfolio is in its Northern Idaho/Eastern Washington region, this region is a large and diverse region with differing local economies and real estate markets. Given this diversity, and the diversity of property types and industries represented, management does not believe that this concentration represents a significant concentration risk.

Non-owner occupied commercial real estate loans are made only to borrowers with established track records and the ability to fund potential project cash flow shortfalls from other income sources or liquid assets. Project due diligence is conducted by the Bank, to help provide for adequate contingencies, collateral and/or government guaranties. The Company has largely avoided speculative financing of investment properties, particularly of the types most vulnerable in the current downturn, including investment office buildings and retail strip developments. Management believes geographic, borrower and property-type diversification, and prudent underwriting and monitoring standards applied by seasoned commercial lenders mitigate concentration risk in this segment.

Residential Real Estate and Consumer

Residential real estate and consumer loans comprise smaller segments of the loan portfolio. Management does not believe they represent significant concentration risk. While debt service ability and collateral values have declined in these segments, underwriting has generally been more conservative, with higher debt-to-income and equity requirements than found elsewhere in the financial industry.

Geographic Distribution

In terms of geographic distribution, 57% of the Company's loans are in north Idaho and eastern Washington and 38% are in southern Idaho and eastern Oregon. The markets are relatively large geographically and represent a mix of agricultural, forested and metropolitan landscapes. While the Company has suffered and would suffer again from a broad national or regional recession, the relative diversity of its geography provides more protection than many of its community bank peers.

Classification of Loans

The Bank is required under applicable law and regulations to review its loans on a regular basis and to classify them as "satisfactory," "special mention," "substandard," "doubtful" or "loss." A loan which possesses no apparent weakness or deficiency is designated "satisfactory." A loan which possesses weaknesses or deficiencies deserving close attention is designated as "special mention." A loan is generally classified as "substandard" if it possesses a well-defined weakness and the Bank will likely sustain some loss if the weaknesses or deficiencies are not corrected. A loan is classified as "doubtful" if a probable loss of principal and/or interest exists but the amount of the loss, if any, is subject to the outcome of future events which are undeterminable at the time of classification. It is a transitional category, and once the amount of the loss is determined, this amount is charged off and the remaining balance of the loan would most likely be classified as "substandard." The typical duration of a loan in the "doubtful" category would be one to two months. If a loan is classified as "loss," the Bank either establishes a specific valuation allowance equal to the amount classified as loss or charges off such amount.

As of December 31, 2011, the risk grades range from cash equivalent secured loans (Risk Grade "1") to "loss" (Risk Grade "8"). Risk Grades "3", "5", "6", "7" and "8" closely reflect the FDIC's definitions for "satisfactory," "special mention," "substandard," "doubtful" and "loss", respectively. Risk Grade "4" is an internally designated "watch" category. At December 31, 2011, the

Company had \$1.4 million in the special mention, \$53.2 million in the substandard and \$0 in the doubtful and loss loan categories. At December 31, 2010, the Company had \$14.0 million in the special mention, \$54.1 million in the substandard, an immaterial amount in the doubtful and \$0 in the loss loan categories.

Overall, classified loans (loans with risk grades 6, 7, or 8) decreased from \$54.1 million at the end of 2010 to \$53.2 million at the end of 2011. The moderate decrease reflected ongoing economic challenges but masked a significant reduction in loss exposure, as commercial and commercial real estate loans with stronger collateral and/or guarantee positions replaced land and land development exposures.

Non-accrual loans are those loans that have become delinquent for more than 90 days (unless well-secured and in the process of collection). Placement of loans on non-accrual status does not necessarily mean that the outstanding loan principal will not be collected, but rather that timely collection of principal and interest is in question. Total non-accrual loans decreased from \$11.5 million at December 31, 2010 to \$9.2 million at the end of 2011. When a loan is placed on non-accrual status, interest accrued but not received is reversed. The amount of interest income which was reversed from income in fiscal years 2011, 2010, 2009, 2008, and 2007 on non-accrual and other problem loans was approximately \$405,000, \$794,000, \$1.9 million, \$465,000, and \$161,000, respectively. A non-accrual loan may be restored to accrual status if it is brought current and has performed in accordance with contractual terms for a reasonable period of time, and the collectability of the total contractual principal and interest is no longer in doubt. Other problem loans are loans that were not put in the non-accrual status but were charged off or transferred to OREO during the year.

Troubled debt restructure loans ("TDRs") are those loans that have been modified in response to distressed borrower conditions. TDRs totaled \$6.6 million at year end 2011 versus \$4.8 million at the end of the prior year, primarily reflecting industry changes in the way TDRs are defined.

Allowance for Loan Losses

The allowance for loan losses is based upon management's assessment of various factors including, but not limited to, current and future economic trends, historical loan losses, delinquencies, and underlying collateral values, as well as current and potential risks identified in the loan portfolio. The allowance is evaluated on a monthly basis by management. The methodology for calculating the allowance is discussed in more detail below. An allocation is also included for unfunded loan commitments. However, this allocation is recorded as a liability, as required by bank regulatory guidance issued in early 2007.

Allocation of the Allowance for Loan Losses

and Non-Accrual Loans Detail

(Dollars in thousands)

	December 31, 2011			
	Percent of	Gross	Allowance	Non-Accrual
	Loans to	Loans		Loans
	Total Loans			
Commercial loans	21.45	% \$ 110,395	\$2,817	\$ 3,686
Commercial real estate loans	32.56	% 167,586	4,880	2,303
Commercial construction loans	1.23	% 6,335	500	46
Land and land development loans	7.48	% 38,499	2,273	2,652
Agriculture loans	15.80	% 81,316	172	187
Multifamily loans	5.06	% 26,038	91	—
Residential real estate loans	11.44	% 58,861	1,566	401
Residential construction loans	0.53	% 2,742	59	—
Consumer loans	2.30	% 11,847	295	17
Municipal loans	2.15	% 11,063	37	—
Totals	100.00	% \$ 514,682	\$ 12,690	\$ 9,292

December 31, 2010

	Percent of Loans to Total Loans	Gross Loans	Allowance	Non-Accrual Loans
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Commercial loans	21.31	% \$122,656	\$2,925	\$3,859
Commercial real estate loans	30.50	% 175,559	3,655	3,566
Commercial construction loans	3.12	% 17,951	540	71
Land and land development loans	10.59	% 60,962	2,408	1,910
Agriculture loans	15.18	% 87,364	779	582
Multifamily loans	4.59	% 26,417	83	—
Residential real estate loans	10.57	% 60,872	1,252	964
Residential construction loans	0.56	% 3,219	65	110
Consumer loans	2.45	% 14,095	613	389
Municipal loans	1.13	% 6,528	135	—
Totals	100.00	% \$575,623	\$12,455	\$11,451

December 31, 2009

	Percent of Loans to Total Loans	Gross Loans	Allowance	Non-Accrual Loans
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Commercial loans	19.57	% \$131,562	\$4,785	\$2,653
Commercial real estate loans	25.69	% 172,726	3,827	3,209
Commercial construction loans	6.78	% 45,581	1,671	3,135
Land and land development loans	13.18	% 88,604	2,707	5,724
Agriculture loans	16.40	% 110,256	1,390	447
Multifamily loans	2.69	% 18,067	26	135
Residential real estate loans	9.75	% 65,544	1,412	2,872
Residential construction loans	2.47	% 16,626	170	205
Consumer loans	2.72	% 18,287	539	88
Municipal loans	0.75	% 5,061	81	—
Totals	100.00	% \$672,314	\$16,608	\$18,468

December 31, 2008

	Percent of Loans to Total Loans	Gross Loans	Allowance	Non-Accrual Loans
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Commercial loans	82.81	% \$636,982	\$14,277	\$22,783
Residential loans	13.51	% 103,937	1,653	3,491
Consumer loans	3.02	% 23,245	452	91
Municipal loans	0.66	% 5,109	51	—
Totals	100.00	% \$769,273	\$16,433	\$26,365

	December 31, 2007			
	Percent of Loans to Total Loans	Gross Loans	Allowance	Non-Accrual Loans
Commercial loans	81.07	% \$623,439	\$9,965	\$ 4,732
Residential loans	14.83	% 114,010	1,196	837
Consumer loans	3.42	% 26,285	571	—
Municipal loans	0.68	% 5,222	29	—
Totals	100.00	% \$768,956	\$11,761	\$ 5,569

In the table above, commercial loans for the periods 2007 and 2008 include commercial real estate loans, as well as residential land, subdivision acquisition and development, and builder loans, where the borrower is not a consumer.

During 2007, the Company changed its method of calculating its loan loss allowance in line with bank regulatory guidance issued earlier that year. It continued to refine this methodology in the subsequent years with improved modeling and collateral valuation analysis. The loan portfolio is segregated into loans for which a specific reserve is calculated by management, and loans for which a reserve is calculated using an allowance model. For loans with a specific reserve, management evaluates each loan and derives the reserve based on such factors as expected collectability, collateral value and guarantor support. For loans with reserves calculated by the model, the model mathematically derives a base reserve allocation for each loan using probability of default and loss given default rates based on both historical company and regional industry experience. This base reserve allocation is then modified by management considering factors such as the current economic environment, portfolio delinquency trends, collateral valuation trends, quality of underwriting and quality of collection activities. The reserves derived from the model are reviewed and modified by management, then added to the reserve for specifically identified loans to produce the total reserve. Management believes that this methodology provides a reasonable, reliable and verifiable reserve calculation and is in compliance with regulatory and accounting guidance. The Bank's total allowance for loan losses was 2.47% of total loans at December, 31, 2011 and 2.16% of total loans at December 31, 2010. The increase in the ratio reflects a relatively stable reserve applied against a smaller total loan base. At \$7.3 million, the loan loss provision slightly exceeded net chargeoffs of \$7.1 million in 2011, a change from 2010 when chargeoffs outpaced the loan loss provision.

Management's general policy is to charge off loans or portions of loans as soon as an identifiable loss amount can be determined from evidence obtained, such as updated appraisals or similar real estate evaluations, equipment, inventory or similar collateral evaluations, or accepted offers on loan sales or negotiated discounts. In situations where problem loans are dependent on collateral liquidation for repayment, management obtains updated independent valuations, generally no less frequently than once every six months and more frequently for larger or more troubled loans. In the time period between these independent valuations, it monitors market conditions for any significant event or events that would materially change the valuations, and updates them as appropriate.

Loan Maturity and Repricing Information

The following table details loan maturity and repricing information for fixed and variable rate loans.

Maturity and Repricing for the Bank's

Loan Portfolio at December 31, 2011

Loan Repricing	Fixed Rate	Variable Rate	Total Loans
	(Dollars in thousands)		
0-90 days	\$34,254	\$181,561	\$215,815
91-365 days	48,643	22,636	71,279
1 year-5 years	104,893	76,439	181,332
5 years or more	44,476	1,780	46,256
Total	\$232,266	\$282,416	\$514,682

The Company has traditionally maintained a high level of variable rate loans as part of its overall balance sheet management approach. The significant unanticipated decrease in market rates experienced during the economic downturn

and financial turmoil of the past several years impacted these loans negatively and created additional pressure on the Company's asset yields and net interest margin. The imposition of floors had offset some of this negative impact, although these are now under pressure as well, given strong competition for quality borrowers. The Company is well-positioned for an eventual rise in rates and would likely see an improvement in margin.

Investments

The investment portfolio is the second largest earning asset category and is comprised mostly of securities categorized as available-for-sale. These securities are carried at fair value. Unrealized gains and losses that are considered temporary are recorded as a component of accumulated other comprehensive income or loss.

The carrying value of the available-for-sale securities portfolio increased 19.6% to \$219.0 million at December 31, 2011 from \$183.1 million at December 31, 2010. The carrying value of the held-to-maturity securities portfolio decreased 27.3% to \$16.1 million at December 31, 2011 from \$22.2 million at December 31, 2010. During 2011, the Company deployed funds from reductions in the Company's loan portfolio into the investment portfolio. Given highly uncertain market conditions for fixed income securities in 2011, the Company focused on maintaining high credit quality and moderate duration. Opportunities to prudently pick up yield were limited in 2011, and the Company used a modified barbell strategy in which it balanced purchases of longer-term municipal and agency securities with shorter term and floating rate investments. The average duration of the available for sale and the held-to-maturity portfolios was approximately 3.1 years and 5.6 years, respectively on December 31, 2011, compared to 2.9 years and 8.2 years, respectively on December 31, 2010. The average duration differs from the investment's contractual maturity as average duration takes into account estimated prepayments. Reinvestment rates are substantially lower than a year ago and likely to remain lower at least through 2012, which will place pressure on the Company's investment yield.

As noted above, available-for-sale securities are required by generally accepted accounting principles to be accounted for at fair value (See Note 19 "Fair Value of Financial Instruments" in the Company's Consolidated Financial Statements for more information).

Market data and pricing on similar assets were used to value securities totaling \$204.3 million classified as available for sale as of December 31, 2011. For these securities, the Company obtained fair value measurements from an independent pricing service and internally validated these measurements. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus, prepayment speeds, credit information and the bond's terms and conditions, among other things.

The available for sale portfolio also includes \$14.8 million in super senior or senior tranche collateralized mortgage obligations not backed by a government or other agency guarantee. These securities are collateralized by fixed rate prime or Alt A mortgages, are structured to provide credit support to the senior tranches, and are carefully analyzed and monitored by management. Because of disruptions in the current market for non-government agency guaranteed mortgage-backed securities and CMOs, a less active market existed for these securities at December 31, 2011. This is evidenced by a wider bid-ask spread for these types of securities and the smaller volume of actual trades made. As a result, less reliance can be placed on easily observable market data, such as pricing on transactions involving similar types of securities, in determining their current fair value. As such, significant adjustments were required to determine the fair value at the December 31, 2011 measurement date.

In valuing these securities, the Company utilized the same independent pricing service as for its other available-for-sale securities. In addition, it utilized Federal Home Loan Bank pricing indications to derive independent valuations and used this data to evaluate and adjust the values derived from the original independent pricing service. In addition to observable market-based input including dealer quotes, market spreads, live trading levels and execution data, both services also employed a present-value income model that considered the nature and timing of the cash flows and the relative risk of receiving the anticipated cash flows as agreed. The discount rates used were based on a risk-free rate, adjusted by a risk premium for each security. In accordance with accounting guidance, the Company has determined that the risk-adjusted discount rates utilized appropriately reflect the Company's best estimate of the assumptions that market participants would use in pricing the assets in a current transaction to sell the asset at the measurement date. Risks include nonperformance risk (that is, default risk and collateral value risk) and liquidity risk (that is, the compensation that a market participant receives for buying an asset that is difficult to sell under current

market conditions). To the extent possible, the pricing services and the Company validated the results from these models with independently observable data.

The following table displays investment securities balances and repricing information for the total portfolio:

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Investment Portfolio Detail

Carrying Value as of December 31,	2011 Amount	Percent Change Previous Year	2010 Amount	Percent Change Previous Year	2009 Amount
	(Dollars in thousands)				
U.S. treasury securities and obligations of government agencies	\$—	(100.00)%	\$3,894	7,535.29 %	\$51
Mortgage-backed securities & collateralized mortgage obligations (“CMOs”)	181,903	4.57	173,957	(4.28)	181,733
State and municipal bonds	53,279	94.12	27,447	80.85	15,177
Total	\$235,182	14.56 %	\$205,298	4.23 %	\$196,961
Available-for-Sale	219,039	19.64 %	183,081	0.71 %	181,784
Held-to-Maturity	16,143	(27.34)	22,217	46.39	15,177
Total	\$235,182	14.56 %	\$205,298	4.23 %	\$196,961

Investments held as of December 31, 2011

Mature as follows:

	One Year		One to Five Years		Five to Ten Years		Over Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
	(Dollars in thousands)									
U.S. treasury securities and obligations of government agencies	\$21	— %	\$—	— %	\$—	— %	\$—	— %	\$21	— %
Mortgage-backed securities & CMOs	—	—	12,822	3.91	27,948	3.12	141,113	3.39	181,883	3.39
State and municipal bonds (tax — equivalent)	130	5.25	1,341	6.43	10,926	4.70	40,882	4.89	53,279	4.89
Total	\$151	4.51 %	\$14,163	4.15 %	\$38,874	3.56 %	\$181,995	3.73 %	\$235,183	3.73 %

Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

Intermountain’s investment portfolios are managed to provide and maintain liquidity; to maintain a balance of high quality, diversified investments to minimize risk; to offset other asset portfolio elements in managing interest rate risk; to provide collateral for pledging; and to maximize risk-adjusted returns. At December 31, 2011, the Company does not intend to sell any of its available-for-sale securities that have a loss position and it is not likely that it will be required to sell the available-for-sale securities before the anticipated recovery of their remaining amortized cost. However, unforeseen changes in credit risk or other types of portfolio risk could cause management to change its position and sell individual securities on a case-by-case basis.

See Note 19 “Fair Value of Financial Instruments” in the Company’s Consolidated Financial Statements for more information on the calculation of fair or carrying value for the investment securities.

Fed Funds Sold & Cash Equivalents

The Bank held \$81.4 million in excess funds at the Federal Reserve at December 31, 2011, as compared to \$131.8 million in interest-bearing cash equivalents at December 31, 2010. At December 31, 2011, excess funds were held at the Federal Reserve as opposed to Fed Funds Sold at a correspondent bank as there was a higher yield on the excess funds at the Federal Reserve. During 2011, the Company maintained an average balance of Fed Funds Sold

and interest-bearing unrestricted cash equivalents (referred to in subsequent references as “Fed Funds Sold” for ease of reference and because the instruments are not materially different) of \$95.4 million as a strategy to preserve and enhance liquidity during a period of continuing market turmoil. This compares to an average balance of Fed Funds Sold in 2010 of \$101.1 million. The higher level of Fed Funds Sold maintained during these two years resulted in a decrease in interest income and net interest income

as the Fed Funds Sold yield during both years was at historically low levels of between 0.00% and 0.25%.

Deposits

Deposit Composition & Trends	December 31, 2011		December 31, 2010	
	Amount	%	Amount	%
(Dollars in thousands)				
Non-interest bearing demand accounts	\$ 190,074	26.1 %	\$ 168,519	21.6 %
NOW and money market 0.0% to 4.65%	308,713	42.3	327,891	42.1
Savings and IRA 0.0% to 5.50%	73,493	10.1	75,387	9.7
Certificate of deposit accounts (CDs)	59,199	8.1	79,533	10.2
Jumbo CDs	56,177	7.7	77,685	10.0
Brokered CDs	37,000	5.1	40,899	5.3
CDARS CDs to local customers	4,717	0.6	8,919	1.1
Total deposits	\$ 729,373	100.0 %	\$ 778,833	100.0 %
Weighted average interest rate on certificates of deposit	1.23	%	1.66	%
Core Deposits as a percentage of total deposits (1)	86.2	%	83.2	%
Deposits generated from the Company's market area as a % of total deposits	94.9	%	94.8	%

(1) Core deposits consist of non-interest bearing checking, interest-bearing checking, money market, and savings accounts, and retail certificate of deposit accounts of less than \$100,000.

Deposits totaled \$729.4 million, representing 83.6% of the Bank's liabilities at December 31, 2011. Total deposits decreased 6.4% in 2011, largely as a result of reductions in higher-priced retail CDs, as the Bank repriced maturing CDs down and customers converted some of the balances to non-FDIC insured investments through the Company's Trust and Investment Services division. Reductions in NOW and money market balances primarily reflect the reduction of one large collateralized account in which funds were placed by the customer pending distribution in a settlement. Given the high level of liquid assets, the Company moved aggressively to price down its deposit portfolio and allowed brokered, collateralized and single-service deposit accounts to run off or convert. Non-interest bearing demand deposits increased, reflecting growth in business and agriculture deposits and now comprise 26.1% of the deposit portfolio. Total transaction account deposits (demand, NOW and money market) comprise 68.4% of total deposits, a percentage that significantly exceeds peer group averages. The Company continues to emphasize growth in low-cost transaction account balances to minimize its cost of funding, enhance fee income and other cross-selling opportunities, and match its asset composition.

The Company's strong local, core funding base, high percentage of checking, money market and savings balances and careful management of its brokered CD funding provide lower-cost, more reliable funding to the Company than most of its peers and add to the liquidity strength of the Bank. Maintaining the local funding base at a reasonable cost remains a critical priority for the Company's management and production staff. The Company uses a combination of proactive branch staff efforts and community leadership to target and grow low-cost deposit balances. It emphasizes personalized service, local community involvement and targeted campaigns to generate deposits, rather than media campaigns or advertised rate specials.

The Company seeks long-term balance between loans and deposits in each of its regions, and has generally succeeded in achieving this balance, although when it enters new markets, it may emphasize one or the other depending on the specific market.

Business checking, NOW, money market and savings balances comprise about 42% of total non-maturity deposits, and consumer accounts about 58%. The Company emphasizes balanced growth of both business and consumer deposits in its markets to diversify its funding sources. Consumer deposit growth is largely driven by branch marketing efforts in the communities served. Intermountain also employs specialized staff who target the acquisition of business deposit accounts and other fee-related services. With the exception of the secured savings program noted below, the Company is not reliant on any one depositor or small group of depositors, with the largest single depositor

making up less than 1% of overall company deposits.

The Company currently holds \$14.6 million in deposits used to secure credit cards marketed and maintained by another bank under a contractual arrangement. The contractual arrangement terminated in November, 2009 and was replaced by a transitional contract allowing the provider sufficient time to move these deposits into its own organization. This movement is not anticipated to occur until late 2012, and Intermountain is pursuing opportunities to expand its management of secured

savings accounts with other potential card providers.

The following table details re-pricing information for the Bank's time deposits with minimum balance of \$100,000 at December 31, 2011 (in thousands):

Maturities/Repricing	
Less than three months	\$ 15,904
Three to six months	6,723
Six to twelve months	25,073
Over twelve months	54,745
	\$ 102,445

In terms of overall deposits, the Company is the market share leader in 5 of the 11 markets in which it operates and has maintained this leadership through several challenging years.

By repricing its portfolio, the Company succeeded in lowering the 2011 interest cost on its deposits by 0.37%. This resulted in overall liability interest costs to the Bank being 0.34% below the average of its peer group as of December 31, 2011 (Source: FFIEC Uniform Bank Performance Report ("UBPR") for December 31, 2011). Given the current compressed market rate environment, management believes that this improvement and its overall competitive standing positions the Company comparatively well for future periods.

Borrowings

As part of the Company's funds management and liquidity plan, the Bank has arranged to have short-term and long-term borrowing facilities available. The short-term and overnight facilities are federal funds purchasing lines as reciprocal arrangements to the federal funds selling agreements in place with various correspondent banks. At December 31, 2011, the Bank had overnight unsecured credit lines of \$35.0 million available. For additional long and short-term funding needs, the Bank has credit available from the Federal Home Loan Bank of Seattle ("FHLB"), limited to a percentage of its total regulatory assets and subject to collateralization requirements and a blanket pledge agreement. It also has a "Borrower in Custody" line set up with the Federal Reserve Bank, subject to collateralization requirements.

At December 31, 2011 the Bank had a \$25.0 million FHLB advance at 2.06% that matures in October 2012, and a \$4.0 million FHLB advance at 3.11% that matures in September 2014. These notes totaled \$29.0 million, and the Bank had the ability to borrow an additional \$69.3 million from the FHLB.

The Bank has the ability to borrow up to \$23.0 million on a short term basis from the Federal Reserve Bank under the Borrower in Custody program, utilizing commercial loans as collateral. At December 31, 2011, the Bank had no borrowings outstanding under this line.

Securities sold under agreements to repurchase, which are classified as other secured borrowings, generally are short-term agreements. These agreements are treated as financing transactions and the obligations to repurchase securities sold are reflected as a liability in the consolidated financial statements. The dollar amount of securities underlying the agreements remains in the applicable asset account. All of the Company's current repurchase agreements are with municipal customers in its local markets and mature on a daily basis. The Company also had an institutional repurchase agreement in the amount of \$30.0 million which matured and was paid off in July 2011. These agreements had a weighted average interest rate of 0.33%, 0.27%, and 0.36% at December 31, 2011, 2010 and 2009, respectively. The average balances of securities sold subject to repurchase agreements were \$81.4 million, \$87.2 million, and \$82.6 million during the years ended December 31, 2011, 2010 and 2009, respectively. The maximum amount outstanding at any month end during these same periods was \$111.8 million, \$105.1 million, and \$100.3 million, respectively. The decrease in the repurchase amounts during 2011 reflected the pay off of the institutional agreement, partially offset by higher municipal repurchase balances. The structured institutional agreement carried an effective interest cost of 0.00% throughout 2010 and until its payoff in 2011. At December 31, 2011, 2010, and 2009, the Company pledged as collateral certain investment securities with aggregate amortized costs of \$106.0 million, \$126.2 million, and \$125.4 million, respectively. These investment securities had market values of \$108.9 million, \$128.7 million, and \$125.7 million at December 31, 2011, 2010 and 2009, respectively.

In January 2003 the, Company issued \$8.0 million of Trust Preferred securities through its subsidiary, Intermountain Statutory Trust I. Approximately \$7.0 million was subsequently transferred to the capital account of Panhandle State Bank for capitalizing the Ontario branch acquisition. The debt associated with these securities bears interest on a variable basis tied to the 90-day LIBOR index plus 3.25% with interest payable quarterly. The debt was callable by the Company in March 2008 and matures in March 2033.

In March 2004, the Company issued \$8.0 million of additional Trust Preferred securities through a second subsidiary, Intermountain Statutory Trust II. This debt was callable by the Company starting in April 2009, bears interest on a variable basis tied to the 90-day LIBOR index plus 2.8%, and matures in April 2034. In July of 2008, the Company entered into a cash flow swap transaction with Pacific Coast Bankers Bank, by which the Company effectively pays a fixed rate on these securities of 7.38% through July 2013 (see Note 18 in the Company's Consolidated Financial Statements for more information on this swap). Funds received from this borrowing were used to support planned expansion activities during 2004, including the Snake River Bancorp acquisition.

During the third quarter of 2009, the Board of Directors of the Company approved the deferral of regularly scheduled interest payments on its outstanding Junior Subordinated Debentures related to its Trust Preferred Securities ("TRUPS Debentures"), beginning in December 2009. The Company is permitted to defer payments of interest on the TRUPS Debentures for up to 20 consecutive quarterly periods without default. During the deferral period, the Company may not pay any dividends or distributions on, or redeem, purchase or acquire, or make a liquidation payment with respect to the Company's capital stock, or make any payment of principal or interest on, or repay, repurchase or redeem any debt securities of the Company that rank equally or junior to the TRUPS Debentures. Deferred payments compound for the TRUPS Debentures. Although these expenses will continue to be accrued on the consolidated income statements for the Company, deferring these interest payments will preserve approximately \$140,000 per quarter in cash for the Company. Notwithstanding the current deferral of interest payments, the Company fully intends to meet all of its obligations to the holders of the TRUPS Debentures as quickly as it is prudent to do so. At December 31, 2011, the total deferred interest payments totaled \$1.3 million.

Employees

The Company employed 280 full-time equivalent employees at December 31, 2011, down from 349 at the end of 2010 and 406 at the end of 2009. None of the employees are represented by a collective bargaining unit and the Company believes it has good relations with its employees. The Company reduced full-time equivalent employees during both 2011 and 2010 as part of an operating expense reduction strategy.

Supervision and Regulation

General

The following discussion provides an overview of certain elements of the extensive regulatory framework applicable to Intermountain Community Bancorp (the "Company") and Panhandle State Bank, which operates under the names Panhandle State Bank, Magic Valley Bank and Intermountain Community Bank (collectively referred to herein as the "Bank"). This regulatory framework is primarily designed for the protection of depositors, federal deposit insurance funds and the banking system as a whole, rather than specifically for the protection of shareholders. Due to the breadth and growth of this regulatory framework, our costs of compliance continue to increase in order to monitor and satisfy these requirements.

To the extent that this section describes statutory and regulatory provisions, it is qualified by reference to those provisions. These statutes and regulations, as well as related policies, are subject to change by Congress, state legislatures and federal and state regulators. Changes in statutes, regulations or regulatory policies applicable to us, including the interpretation or implementation thereof, could have a material effect on our business or operations. In light of the recent financial crisis, numerous changes to the statutes, regulations or regulatory policies applicable to us have been made or proposed. The full extent to which these changes will impact our business is not yet known. However, our continued efforts to monitor and comply with new regulatory requirements add to the complexity and cost of our business.

Federal Bank Holding Company Regulation

General. The Company is a bank holding company as defined in the Bank Holding Company Act of 1956, as amended ("BHCA"), and is therefore subject to regulation, supervision and examination by the Federal Reserve. In general, the BHCA limits the business of bank holding companies to owning or controlling banks and engaging in other activities closely related to banking. The Company must file reports with and provide the Federal Reserve such additional information as it may require. Under the Financial Services Modernization Act of 1999, a bank holding company may

apply to the Federal Reserve to become a financial holding company, and thereby engage (directly or through a subsidiary) in certain expanded activities deemed financial in nature, such as securities and insurance underwriting.

Holding Company Bank Ownership. The BHCA requires every bank holding company to obtain the prior approval of the Federal Reserve before (i) acquiring, directly or indirectly, ownership or control of any voting shares of another bank or bank holding company if, after such acquisition, it would own or control more than 5% of such shares; (ii) acquiring all

or substantially all of the assets of another bank or bank holding company; or (iii) merging or consolidating with another bank holding company.

Holding Company Control of Nonbanks. With some exceptions, the BHCA also prohibits a bank holding company from acquiring or retaining direct or indirect ownership or control of more than 5% of the voting shares of any company which is not a bank or bank holding company, or from engaging directly or indirectly in activities other than those of banking, managing or controlling banks, or providing services for its subsidiaries. The principal exceptions to these prohibitions involve certain non-bank activities that, by statute or by Federal Reserve regulation or order, have been identified as activities closely related to the business of banking or of managing or controlling banks.

Transactions with Affiliates. Subsidiary banks of a bank holding company are subject to restrictions imposed by the Federal Reserve Act on extensions of credit to the holding company or its subsidiaries, on investments in their securities and on the use of their securities as collateral for loans to any borrower. These regulations and restrictions may limit the Company's ability to obtain funds from the Bank for its cash needs, including funds for payment of dividends, interest and operational expenses.

Tying Arrangements. The Company is prohibited from engaging in certain tie-in arrangements in connection with any extension of credit, sale or lease of property or furnishing of services. For example, with certain exceptions, neither the Company nor its subsidiaries may condition an extension of credit to a customer on either (i) a requirement that the customer obtain additional services provided by us; or (ii) an agreement by the customer to refrain from obtaining other services from a competitor.

Support of Subsidiary Banks. Under Federal Reserve policy and the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act"), the Company is expected to act as a source of financial and managerial strength to the Bank. This means that the Company is required to commit, as necessary, resources to support the Bank. Any capital loans a bank holding company makes to its subsidiary banks are subordinate to deposits and to certain other indebtedness of those subsidiary banks.

State Law Restrictions. As an Idaho corporation, the Company is subject to certain limitations and restrictions under applicable Idaho corporate law. For example, state law restrictions in Idaho include limitations and restrictions relating to indemnification of directors, distributions to shareholders, transactions involving directors, officers or interested shareholders, maintenance of books, records and minutes, and observance of certain corporate formalities.

Federal and State Regulation of the Bank

General. The Bank is an Idaho commercial bank operating in Idaho, with one branch in Oregon and two in Washington. Its deposits are insured by the FDIC. As a result, the Bank is subject to primary supervision and regulation by the Idaho Department of Finance and the FDIC. With respect to the Oregon and Washington branches, the Bank is also subject to supervision and regulation by, respectively, the Oregon Department of Consumer and Business Services and the Washington Department of Financial Institutions, as well as the FDIC. These agencies have the authority to prohibit banks from engaging in what they believe constitute unsafe or unsound banking practices.

Consumer Protection. The Bank is subject to a variety of federal and state consumer protection laws and regulations that govern its relationship with consumers including laws and regulations that impose certain disclosure requirements and regulate the manner in which the Bank takes deposits, makes and collects loans, and provides other services. Failure to comply with these laws and regulations may subject the Bank to various penalties, including but not limited to, enforcement actions, injunctions, fines, civil liability, criminal penalties, punitive damages, and the loss of certain contractual rights.

Community Reinvestment. The Community Reinvestment Act of 1977 requires that, in connection with examinations of financial institutions within their jurisdiction, the Federal Reserve or the FDIC evaluate the record of the financial institution in meeting the credit needs of its local communities, including low and moderate-income neighborhoods, consistent with the safe and sound operation of the institution. A bank's community reinvestment record is also considered by the applicable banking agencies in evaluating mergers, acquisitions and applications to open a branch or facility.

Insider Credit Transactions. Banks are also subject to certain restrictions imposed by the Federal Reserve Act on extensions of credit to executive officers, directors, principal shareholders or any related interests of such persons. Extensions of credit (i) must be made on substantially the same terms, including interest rates and collateral, and follow credit underwriting procedures that are at least as stringent as those prevailing at the time for comparable transactions with persons not related to the lending bank; and (ii) must not involve more than the normal risk of repayment or present other unfavorable features. Banks are also subject to certain lending limits and restrictions on overdrafts to insiders. A violation of these restrictions may result in the assessment of substantial civil monetary penalties, regulatory enforcement actions, and other regulatory sanctions.

Regulation of Management. Federal law (i) sets forth circumstances under which officers or directors of a bank may be removed by the institution's federal supervisory agency; (ii) places restraints on lending by a bank to its executive officers, directors, principal shareholders, and their related interests; and (iii) generally prohibits management personnel of a bank from serving as directors or in other management positions of another financial institution whose assets exceed a specified amount or which has an office within a specified geographic area.

Safety and Soundness Standards. Certain non-capital safety and soundness standards are also imposed upon banks. These standards cover internal controls, information systems and internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees and benefits, such other operational and managerial standards as the agency determines to be appropriate, and standards for asset quality, earnings and stock valuation. An institution that fails to meet these standards may be subject to regulatory sanctions.

Interstate Banking and Branching

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 ("Interstate Act") together with the Dodd-Frank Act relaxed prior interstate branching restrictions under federal law by permitting, subject to regulatory approval, state and federally chartered commercial banks to establish branches in states where the laws permit banks chartered in such states to establish branches. The Interstate Act requires regulators to consult with community organizations before permitting an interstate institution to close a branch in a low-income area. Federal banking regulations prohibit banks from using their interstate branches primarily for deposit production and the federal bank regulatory agencies have implemented a loan-to-deposit ratio screen to ensure compliance with this prohibition.

Dividends

The principal source of the Company's cash is from dividends received from the Bank, which are subject to government regulation and limitations. Regulatory authorities may prohibit banks and bank holding companies from paying dividends in a manner that would constitute an unsafe or unsound banking practice or would reduce the amount of its capital below that necessary to meet minimum applicable regulatory capital requirements. Idaho law also limits a bank's ability to pay dividends subject to surplus reserve requirements. Additionally, current guidance from the Federal Reserve provides, among other things, that dividends per share on the Company's common stock generally should not exceed earnings per share, measured over the previous four fiscal quarters. The Company entered into an informal agreement with the Federal Reserve and the Idaho Department of Finance, which requires the Company to obtain advance approval from the Federal Reserve and the Idaho Department of Finance prior to paying any dividends. Payment of cash dividends by the Company will depend on sufficient earnings to support them and approval of appropriate bank regulatory authorities.

In addition to the foregoing regulatory restrictions, we are subject to contractual restrictions that limit us from paying dividends on our common stock, including those contained in the securities purchase agreement between us and the Treasury, as described in more detail below.

Capital Adequacy

Regulatory Capital Guidelines. Federal bank regulatory agencies use capital adequacy guidelines in the examination and regulation of bank holding companies and banks. The guidelines are “risk-based,” meaning that they are designed to make capital requirements more sensitive to differences in risk profiles among banks and bank holding companies.

Tier I and Tier II Capital. Under the guidelines, an institution's capital is divided into two broad categories, Tier I capital and Tier II capital. Tier I capital generally consists of common stockholders' equity (including surplus and undivided profits), qualifying non-cumulative perpetual preferred stock, and qualified minority interests in the equity accounts of consolidated subsidiaries. Tier II capital generally consists of the allowance for loan losses, hybrid capital instruments, and qualifying subordinated debt. The sum of Tier I capital and Tier II capital represents an institution's total regulatory capital. The guidelines require that at least 50% of an institution's total capital consist of Tier I capital.

Risk-based Capital Ratios. The adequacy of an institution's capital is gauged primarily with reference to the institution's risk-weighted assets. The guidelines assign risk weightings to an institution's assets in an effort to quantify the relative risk of each asset and to determine the minimum capital required to support that risk. An institution's risk-weighted assets are then compared with its Tier I capital and total capital to arrive at a Tier I risk-based ratio and a total risk-based ratio, respectively. The guidelines provide that an institution must have a minimum Tier I risk-based ratio of 4% and a minimum total risk-based ratio of 8%.

Leverage Ratio. The guidelines also employ a leverage ratio, which is Tier I capital as a percentage of average total assets, less intangibles. The principal objective of the leverage ratio is to constrain the maximum degree to which a bank holding company may leverage its equity capital base. The minimum leverage ratio is 3%; however, for all but the most highly rated bank holding companies and for bank holding companies seeking to expand, regulators expect an additional cushion of at least 1% to 2%.

Prompt Corrective Action. Under the guidelines, an institution is assigned to one of five capital categories depending on its total risk-based capital ratio, Tier I risk-based capital ratio, and leverage ratio, together with certain subjective factors. The categories range from “well capitalized” to “critically undercapitalized.” Institutions that are “undercapitalized” or lower are subject to certain mandatory supervisory corrective actions. At each successively lower capital category, an insured bank is subject to increased restrictions on its operations. During these challenging economic times, the federal banking regulators have actively enforced these provisions.

Regulatory Oversight and Examination

The Federal Reserve conducts periodic inspections of bank holding companies, which are performed both onsite and offsite. The supervisory objectives of the inspection program are to ascertain whether the financial strength of the bank holding company is being maintained on an ongoing basis and to determine the effects or consequences of transactions between a holding company or its non-banking subsidiaries and its subsidiary banks. For holding companies under \$10 billion in assets, the inspection type and frequency varies depending on asset size, complexity of the organization, and the holding company's rating at its last inspection.

Banks are subject to periodic examinations by their primary regulators. Bank examinations have evolved from reliance on transaction testing in assessing a bank's condition to a risk-focused approach. These examinations are

extensive and cover the entire breadth of operations of the bank. Generally, safety and soundness examinations occur on an 18-month cycle for banks under \$500 million in total assets that are well capitalized and without regulatory issues, and 12 months otherwise. Examinations alternate between the federal and state bank regulatory agency or may occur on a combined schedule. The frequency of consumer compliance and CRA examinations is linked to the size of the institution and its compliance and CRA ratings at its most recent examination. However, the examination authority of the Federal Reserve and the FDIC allows them to examine supervised banks as frequently as deemed necessary based on the condition of the bank or as a result of certain triggering events.

Corporate Governance and Accounting

Sarbanes-Oxley Act of 2002. The Sarbanes-Oxley Act of 2002 (the “Act”) addresses, among other things, corporate governance, auditing and accounting, enhanced and timely disclosure of corporate information, and penalties for non-compliance. Generally, the Act (i) requires chief executive officers and chief financial officers to certify to the accuracy of periodic reports filed with the Securities and Exchange Commission (the “SEC”); (ii) imposes specific and enhanced corporate disclosure requirements; (iii) accelerates the time frame for reporting of insider transactions and periodic disclosures by public companies; (iv) requires companies to adopt and disclose information about corporate governance practices, including whether or not they have adopted a code of ethics for senior financial officers and whether the audit committee includes at least one “audit committee financial expert;” and (v) requires the SEC, based on certain enumerated factors, to regularly and systematically review corporate filings.

As a publicly reporting company, the Company is subject to the requirements of the Act and related rules and regulations issued by the SEC. After enactment, we updated our policies and procedures to comply with the Act's requirements and have found that such compliance, including compliance with Section 404 of the Act relating to management control over financial reporting, has resulted in some additional expense for the Company. We anticipate that we will continue to incur such additional expense in our ongoing compliance.

Anti-terrorism

USA Patriot Act of 2001. The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, intended to combat terrorism, was renewed with certain amendments in 2006 (the “Patriot Act”). The Patriot Act, in relevant part, (i) prohibits banks from providing correspondent accounts directly to foreign shell banks; (ii) imposes due diligence requirements on banks opening or holding accounts for foreign financial institutions or wealthy foreign individuals; (iii) requires financial institutions to establish an anti-money-laundering compliance program; and (iv) eliminates civil liability for persons who file suspicious activity reports. The Act also includes provisions providing the government with power to investigate terrorism, including expanded government access to bank account records.

Financial Services Modernization

Gramm-Leach-Bliley Act of 1999. The Gramm-Leach-Bliley Financial Services Modernization Act of 1999 brought about significant changes to the laws affecting banks and bank holding companies. Generally, the Act (i) repeals historical restrictions on preventing banks from affiliating with securities firms; (ii) provides a uniform framework for the activities of banks, savings institutions and their holding companies; (iii) broadens the activities that may be conducted by national banks and banking subsidiaries of bank holding companies; (iv) provides an enhanced framework for protecting the privacy of consumer information and requires notification to consumers of bank privacy policies; and (v) addresses a variety of other legal and regulatory issues affecting both day-to-day operations and long-term activities of financial institutions. Bank holding companies that qualify and elect to become financial holding companies can engage in a wider variety of financial activities than permitted under previous law, particularly with respect to insurance and securities underwriting activities.

The Emergency Economic Stabilization Act of 2008

Emergency Economic Stabilization Act of 2008. In response to market turmoil and financial crises affecting the overall banking system and financial markets in the United States, the Emergency Economic Stabilization Act of 2008 (“EESA”) was enacted on October 3, 2008. EESA provided the United States Department of the Treasury (the “Treasury”) with broad authority to implement certain actions intended to help restore stability and liquidity to the U.S. financial markets.

Troubled Asset Relief Program. Under the EESA, the Treasury has authority, among other things, to purchase up to \$700 billion in mortgage loans, mortgage-related securities and certain other financial instruments, including debt and equity securities issued by financial institutions pursuant to the Troubled Asset Relief Program (“TARP”). The purpose of TARP is to restore confidence and stability to the U.S. banking system and to encourage financial institutions to increase lending to customers and to each other. Pursuant to the EESA, the Treasury was initially authorized to use \$350 billion for TARP. Of this amount, the Treasury allocated \$250 billion to the TARP Capital Purchase Program (“CPP”), which funds were used to purchase preferred stock from qualifying financial institutions. The CPP provides direct equity investment of perpetual preferred stock by the Treasury in qualified financial institutions. The program is voluntary and requires an institution to comply with a number of restrictions and provisions, including limits on executive compensation, stock redemptions and declaration of dividends. For publicly traded companies, the CPP also requires the Treasury to receive warrants for common stock equal to 15% of the capital invested by the Treasury. The Company applied for and received \$27 million in the CPP. As a result, the Company is subject to the restrictions described below. The Treasury made an equity investment in the Company through its purchase of the Company's Fixed Rate Cumulative Perpetual Preferred Stock, Series A (the “Series A Preferred Stock”). The description of the Series A Preferred Stock set forth below is qualified in its entirety by the actual terms of the Series A Preferred Stock, as are stated in the Certificate of Designation for the Series A Preferred Stock, a copy of which was attached as Exhibit 3.1 to our Current Report on Form 8-K filed with the SEC on December 19, 2008 and incorporated by reference.

The Series A Preferred Stock constitutes a single series of our preferred stock, consisting of 27,000 shares, no par value per share, having a liquidation preference amount of \$1,000 per share. The Series A Preferred Stock has no maturity date. We issued the shares of Series A Preferred Stock to Treasury on December 19, 2008 in connection with the CPP for a purchase price of \$27,000,000.

Dividend Rate. Dividends on the Series A Preferred Stock are payable quarterly in arrears, when, as and if authorized and declared by our Board of Directors out of legally available funds, on a cumulative basis on the \$1,000 per share liquidation preference amount plus the amount of accrued and unpaid dividends for any prior dividend periods, at a rate of (i) 5% per annum, from the original issuance date to the fifth anniversary of the issuance date, and (ii) 9% per annum, thereafter.

Dividends on the Series A Preferred Stock will be cumulative. If for any reason our Board of Directors does not declare a dividend on the Series A Preferred Stock for a particular dividend period, or if our Board of Directors declares less than a full dividend, we will remain obligated to pay the unpaid portion of the dividend for that period and the unpaid dividend will compound on each subsequent dividend date (meaning that dividends for future dividend periods will accrue on any unpaid dividend amounts for prior dividend periods). The Company entered into an informal agreement with the Federal Reserve and the Idaho Department of Finance, which requires the Company to obtain advance approval from the Federal Reserve and the Idaho Department of Finance prior to paying any dividends including dividends on the Series A Preferred Stock. Under the CPP, if the Company fails to pay dividends on the Series A Preferred Stock for 6 quarters, as it currently has, Treasury may appoint two members to the Company's board of directors.

Priority of Dividends. Until the earlier of the third anniversary of Treasury's investment or our redemption or the Treasury's transfer of the Series A Preferred Stock to an unaffiliated third party, we may not declare or pay a dividend or other distribution on our common stock (other than dividends payable solely in common stock), and we generally

may not directly or indirectly purchase, redeem or otherwise acquire any shares of common stock, including trust preferred securities.

Liquidation Rights. In the event of any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Company, holders of the Series A Preferred Stock will be entitled to receive for each share of Series A Preferred Stock, out of the assets of the Company or proceeds available for distribution to our shareholders, subject to any rights of our creditors, before any distribution of assets or proceeds is made to or set aside for the holders of our common stock and any other class or series of our stock ranking junior to the Series A Preferred Stock, payment of an amount equal to the sum of (i) the \$1,000 liquidation preference amount per share and (ii) the amount of any accrued and unpaid dividends on the Series A Preferred Stock (including dividends accrued on any unpaid dividends). To the extent the assets or proceeds available for distribution to shareholders are not sufficient to fully pay the liquidation payments owing to the holders of the Series A Preferred Stock and the holders of any other class or series of our stock ranking equally with the Series A Preferred Stock, the holders of the Series A Preferred Stock and such other stock will share ratably in the distribution. For purposes of the liquidation rights of the Series A Preferred Stock, neither a merger nor consolidation of the Company with another entity nor a sale, lease or exchange of all or substantially all of the Company's assets will constitute a liquidation, dissolution or winding up of the affairs of the Company.

Compensation and Corporate Governance Standards and Restrictions under the CPP. As a participant in the CPP, the Company is subject to compensation and corporate governance standards and restrictions under applicable legislation and Treasury regulations, which include but are not limited to (1) restrictions on bonus, incentive and retention awards to our five most highly-compensated employees, (2) restrictions on severance and change-in-control payments to our executive officers and next five most highly-compensated employees, (3) ensuring that our compensation programs do not encourage unnecessary and excessive risks, and (4) requiring the recovery or "clawback" of any incentive compensation paid to our executive officers and next 20 most highly-compensated employees if it is later determined that such payments were based on materially inaccurate financial or other performance criteria. The applicable regulations and their impact on the Company will be discussed more fully in our proxy statement for the 2012 annual meeting of shareholders, and included in Part III of this Form 10-K.

Temporary Liquidity Guarantee Program. Another program established pursuant to the EESA is the Temporary Liquidity Guarantee Program ("TLGP"), which (i) removed the limit on FDIC deposit insurance coverage for non-interest bearing transaction accounts through December 31, 2009, and (ii) provided FDIC backing for certain types of senior unsecured debt issued from October 14, 2008 through June 30, 2009. The end-date for issuing senior unsecured debt was later extended to October 31, 2009 and the FDIC also extended the Transaction Account Guarantee portion of the TLGP through December 31, 2010. In November 2010, the FDIC issued a final rule to implement provisions of the Dodd-Frank Act that provides for temporary unlimited coverage for non-interest-bearing transaction accounts. The separate coverage for non-interest-bearing transaction accounts became effective on December 31, 2010 and terminates on December 31, 2012.

Deposit Insurance

The Bank's deposits are insured under the Federal Deposit Insurance Act, up to the maximum applicable limits and are subject to deposit insurance assessments designed to tie what banks pay for deposit insurance more closely to the risks they pose. The Bank has prepaid its quarterly deposit insurance assessments for 2012 pursuant to applicable FDIC regulations. In February 2011, the FDIC approved new rules to, among other things, change the assessment base from one based on domestic deposits (as it has been since 1935) to one based on assets (average consolidated total assets minus average tangible equity). Since the new assessment base is larger than the base used under prior regulations, the rules also lower assessment rates, so that the total amount of revenue collected by the FDIC from the industry is not significantly altered. The rules also revise the deposit insurance assessment system for large financial institutions, defined as institutions with at least \$10 billion in assets. The rules revise the assessment rate schedule, effective April 1, 2011, and adopt additional rate schedules that will go into effect when the Deposit Insurance Fund reserve ratio reaches various milestones. The Dodd-Frank Act requires the FDIC to increase the reserve ratio of the Deposit

Insurance Fund from 1.15% to 1.35% of insured deposits by 2020 and eliminates the requirement that the FDIC pay dividends to insured depository institutions when the reserve ratio exceeds certain thresholds.

Insurance of Deposit Accounts. The EESA included a provision for a temporary increase from \$100,000 to \$250,000 per depositor in deposit insurance effective October 3, 2008 through December 31, 2010. On May 20, 2009, the temporary increase was extended through December 31, 2013. The Dodd-Frank Act permanently raises the current standard maximum deposit insurance amount to \$250,000. The FDIC insurance coverage limit applies per depositor, per insured depository institution for each account ownership category. EESA also temporarily raised the limit on federal deposit insurance coverage to an unlimited amount for non-interest or low-interest bearing demand deposits. Pursuant to the Dodd-Frank Act, unlimited coverage for non-interest transaction accounts will continue until December 31, 2012.

Recent Legislation

Dodd-Frank Wall Street Reform and Consumer Protection Act. As a result of the recent financial crises, on July 21, 2010 the Dodd-Frank Act was signed into law. The Dodd-Frank Act is expected to have a broad impact on the financial services industry, including significant regulatory and compliance changes and changes to corporate governance matters affecting public companies. Since not all of the regulations implementing these changes have been promulgated, we cannot determine the full impact on our business and operations at this time. However, the Dodd-Frank Act is expected to have a significant impact on our business operations as its provisions take effect. Some of the provisions of the Dodd-Frank Act that may impact our business are summarized below.

Holding Company Capital Requirements. Under the Dodd-Frank Act, trust preferred securities will be excluded from the Tier 1 capital of a bank holding company between \$500 million and \$15 billion in assets unless such securities were issued prior to May 19, 2010.

Corporate Governance. The Dodd-Frank Act requires publicly traded companies to provide their shareholders with (i) a non-binding shareholder vote on executive compensation, (ii) a non-binding shareholder vote on the frequency of such vote, (iii) disclosure of “golden parachute” arrangements in connection with specified change in control transactions, and (iv) a non-binding shareholder vote on golden parachute arrangements in connection with these change in control transactions. Except with respect to “smaller reporting companies” and participants in the CPP, the new rules applied to proxy statements relating to annual meetings of shareholders held after January 20, 2011. “Smaller reporting companies,” those with a public float of less than \$75 million, are required to include the non-binding shareholder votes on executive compensation and the frequency thereof in proxy statements relating to annual meetings occurring on or after January 21, 2013.

Prohibition Against Charter Conversions of Troubled Institutions. The Dodd-Frank Act generally prohibits a depository institution from converting from a state to federal charter, or vice versa, while it is the subject of an enforcement action unless the bank seeks prior approval from its regulator and complies with specified procedures to ensure compliance with the enforcement action.

Debit Card Interchange Fees. The Dodd-Frank Act requires the amount of any interchange fee charged by a debit card issuer with respect to a debit card transaction to be reasonable and proportional to the cost incurred by the issuer. While the restrictions on interchange fees do not apply to banks that, together with their affiliates, have assets of less than \$10 billion, the rule could affect the competitiveness of debit cards issued by smaller banks.

Consumer Financial Protection Bureau. The Dodd-Frank Act creates a new, independent federal agency called the Consumer Financial Protection Bureau (“CFPB”) within the Federal Reserve Board. The CFPB has broad rulemaking, supervision and enforcement authority for a wide range of consumer protection laws applicable to banks and thrifts with greater than \$10 billion in assets. Smaller institutions are subject to certain rules promulgated by the CFPB but

will continue to be examined and supervised by their federal banking regulators for compliance purposes.

Repeal of Demand Deposit Interest Prohibition. The Dodd-Frank Act repeals the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts.

American Recovery and Reinvestment Act of 2009. On February 17, 2009 the American Recovery and Reinvestment Act of 2009 ("ARRA") was signed into law. ARRA was intended to help stimulate the economy through a combination of tax cuts and spending provisions applicable to a broad range of areas with an estimated cost of about \$780 billion. Among other things, ARRA authorized the U.S. Small Business Administration ("SBA") to increase the level of the SBA's guaranty for eligible loans to 90 percent. The increased guaranty percentage continued until available funding was exhausted on January 3, 2011. ARRA also made temporary changes, which expired on December 31, 2010, to federal law that expanded the capability of banks to purchase tax-exempt debt.

Overdrafts. On November 17, 2009, the Board of Governors of the Federal Reserve System promulgated the Electronic Fund Transfer rule with an effective date of January 19, 2010 and a mandatory compliance date of July 1, 2010. The rule, which applies to all FDIC-regulated institutions, prohibits financial institutions from assessing an overdraft fee for paying automated teller machine (ATM) and one-time point-of-sale debit card transactions, unless the customer affirmatively opts in to the overdraft service for those types of transactions. The opt-in provision establishes requirements for clear disclosure of fees and terms of overdraft services for ATM and one-time debit card transactions. FDIC guidance which became effective in July, 2011 placed further restrictions on bank overdraft programs. Since a percentage of the Company's service charges on deposits are in the form of overdraft fees, these regulations have had an adverse impact on our non-interest income.

Proposed Legislation

General. Proposed legislation is introduced in almost every legislative session. Certain of such legislation could dramatically affect the regulation of the banking industry. We cannot predict if any such legislation will be adopted or if it is adopted how it would affect the business of the Company or the Bank. Past history has demonstrated that new legislation or changes to existing laws or regulations usually results in a greater compliance burden and therefore generally increases the cost of doing business.

Possible Changes to Capital Requirements Resulting from Basel III. Basel III updates and revises the current international bank capital accords (so-called "Basel I" and "Basel II"). Basel III is intended to be implemented by participating countries for large, internationally active banks. However, standards consistent with Basel III will be formally implemented in the United States through a series of regulations, some of which may apply to other banks. Among other things, Basel III creates "Tier 1 common equity," a new measure of regulatory capital closer to pure tangible common equity than the present Tier 1 definition. Basel III also increases minimum capital ratios. For the new concept of Tier 1 common equity, the minimum ratio is 4.5 percent of risk weighted assets. For Tier 1 and total capital the Basel III minimums are 6 percent and 8 percent respectively. Capital buffers comprising common equity equal to 2.5 percent of risk-weighted assets are added to each of these minimums to enable banks to absorb losses during a stressed period while remaining above their regulatory minimum ratios. The Company cannot predict the extent to which Basel III will be adopted or, if adopted, how it will apply to us.

Effects of Government Monetary Policy

Our earnings and growth are affected not only by general economic conditions, but also by the fiscal and monetary policies of the federal government, particularly the Federal Reserve. The Federal Reserve implements national monetary policy for such purposes as curbing inflation and combating recession, but its open market operations in U.S. government securities, control of the discount rate applicable to borrowings from the Federal Reserve, and establishment of reserve requirements against certain deposits, influence the growth of bank loans, investments and

deposits, and also affect interest rates charged on loans or paid on deposits. The nature and impact of future changes in monetary policies and their impact on us cannot be predicted with certainty.

Where you can find more information

The periodic reports Intermountain files with the SEC are available on Intermountain's website at <http://www.intermountainbank.com> after the reports are filed with the SEC. The SEC maintains a website located at <http://sec.gov> that also contains this information. The Company will provide you with copies of these reports, without charge, upon request made to:

Investor Relations
Intermountain Community Bancorp
414 Church Street

Sandpoint, Idaho 83864
(208) 263-0505

Item 1A. RISK FACTORS

Our business exposes us to certain risks. The following is a discussion of what we currently believe are the most significant risks and uncertainties that may affect our business, financial condition or results of operations, or the value of our common stock.

The continued challenging economic environment could have a material adverse effect on our future results of operations or market price of our stock.

The national economy and the financial services sector in particular, are still facing significant challenges.

Substantially all of our loans are to businesses and individuals in northern, southwestern and south central Idaho, eastern Washington and southwestern Oregon, markets facing many of the same challenges as the national economy, including elevated unemployment and declines in commercial and residential real estate. Although some economic indicators are improving both nationally and in the markets we serve, unemployment remains high and there remains substantial uncertainty regarding when and how strongly a sustained economic recovery will occur. A further deterioration in economic conditions in the nation as a whole or in the markets we serve could result in the following consequences, any of which could have an adverse impact, which may be material, on our business, financial condition, results of operations and prospects, and could also cause the market price of our stock to decline:

- economic conditions may worsen, increasing the likelihood of credit defaults by borrowers;

- loan collateral values, especially as they relate to commercial and residential real estate, may decline further, thereby increasing the severity of loss in the event of loan defaults;

- nonperforming assets and write-downs of assets underlying troubled credits could adversely affect our earnings;

- demand for banking products and services may decline, including services for low cost and non-interest-bearing deposits; and

- changes and volatility in interest rates may negatively impact the yields on earning assets and the cost of interest-bearing liabilities.

Our allowance for loan losses may not be adequate to cover actual loan losses, which could adversely affect our earnings.

We maintain an allowance for loan losses in an amount that we believe is adequate to provide for losses inherent in our loan portfolio. While we strive to carefully manage and monitor credit quality and to identify loans that may be deteriorating, at any time there are loans included in the portfolio that may result in losses, but that have not yet been identified as potential problem loans. Through established credit practices, we attempt to identify deteriorating loans and adjust the loan loss reserve accordingly. However, because future events are uncertain, there may be loans that deteriorate in an accelerated time frame. As a result, future additions to the allowance may be necessary. Because the loan portfolio contains a number of loans with relatively large balances, deterioration in the credit quality of one or more of these loans may require a significant increase to the allowance for loan losses. Future additions to the allowance may also be required based on changes in the financial condition of borrowers, such as have resulted due to

the current, economic conditions or as a result of actual events turning out differently than forecasted in the assumptions we use to determine the allowance for loan losses. With respect to real estate loans and property taken in satisfaction of such loans ("other real estate owned" or "OREO"), we can be required to recognize significant declines in the value of the underlying real estate collateral or OREO quite suddenly as new appraisals are performed in the normal course of monitoring the credit quality of the loans. There are many factors that can cause the appraised value of real estate to decline, including declines in the general real estate market, changes in methodology applied by the appraiser, and/or using a different appraiser than was used for the prior appraisal. Our ability to recover on real estate loans by selling or disposing of the underlying real estate collateral is adversely impacted by declining appraised values, which increases the likelihood we will suffer losses on defaulted loans beyond the amounts provided for in the allowance for loan losses. This, in turn, could require material increases in our provision for loan losses. Additionally, federal banking regulators, as an integral part of their supervisory function, periodically review our allowance for loan losses. These regulatory agencies may require us to recognize further loan loss provisions or charge-offs based upon their judgments, which may be different from ours. Any increase in the allowance for loan losses would have a negative effect, which may be material, on our financial condition and results of operations. We have entered into an informal agreement with our regulators to take steps to further strengthen the Bank. The Bank has entered into an informal agreement with the FDIC and the Idaho Department of Finance to take steps to further strengthen the Bank within specified timeframes, including, among other items, increasing capital by at least \$30 million by June 16, 2010 and thereafter maintaining a minimum 10% Tier 1 Capital to Average Assets ratio, not paying dividends from the Bank to the Company without prior approval, achieving staged reductions in the Bank's adversely classified assets and not engaging in transactions that would materially alter our balance sheet composition. Management has taken numerous steps to satisfy the

conditions of the agreement, including raising net proceeds of approximately \$42.2 million in the recent capital raise and contributing \$30 million as additional capital to the Bank. Although management has taken these steps, there can be no assurance as to when, or if, the informal agreement will be lifted.

If the proceeds from the recent private placement and the expected proceeds from the planned Rights Offering are not sufficient to satisfy our capital and liquidity needs or to satisfy changing regulatory requirements, we may need even more capital and could be subject to further regulatory restrictions, either of which could significantly adversely affect us and the trading price of our stock.

The proceeds from the recent private placement and the expected proceeds from the planned Rights Offering have been raised, or will be raised, to strengthen our common equity capital base. Despite this increase in our capital base, if the proceeds from the private placement and the expected proceeds from the Rights Offering are not sufficient, or if economic conditions continue to be difficult or worsen or fail to improve in a timely manner, or if there is further deterioration in economic conditions in the nation as a whole or in the markets we serve, particularly in the residential and commercial real estate markets, we may need to raise significant additional capital. Factors affecting whether we would need to raise additional capital include, among others, changing requirements of regulators, further decline in loan collateral values, additional provisions for loan losses and loan charge-offs, and other risks discussed in this "Risk Factors" section. If we were to need to raise additional capital, there can be no assurance that we would be able to do so in the amounts required and in a timely manner, or at all. In addition, any such additional capital raised may be significantly dilutive to our existing shareholders and may result in the issuance of securities that have rights, preferences and privileges that are senior to our Common Stock.

As a result of the transactions contemplated by the Purchase Agreements, Castle Creek Capital Partners IV, L.P. ("Castle Creek") and affiliates of Stadium Capital Management LLC ("Stadium") became substantial holders of our Common Stock.

Upon the completion of the transactions contemplated by the Purchase Agreements, Castle Creek and Stadium each became holders of a 33.3% ownership interest, and 9.9% and 14.9% voting interest, respectively, in Intermountain (after giving effect to the exercise of certain warrants issued thereby). Stadium has a representative on our board and each has the right to an observer and has a representative on the Bank's Board of Directors. Although Castle Creek and Stadium each entered into certain passivity agreements with the Federal Reserve in connection with their investments in us, Castle Creek and Stadium each have substantial influence over our corporate policy and business strategy. In pursuing their economic interests, Castle Creek and Stadium may have interests that are different from the interests of our other shareholders.

Resales of our Common Shares in the public market may cause the market price of our Common Shares to fall.

We issued a large number of shares of Common Stock and securities convertible into common stock to the Investors pursuant to the Purchase Agreements. The Investors have certain registration rights with respect to the shares of Common Stock and securities convertible into common stock held by them. The registration rights for the Investors will allow them to sell their shares without compliance with the volume and manner of sale limitations under Rule 144 promulgated under the Securities Act. The market value of our Common Stock could decline as a result of sales by the Investors from time to time of a substantial amount of the shares of Common Stock and securities convertible into common stock held by them.

We have incurred significant losses in recent years and may incur losses again in the future.

We have incurred significant losses in recent years. While there has been continued improvement in the quality of our loan portfolio and a corresponding improvement in operating results, economic conditions remain uncertain. As such, significant additional provisions for credit losses may be necessary to supplement the allowance for loan and lease losses in the future, which could cause us to incur a net loss in the future and could adversely affect the price of, and market for, our common stock.

Concentration in real estate loans and the deterioration in the real estate markets we serve could require material increases in our allowance for loan losses and adversely affect our financial condition and results of operations.

The current economic downturn and sluggish recovery is significantly affecting our market areas. At December 31, 2011, 61.7% of our loans were secured with real estate as the primary collateral. Further deterioration or a slow recovery in the local economies we serve could have a material adverse effect on our business, financial condition and

results of operations due to a weakening of our borrowers' ability to repay these loans and a decline in the value of the collateral securing them. In light of the continuing effects of the economic downturn of the past three years, real estate values have been adversely affected. As we have experienced, significant declines in real estate collateral can occur quite suddenly as new appraisals are performed in the normal course of monitoring the credit quality of the loan. Significant declines in the value of real estate collateral due to new appraisals can occur due to declines in the real estate market, changes in methodology applied by the appraiser, and/or using a different appraiser than was used for the prior appraisal. Our ability to recover on these loans by selling or disposing of the underlying real estate collateral is adversely impacted by declining real estate values, which increases the likelihood we will suffer losses on defaulted loans secured by real estate beyond the amounts provided for in the allowance for loan losses. This, in turn, could require material increases in our allowance for loan losses and adversely affect our financial condition and results of operations, perhaps materially.

Non-performing assets take significant time to resolve and adversely affect our results of operations and financial condition.

At December 31, 2011, our non-performing loans (which consist of non-accrual loans and loans that are 90 days or more past due) were 1.85% of the loan portfolio. At December 31, 2011, our non-performing assets (which also include OREO) were 1.71% of total assets. The level of non-performing loans to net loans decreased from 2.04% at December 31, 2010, to 1.85% at December 31, 2011, but the level of non-performing assets to total assets increased from 1.59% at December 31, 2010 to 1.71% at December 31, 2011, and remains at elevated levels compared to historical norms. Non-performing loans and assets adversely affect us in a variety of ways. Until economic and market conditions improve, we may expect to continue to incur losses relating to elevated levels of non-performing assets. We do not record interest income on non-accrual loans, thereby adversely affecting our net interest income and increasing loan administration costs. When we receive collateral through foreclosures and similar proceedings, we are required to mark the related loan to the then fair market value of the collateral, which may ultimately result in a loss. An increase in the level of non-performing assets also increases our risk profile and may impact the capital levels our regulators believe are appropriate in light of such risks. We utilize various techniques such as loan sales, workouts and restructurings to manage our problem assets. Decreases in the value of these problem assets, the underlying collateral, or in the borrowers' performance or financial condition could adversely affect our business, results of operations and financial condition, perhaps materially. In addition, the resolution of non-performing assets requires significant commitments of time from management and staff, which can be detrimental to the performance of their other responsibilities. We may experience increases in non-performing loans and assets in the future. Our ability to receive dividends from our banking subsidiary accounts for most of our revenue and could affect our liquidity and ability to pay dividends.

We are a separate and distinct legal entity from our banking subsidiary, Panhandle State Bank. We receive substantially all of our revenue from dividends from our banking subsidiary. Under normal circumstances, these dividends are the principal source of funds to fund holding company expenses and pay dividends on our common and preferred stock and principal and interest on our outstanding debt. The other primary sources of liquidity for the parent Company are capital or borrowings. Various federal and/or state laws and regulations limit the amount of dividends that the Bank may pay us. For example, Idaho law limits a bank's ability to pay dividends subject to surplus reserve requirements. In addition, as noted above, we have entered into an informal agreement with our regulators prohibiting the payment of dividends from the Bank to the Company without prior approval. Also, our right to participate in a distribution of assets upon a subsidiary's liquidation or reorganization is subject to the prior claims of the subsidiary's creditors. Limitations on our ability to receive dividends from our subsidiary could have a material adverse effect on our liquidity and on our ability to pay dividends on common or preferred stock. Additionally, if our subsidiary's earnings are not sufficient to make dividend payments to us while maintaining adequate capital levels, we may not be able to make dividend payments to our common and preferred shareholders or principal and interest payments on our outstanding debt.

In this regard, we have suspended payments on our trust preferred securities and Fixed Rate Cumulative Perpetual Preferred Stock, Series A (the "Series A Preferred Stock"). As of April, 2012, we will have not paid dividends on the Series A Preferred Stock for a total of ten quarterly dividend periods, which gives the U.S. Treasury the right to appoint two directors to our board of directors until all accrued but unpaid dividends have been paid. If we do not make payments on our trust preferred securities for over 20 consecutive quarters, we could be in default under those securities.

A continued tightening of credit markets and liquidity risk could adversely affect our business, financial condition and results of operations.

A continued tightening of the credit markets or any inability to obtain adequate funds for continued loan growth at an acceptable cost could negatively affect our asset growth and liquidity position and, therefore, our earnings capability. In addition to core deposit growth, maturity of investment securities and loan payments, the Bank also relies on alternative funding sources including unsecured borrowing lines with correspondent banks, borrowing lines with the Federal Home Loan Bank and the Federal Reserve Bank, public time certificates of deposits and out of area and brokered time certificates of deposit. Our ability to access these sources could be impaired by deterioration in our

financial condition as well as factors that are not specific to us, such as a disruption in the financial markets or negative views and expectations for the financial services industry or serious dislocation in the general credit markets. In the event such disruption should occur, our ability to access these sources could be negatively affected, both as to price and availability, which would limit, and/or potentially raise the cost of, the funds available to the Company. The FDIC has increased insurance premiums and imposed special assessments to rebuild and maintain the federal deposit insurance fund, and any additional future premium increases or special assessments could have a material adverse effect on our business, financial condition and results of operations.

In 2009, the FDIC imposed a special deposit insurance assessment of five basis points on all insured institutions, and also required insured institutions to prepay estimated quarterly risk-based assessments through 2012.

The Dodd-Frank Act established 1.35% as the minimum deposit insurance fund reserve ratio. The FDIC has determined that the fund reserve ratio should be 2.0% and has adopted a plan under which it will meet the statutory minimum fund reserve ratio of 1.35% by the statutory deadline of September 30, 2020. The Dodd-Frank Act requires the FDIC to offset the effect on institutions

with assets less than \$10 billion of the increase in the statutory minimum fund reserve ratio to 1.35% from the former statutory minimum of 1.15%.

On February 7, 2011, the FDIC issued final rules, effective April 1, 2011, implementing changes to the assessment rules resulting from the Dodd-Frank Act. The adopted regulations: (1) modify the definition of an institution's deposit insurance assessment base; (2) alter certain adjustments to the assessment rates; (3) revise the assessment rate schedules in light of the new assessment base and altered adjustments; and (4) provide for the automatic adjustment of the assessment rates in the future when the reserve ratio reaches certain milestones.

Despite the FDIC's actions to restore the deposit insurance fund, the fund will suffer additional losses in the future due to failures of insured institutions. There may be additional significant deposit insurance premium increases, special assessments or prepayments in order to restore the insurance fund's reserve ratio. Any significant premium increases or special assessments could have a material adverse effect on the Company's financial condition and results of operations.

We may be required, in the future, to recognize impairment with respect to investment securities, including the FHLB stock we hold.

Our securities portfolio contains whole loan private mortgage-backed securities and currently includes securities with unrecognized losses. The national downturn in real estate markets and elevated mortgage delinquency and foreclosure rates have increased credit losses in the portfolio of loans underlying these securities and resulted in substantial discounts in their market values. While these trends appear to have stabilized, any further deterioration in the loans underlying these securities and resulting market discounts could lead to other-than-temporary impairment in the value of these investments. We evaluate the securities portfolio for any other-than-temporary impairment each reporting period, as required by generally accepted accounting principles, and as of December 31, 2011, two securities had been determined to be other than temporarily impaired ("OTTI"), with the cumulative impairment totaling \$3.5 million. Of this \$3.5 million, \$1.5 million has been recognized as a credit loss through the Company's income statement since the determination of OTTI. The remaining \$2.0 million has been recognized in other comprehensive income. Future evaluations of our securities portfolio may require us to recognize additional impairment charges with respect to these and other holdings. For example, it is possible that government-sponsored programs to allow mortgages to be refinanced to lower rates could materially adversely impact the yield on our portfolio of mortgage-backed securities, since a significant portion of our investment portfolio is composed of such securities.

In addition, as a condition to membership in the Federal Home Loan Bank of Seattle ("FHLB"), we are required to purchase and hold a certain amount of FHLB stock. Our stock purchase requirement is based, in part, upon the outstanding principal balance of advances from the FHLB. At December 31, 2011, we had stock in the FHLB of Seattle totaling \$2.3 million. The FHLB stock held by us is carried at cost and is subject to recoverability testing under applicable accounting standards. The FHLB has discontinued the repurchase of its stock and discontinued the distribution of dividends. As of December 31, 2011, we did not recognize an impairment charge related to our FHLB stock holdings. However, future negative changes to the financial condition of the FHLB may require us to recognize an impairment charge with respect to FHLB stock.

Recent levels of market volatility were unprecedented and we cannot predict whether they will return.

The capital and credit markets have been experiencing volatility and disruption for over three years, at times reaching unprecedented levels. In some cases, the markets have produced downward pressure on stock prices and credit availability for certain companies without regard to those companies' underlying financial strength. If similar levels of market disruption and volatility return, we may experience various adverse effects, which may be material, on our ability to access capital and on our business, financial condition and results of operations.

We operate in a highly regulated environment and we cannot predict the effects of recent and pending federal legislation.

As discussed further in the section "Supervision and Regulation" in Item 1 of this Report, we are subject to extensive regulation, supervision and examination by federal and state banking authorities. In addition, as a publicly traded company, we are subject to regulation by the Securities and Exchange Commission. Any change in applicable regulations or federal, state or local legislation, or in policies or interpretations or regulatory approaches to compliance and enforcement, income tax laws and accounting principles, could have a substantial impact on us and our

operations. Changes in laws and regulations may also increase our expenses by imposing additional fees or taxes or restrictions on our operations. Additional legislation and regulations that could significantly affect our powers, authority and operations may be enacted or adopted in the future, which could have a material adverse effect on our financial condition and results of operations. Failure to appropriately comply with any such laws, regulations or principles could result in sanctions by regulatory agencies or damage to our reputation, all of which could adversely affect our business, financial condition or results of operations.

In that regard, sweeping financial regulatory reform legislation was enacted in July 2010. Among other provisions, the legislation (i) created a new Bureau of Consumer Financial Protection with broad powers to regulate consumer financial products such as credit cards and mortgages, (ii) created a Financial Stability Oversight Council comprised of the heads of other regulatory agencies, (iii) will lead to new capital requirements from federal banking agencies, (iv) places new limits on electronic debit card

interchange fees, and (v) requires the Securities and Exchange Commission and national stock exchanges to adopt significant new corporate governance and executive compensation reforms. The new legislation and regulations are expected to increase the overall costs of regulatory compliance.

Further, regulators have significant discretion and authority to prevent or remedy unsafe or unsound practices or violations of laws or regulations by financial institutions and holding companies in the performance of their supervisory and enforcement duties. Recently, these powers have been utilized more frequently due to the serious national, regional and local economic conditions we are facing. The exercise of regulatory authority may have a negative impact on our financial condition and results of operations. Additionally, our business is affected significantly by the fiscal and monetary policies of the U.S. federal government and its agencies, including the Federal Reserve Board.

We cannot predict the full effects of recent legislation or the various other governmental, regulatory, monetary and fiscal initiatives which have been and may be enacted on the financial markets generally, or on the Company and on the Bank specifically. The terms and costs of these activities, or the failure of these actions to help stabilize the financial markets, asset prices, market liquidity and a continuation or worsening of current financial market and economic conditions could materially and adversely affect our business, financial condition, results of operations, and the trading price of our common stock.

Fluctuating interest rates could adversely affect our profitability.

Our profitability is dependent to a large extent upon our net interest income, which is the difference between the interest earned on loans, securities and other interest-earning assets and interest paid on deposits, borrowings, and other interest-bearing liabilities. Because of the differences in maturities and re-pricing characteristics of our interest-earning assets and interest-bearing liabilities, changes in interest rates do not produce equivalent changes in interest income earned on interest-earning assets and interest paid on interest-bearing liabilities. Accordingly, fluctuations in interest rates could adversely affect our net interest margin, and, in turn, our profitability. We manage our interest rate risk within established guidelines and generally seek an asset and liability structure that insulates net interest income from large deviations attributable to changes in market rates. However, our interest rate risk management practices may not be effective in a highly volatile rate environment.

The current unusual interest rate environment poses particular challenges. Market rates are extremely low right now and the Federal Reserve Board has indicated that it will likely maintain low short-term interest rates for the foreseeable future. This extended period of low rates, when combined with keen competition for high-quality borrowers, may cause additional downward pressure on the yield on the Company's loan and investment portfolios. Since the Company's cost of interest-bearing liabilities is already at record lows, the impact of decreasing asset yields may have a more adverse impact on the Company's net interest income.

Fluctuations in interest rates on loans could adversely affect our business.

Significant increases in market interest rates on loans, or the perception that an increase may occur, could adversely affect both our ability to originate new loans and our ability to grow. Conversely, decreases in interest rates could result in an acceleration of loan prepayments. An increase in market interest rates could also adversely affect the ability of our floating-rate borrowers to meet their higher payment obligations. If this occurred, it could cause an increase in nonperforming assets and charge offs, which could adversely affect our business, financial condition and results of operations.

We face strong competition from financial services companies and other companies that offer banking services. The banking and financial services businesses in our market area are highly competitive and increased competition may adversely impact the level of our loans and deposits. Ultimately, we may not be able to compete successfully against current and future competitors. These competitors include national banks, foreign banks, regional banks, and other community banks. We also face competition from many other types of financial institutions, including savings and loan associations, finance companies, brokerage firms, insurance companies, credit unions, mortgage banks and other financial intermediaries. In particular, our competitors include both major financial companies whose greater resources may afford them a marketplace advantage by enabling them to maintain numerous locations and mount extensive promotional and advertising campaigns and credit unions, whose tax-advantaged status allow them to compete aggressively. Areas of competition include interest rates for loans and deposits, efforts to obtain loan and

deposit customers, and a range in quality of products and services provided, including new technology-driven products and services. If we are unable to attract and retain banking customers, we may be unable to maintain or grow our loans or deposits.

We may not be able to successfully implement our internal growth strategy.

Over the long-term, we have pursued and intend to continue to pursue an internal growth strategy, the success of which will depend primarily on generating an increasing level of loans and deposits at acceptable risk levels and terms without proportionate increases in non-interest expenses. We may not be successful in implementing our internal growth strategy. Furthermore, the success of our growth strategy will depend on maintaining sufficient regulatory capital levels and on favorable economic conditions in our market areas.

Certain built-in losses could be limited since we experienced an ownership change, as defined in the Internal Revenue

Code.

Certain of our assets, such as loans, may have built-in losses to the extent the basis of such assets exceeds fair market value. Section 382 of the Internal Revenue Code (“IRC”) may limit the benefit of these built-in losses that exist at the time of an “ownership change.” A Section 382 “ownership change” occurs if a shareholder or a group of shareholders, who are deemed to own at least 5% of our common stock, increase their ownership by more than 50 percentage points over their lowest ownership percentage within a rolling three-year period. If an “ownership change” occurs, Section 382 imposes an annual limit on the amount of recognized built-in losses we can use to reduce our taxable income equal to the product of the total value of our outstanding equity immediately prior to the “ownership change” and the federal long-term tax-exempt interest rate in effect for the month of the “ownership change.” A number of special rules apply to calculating this limit. The limitations contained in Section 382 apply for a five-year period beginning on the date of the “ownership change” and any recognized built-in losses that are limited by Section 382 may be carried forward and reduce our future taxable income for up to 20 years, after which they expire. The recent completion of our \$47.3 million capital raise constituted an “ownership change”, which may cause the annual limit of Section 382 to defer our ability to use some, or all, of the built-in losses to offset taxable income. We are still calculating the potential impacts of the “ownership change”.

Unexpected losses, our inability to successfully implement our tax planning strategies in future reporting periods, or IRS Section 382 limitations resulting from the successful completion of the capital raise may either restrict our ability to release the existing valuation allowance against our deferred income tax assets or require us to increase the valuation allowance in the future.

We evaluate our deferred income tax assets for recoverability based on all available evidence. This process involves significant management judgment about assumptions that are subject to change from period to period based on changes in tax laws, our ability to successfully implement tax planning strategies, or variances between our future projected operating performance and our actual results. We are required to establish a valuation allowance for deferred income tax assets if we determine, based on available evidence at the time the determination is made, that it is more likely than not that some portion or all of the deferred income tax assets may not be realized. In determining the more-likely-than-not criterion, we evaluate all positive and negative available evidence as of the end of each reporting period. In this regard, we established a valuation allowance for deferred income tax assets of \$8.8 million in 2010. Future adjustments to the deferred income tax asset valuation allowance, if any, will be determined based upon changes in the expected realization of the net deferred income tax assets. The realization of the deferred income tax assets ultimately depends on the existence of sufficient taxable income in either the carryback or carryforward periods under the tax law.

The recoverability of tax benefits resulting from net operating loss carryforwards will be limited by the sale of securities pursuant to the Purchase Agreements, because such sale caused an “ownership change”, as defined in IRC Section 382. In addition, risk based capital rules require a regulatory calculation evaluating the Company's deferred income tax asset balance for realization against estimated pre-tax future income and net operating loss carry backs. Under the rules of this calculation and due to significant estimates utilized in establishing the valuation allowance and the potential for changes in facts and circumstances, it is reasonably possible that we will be required to record adjustments to the valuation allowance in future reporting periods that would materially reduce our risk based capital ratios. Such a charge could also have a material adverse effect on our results of operations, financial condition and capital position.

As noted above, based on the composition of the investors, the completion of the \$47.3 million capital raise is likely to trigger IRC Section 382 limitations on the amount of tax benefit from net operating losses and other carryforwards that the Company can claim annually. These anticipated IRC Section 382 limitations will impact the amount and timing of the recapture of the valuation allowance, the calculation of which is dependent on the level of market interest rates and the fair value of the Company's balance sheet at the time the capital raise closed.

We are subject to a variety of operational risks, including reputational risk, legal risk and compliance risk, and the risk of fraud or theft by employees or outsiders, which may adversely affect our business and results of operations.

We are exposed to many types of operational risks, including reputational risk, legal and compliance risk, the risk of fraud or theft by employees or outsiders, and unauthorized transactions by employees or operational errors, including

clerical or record-keeping errors or those resulting from faulty or disabled computer or telecommunications systems. If personal, non-public, confidential or proprietary information of customers in our possession were to be mishandled or misused, we could suffer significant regulatory consequences, reputational damage and financial loss. Such mishandling or misuse could include, for example, if such information were erroneously provided to parties who are not permitted to have the information, either by fault of our systems, employees, or counterparties, or where such information is intercepted or otherwise inappropriately taken by third parties.

Because the nature of the financial services business involves a high volume of transactions, certain errors may be repeated or compounded before they are discovered and successfully rectified. Our necessary dependence upon automated systems to record and process transactions and our large transaction volume may further increase the risk that technical flaws or employee tampering or manipulation of those systems will result in losses that are difficult to detect. We also may be subject to disruptions of our

operating systems arising from events that are wholly or partially beyond our control (for example, computer viruses or electrical or telecommunications outages, or natural disasters, disease pandemics or other damage to property or physical assets) which may give rise to disruption of service to customers and to financial loss or liability. We are further exposed to the risk that our external vendors may be unable to fulfill their contractual obligations (or will be subject to the same risk of fraud or operational errors by their respective employees as we are) and to the risk that we (or our vendors') business continuity and data security systems prove to be inadequate. The occurrence of any of these risks could result in a diminished ability of us to operate our business (for example, by requiring us to expend significant resources to correct the defect), as well as potential liability to clients, reputational damage and regulatory intervention, which could adversely affect our business, financial condition and results of operations, perhaps materially.

Changes in accounting standards could materially impact our financial statements.

From time to time the Financial Accounting Standards Board and the SEC change the financial accounting and reporting standards that govern the preparation of our financial statements. These changes can be very difficult to predict and can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in our restating prior period financial statements.

The market for our Common Stock historically has experienced significant price and volume fluctuations.

The market for our Common Stock historically has experienced and may continue to experience significant price and volume fluctuations similar to those experienced by the broader stock market in recent years. Generally, the fluctuations experienced by the broader stock market have affected the market prices of securities issued by many companies for reasons unrelated to their operating performance and may adversely affect the price of our Common Stock. In addition, our announcements of our quarterly operating results, changes in general conditions in the economy or the financial markets and other developments affecting us, our affiliates or our competitors could cause the market price of our Common Stock to fluctuate substantially.

We have not paid dividends on our Common Stock historically, are currently restricted from paying dividends, and may not pay any cash dividends on our common stock for the foreseeable future.

We have not paid cash dividends historically, nor do we expect to pay cash dividends in the foreseeable future. We are subject to certain restrictions on the amount of dividends we may pay without prior regulatory approval. In this regard, we have entered into an informal agreement with the Federal Reserve and the Idaho Department of Finance ("IDF") which provides, among other things, that we may not pay cash dividends on our Common Stock without the prior written approval of the Federal Reserve and the IDF. In addition, we are currently restricted from paying dividends on our Common Stock due to the deferral of interest and dividend payments on our junior subordinated debentures and the Series A Preferred Stock issued to the U.S. Treasury.

Our profitability measures could be adversely affected if we are unable to effectively deploy the capital raised in our recent capital raise.

We expect to use the proceeds from the recent capital raise and the proposed rights offering to make capital contributions to and strengthen the balance sheet of the Bank, for other general corporate purposes and as otherwise provided for in the securities purchase agreements with investors. Investing the proceeds of the capital raise and the rights offering in securities until we are able to deploy the proceeds would provide lower margins than we generally earn on loans, potentially adversely impacting shareholder returns, by adversely affecting earnings per share, net interest margin, return on assets and return on equity, and other common performance measures.

We may pursue additional capital in the future, which could dilute the holders of our outstanding Common Stock and may adversely affect the market price of our Common Stock.

Although we have just completed a significant capital raise, in the current economic environment we believe it is prudent to consider alternatives for raising capital when opportunities to raise capital at attractive prices present themselves, in order to further strengthen our capital and better position ourselves to take advantage of opportunities that may arise in the future. Such alternatives may include issuance and sale of Common Stock or Preferred Stock, or borrowings by the Company, with proceeds contributed to the Bank. Any such capital raising alternatives could dilute the holders of our outstanding Common Stock and may adversely affect the market price of our Common Stock.

Our Common Stock is equity and therefore is subordinate to our indebtedness and Preferred Stock.

Shares of our Common Stock are equity interests in the Company and do not constitute indebtedness. As such, shares of our Common Stock will rank junior to all indebtedness and other non-equity claims on the Company with respect to assets available to satisfy claims on the Company, including in a liquidation of the Company. Additionally, holders of our Common Stock are subject to the prior dividend and liquidation rights of any holders of our Preferred Stock then outstanding.

Our Series A Preferred Stock diminishes the net income available to our common stockholders and earnings per common share.

We have issued \$27.0 million of Series A Preferred Stock to the U.S. Treasury pursuant to the Troubled Asset Relief Program

("TARP") Capital Purchase Program. The dividends accrued on the Series A Preferred Stock reduce the net income available to common stockholders and our earnings per common share. The Series A Preferred Stock is cumulative, which means that any dividends not declared or paid will accumulate and will be payable when the payment of dividends is resumed. We have deferred the payment of quarterly dividends on the Series A Preferred Stock, beginning in December 2009. Despite these deferrals, the Company fully intends to meet all of its obligations to the Treasury as quickly as it is prudent to do so. The dividend rate on the Series A Preferred Stock will increase from 5% to 9% per annum five years after its original issuance, or December 2013, if not earlier redeemed. If we are unable to redeem the Series A Preferred Stock prior to the date of this increase, the cost of capital to us will increase substantially. Depending on our financial condition at the time, this increase in the Series A Preferred Stock annual dividend rate could have a material adverse effect on our earnings available to common shareholders and could also adversely affect our ability to pay dividends on our common shares. Shares of Series A Preferred Stock will also receive preferential treatment in the event of the liquidation, dissolution or winding up of the Company. Finally, the terms of the Series A Preferred Stock allow the U.S. Treasury to impose additional restrictions, including those on dividends and including unilateral amendments required to comply with changes in applicable federal law. Under the terms of the Series A Preferred Stock, our ability to declare or pay dividends on any of our shares is limited. Specifically, we are unable to declare dividend payments on common, junior preferred or pari passu preferred shares if we are in arrears on the dividends on the Series A Preferred Stock. As noted above, we have deferred the payment of dividend payments on the Series A Preferred Stock and we are therefore currently restricted from paying dividends on our common stock. Further, we are not permitted to increase dividends on our common stock above the amount of the last quarterly cash dividend per share declared prior to October 14, 2008 (which was zero) without the U.S. Treasury's approval until the third anniversary of the investment unless all of the Fixed Rate Cumulative Perpetual Preferred Stock has been redeemed or transferred.

Holders of the Series A Preferred Stock and Series B Preferred Stock (together the "Preferred Stock") have certain voting rights that may adversely affect our common shareholders, and the holders of the Preferred Stock may have interests different from our common shareholders.

In the event that we do not pay dividends on the Series A Preferred Stock for a total of at least six quarterly dividend periods (whether or not consecutive), as is currently the case, the authorized number of directors of the Corporation shall automatically be increased by two and the U.S. Treasury will have the right to appoint two directors to fill such positions on our board of directors until all accrued but unpaid dividends have been paid. As noted above, we intend to pay the deferred dividends as quickly as it is prudent to do so upon receipt of regulatory approval and resume regular dividend payments. Otherwise, except as required by law, holders of the Preferred Stock have limited voting rights. So long as shares of Preferred Stock are outstanding, in addition to any other vote or consent of shareholders required by law or our Articles of Incorporation, the vote or consent of holders of at least 66 2/3% of the shares of Series A Preferred Stock, and 80% of the shares of Series B Preferred Stock, respectively outstanding is required for:

- any authorization or issuance of shares ranking senior to the respective series of Preferred Stock;
- any amendments to the rights of the respective series of Preferred Stock so as to adversely effect the rights, preferences, privileges or voting power of the respective series of Preferred Stock; or
- consummation of any merger, share exchange or similar transaction unless the shares of the respective series of Preferred Stock remain outstanding, or if we are not the surviving entity in such transaction, are converted into or exchanged for preference securities of the surviving entity and the shares of the respective series of Preferred Stock remaining outstanding or such preference securities have the rights, preferences, privileges and voting power of the respective series of Preferred Stock.

The holders of the Preferred Stock, including the U.S. Treasury, may have different interests from the holders of our Common Stock, and could vote to block the foregoing transactions, even when considered desirable by, or in the best interests of, the holders of our Common Stock.

Certain provisions in our Articles of Incorporation could make a third party acquisition of us difficult.

Our Articles of Incorporation contain provisions that could make it more difficult for a third party to acquire us by means of a tender offer, a proxy contest, merger or otherwise (even if doing so would be beneficial to our shareholders) and for holders of our Common Stock to receive any related takeover premium for their Common Stock.

These provisions may have the effect of lengthening the time required for a person to acquire control of us through a tender offer, a proxy contest, merger or otherwise, and may deter any potentially hostile offers or other efforts to obtain control of us. These provisions could also limit the price that investors might be willing to pay in the future for shares of our Common Stock. See “Description of Capital Stock-Antitakeover Effects of Certain Provisions in our Articles of Incorporation.”

Because of our participation in TARP, we are subject to restrictions on compensation paid to our executives.

Pursuant to the terms of the TARP Capital Purchase Program, we are subject to regulations on compensation and corporate governance for the period during which the U.S. Treasury holds our Series A Preferred Stock. These regulations require us to adopt and follow certain procedures and to restrict the compensation we can pay to key employees. Key impacts of the regulations on

us include, among other things:

- ensuring that incentive compensation for senior executives does not encourage unnecessary and excessive risks that threaten the value of Intermountain;

- a prohibition on cash incentive bonuses to our five most highly-compensated employees, subject to limited exceptions;

- a prohibition on equity compensation awards to our five most highly-compensated employees other than long-term restricted stock that cannot be sold, other than to pay related taxes, except to the extent the Treasury no longer holds the Series A Preferred Stock;

- a prohibition on any severance or change-in-control payments to our senior executive officers and next five most highly-compensated employees;

- a required recovery or “clawback” of any bonus or incentive compensation paid to a senior executive officer or any of the next twenty most highly compensated employees based on financial or other performance criteria that are later proven to be materially inaccurate; and

- an agreement not to deduct for tax purposes annual compensation in excess of \$500,000 for each senior executive officer.

The combined effect of these restrictions may make it more difficult to attract and retain key executives and employees, and the change to the deductibility limit on executive compensation may increase the overall cost of our compensation programs in future.

Item 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

Item 2. PROPERTIES

At December 31, 2011, the Company operated 19 branch offices, including the main office located in Sandpoint, Idaho. The following is a description of the branch and administrative offices.

City and County	Address	Sq. Feet	Date Opened or Acquired	Occupancy Status (Own/Lease)
Panhandle State Bank Branches				
IDAHO				
(Kootenai County)				
Coeur d'Alene (1)	200 W. Neider Avenue Coeur d'Alene, ID 83814	5,500	May 2005	Own building Lease land
Rathdrum	6878 Hwy 53 Rathdrum, ID 83858	3,410	March 2001	Own
Post Falls (Bonner County)	3235 E. Mullan Avenue Post Falls, ID 83854	3,752	March 2003	Own
Ponderay	300 Kootenai Cut-Off Road Ponderay, ID 83852	3,400	October 1996	Own
Priest River	301 E. Albeni Road Priest River, ID 83856	3,500	December 1996	Own
Sandpoint Center Branch (2)	414 Church Street Sandpoint, ID 83864	11,399	January 2006	Lease
Sandpoint (Drive up)(3) (Boundary County)	231 N. Third Avenue Sandpoint, ID 83864	225	May 1981	Own
Bonn timers Ferry (Shoshone County)	6750 Main Street Bonn timers Ferry, ID 83805	3,400	September 1993	Own
Kellogg	302 W. Cameron Avenue Kellogg, ID 83837	672	February 2006	Lease land, Own modular unit
Intermountain Community Bank Branches				
(Canyon County)				
Caldwell	506 South 10th Avenue Caldwell, ID 83605	6,480	March 2002	Own
Nampa (Payette County)	521 12th Avenue S. Nampa, ID 83653	5,000	July 2001	Own
Payette	175 North 16th Street Payette, ID 83661	5,000	September 1999	Own
Fruitland	1710 N. Whitley Dr., Ste A Fruitland, ID 83619	1,500	April 2006	Lease

City and County	Address	Sq. Feet	Date Opened or Acquired	Occupancy Status (Own/Lease)
(Washington County)				
Weiser	440 E Main Street Weiser, ID 83672	3,500	June 2000	Own
Magic Valley Bank Branches (Twin Falls County)				
Twin Falls	113 Main Ave West Twin Falls, ID 83301	10,798	November 2004	Lease
Canyon Rim (4) (Gooding County)	1715 Poleline Road East Twin Falls, ID 83301	6,975	September 2006	Lease
Gooding (4)	746 Main Street Gooding, ID 83330	3,200	November 2004	Lease
OREGON (Malheur County)				
Ontario	98 South Oregon St. Ontario, OR 97914	10,272	January 2003	Lease
Intermountain Community Bank Washington Branches WASHINGTON (Spokane County)				
Spokane Downtown	801 W. Riverside, Ste 400 Spokane, WA 99201	4,818	April 2006	Lease
Spokane Valley	5211 E. Sprague Avenue Spokane Valley, WA 99212	16,000	Sept 2006	Own building Lease land
ADMINISTRATIVE (Bonner County)				
Sandpoint Center (3) (Canyon County)	414 Church Street Sandpoint, ID 83864	26,725	January 2006	Lease
Nampa Administrative Office (Kootenai County)	5680 E. Franklin Road, Suite 225 Nampa, ID 83687	2,795	April 2007	Lease
Coeur d'Alene Branch and Administrative Services (1)	200 W. Neider Avenue Coeur d'Alene, ID 83814	17,600	May 2005	Own building Lease land

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- 1) The Coeur d'Alene branch is located in the 23,100 square foot branch and administration building located at 200 W. Neider Avenue in Coeur d'Alene. The branch occupies approximately 5,500 square feet of this building.
 - 2) In January 2006, the Company purchased land on an installment contract and subsequently began building the 86,100 square foot Sandpoint Center. The building contains the Sandpoint branch, corporate headquarters, administrative, technical and training facilities, an auditorium and community room and space for other professional tenants. The Company is currently pursuing tenants to occupy the other vacant leasable square footage in this building. In August 2009, the Company sold the building and provided financing for the purchase of the building. Due to the non-recourse financing, the transaction was accounted for using the financing

method.

- 3) The Sandpoint branch drive-up is located in the 10,000 square foot building which housed the Sandpoint Branch before it was relocated to the Sandpoint Center. The square footage of the drive-up totals 225 square feet. The Company has leased out the remaining space.
- 4) In December 2006, the Company entered in agreements to sell the Gooding and Canyon Rim branches, and subsequently lease them back. The sales were completed in January 2007 and the leases commenced in January 2007.

Item 3. LEGAL PROCEEDINGS

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Intermountain and Panhandle are parties to various claims, legal actions and complaints in the ordinary course of business. In Intermountain's opinion, all such matters are adequately covered by insurance, are without merit or are of such kind, or involve such amounts, that unfavorable disposition would not have a material adverse effect on the consolidated financial position or results of operations of Intermountain.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Price and Dividend Information

Bid and ask prices for the Company's Common Stock are quoted in the Pink Sheets and on the OTC Bulletin Board under the symbol "IMCB.OB" As of March 7, 2012, there were 13 Pink Sheet/Bulletin Board Market Makers. The range of high and low sales prices for the Company's Common Stock for each quarter during the two most recent fiscal years is as follows:

Quarterly Common Stock Price Ranges

Quarter	2011		2010	
	High	Low	High	Low
1st	\$1.65	\$1.26	\$2.60	\$1.55
2nd	1.50	1.10	3.25	1.80
3rd	1.46	1.00	2.25	1.56
4th	1.27	0.76	2.00	1.20

At March 7, 2012 the Company had 20,770,214 shares of Common Stock outstanding held by approximately 1,999 shareholders of record. As a bulletin board stock, Intermountain's stock is relatively thinly traded, with daily average volumes totaling 1,880 in 2011 and 2,413 in 2010.

The Company historically has not paid cash dividends, but may do so in the future. The Company is subject to certain restrictions on the amount of dividends that it may declare without prior regulatory approval. These restrictions may affect the amount of dividends the Company may declare for distribution to its shareholders in the future.

On December 19, 2008, the Company issued 27,000 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series A, no par value with a liquidation preference of \$1,000 per share ("Series A Preferred Stock") and a ten-year warrant to purchase up to 653,226 shares of Common Stock, no par value, as part of the Troubled Asset Relief Program — Capital Purchase Program of the U.S. Department of Treasury ("U.S. Treasury"). The \$27.0 million cash proceeds were allocated between the Series A Preferred Stock and the warrant to purchase Common Stock based on the relative estimated fair values at the date of issuance. The fair value of the warrants was determined under the Black-Scholes model. The model includes assumptions regarding the Company's common stock prices, dividend yield, and stock price volatility as well as assumptions regarding the risk-free interest rate. The exercise price for the warrant is \$6.20 per share.

Dividends on the Series A Preferred Stock will accrue and be paid quarterly at a rate of 5% per year for the first five years and thereafter at a rate of 9% per year. The shares of Series A Preferred Stock have no stated maturity, do not have voting rights except in certain limited circumstances and are not subject to mandatory redemption or a sinking fund.

The Series A Preferred Stock has priority over the Company's Common Stock with regard to the payment of dividends and liquidation distributions. The Series A Preferred Stock qualifies as Tier 1 capital. The agreement with the U.S. Treasury contains limitations on certain actions of the Company including the payment of quarterly cash dividends on the Company's Common Stock in excess of current cash dividends paid in the previous quarter and the repurchase of its Common Stock during the first three years of the agreement. In addition, the Company agreed that, while the U.S. Treasury owns the Series A Preferred Stock, the Company's employee benefit plans and other executive

compensation arrangements for its senior executive officers must comply with Section 111(b) of the Emergency Economic Stabilization Act of 2008.

Effective as of January 20, 2012, the Company entered into securities purchase agreements with certain investors (the “Securities Purchase Agreements”), pursuant to which such investors purchased in private placements, and the Company issued to the investors, (i) an aggregate of 12,350,352 shares of the Company's Common Stock for \$1.00 per share, (ii) an aggregate of 698,992.96 shares of the Company's Mandatorily Convertible Cumulative Participating Preferred Stock, Series B (“Series B Preferred Stock”), for \$50.00 per share, which Series B Preferred Stock will convert automatically at \$1.00 per share into shares of a new series of non-voting common stock, no par value (“Non-Voting Common Stock”), upon shareholder approval of an amendment to the Company's Amended and Restated Articles of Incorporation to authorize such Non-Voting Common Stock (the “Articles Amendment”), and (iii) warrants to purchase up to 1,700,000 shares of the Non-Voting Common Stock at \$1.00 per share. There is no public market for the Series B Preferred Stock. The Series B Preferred Stock qualifies as Tier 1 capital.

Upon the approval of the Articles Amendment regarding the Non-Voting Common Stock, the Company will be authorized to issue 100,000,000 shares of Non-Voting Common Stock. Shares of the Non-Voting Common Stock shall convert into shares of the Company's Common Stock upon certain transfers made in accordance with and as permitted by guidance and policies established by the Board of Governors of the Federal Reserve System. The foregoing securities were offered and sold in reliance upon an exemption from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended.

Other than discussed above, there have been no securities of the Company sold within the last three years that were not registered under the Securities Act of 1933, as amended. The Company did not make any stock repurchases during the fourth quarter of 2011.

Equity Compensation Plan Information

The Company has historically maintained equity compensation plans that provided for the grant of awards to its officers, directors and employees. These plans consisted of the 1988 Employee Stock Option Plan, the Amended and Restated 1999 Employee Stock Option and Restricted Stock Plan and the 1999 Director Stock Option Plan. Each of these plans has expired and shares may no longer be awarded under these plans. However, unexercised options or unvested awards remain under these plans. The following table sets forth information regarding shares reserved for issuance pursuant to outstanding awards:

Plan Category	Number of Shares to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Shares Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Shares Reflected in Column(a) (c))
Equity compensation plans approved by shareholders	182,944	\$ 7.09	—

Five-Year Stock Performance Graph

The following graph shows a five-year comparison of the total return to shareholders of Intermountain's common stock, the SNL Securities \$500 million to \$1 billion Bank Asset Size Index (“SNL Index”) and the Russell 2000 Index. All of these cumulative returns are computed assuming the reinvestment of dividends at the frequency with which dividends were paid during the applicable years.

Total Return Performance

	12/31/2006	12/31/2007	12/31/2008	12/31/2009	12/31/2010	12/31/2011
Intermountain Community Bancorp	\$ 100	\$ 69	\$ 20	\$ 11	\$ 7	\$ 4
SNL Index	\$ 100	\$ 80	\$ 51	\$ 49	\$ 53	\$ 47
Russell 2000	\$ 100	\$ 98	\$ 65	\$ 83	\$ 105	\$ 101

Item 6. SELECTED FINANCIAL DATA

The following selected financial data (in thousands) of the Company is derived from the Company's historical audited consolidated financial statements and related notes. The information set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and related notes contained elsewhere in this Form 10-K.

	For the Year Ended December 31,				
	2011	2010	2009	2008	2007
INCOME STATEMENT DATA					
Total interest income	\$41,657	\$46,049	\$53,867	\$63,809	\$72,858
Total interest expense	(6,812)	(10,785)	(16,170)	(20,811)	(26,337)
Net interest income	34,845	35,264	37,697	42,998	46,521
Provision for loan losses	(7,289)	(24,012)	(36,329)	(10,384)	(3,896)
Net interest income after provision for losses on loans	27,556	11,252	1,368	32,614	42,625
Total other income	10,625	11,024	11,991	13,932	13,199
Total other expense	(38,330)	(54,894)	(49,630)	(45,372)	(40,926)
Income (loss) before income taxes	(149)	(32,618)	(36,271)	1,174	14,898
Income tax (provision) benefit	152	882	14,360	80	(5,453)
Net income (loss)	3	(31,736)	(21,911)	1,254	9,445
Preferred stock dividend	1,808	1,716	1,662	45	—
Net income (loss) applicable to common stockholders	\$(1,805)	\$(33,452)	\$(23,573)	\$1,209	\$9,445
Net income (loss) per share(1)					
Basic	\$(0.21)	\$(3.99)	\$(2.82)	\$0.15	\$1.15
Diluted	\$(0.21)	\$(3.99)	\$(2.82)	\$0.14	\$1.1
Weighted average common shares outstanding(1)					
Basic	8,407	8,386	8,361	8,295	8,206
Diluted	8,407	8,386	8,361	8,515	8,605
Cash dividends per share	—	—	—	—	—

	December 31,				
	2011	2010	2009	2008	2007
BALANCE SHEET DATA					
Total assets	\$934,218	\$1,005,109	\$1,079,644	\$1,105,555	\$1,048,659
Net loans receivable	502,252	563,228	655,602	752,615	756,549
Deposits	729,373	778,833	819,321	790,412	757,838
Securities sold subject to repurchase agreements	85,104	105,116	95,233	109,006	124,127
Advances from Federal Home Loan Bank	29,000	34,000	49,000	46,000	29,000
Other borrowings	16,527	16,527	16,527	40,613	36,998
Stockholders' equity	61,616	59,353	88,627	110,485	90,119

(1) Earnings per share and weighted average shares outstanding have been adjusted retroactively for the effect of stock splits and dividends, including the 10% common stock dividend effective May 31, 2007.

RETURNS ON AVERAGE ASSETS, COMMON STOCKHOLDERS' EQUITY AND AVERAGE COMMON STOCKHOLDERS' EQUITY TO AVERAGE ASSETS

For the Years Ended December 31,	2011	2010	2009		
Return on Average Assets	—	% (3.04)	)% (2.01	)%	)%
Return on Average Common Stockholders' Equity	(5.27	)% (67.35	)% (31.17	)%	)%
Average Tangible Stockholders' Equity to Average Tangible Assets(1)	6.58	% 5.88	% 7.41	%	%
Average Tangible Common Stockholders' Equity to Average Tangible Assets(2)	3.78	% 3.31	% 4.78	%	%

(1) Average tangible stockholders' equity is average stockholders' equity less average net goodwill and other intangible assets.

(2) Average tangible common stockholders' equity is average common stockholders' equity less average net goodwill and other intangible assets.

Management believes tangible stockholders' equity, average tangible common stockholders' equity and the tangible common equity ratios are meaningful measures of capital adequacy. Management believes the exclusion of certain intangible assets in the computation of tangible equity and tangible common equity ratios provide a meaningful base for period-to-period and company-to-company comparisons, which management believes will assist investors in analyzing the operating results and capital of the Company. Tangible stockholders' equity is calculated as total stockholders' equity less goodwill and other intangible assets. Tangible common stockholders' equity is calculated as total stockholders' equity less preferred stock and less goodwill and other intangible assets. In addition, tangible assets are total assets less goodwill and other intangible assets. The tangible stockholders' equity ratio is calculated as tangible stockholders' equity divided by tangible assets. The tangible common stockholders' equity ratio is calculated as tangible common stockholders' equity divided by tangible assets. These ratios are considered non-GAAP financial measures and should be viewed in conjunction with the total stockholders' equity and the total stockholders' equity ratio.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements and Notes thereto presented elsewhere in this report. This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. For a discussion of the risks and uncertainties inherent in such statements, see "Forward-Looking Statements" and "Risk Factors" in Part I of this report.

Overview

The Company operates a multi-branch banking system and continues to plan long-term to operate as a community bank in both existing and potentially new markets. Given current economic conditions and short-term market uncertainties, the Company scaled back its expansion plans in 2008, and is currently focused on managing and growing its existing asset portfolio, preserving its capital and liquidity positions, improving operating efficiency and capitalizing on opportunities to selectively grow its core low-cost deposit base.

Longer term, based on opportunities available in the future, the Company plans expansion in markets generally located within the states where it currently operates, and has identified its primary short-term growth markets as Ada County in Idaho, Spokane County, Washington, and counties contiguous to its existing Idaho and eastern Washington markets. However, Intermountain currently has branches in Idaho, Oregon and Washington, which would allow for future expansion in any of these states without the purchase of another financial institution. As economic conditions improve, the Company intends to pursue a balance of asset and earnings growth by focusing on increasing its market share in its present locations, expanding services sold to existing customers, building new branches and merging and/or acquiring community banks that fit closely with the Bank's strategic direction.

Management and the Board of Directors remain committed to building a fiscally strong, locally focused community banking organization and further increasing the level of service we provide our targeted customers and communities. Our long-term strategic plan calls for focused earnings growth through maximizing its operating efficiency and resuming managed balance sheet growth. We expect to achieve these goals by employing experienced, knowledgeable and dedicated people and supporting them with strong technology and training. Please see the "Business Strategy and Opportunities" Subsection of Item 1 on page 5 above for a more detailed discussion on the Company's strengths and potential opportunities.

Results of Operations

Overview. Intermountain recorded a net loss applicable to common stockholders of \$1.8 million, or \$0.21 per diluted share, for the twelve months ended December 31, 2011, compared with net loss applicable to common stockholders of \$33.5 million, or \$3.99 per diluted share, for the twelve months ended December 31, 2010. The significant improvement in operating results for 2011 reflected lower loan loss and operating expenses, which more than offset modest declines in net interest and non-interest income. 2010 results included an \$11.6 million goodwill impairment charge and an \$8.8 million valuation allowance against the Company's deferred tax assets, compared to no such charges in 2011. Fourth quarter 2011 results showed significant improvement

over the prior quarter and the same period last year. Intermountain recorded net income applicable to common stockholders of \$907,000, or \$0.11 per diluted share, for the three months ended December 31, 2011, compared with a net loss applicable to common stockholders of \$1.2 million, or \$0.14 per diluted share, for the third quarter of 2011 and a net loss applicable to common stockholders of \$1.1 million, or \$0.13 per diluted share, for the three months ended December 31, 2010. The improvement resulted from lower loan loss expenses, higher non-interest income and lower operating expenses, which offset lower net interest income.

The annualized return on average assets ("ROAA") for 2011 was 0.0%, as compared to -3.04% for 2010. The annualized return on average common equity ("ROAE") was -5.27% and -67.35% for the twelve months ended December 31, 2011 and 2010, respectively. Both the ROAA and ROAE for 2010 include the goodwill impairment charge and the deferred tax asset valuation allowance noted above.

The annualized return on average assets ("ROAA") was 0.58%, -0.32%, and -0.25% for the three months ended December 31, 2011, September 30, 2011 and December 31, 2010, respectively. The annualized return on average common equity ("ROAE") was 10.28, -14.00%, and -12.39%, for the three months ended December 31, 2011, September 30, 2011 and December 31, 2010, respectively.

Both interest income and interest expense decreased significantly from 2010, resulting in a modest reduction in net interest income. Loss provision declined significantly as indicators of future credit losses in the asset portfolio abated. Other income was down, primarily reflecting lower overdraft and mortgage income, but was more than offset by significant decreases in operating expenses. Excluding the goodwill impairment charge, operating expenses still decreased by \$4.9 million, or 11.3%.

Most asset quality metrics continued to improve with lower levels of non-performing assets and reduced concentrations in the riskiest loan segments. The Company has been proactive in identifying and resolving its problem credits, taking write-downs early in the process and initiating dialogue with borrowers at the first sign of trouble. As a result, its loan losses declined significantly in 2011 and are projected to continue to drop in 2012.

As of December 31, 2011, assets totaled \$934.2 million, a decrease of \$70.9 million or 7.1% from the prior year, reflecting continued reductions in the loan portfolio and conservative balance sheet management in light of the weak economy. In 2010, assets totaled \$1.01 billion, a 6.9% decrease from \$1.08 billion at December 31, 2009. Net loans receivable decreased by \$61.0 million or 10.8% in 2011, and by \$92.4 million in 2010. These reductions reflect a combination of lower borrowing demand, tighter underwriting standards and aggressive management and disposition of problem assets. Total deposits also decreased by \$49.5 million or 6.4% in 2011, following a \$40.5 million decrease in 2010, as the Company converted higher rate non-relationship deposits to non FDIC-insured investments or allowed them to roll off, given the high levels of liquidity on the balance sheet.

Net Interest Income

The Company's net interest income for the year ended December 31, 2011 was \$34.8 million, a decrease of \$419,000 from the prior year. The modest drop in net interest income resulted primarily from a decrease in the Company's loan balances, but was offset by lower liability balances and rates paid on those liabilities. The net interest margin for the year ended December 31, 2011 improved to 4.02%, as compared to 3.77% for 2010 and 3.81% for 2009. However, declining asset yields in the latter part of 2011 and keen competition for loans are putting additional pressure on the Company's margin, a trend likely to continue in 2012. The Company will seek to mitigate this impact by converting its large cash position into higher yielding assets and continuing to drive down interest costs on its interest-bearing liabilities.

The following table provides information on net interest income for the past three years, setting forth average balances of interest-earning assets and interest-bearing liabilities, the interest income earned and interest expense recorded thereon and the resulting average yield-cost ratios.

Average Balance Sheets and Analysis of Net Interest Income

	For the Year Ended December 31, 2011			
	Average Balance	Interest Income/ Expense	Average Yield/Cost	
	(Dollars in thousands)			
Loans receivable, net(1)	\$552,409	\$32,821	5.94	%
Securities(2)	219,016	8,618	3.93	%
Federal funds sold	95,461	218	0.23	%
Total earning assets	866,886	41,657	4.81	%
Cash and cash equivalents	18,979			
Office property and equipment, net	38,988			
Other assets	29,448			
Total assets	\$954,301			
Time deposits of \$100,000 or more	\$120,305	\$1,876	1.56	%
Other interest-bearing deposits	458,374	2,532	0.55	%
Short-term borrowings	91,241	1,043	1.14	%
Other borrowed funds	39,227	1,361	3.47	%
Total interest-bearing liabilities	709,147	6,812	0.96	%
Non interest-bearing deposits	172,888			
Other liabilities	12,395			
Stockholders' equity	59,871			
Total liabilities and stockholders' equity	\$954,301			
Net interest income		\$34,845		
Net interest margin			4.02	%

Average Balance Sheets and Analysis of Net Interest Income

	For the Year Ended December 31, 2010			
	Average Balance	Interest Income/ Expense	Average Yield/Cost	
	(Dollars in thousands)			
Loans receivable, net(1)	\$632,761	\$38,020	6.01	%
Securities(2)	199,819	7,793	3.90	%
Federal funds sold	102,109	236	0.23	%
Total earning assets	934,689	46,049	4.93	%
Cash and cash equivalents	19,526			
Office property and equipment, net	41,293			
Other assets	47,062			
Total assets	\$1,042,570			
Time deposits of \$100,000 or more	\$146,314	\$3,401	2.32	%
Other interest-bearing deposits	498,297	4,345	0.87	%
Short-term borrowings	99,246	2,005	2.02	%
Other borrowed funds	49,046	1,034	2.11	%
Total interest-bearing liabilities	792,903	10,785	1.36	%
Non interest-bearing deposits	161,877			
Other liabilities	9,238			
Stockholders' equity	78,552			
Total liabilities and stockholders' equity	\$1,042,570			
Net interest income		\$35,264		
Net interest margin			3.77	%

Average Balance Sheets and Analysis of Net Interest Income

	For the Year Ended December 31, 2009			
	Average Balance	Interest Income/ Expense	Average Yield/Cost	
	(Dollars in thousands)			
Loans receivable, net(1)	\$736,568	\$43,611	5.92	%
Securities(2)	201,709	10,079	5.00	%
Federal funds sold	50,387	177	0.35	%
Total earning assets	988,664	53,867	5.45	%
Cash and cash equivalents	19,084			
Office property and equipment, net	43,238			
Other assets	29,589			
Total assets	\$1,080,575			
Time deposits of \$100,000 or more	\$166,852	\$4,338	2.60	%
Other interest-bearing deposits	500,880	8,001	1.60	%
Short-term borrowings	122,507	2,347	1.92	%
Other borrowed funds	32,900	1,484	4.51	%
Total interest-bearing liabilities	823,139	16,170	1.96	%
Non interest-bearing deposits	151,640			
Other liabilities	3,011			
Stockholders' equity	102,785			
Total liabilities and stockholders' equity	\$1,080,575			
Net interest income		\$37,697		
Net interest margin			3.81	%

(1) Non-accrual loans are included in the average balance, but interest on such loans is not recognized in interest income.

(2) Municipal interest income is not presented on a tax-equivalent basis, and represents a small portion of total interest income.

The following rate/volume analysis depicts the increase (decrease) in net interest income attributable to: (1) volume fluctuations (change in average balance multiplied by prior period rate); (2) interest rate fluctuations (change in rate multiplied by prior period average balance); and (3) volume/rate (changes in rate multiplied by changes in volume) when compared to the preceding year.

Changes Due to Volume and Rate 2011 versus 2010

	Volume	Rate	Volume/ Rate	Total
	(Dollars in thousands)			
Loans receivable, net	\$(4,828)	\$(425)	\$54	\$(5,199)
Securities	749	70	6	825
Federal funds sold	(15)	(3)	—	(18)
Total interest income	(4,094)	(358)	60	(4,392)
Time deposits of \$100,000 or more	(605)	(1,119)	199	(1,525)
Other interest-bearing deposits	(348)	(1,592)	127	(1,813)
Borrowings	(452)	(203)	20	(635)
Total interest expense	(1,405)	(2,914)	346	(3,973)
Net interest income	\$(2,689)	\$2,556	\$(286)	\$(419)

Changes Due to Volume and Rate 2010 versus 2009

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	Volume	Rate	Volume/ Rate	Total
	(Dollars in thousands)			
Loans receivable, net	\$(6,146)	\$646	\$(91)	\$(5,591)
Securities	(94)	(2,212)	20	(2,286)
Federal funds sold	182	(61)	(62)	59
Total interest income	(6,058)	(1,627)	(133)	(7,818)
Time deposits of \$100,000 or more	(534)	(460)	57	(937)
Other interest-earning deposits	(41)	(3,633)	18	(3,656)
Borrowings	282	(662)	(412)	(792)
Total interest expense	(293)	(4,755)	(337)	(5,385)
Net interest income	\$(5,765)	\$3,128	\$204	\$(2,433)

Net Interest Income — 2011 Compared to 2010

The Company's net interest income decreased to \$34.8 million in 2011 from \$35.3 million in 2010. The net interest income change attributable to volume changes was an unfavorable \$2.7 million from 2010 as the volume of higher yielding assets, particularly loans, decreased, offsetting positive changes in securities and in all interest-bearing liabilities. A \$2.6 million positive impact from rate changes largely offset the negative volume changes, as the Company was again able to significantly reduce the cost of its interest bearing liabilities. The interplay between rate and volume factors resulted in a \$286,000 reduction in net interest income for the period.

The yield on interest-earning assets decreased 0.12% in 2011 from 2010, while the cost of interest-bearing liabilities decreased 0.40% during the same period. The overall earning-asset yield was impacted by continued decreases in the Company's loan portfolio, which more than offset the impact from increasing securities balances. Rates paid on Fed Funds Sold and interest bearing cash equivalents (summarized hereafter as "Fed Funds Sold") remained between 0.00% and 0.25% throughout 2011, meaning that the \$95.5 million in average Fed Funds Sold balances earned only minimal income.

The yield on the Company's loans, at 5.94%, was down modestly from the prior year, as lower market rates and strong competition for quality borrowers continued to pressure yields, particularly in the latter half of the year. Interest reversals on non-accrual and other problem loans totaling \$405,000 were much less of a factor in 2011, as the Company continued to successfully improve the quality of the credit portfolio. Problem loans include loans charged off directly or transferred to OREO. The securities portfolio yield improved slightly for the year, as overall prepayments on mortgage-backed securities were lower throughout most of 2011 and the Company invested in some higher yielding municipal securities earlier in the year. These numbers, however, mask lower reinvestment rates in the latter half of the year as market rates dropped again. Based on fourth quarter results and current market rates, the Company anticipates pressure on asset yields to continue at least through 2012. Management will seek to offset the negative impacts of this pressure by selectively growing the loan portfolio and investing its heavy cash position into higher-yielding investment securities.

Offsetting the pressure on interest income, the Company lowered its interest expense by \$4.0 million or 37% in 2011. Overall, average interest-bearing liabilities decreased by \$83.8 million as the reduction in assets created opportunities to pay down, release or convert higher cost interest-bearing liabilities. Active management strategies and low market rates reduced the average cost on its interest-bearing liabilities from 1.36% to 0.96% of average interest-bearing liabilities, while maintaining its solid relationship-based deposit base. The overall cost of interest-bearing deposits decreased from 1.20% to 0.76% and the cost of other borrowings and FHLB advances decreased from 2.05% to 1.84%. Average non-interest bearing deposits increased by \$11 million and total non interest bearing demand deposits comprise 23% of the average deposit portfolio. This compares favorably to the Company's peers and provides a low-cost funding source in any interest-rate environment. Given its liquidity position and current market rates, the Company anticipates that it will continue to reduce interest expense in 2012 through lower CD pricing and the payoff of higher-rate wholesale funding.

Net Interest Income — 2010 Compared to 2009

The Company's net interest income decreased to \$35.3 million in 2010 from \$37.7 million in 2009. The net interest income change attributable to volume changes was an unfavorable \$5.8 million from 2009 as the volume of higher yielding assets, particularly loans, decreased significantly, overwhelming positive volume changes in interest bearing cash on the asset side and in time deposits, other interest bearing deposits and short-term borrowings. Overall, rate changes had a \$3.1 million favorable impact on net interest income in 2010, as rate reductions on interest-bearing liabilities and positive rate impacts on the loan portfolio from lower non-accrual loans offset rate reductions in the Company's securities portfolio. The separate volume and rate changes along with a \$204,000 increase due to the interplay between rate and volume factors created the \$2.4 million overall decrease in

net interest income for 2010.

The yield on interest-earning assets decreased 0.52% in 2010 from 2009, while the cost of interest-bearing liabilities decreased 0.60% during the same period. The earning-asset yield was significantly impacted by the shift in the mix of Company assets from the higher-yielding loan portfolio to lower-yielding fixed income securities and interest-bearing cash, as a result of conservative liquidity management, lower loan demand, and aggressive problem asset resolution. Rates paid on Fed Funds Sold and interest-bearing cash remained between 0.00% and 0.25% throughout 2010, meaning that the \$102.1 million in average interest bearing cash balances earned only minimal income.

The yield on the Company's loans, at 6.01%, was up modestly from the prior year, primarily as a result of lower interest reversals on non-accrual and other problem loans than it experienced in 2009. Non-accrual loans were down from 2009, but still had an impact on net interest income, as the Company reversed \$794,000 in interest income on loans placed on non-accrual status and problem loans. The investment securities portfolio experienced a 1.10% decrease in yield in 2010 as spreads tightened on most fixed income securities, prepayments on mortgage-backed securities increased, and the Company maintained a short duration in its investment portfolio to position it for anticipated future higher market rates.

The Company lowered its interest expense by \$5.4 million or 33% during 2010. Active management strategies, low market rates, and decreased competition reduced the average cost on its interest-bearing liabilities from 1.96% to 1.36% of average interest-bearing liabilities. Its cost of interest-bearing deposits decreased from 1.85% to 1.20% and the cost of other borrowings and FHLB advances decreased from 2.47% to 2.05%.

Provision for Losses on Loans & Credit Quality.

Management's policy is to establish valuation allowances for estimated losses by charging corresponding provisions against income. This evaluation is based upon management's assessment of various factors including, but not limited to, current and anticipated future economic trends, historical loan losses, delinquencies, and underlying collateral values, as well as current and potential risks identified in the portfolio. See the "Loan Portfolio" discussion in the "Item 1- Business" section beginning on page 11 of this report for additional information on asset quality, loan portfolio trends and provision for loan loss trends.

The provision for losses on loans totaled \$7.3 million for the year ended December 31, 2011, compared to a provision of \$24.0 million for the year ended December 31, 2010. Net chargeoffs in 2011 totaled \$7.1 million compared to \$28.2 million for 2010. The following table summarizes provision and loan loss allowance activity for the periods indicated.

Trend Analysis of the Allowance for Loan Losses

	December 31,				
	2011	2010	2009	2008	2007
	(Dollars in thousands)				
Balance Beginning January 1	\$(12,455)	\$(16,608)	\$(16,433)	\$(11,761)	\$(9,837)
Charge-Offs					
Commercial loans	1,366	10,603	5,037	1,486	886
Commercial real estate loans	2,594	5,610	3,194	186	8
Commercial construction loans	217	1,393	4,982	663	—
Land and land development loans	3,056	8,622	19,817	2,820	580
Agriculture loans	400	1,055	988	162	50
Multifamily loans	—	16	53	—	—
Residential loans	757	2,019	1,598	173	—
Residential construction loans	34	101	241	—	—
Consumer loans	624	490	1,001	703	520
Municipal loans	—	—	—	—	—
Total Charge-offs	9,048	29,909	36,911	6,193	2,044
Recoveries					
Commercial loans	(755)	(628)	(144)	(53)	(34)
Commercial real estate loans	(293)	(311)	—	(1)	—
Commercial construction loans	(2)	(391)	(1)	—	—
Land and land development loans	(507)	(175)	(347)	(198)	—
Agriculture loans	(103)	(31)	—	—	(1)
Multifamily loans	—	—	—	—	—
Residential loans	(157)	(50)	(9)	—	(10)
Residential construction loans	—	—	—	—	—
Consumer loans	(176)	(158)	(256)	(229)	(30)
Municipal loans	—	—	—	—	—
Total Recoveries	(1,993)	(1,744)	(757)	(481)	(75)
Net Charge-offs	7,055	28,165	36,154	5,712	1,969
Transfers	—	—	—	—	3
Provision for losses on loans	(7,290)	(24,012)	(36,329)	(10,384)	(3,896)
Sale of loans	—	—	—	—	—
Balance at end of period	\$(12,690)	\$(12,455)	\$(16,608)	\$(16,433)	\$(11,761)
Ratio of net charge-offs to loans outstanding	1.37 %	4.89 %	5.38 %	0.75 %	0.26 %
Allowance — Unfunded Commitments					
Balance Beginning January 1	\$(17)	\$(11)	\$(13)	\$(18)	\$(482)
Adjustment	4	(6)	2	5	467
Transfers	—	—	—	—	(3)
Allowance — Unfunded Commitments at end of period	\$(13)	\$(17)	\$(11)	\$(13)	\$(18)

Composition of the Loan Loss Allowance

	December 31	
	2011	2010
	(Dollars in thousands)	
FAS 5 Allocation	\$6,439	\$8,235
Impaired Allocation	6,251	4,220
Allowances for Loan Loss	\$12,690	\$12,455

The overall allowance was relatively stable in 2011, as loss provisioning closely matched net chargeoffs during the year. While economic conditions remained uncertain, the quality of the Company's credit portfolio improved significantly in 2011 as the Company's earlier aggressive resolution efforts paid dividends during the year in significant reductions in net chargeoffs. Still, credit conditions remain challenging and the Company continues to proactively manage its portfolio and allowance. The allowance ended the year at \$12.7 million or 2.46% of total loans, as compared to 2.16% at the end of 2010. At December 31, 2011, the allowance for loan losses totaled 136.6% of non-performing loans ("NPLs"), up from 108.1% at year end 2010. The higher coverage of NPLs reflects a slightly higher reserve balance and continued reductions in NPLs during the course of 2011 as the Company resolved or liquidated these loans.

The allocation for specifically impaired loans ("FAS 114 loans") increased in 2011, reflecting increased reserves on several remaining larger loans that are still in workout status, but was offset by a reduction in the allocation to the non-specific loan pool ("FAS 5 pool"). When a loan is characterized as impaired, the Company performs a specific evaluation of the loan, focusing on potential future cash flows likely to be generated by the loan, current collateral values underlying the loan, and other factors such as government guarantees or guarantor support that may impact repayment. Based on this evaluation, it sets aside a specific reserve for this loan and/or charges down the loan to its net realizable value (selling price of collateral less estimated closing costs) if it is unlikely that the Company will receive any cash flow beyond the amount obtained from liquidation of the collateral. If the loan continues to be impaired, management periodically re-evaluates the loan for additional potential impairment, and charges it down or adds to reserves if appropriate.

The reduced allocation in the FAS 5 pool reflected lower overall loan portfolio levels and an improvement in the quality of the remaining loans. In calculating the reserve for this pool, management evaluates both regional and loan-specific historical loss trends to develop its base reserve level on a loan-by-loan basis. It then modifies those reserves by considering the risk grade of the loan, current economic conditions, the recent trend of defaults, trends in collateral values, underwriting and other loan management considerations, and unique market-specific factors such as water shortages or other natural phenomena. The 2011 ending allowance still reflected higher levels of problem assets and heightened concerns about current economic and market conditions. However, management believes that it has already incurred the most significant losses and reduced its concentrations in riskier assets, particularly its residential land and construction portfolio.

General trending information with respect to non-performing loans, non-performing assets, and other key portfolio metrics is as follows (dollars in thousands):

Credit Quality Trending

	At December 31,						
	2011	2010	2009	2008	2007		
	(In thousands)						
Loans past due in excess of 90 days and still accruing	\$—	\$66	\$586	\$913	\$797		
Non-accrual loans	9,292	11,451	18,468	26,365	5,569		
Total non-performing loans (“NPLs”)	9,292	11,517	19,054	27,278	6,366		
OREO	6,650	4,429	11,538	4,541	1,682		
Total non-performing assets (“NPAs”)	\$15,942	\$15,946	\$30,592	\$31,819	\$8,048		
Classified loans (1)	\$53,207	\$54,085	\$77,175	\$53,847	\$18,643		
Troubled debt restructured loans (2)	\$6,620	\$4,838	\$4,604	\$13,424	\$—		
Total allowance related to non-accrual loans	\$676	\$1,192	\$965	\$6,856	\$585		
Interest income recorded on non-accrual loans (3)	\$716	\$848	\$1,126	\$1,193	\$270		
Non-accrual loans as a percentage of net loans receivable	1.85	% 2.03	% 2.82	% 3.50	% 0.74	%	
Total non-performing loans as a % of net loans receivable	1.85	% 2.04	% 2.91	% 3.62	% 0.84	%	
Allowance for loan losses (“ALLL”) as a percentage of non-performing loans	136.6	% 108.1	% 87.2	% 60.2	% 184.7	%	
Total NPAs as a % of total assets (4)	1.71	% 1.59	% 2.83	% 2.88	% 0.77	%	
Total NPAs as a % of tangible capital + ALLL (“Texas Ratio”) (4)	21.51	% 22.30	% 32.85	% 27.75	% 8.99	%	
Loan delinquency ratio (30 days and over)	0.28	% 0.55	% 1.06	% 0.90	% 0.40	%	

(1) Classified loan totals are inclusive of non-performing loans and may also include troubled debt restructured loans, depending on the grading of these restructured loans.

(2) Includes accruing restructured loans of \$3.1 million and non-accruing restructured loans of \$3.5 million. No other funds are available for disbursement on restructured loans.

(3) Interest income on non-accrual loans based on year-to-date interest totals

(4) NPAs include both nonperforming loans and OREO.

The \$2.2 million decrease in non-accrual loans from December 31, 2010 to December 31, 2011 reflected ongoing workout efforts by the Company's special assets team. This team continued to migrate properties through the collections process and made steady progress in reducing overall levels of non-accrual loans through multiple management strategies, including borrower workouts, individual asset sales to local and regional investors, and a limited number of bulk sales and auctions of like properties. NPAs were stable during the year and totaled 1.71% of total assets at year end, reflecting ongoing workout efforts offset by the addition of one large credit to the OREO portfolio during the year. NPAs reached their peak of \$47.7 million in May 2009 and have trended down since then. While still elevated, these ratios compare favorably to the Company's peer groups, particularly in the northwest. Loan delinquencies (30 days or more past due) also declined to 0.28% from 0.55% of total loans at the end of December 31, 2010, reflecting stronger performance in the general loan portfolio. Loan delinquencies (30 days or more past due) reached their peak in April 2009 at a rate of 3.10%.

The following tables provide additional trending and geographical information on the Company's NPAs:

Nonperforming Asset Trending By Category

	December 31, 2011	September 30, 2011	June 30, 2011	March 31, 2011	December 31, 2010
	(Dollars in thousands)				
Commercial loans	\$3,686	\$3,729	\$4,400	\$4,423	\$3,859
Commercial real estate loans	2,786	4,312	3,440	4,935	4,354
Commercial construction loans	44	45	45	46	69
Land and land development loans	8,653	8,472	8,547	9,713	3,368
Agriculture loans	187	404	380	614	582
Multifamily loans	—	—	—	—	—
Residential real estate loans	567	601	1,344	2,181	3,213
Residential construction loans	2	18	20	111	112
Consumer loans	17	126	374	380	389
Total NPAs by Categories	\$15,942	\$17,707	\$18,550	\$22,403	\$15,946

Nonperforming Assets by Location

NPAs by location December 31, 2011	North Idaho — Eastern Washington	Magic Valley Idaho	Boise Area	E. Oregon, SW Idaho Excluding Boise	Other	Total	% of Loan Type to Total Non-Performing Assets	
	(Dollars in thousands)							
Commercial loans	\$3,030	\$357	\$252	\$27	\$20	\$3,686	23.0	%
Commercial real estate loans	841	131	332	238	1,244	2,786	17.5	%
Commercial construction loans	44	—	—	—	—	44	0.3	%
Land and land development loans	8,308	76	240	14	15	8,653	54.3	%
Agriculture loans	—	36	66	53	32	187	1.2	%
Multifamily loans	—	—	—	—	—	—	—	%
Residential real estate loans	308	—	78	75	106	567	3.6	%
Residential construction loans	2	—	—	—	—	2	—	%
Consumer loans	15	—	—	—	2	17	0.1	%
Total	\$12,548	\$600	\$968	\$407	\$1,419	\$15,942	100.0	%
Percent of total NPAs	78.7	% 3.8	% 6.1	% 2.5	% 8.9	% 100.0		
Percent of NPAs to total loans in each region(1)	4.3	% 1.7	% 1.7	% 0.4	% 5.0	% 3.1		

NPAs by location December 31, 2010	North Idaho — Eastern Washington (Dollars in thousands)	Magic Valley Idaho	Boise Area	E. Oregon, SW Idaho Excluding Boise	Other	Total	% of Loan Type to Total Non-Performing Assets	
Commercial loans	\$2,927	\$415	\$135	\$352	\$30	\$3,859	24.2	%
Commercial real estate loans	1,714	46	453	413	1,728	4,354	27.3	%
Commercial construction loans	69	—	—	—	—	69	0.4	%
Land and land development loans	2,600	49	250	269	200	3,368	21.1	%
Agriculture loans	—	—	157	22	403	582	3.7	%
Multifamily loans	—	—	—	—	—	—	—	%
Residential real estate loans	2,013	102	652	259	187	3,213	20.2	%
Residential construction loans	112	—	—	—	—	112	0.7	%
Consumer loans	386	3	—	—	—	389	2.4	%
Total	\$9,821	\$615	\$1,647	\$1,315	\$2,548	\$15,946	100.0	%
Percent of total NPAs	61.6	% 3.9	% 10.3	% 8.2	% 16.0	% 100.0	%	
Percent of NPAs to total loans in each region(1)	3.0	% 1.3	% 2.5	% 1.2	% 9.7	% 2.8	%	

(1) NPAs include both nonperforming loans and OREO

Although land and land development loans still comprise the greatest proportion of NPA totals, the remaining exposure is substantially reduced, and one large relationship comprises the majority of the remaining NPA balance in this category. Residential and commercial real estate NPAs trended down, as the Company continues to work out the problem loans in these categories. The relatively small decline in commercial NPAs reflects ongoing weakness in the economy as many businesses continue to experience difficult market conditions.

The geographic distribution of NPAs generally correlates with the distribution of the overall loan portfolio, except that the percent of total NPAs in the “North Idaho -Eastern Washington region” is slightly higher than the percent of the loan portfolio in this region, and correspondingly, the percent of total NPAs in the “E. Oregon, SW Idaho excluding Boise” and “Magic Valley” regions are lower. This reflects generally stronger economic conditions in the southern Idaho markets outside Boise as a result of its agricultural base. The “Other” NPAs total is largely comprised of one commercial property in Nevada which is scheduled to be liquidated in first quarter 2012.

All NPAs are reported at the Company’s best estimate of net realizable value. The Company has evaluated the borrowers and the collateral underlying these loans and determined the probability of recovery of the loans’ principal balance. Given the volatility in the current market, the Company continues to monitor these assets closely and revalue the collateral on a frequent and periodic basis. This re-evaluation may create the need for additional write-downs or additional loss reserves on these assets.

At December 31, 2011 and 2010, classified loans (loans with risk grades 6, 7 or 8) by loan type are as follows (dollars in thousands):

	December 31,	
Classified Loans	2011	2010
Commercial loans	\$12,259	\$14,069
Commercial real estate loans	16,297	15,807
Commercial construction loans	748	7,832
Land and land development loans	8,418	8,040

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Agriculture loans	2,927	2,380
Multifamily loans	6,609	—
Residential real estate loans	5,375	4,477
Residential construction loans	—	277
Consumer loans	574	1,203
Municipal loans	—	—
Total classified loans	\$53,207	\$54,085

Classified loans are loans for which management believes it may experience some problems in obtaining repayment under the contractual terms of the loan, and are inclusive of the Company's non-accrual loans. However, categorizing a loan as classified does not necessarily mean that the Company will experience any or significant loss of expected principal or interest.

While still elevated, classified loans stabilized in 2011. The total balance of classified loans reached a peak of \$96.2 million in July 2009, and has been reduced by 44.7% since then, as a result of the workout and disposition efforts of the Company's special assets team. As a percentage of the Company's net loans, classified loans reached a peak of 13.9% in November 2009, dropped to 11.8% of net loans at the end of 2009, and totaled 10.3% at the end of 2011.

Reflecting ongoing challenges in the Idaho economy during 2011, most classified loan categories were relatively unchanged. The one significant change was the shift from commercial construction loans to multifamily loans of one large residential condominium development that was completed during the year and is now being marketed. While the overall level of classified loans did not decrease significantly during the year as it did in 2010, management believes that the potential loss exposure from the current classified loans is significantly lower than in prior years. The remaining loans generally have stronger borrowers, healthier collateral positions and/or stronger guarantors than prior classified balances that were heavily dominated by more speculative land and construction loans.

As with NPAs, the geographical distribution of the Company's classified loans reflects the distribution of the Company's loan portfolio, with higher distributions in the "North Idaho/Eastern Washington" region, and decreased levels in southern Idaho. As noted above, the Company worked rapidly to reduce its exposure in the Greater Boise area, and the other southern Idaho regions have strong agri-business components. In general, the Company believes that its loss exposure to classified loans in northern Idaho and eastern Washington will be less, because of stronger, local borrower relationships and fewer speculative investments.

Local economies and real estate valuations continued to stabilize in 2011. However, economic conditions remain challenging and are likely to improve only slowly over the next couple years. As such, management believes that classified loans, non-performing assets, and credit losses will likely continue to decline in 2012, but remain at historically high levels as compared to the years prior to 2008. If this holds true, the Company's allowance for loan losses would likely remain at higher levels than its historical experience prior to 2008 as well. Given market volatility and future uncertainties, management cannot assure nor guarantee the accuracy of these future forecasts.

Management continues to focus its efforts on managing down the level of non-performing assets, classified loans and delinquencies. It uses a variety of analytical tools and an integrated stress testing program involving both qualitative and quantitative modeling to assess the current and projected state of its credit portfolio. The results of this program are integrated with the Company's capital and liquidity modeling programs to manage and mitigate future risk in these areas as well. In 2010 and again in 2011, the Company contracted with an independent loan review firm to further evaluate and provide independent analysis of its portfolio and make recommendations for portfolio management improvement. In particular, the reviews quantified and stratified the loans in the Bank's portfolio based upon layered risk, product type, asset class, loans- to-one borrower, and geographic location. The purpose of the reviews was to provide an independent assessment of the potential imbedded risks and dollar exposure within the Bank's loan portfolio. The scope of the original review included loans representing over 80% of the total loan portfolio and included specific asset evaluations and loss forecasts for the majority of the loan portfolio. The two reviews in 2011 were slightly smaller in scope, but still comprised almost 80% of the total portfolio. The firm employed seasoned financial and commercial lending personnel to complete the individual loan reviews. Based on its evaluation of both external and internal loan review results and a comparison of the 2010 and 2011 internal and external loss projections against actual losses, management does not believe that it needs to materially alter its 12-month forward loss projections. It has and continues to incorporate a number of the recommendations made by the review firm into its ongoing credit management process.

Other Income

The following table details dollar amount and percentage changes of certain categories of other income for the three years ended December 31.

	2011	% of	Percent	2010	% of	Percent	2009	% of
	Amount	Total	Change	Amount	Total	Change	Amount	Total
	(Dollars in thousands)							
Fees and service charges	\$7,036	66	% (1	\$7,133	65	% 3	\$6,948	58
Loan related fee income	2,202	21	% (28	3,061	28	% 5	2,913	24
BOLI income	362	3	% (2	368	3	% 2	360	3
Other-than-temporary credit impairment on investment securities	(145	) (1	)% (82	(828	) (8	)% (57	(526	) (4
Net gain (loss) on sale of securities	131	1	% (62	349	3	% (81	1,795	15
Other income	1,039	10	% 11	941	9	% 88	501	4
Total	\$10,625	100	% (4	\$11,024	100	% (8	\$11,991	100

Total other income was \$10.6 million and \$11.0 million for the twelve months ended December 31, 2011 and 2010, respectively, with the decrease largely resulting from decreases in loan related fee income and net securities gains. These were offset by lower other than temporary credit impairments on securities ("OTTI") during 2011.

Fees and service charges earned on deposit, trust and investment accounts continue to be the Company's primary sources of other income. Fees and service charges for the twelve month period ended December 31, 2011 totaled \$7.0 million versus \$7.1 million for the same period last year. Continued reductions in overdraft charges resulting from new federal regulations that came into effect in July 2010 and July 2011 were largely offset by additional trust, investment services, and debit card income. The Company is evaluating new fee structures, enhancing its marketing of trust and investment services, and implementing additional training to enhance cross-selling of other services to offset these potential impacts.

Loan related fee income decreased by \$859,000 for the twelve months ended December 31, 2011 compared to one year ago as a result of lower overall mortgage origination activity and a Company decision to retain more servicing, which reduces initial revenue, but creates an ongoing revenue stream. Mortgage activity picked up substantially in the fourth quarter, and the Company anticipates this to continue, at least for the first half of 2012. The Company has restructured its mortgage banking function to enhance origination volume and income, and continues to evaluate its cost structure to improve efficiency.

For the twelve-month period, gains on sales of securities totaled \$131,000 in 2011 versus \$349,000 in the same period of 2010. The Company sold one \$10 million sub-investment grade security during the year and offset the losses on this sale with gains taken on the sale of a couple municipal loans. The credit loss on impaired securities decreased significantly in 2011, as defaults on mortgages backing the two OTTI securities stabilized during the year. The Company still has potential exposure to these two securities, but does not believe losses will return to levels seen in 2010.

Bank-owned life insurance ("BOLI") income was relatively flat from the prior year as yields were stable and the Company did not purchase or liquidate BOLI assets. Other non-interest income increased \$98,000, reflecting higher secured credit card contract income in 2011. Income from the secured credit card contract is expected to decrease in 2012 and may terminate at the end of the year, as a result of the sale of the credit card portfolio associated with this contract. The Company is evaluating various alternatives, including partnering with other card providers, to replace this income source in future years.

The decrease in other income from 2009 to 2010 of \$967,000 reflected lower gains on sale of securities and higher credit loss impairment, offset by increases in trust, investment and debit card fees, mortgage revenue, and secured card contract income.

Operating Expenses

The following table details dollar amount and percentage changes of certain categories of other expense for the three years ended December 31, 2011.

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	2011	% of	Percent	2010	% of	Percent	2009	% of
	Amount	Total	Change	Amount	Total	Change	Amount	Total
			Previous			Previous		
			Year			Year		
(Dollars in thousands)								
Salaries and employee benefits	\$18,736	49	% (11)%	\$20,950	38	% (7)%	\$22,512	45
Occupancy expense	6,879	18	% (5)%	7,240	13	% (4)%	7,515	15
Advertising	677	2	% (33)%	1,010	2	% (25)%	1,351	3
Fees and service charges	2,645	7	% 1 %	2,666	5	% (9)%	2,940	6
Printing, postage and supplies	1,135	3	% (16)%	1,346	2	% — %	1,352	3
Legal and accounting	1,521	4	% 22 %	1,244	2	% (28)%	1,734	3
FDIC assessment	1,394	4	% (26)%	1,892	3	% (20)%	2,373	5
OREO operations(1)	2,166	6	% (38)%	3,472	6	% (35)%	5,389	11
Goodwill Impairment	—	—	% (100)%	11,662	22	% 100 %	—	—
Other expense	3,177	7	% (7)%	3,412	7	% (24)%	4,464	9
Total	\$38,330	100	% (30)%	\$54,894	100	% 11 %	\$49,630	100

(1) Amount includes chargedowns and gains/losses on sale of OREO

Operating expense for the twelve months ended December 31, 2011 totaled \$38.3 million, a decrease of \$16.6 million over the same period one year ago. Excluding the goodwill impairment charge taken by the Company in 2010, operating expenses on other categories decreased by \$4.9 million, or 11.3%, from the prior year.

Salaries and employee benefits expense for the twelve months ended December 31, 2011 decreased \$2.2 million, or 10.6% compared to the same period one year ago. Responding to slower forecasted revenue growth and changes in how people bank, the Company continued to implement restructuring plans in 2011 to align itself with projected future conditions. This resulted in a 20% reduction in staff during 2011. Severance costs paid as part of this staff reduction totaled \$552,000 for 2011. Ongoing efforts to control compensation expense include centralizing and automating additional functions, reducing administrative overhead, and revamping our credit management process. At December 31, 2011, full-time-equivalent employees (FTE) totaled 280, compared with 349 at December 31, 2010 and 406 at December 31, 2009.

Occupancy expenses were \$6.9 million for the twelve months ended December 31, 2011, a 5.0% decrease compared to December 31, 2010. The decrease from last year reflects lower hardware, software, and equipment purchasing activity, as previous infrastructure investments have enhanced efficiency and reduced the need for additional purchasing activity. The Company also consolidated administrative functions, which allowed it to reduce rent expense during the year. Continued centralization and cost reduction initiatives are anticipated to bring further improvement to this area over the next couple years.

The \$333,000 decrease in advertising expense for the twelve month period ended December 31, 2011 compared to the same period one year ago is a result of reductions in general advertising and media expenses, as the need for broad advertising in the current market has been limited. The small decrease in fees and service charge expenses reflects lower collection and repossession expenses, offset by higher internet banking and debit card expenses. These expenses are expected to decline further as the Company's credit quality continues to improve and it begins initiatives to lower internet banking expense. The \$211,000 decrease in printing, postage and supplies reflects lower postage and check printing expense as employees and customers increasingly convert to electronic options. Legal and accounting fees increased by \$277,000 in 2011, largely as a result of fees paid for consulting services on the Company's restructuring efforts. These expenses will likely tail off in future years.

At \$1.4 million, FDIC expense was down \$498,000 or 26.3% from the twelve months ended December 31, 2011, reflecting both lower asset totals and changes in the assessment formula that are advantageous to community banks. The Company anticipates further reductions in the assessment in future years based on its current financial position,

unless the FDIC changes the assessment formula or makes other changes that impact industry assessments.

OREO operations, related valuation adjustments and gain/loss on sale of OREO decreased by \$1.3 million for the twelve month period over the same period last year. Although OREO balances were higher at year end 2011 than the prior year, more stable property values and a significant reduction in the number of properties transitioning through OREO resulted in lower expense for the year, a trend which should continue in future years.

As noted earlier, the Company recorded an \$11.7 million goodwill impairment during 2010, reducing the balance of goodwill to zero. As a result, no additional goodwill impairment was recorded in 2011. The \$235,000 reduction in other operating expenses reflected reduced courier, dues and travel expenses during the year. Management believes that it can continue to reduce expenses

in these and other items that comprise this category.

The increase in operating expense in 2010 from 2009 reflected the goodwill impairment charge, which offset reductions in most other expense categories, as the Company implemented its cost reduction initiatives.

The Company's efficiency ratio was 84.3% for the twelve months ended December 31, 2011, compared to 118.6% for the twelve months ended December 31, 2010. The Company will continue to execute strategies to reduce controllable expenses to improve efficiency. However, flat asset growth and net interest margin compression have hampered efficiency ratio gains. With economic conditions likely to remain challenging in the near future, the Company continues to lower both its interest and non-interest expense. Management anticipates that as it completes the action plans developed under prior initiatives and undertakes its new plans, the efficiency and expense ratios will improve. Stabilization and improvement in economic conditions in the future should also improve efficiency, as net interest income rebounds and credit-related costs subside.

Income Tax Provision

Federal and state income tax benefits totaled \$152,000 and \$882,000 for the twelve months ended December 31, 2011 and 2010, respectively. The effective tax rates were (101.8%) and (2.7%) for the twelve months ended December 31, 2011 and 2010, respectively. At December 31, 2011, Intermountain again assessed whether it was more likely than not that it would realize the benefits of its deferred tax asset. Intermountain determined that the negative evidence associated with a three-year cumulative loss for the period ended December 31, 2011, and challenging economic conditions continued to outweigh the positive evidence. Therefore, Intermountain maintained a valuation allowance of \$8.8 million against its deferred tax asset. The company analyzes the deferred tax asset on a quarterly basis and may recapture a portion or all of this allowance depending on future profitability. Including the valuation allowance, Intermountain had a net deferred tax asset of \$13.2 million as of December 31, 2011, compared to a net deferred tax asset of \$15.5 million as of December 31, 2010. The decrease in the net deferred tax asset is primarily due to the increase in the unrealized market value of the Company's investment securities.

During 2010, Intermountain determined that the negative evidence associated with a two-year cumulative loss and continued depressed economic conditions outweighed the existing positive evidence. Therefore, it established an initial valuation allowance of \$7.4 million against its deferred tax asset in September 2010 and increased it by \$1.4 million at the end of 2010.

Intermountain uses an estimate of future earnings and the potential impact of future tax planning strategies to determine whether or not the benefit of its net deferred tax asset will be realized. An estimate of potential future earnings is used to determine both the need for a valuation allowance and the size of the allowance. In conducting this analysis, management has assumed economic conditions will stabilize but continue to be challenging in 2012, followed by gradual improvement in the ensuing years. These assumptions are in line with both national and regional economic forecasts. As such, its estimates include elevated credit losses in 2012, but at lower levels than those experienced in 2009 through 2011, followed by improvement in ensuing years as the Company's loan portfolio continues to turn over. It also assumes: (1) a compressed net interest margin in 2012, with gradual improvement in future years, as it is able to convert some of its cash position to higher yielding instruments; and (2) reductions in operating expenses as credit costs abate and its other cost reduction strategies continue.

The completion of the \$47.3 million capital raise noted in the "Business Strategy & Opportunities" section above will trigger Internal Revenue Code Section 382 limitations on the amount of tax benefit from net operating losses and other carryforwards that the Company can claim annually. The Company is currently evaluating the potential impacts, the calculation of which is dependent on the level of market interest rates and the fair value of the Company's balance sheet at the time the capital raise closed. This evaluation is still in process and will likely not be known until the end of 2012. See Section 1A. Risk Factors.

Financial Position

Assets. At December 31, 2011, Intermountain's assets were \$934 million, down \$70.9 million from \$1.01 billion at December 31, 2010. For the period ended December 31, 2011, the increases in investments available-for-sale were offset by decreases in loans receivable and cash equivalents. Given the challenging economic climate and the lack of quality borrowing demand, the Company continued to manage its balance sheet cautiously, reducing problem loans and using cash to pay off or otherwise reduce higher-rate liabilities.

Investments. Intermountain's total investment portfolio, including investments available for sale, investments held to maturity and FHLB stock, at December 31, 2011 was \$237.5 million, an increase of \$29.9 million from the December 31, 2010 balance of \$207.6 million. The increase was primarily due to the purchase of \$122.1 million in securities, including government agency mortgage-backed pools, collateralized mortgage obligations, and high-quality municipal bonds, as the Company sought to deploy some of its cash position in higher-yielding investments. These purchases were offset by the sale or call of \$46.2 million in investment securities resulting in a \$131,000 net pre-tax gain, and other principal reductions of \$52.0 million. Given lower market rates during the year and expectations that these market conditions would continue for an extended period of time, the Company extended duration slightly during the year to enhance returns, but continued to protect the portfolio against rapidly rising

rates by employing a barbell strategy in its purchases. Investing conditions are likely to remain challenging in 2012 as market competition and low rates depress investment yields and increase prices on the more attractive investment sectors. As of December 31, 2011, the balance of the unrealized gain on investment securities (including cumulative OTTI recognized through other comprehensive income), net of federal income taxes, was \$2.7 million, compared to an unrealized loss at December 31, 2010 of \$797,000. The unrealized gain for 2011 was caused by significant reductions in market interest rates during the year. The 2010 loss primarily reflected the impacts of illiquid markets on the pricing of some of the Company's non-agency backed mortgage backed securities.

The Company currently holds two residential MBS, with an unpaid balance totaling \$9.5 million that are determined to have other than temporary impairments ("OTTI"), as detailed in the table below:

	Principal Balance	Fair Value	Unrealized (Loss) Gain	Cumulative OTTI Credit Loss Recorded in Income	Cumulative OTTI Impairment Loss Recorded in OCI
Security 1	\$2,114	\$1,744	\$435	\$(947)	\$(805)
Security 2	6,081	4,876	—	(552)	(1,206)
Total	\$8,195	\$6,620	\$435	\$(1,499)	\$(2,011)

As indicated in the table above, impairment for these two securities totals \$3.5 million, of which \$1.5 million has been recorded as credit loss impairment in income and the remainder in other comprehensive income. The Company did not record additional credit loss impairment for Security 1 in 2011, but did record a \$145,000 impairment for Security 2 during the year. At this time, the Company anticipates holding the two securities until their value is recovered or until maturity, and will continue to adjust its net income (loss) and other comprehensive income (loss) to reflect potential future credit loss impairments and the security's market value. The Company calculated the credit loss charges against earnings by subtracting the estimated present value of future cash flows on the securities from their amortized cost less the total of previous credit loss impairment at the end of each period.

Loans Receivable. At December 31, 2011 net loans receivable totaled \$502.3 million, down \$61.0 million or 10.8% from \$563.2 million at December 31, 2010. The decrease reflected the payoff of one large participated credit, one large retirement credit, liquidation of problem credits, paydowns by business and agricultural customers reducing debt loads, and muted new loan demand.

The following table sets forth the composition of Intermountain's loan portfolio at the dates indicated. Loan balances exclude deferred loan origination costs and fees and allowances for loan losses.

	December 31, 2011		December 31, 2010		December 31, 2009	
	Amount	%	Amount	%	Amount	%
	(Dollars in thousands)					
Commercial loans	\$110,395	21.4	\$122,656	21.3	\$131,562	19.6
Commercial real estate loans	167,586	32.6	175,559	30.5	172,726	25.7
Commercial construction loans	6,335	1.2	17,951	3.1	45,581	6.8
Land and land development loans	38,499	7.5	60,962	10.6	88,604	13.2
Agriculture loans	81,316	15.8	87,364	15.2	110,256	16.4
Multifamily loans	26,038	5.1	26,417	4.6	18,067	2.7
Residential real estate loans	58,861	11.4	60,872	10.6	65,544	9.8
Residential construction loans	2,742	0.5	3,219	0.6	16,626	2.4
Consumer loans	11,847	2.3	14,095	2.4	18,287	2.7
Municipal loans	11,063	2.2	6,528	1.1	5,061	0.7
Total loans receivable	514,682	100.0	575,623	100.0	672,314	100.0
Allowance for losses on loans	(12,690)		(12,455)		(16,608)	
Net deferred origination fees	260		60		(104)	
Loans receivable, net	\$502,252		\$563,228		\$655,602	

Weighted average yield at end of period	5.69	%	6.04	%	6.15	%
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Land and land development loans experienced the largest decrease from 2010, reflecting ongoing liquidation activity and

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minimal new production activity in this category. The refinance of several larger loans from the construction portfolio into term commercial real estate loans generated the decline in commercial construction loans. Reductions in commercial and commercial real estate balances primarily reflect muted quality loan demand as a result of cautious potential borrowers, lack of equity in available collateral, and tighter underwriting and appraisal restrictions. In contrast, the reduction in agricultural balances reflects unusually strong agricultural markets, which are allowing farmers to borrow less and pay down other debt. Multifamily and municipal loans were either stable or up, reflecting moderately higher levels of activity in these sectors.

The commercial portfolio is diversified by industry with a variety of small business customers that have held up relatively well during this economic downturn. As slow economic conditions continue, however, the Company continues to experience a moderate increase in stress in this portfolio. Most of the commercial credits are smaller, however, and Intermountain carries a higher proportion of SBA and USDA guaranteed loans than many of its peers, reducing the overall risk in this portfolio. Commercial customers continue to watch economic conditions very closely, and although there are signs of increased activity in some sectors, they generally remain cautious in the current market, delaying expansionary efforts, paying down debt, and limiting borrowing activity.

The commercial real estate portfolio is also well-diversified and consists of a mix of owner and non-owner occupied properties, with relatively few true non-owner-occupied investment properties. The Company has lower concentrations in this segment than most of its peers, and has underwritten these properties cautiously. In particular, it has limited exposure to speculative investment office buildings and retail strip malls, two of the higher risk segments in this category. While tough economic conditions continue to heighten the risk in this portfolio, it continues to perform well with relatively low delinquency and loss rates. The Company believes it has some opportunity to increase prudent lending in this area and did fund some new activity during 2011, as real estate valuations have decreased and remaining borrowers are likely to have stronger credit profiles.

The following table provides additional information on the Company's commercial real estate portfolio:

Commercial Real Estate by Property Types	December 31, 2011			December 31, 2010		
	(Dollars in thousands)					
Condominiums	\$2,050	1.1	%	\$2,321	1.1	%
Office	33,353	17.2		38,528	19.1	
Industrial warehouse	26,972	13.9		25,911	12.8	
Storage units	6,087	3.1		6,782	3.4	
Retail	18,948	9.8		10,722	5.3	
Restaurants	5,850	3.0		6,114	3.0	
Land and land development	7,953	4.1		7,859	3.9	
Other commercial	12,601	6.5		16,562	8.2	
Health care	16,025	8.3		12,486	6.2	
Religious facilities	1,748	0.9		1,758	0.9	
Gas stations & convenience stores	5,125	2.6		5,818	2.9	
Auto R/E (car lot, wash, repair)	2,104	1.1		2,290	1.1	
Hotel/Motel	1,875	1.0		2,546	1.3	
Miscellaneous	26,895	14.0		35,862	17.7	
Total Commercial Real Estate loans	167,586	86.6	%	175,559	86.9	%
Multifamily	26,038	13.4		26,417	13.1	
Total Commercial Real Estate and Multifamily Loans	\$193,624	100.0	%	\$201,976	100.0	%

Most agricultural markets continue to perform very well, and the Company has very limited exposure to the severely impacted dairy market. As noted above, the sector has performed so well that many of its best borrowing customers are using excess cash generated over the past couple of years to reduce their overall borrowing position. As production costs increase, borrowing activity may pick up in this sector.

The residential and consumer portfolios consist primarily of first and second mortgage loans, unsecured loans to individuals, and auto, boat and RV loans. These portfolios have generally performed well with limited delinquencies and defaults, although the Company has seen some pressure on its home equity portfolio. While these loans have

generally been underwritten with relatively conservative loan-to-values and strong debt-to-income ratios, the continued weak economy and falling home prices have resulted in some losses in this loan type.

High unemployment and decreased asset values continue to challenge Intermountain's customers and its loan portfolios. Economic conditions and property values remain volatile, but do not appear to be worsening now in most of the Company's markets. Management believes that its underwriting standards and aggressive identification and management of credit problems are having a positive impact on its credit portfolios. Losses are likely to remain elevated for 2012, but at lower levels than in 2009 through 2011, with continued improvement in subsequent years.

Geographic Distribution

As of December 31, 2011, the Company's loan portfolio by loan type and geographical market area was:

Loan Portfolio by Location	North Idaho Eastern Washington	—Magic Valley Idaho	Greater Boise Area	E. Oregon, SW Idaho, excluding Boise	Other	Total	% of Loan type to total loans	
	(Dollars in thousands)							
Commercial loans	\$75,677	\$6,785	\$7,686	\$18,498	\$1,749	\$110,395	21.4	%
Commercial real estate loans	114,211	11,763	14,242	15,692	11,678	167,586	32.6	%
Commercial construction loans	2,964	3,137	74	—	160	6,335	1.2	%
Land and land development loans	28,844	2,229	5,095	1,202	1,129	38,499	7.5	%
Agriculture loans	1,168	4,097	17,237	57,154	1,660	81,316	15.8	%
Multifamily loans	10,378	—	7,299	—	8,361	26,038	5.1	%
Residential real estate loans	39,610	5,031	3,273	7,723	3,224	58,861	11.4	%
Residential construction loans	2,742	—	—	—	—	2,742	0.5	%
Consumer loans	6,745	1,176	1,082	2,605	239	11,847	2.3	%
Municipal loans	9,592	1,471	—	—	—	11,063	2.2	%
Total	\$291,931	\$35,689	\$55,988	\$102,874	\$28,200	\$514,682	100.0	%
Percent of total loans in geographic area	56.7	% 6.9	% 10.9	% 20.0	% 5.5	% 100.0		
Percent of total loans where real estate is the primary collateral	68.2	% 67.2	% 57.2	% 36.4	% 87.9	% 61.7		

As of December 31, 2010, the Bank's loan portfolio by loan type and geographical market area was:

Loan Portfolio by Location	North Idaho Eastern Washington	—Magic Valley Idaho	Greater Boise Area	E. Oregon, SW Idaho, excluding Boise	Other	Total	% of Loan type to total loans	
	(Dollars in thousands)							
Commercial loans	\$81,916	\$9,572	\$10,747	\$18,865	\$1,556	\$122,656	21.3	%
Commercial real estate loans	115,721	14,536	18,295	17,465	9,542	175,559	30.5	%
Commercial construction loans	6,738	3,070	8,143	—	—	17,951	3.1	%
Land and land development loans	47,197	4,421	5,944	1,904	1,496	60,962	10.6	%

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Agriculture loans	1,609	7,302	16,754	59,575	2,124	87,364	15.2	%
Multifamily loans	18,205	—	725	—	7,487	26,417	4.6	%
Residential real estate loans	39,482	5,795	3,582	8,248	3,765	60,872	10.6	%
Residential construction loans	2,594	287	7	331	—	3,219	0.6	%
Consumer loans	7,802	1,580	1,318	2,960	435	14,095	2.4	%
Municipal loans	4,955	1,573	—	—	—	6,528	1.1	%
Total	\$326,219	\$48,136	\$65,515	\$109,348	\$26,405	\$575,623	100.0	%
Percent of total loans in geographic area	56.4	% 8.4	% 11.5	% 19.1	% 4.6	% 100.0	%	
Percent of total loans where real estate is the primary collateral	70.6	% 64.5	% 59.5	% 40.2	% 85.4	% 63.7	%	

As illustrated, 57% of the Company's loans are in north Idaho and eastern Washington, with the next highest percentage in the rural markets of southwest Idaho outside of Boise. Economic trends and real estate valuations have worsened in these market

areas, but portfolio loss rates have still been lower than those experienced earlier in Boise or other areas of the country. This reflects the differing economies in these areas, generally more conservative lending and borrowing norms, longer-term customers, and more restrained building and development activity. The southwest Idaho and Magic Valley markets are largely agricultural areas which have not seen levels of price appreciation or depreciation as steep as other areas over the last few years. The “Other” category noted above largely represents loans made to local borrowers where the collateral is located outside the Company’s communities. The mix in this category is relatively diverse, with the highest proportions in Oregon, Washington, California, Nevada and Arizona, but no single state comprising more than 2.3% of the total loan portfolio.

Participation loans where Intermountain purchased part of the loan and was not the lead bank totaled \$13.6 million at December 31, 2011. \$6.6 million of the total is a condominium project in Boise that is currently classified, but is being managed very closely, and for which no loss is expected. The remaining loans are all within the Company’s footprint and management believes they do not present significant risk at this time.

The following table sets forth the composition of Intermountain’s loan originations for the periods indicated.

	Twelve Months Ended December 31,		
	2011	2010	% Change
	(Dollars in thousands)		
Commercial loans	\$63,847	\$75,873	(15.9)%
Commercial real estate loans	20,238	24,006	(15.7)%
Commercial construction loans	2,661	9,960	(73.3)%
Land and land development loans	2,795	4,851	(42.4)%
Agriculture loans	60,429	65,459	(7.7)%
Multifamily loans	—	52	(100.0)%
Residential real estate loans	58,682	71,757	(18.2)%
Residential construction loans	3,510	5,843	(39.9)%
Consumer	6,022	6,961	(13.5)%
Municipal	17,033	2,660	540.3 %
Total loans originated	\$235,217	\$267,422	(12.0)%

2011 origination activity continues to reflect the muted borrowing demand from virtually all sectors in the current environment, as potential borrowers remain very cautious about pursuing new real estate purchase, expansion or construction activities, and as agricultural customers experience strong cash flows. Extreme market volatility and concern over US deficits and the European debt crisis had a particularly large impact in mid-year, as potential borrowers reacted to the uncertainty by canceling or delaying new borrowing activity. Optimism and activity ticked up slightly in the fourth quarter, spurred by low interest rates and an improving job picture. The increase in municipal activity primarily reflects financing for critical sewer and water services. Origination activity in 2012 is likely to improve from 2011 totals, but will still be under pressure from slow economic and employment growth and aggressive industry competition for strong borrowers. Those banks that have low-cost funding structures and strong relationship networks will perform relatively better in this environment.

Office Properties and Equipment. Office properties and equipment decreased 6.4% to \$37.7 million, due primarily to depreciation recorded for 2011. Reflecting efficiencies gained from prior infrastructure investments and a slow growth economy, the Company has continued to manage its hardware, software and equipment purchases carefully.

Other Real Estate Owned. Other real estate owned increased by \$2.2 million to \$6.7 million at December 31, 2011, largely as a result of the addition of one large land development property. In 2011, the Company sold 63 properties totaling \$6.4 million, wrote off \$922,000 and added 29 properties totaling \$9.6 million. A total of 13 properties remained in the OREO portfolio at quarter end, consisting of \$6.0 million in construction and land development properties, \$482,000 in commercial real estate properties and \$166,000 in residential real estate.

The following tables provide additional trending information about the OREO portfolio.

Other Real Estate Owned Activity

	2011	2010	2009	2008
	(Dollars in thousands)			
Balance, beginning of period, January 1	\$4,429	\$11,538	\$4,541	\$1,682
Additions to OREO	9,572	8,946	20,789	4,092
Proceeds from sale of OREO	(6,429)	(13,442)	(9,830)	(474)
OREO valuation adjustments in the period(1)	(922)	(2,613)	(3,962)	(759)
Balance, end of period, December 31	\$6,650	\$4,429	\$11,538	\$4,541

(1) Amount includes chargedowns and gains/losses on sale of OREO

Other Real Estate Owned Quarterly Activity

	Dec 2011	Sept 2011	Jun 2011	Mar 2011	Dec 2010
	(Dollars in thousands)				
Balance, beginning of period	\$7,378	\$7,818	\$3,686	\$4,429	\$6,424
Additions to OREO	660	797	7,226	888	2,365
Proceeds from sale of OREO	(1,295)	(734)	(3,130)	(1,270)	(4,042)
OREO valuation adjustments in the period(1)	(93)	(503)	36	(361)	(318)
Balance, end of period	\$6,650	\$7,378	\$7,818	\$3,686	\$4,429

(1) Amount includes chargedowns and gains/losses on sale of OREO

Given still elevated levels of problem loans, the Company anticipates continued migration in and liquidation out of the OREO portfolio over the next year, but has found more active markets to sell properties, reducing the anticipated loss on OREO property significantly.

Intangible Assets. Intangible assets now consist only of a small core deposit intangible derived from prior acquisitions that is amortizing down as time progresses.

Deferred Tax Asset. At December 31, 2011, the Company's deferred tax asset, net of the valuation allowance noted above, totaled \$13.2 million, down from \$15.3 million at the prior year end. The deferred tax asset included \$16.5 million in net operating loss carry forwards and \$7.3 million in temporary timing differences. At December 31, 2011, Intermountain assessed whether it was more-likely-than-not that it would realize the benefits of its deferred tax asset. Intermountain determined that the negative evidence associated with a three-year cumulative loss for the period ending December 31, 2011, and the continued uncertain economic conditions outweighed the positive evidence. Therefore, Intermountain maintained a valuation allowance of \$8.8 million against its deferred tax asset. See the Income Tax Provision section above for more information.

BOLI and All Other Assets. Bank-owned life insurance ("BOLI") and other assets decreased slightly to \$21.5 million at December 31, 2011 from \$22.4 million at December 31, 2010. Accrued interest receivable and prepaid items comprise the bulk of the remainder of these assets.

Deposits. Total deposits decreased \$49.5 million to \$729.4 million at December 31, 2011 from \$778.8 million at December 31, 2010. The decrease reflected a combination of limited Company need for additional funding, a focused effort to lower interest expense, conversion of CD balances into non-FDIC insured investments through the Company's trust and investment division, and increased usage of funds by some of the Company's customers to reduce debt. The Company continues to focus on managing relationship customers closely, lowering its cost of funds, and moving CD customers seeking higher yields into our investment products.

The following table sets forth the composition of Intermountain's deposits at the dates indicated.

	December 31, 2011		December 31, 2010		
	Amount	%	Amount	%	
	(Dollars in thousands)				
Non-interest bearing demand accounts	\$ 190,074	26.1 %	\$ 168,519	21.6 %	
NOW and money market 0.0% to 4.65%	308,713	42.3 %	327,891	42.1 %	
Savings and IRA 0.0% to 5.50%	73,493	10.1 %	75,387	9.7 %	
Certificate of deposit accounts (CDs)	59,199	8.1 %	79,533	10.2 %	
Jumbo CDs	56,177	7.7 %	77,685	10.0 %	
Brokered CDs	37,000	5.1 %	40,899	5.3 %	
CDARS CDs to local customers	4,717	0.6 %	8,919	1.1 %	
Total deposits	\$ 729,373	100.0 %	\$ 778,833	100.0 %	
Weighted average interest rate on certificates of deposit		1.2 %		1.7 %	
Core Deposits as a percentage of total deposits (1)		86.2 %		83.2 %	
Deposits generated from the Company's market area as a % of total deposits		94.9 %		94.8 %	

(1) Core deposits consist of non-interest bearing checking, money market checking, savings accounts, and certificate of deposit accounts of less than \$100,000.

Non-interest bearing demand deposits increased by \$21.6 million, or 12.8%, and now comprise 26.1% of the Company's total deposits. NOW and money market deposits totaled \$308.7 million or 42.3% of the deposit base. The reduction in these balances from the prior year end reflects planned collateralized deposit runoff and the movement of public deposits into either repurchase agreements or other investment alternatives as a result of FDIC coverage changes at the end of 2010. Overall, lower cost transaction account deposits comprised 68.4% of total deposits at December 31, 2011, up from 63.7% a year ago. All categories of CD deposits continued to decline, both in absolute terms and as a percent of the overall portfolio, reflecting the Company's ongoing strategy to reduce funding costs and build core deposits.

The Company's strong local, core funding base, high percentage of checking, money market and savings balances and careful management of its brokered CD funding provide lower-cost, more reliable funding to the Company than most of its peers and add to the liquidity strength of the Bank. Maintaining the local funding base at a reasonable cost remains a critical priority for the Company's management and production staff. The Company uses a combination of proactive branch staff efforts and a dedicated team of business sales specialists to target low-cost deposit balances. It emphasizes personalized service, local community involvement and targeted campaigns to generate deposits, rather than media campaigns or advertised rate specials.

Deposits by location are as follows (dollars in thousands):

Deposits by Location	December 31, 2011	% of total deposits	December 31, 2010	% of total deposits
North Idaho — Eastern Washington	\$ 351,643	48.2 %	\$ 374,173	48.0 %
Magic Valley Idaho	65,629	9.0 %	68,870	8.8 %
Greater Boise Area	70,094	9.6 %	79,697	10.2 %
Southwest Idaho — Oregon, excluding Boise	154,446	21.2 %	165,505	21.3 %
Administration, Secured Savings	87,561	12.0 %	90,588	11.7 %
Total	\$ 729,373	100.0 %	\$ 778,833	100.0 %

The Company attempts to, and has been successful in balancing loan and deposit growth in each of the market areas it serves. Northern Idaho and eastern Washington deposits currently exceed those in the Company's southern Idaho and eastern Oregon markets as a result of its longer history in these markets. The Company's deposit market share has grown significantly since 2000, and it now ranks third in overall market share in its core markets. Intermountain is the deposit market share leader in five of the eleven counties in which it operates.

Borrowings. Deposit accounts are Intermountain's primary source of funds. Intermountain also relies upon advances from the Federal Home Loan Bank of Seattle, repurchase agreements and other borrowings to supplement its funding, reduce its overall cost of funds, and to meet deposit withdrawal requirements. These borrowings totaled \$130.6 million and \$155.6 million at December 31, 2011 and December 31, 2010, respectively. The balance at December 31, 2011 consisted of \$29.0 million in advances

from the FHLB, \$85.1 million in repurchase agreements to local municipal customers as part of strong customer relationships, and \$16.5 million in trust preferred securities. The decrease from the prior year end resulted from repaying a \$5.0 million FHLB advance and a \$30.0 million structured repurchase agreement, but was partially offset by increases in local municipal repurchase balances.

Interest Rate Risk

The results of operations for financial institutions may be materially and adversely affected by changes in prevailing economic conditions, including rapid changes in interest rates, declines in real estate market values and the monetary and fiscal policies of the federal government. Like all financial institutions, Intermountain's net interest income and its NPV (the net present value of financial assets, liabilities and off-balance sheet contracts), are subject to fluctuations in interest rates. Intermountain utilizes various tools to assess and manage interest rate risk, including an internal income simulation model that seeks to estimate the impact of various rate changes on the net interest income and net income of the bank. This model is validated by comparing results against various third-party estimations. Currently, the model and third-party estimates indicate that Intermountain's interest rate profile is neutral to slightly asset-sensitive. An asset-sensitive bank generally sees improved net interest income and net income in a rising rate environment, as its assets reprice more rapidly and/or to a greater degree than its liabilities. The opposite is true in a falling interest rate environment. When market rates fall, an asset-sensitive bank tends to see declining income. The Company has become less asset-sensitive over the preceding year, as many of its variable-rate loans have hit contractual floors and the duration of its liability portfolio has shortened.

To minimize the long-term impact of fluctuating interest rates on net interest income, Intermountain promotes a loan pricing policy of utilizing variable interest rate structures that associates loan rates to Intermountain's internal cost of funds and to the nationally recognized prime or London Interbank Offered ("LIBOR") lending rates. While this strategy has had adverse impacts in the current unusually low rate environment, the approach historically has contributed to a relatively consistent interest rate spread over the long-term and reduces pressure from borrowers to renegotiate loan terms during periods of falling interest rates. Intermountain currently maintains over fifty percent of its loan portfolio in variable interest rate assets.

Additionally, the extent to which borrowers prepay loans is affected by prevailing interest rates. When interest rates increase, borrowers are less likely to prepay loans. When interest rates decrease, borrowers are generally more likely to prepay loans. Prepayment speeds accelerated in 2009, most of 2010 and the final quarter of 2011, as borrowers refinanced into lower rates, paid down debt to improve their financial position, or liquidated assets as part of problem loan work-out strategies. Prepayments may affect the levels of loans retained in an institution's portfolio, as well as its net interest income. Prepayments on loans and mortgage-backed securities are likely to accelerate in the first half of 2012 as a result of continuing low interest rates and government-sponsored refinance programs, but will likely stabilize or slow thereafter, particularly when the economy improves and rates begin rising.

On the liability side, Intermountain seeks to manage its interest rate risk exposure by maintaining a relatively high percentage of non-interest bearing demand deposits, interest-bearing demand deposits, savings and money market accounts. These instruments tend to lag changes in market rates and may afford the Bank more protection in increasing interest rate environments than other short-term borrowings, but can also be changed relatively quickly in a declining rate environment. The Bank utilizes various deposit pricing strategies and other borrowing sources to manage its rate risk. As noted above, the duration of the Company's liabilities has generally shortened over the past 2 years, as customers have preferred shorter-term deposit products and the Company has not replaced longer-term brokered and wholesale funding instruments as they have come due.

Intermountain maintains an asset and liability management program intended to manage net interest income through interest rate cycles and to protect its income by controlling its exposure to changing interest rates. As part of this program, Intermountain uses a simulation model designed to measure the sensitivity of net interest income and net income to changes in interest rates. This simulation model is designed to enable Intermountain to generate a forecast of net interest income and net income given various interest rate forecasts and alternative strategies. The model is also designed to measure the anticipated impact that prepayment risk, basis risk, customer maturity preferences, volumes of new business and changes in the relationship between long-term and short-term interest rates have on the performance of Intermountain. The results of modeling indicate that the estimated impact of changing rates on net

interest income in a 100 and 300 basis point upward adjustment are within the guidelines established by management. The estimated impact of changing rates on net interest income in a 100 basis point downward adjustment in market interest rates is just outside of the Company's guidelines over a 12-month and 24-month forward looking period. The impacts of changing rates on the Company's modeled economic value of equity are also within the Company's guidelines and reflect a minimum risk profile. The current scenario analysis for net income has been impacted by the unusual current and prior year operating results of the Company, which increases the impact of both upward and downward adjustments on the percentage increase and decrease. Given this, management has tended to place more reliance on the net interest income and economic value of equity modeling.

Intermountain is continuing to pursue strategies to manage the level of its interest rate risk while increasing its long-term

net interest income and net income: 1) through the origination and retention of a diversified mix of variable and fixed-rate consumer, business banking, commercial real estate loans, and residential loans which generally have higher yields than alternative investments; 2) by prudently managing its investment portfolio to provide relative stability in the face of changing rate environments; and 3) by increasing the level of its core deposits, which are generally a lower-cost, less rate-sensitive funding source than wholesale borrowings. There can be no assurance that Intermountain will be successful implementing any of these strategies or that, if these strategies are implemented, they will have the intended effect of reducing interest rate risk or increasing net interest income.

Liquidity and Sources of Funds

As a financial institution, Intermountain's primary sources of funds from assets include the collection of loan principal and interest payments, cash flows from various investment securities, and sales of loans, investments or other assets.

Liability financing sources consist primarily of customer deposits, repurchase obligations with local customers, advances from FHLB Seattle and correspondent bank borrowings.

Deposits decreased to \$729.3 million at December 31, 2011 from \$778.8 million at December 31, 2010, with the largest decreases in CD balances. Repurchase agreements decreased by \$20.0 million, reflecting the planned payoff of a \$30 million structured repurchase agreement in July and moderate fluctuations in municipal repurchase activity.

Decreases in loans and cash and cash equivalents offset the largely planned reductions in deposits and a planned deployment of cash into higher yielding investment securities, which cumulatively resulted in a decrease of \$37.5 million in the Company's unrestricted cash position at December 31, 2011 from year end, 2010.

During the year ended December 31, 2011, cash used by investing activities consisted primarily of the purchase of available-for-sale investment securities, partially offset by calls and sales of investment securities and paydowns on the Company's mortgage-backed security portfolio. During the same period, cash used by financing activities consisted primarily of decreases in deposits and repurchase agreements.

Securities sold subject to repurchase agreements totaled \$85.1 million at December 31, 2011. These borrowings are required to be collateralized by investments with a market value exceeding the face value of the borrowings. Under certain circumstances, Intermountain could be required to pledge additional securities or reduce the borrowings.

Intermountain's credit line with FHLB Seattle provides for borrowings up to a percentage of its total assets subject to general collateralization requirements. At December 31, 2011, the Company's FHLB Seattle credit line represented a total borrowing capacity of approximately \$100.3 million, of which \$31.1 million was being utilized. Additional collateralized funding availability at the Federal Reserve totaled \$23.0 million. Both of these collateral secured lines could be expanded more with the placement of additional collateral. Overnight-unsecured borrowing lines have been established at US Bank and Pacific Coast Bankers Bank ("PCBB"). At December 31, 2011, the Company had approximately \$35.0 million of overnight funding available from its unsecured correspondent banking sources.

Intermountain and its subsidiary Bank maintain an active liquidity monitoring and management plan, and have worked aggressively over the past several years to expand sources of alternative liquidity. Given continuing volatile economic conditions, the Bank has taken additional protective measures to enhance liquidity, including intensive customer education and communication efforts, movement of funds into highly liquid assets and increased emphasis on relationship deposit-gathering efforts. Because of its relatively low reliance on non-core funding sources and the additional efforts undertaken to improve liquidity discussed above, management believes that the subsidiary Bank's current liquidity risk is moderate and manageable.

Management continues to monitor its liquidity position carefully and conducts periodic stress tests to evaluate future potential liquidity concerns in the subsidiary Bank. It has established contingency plans for potential liquidity shortfalls. Longer term, the Company intends to fund asset growth primarily with core deposit growth, and it has initiated a number of organizational changes and programs to spur this growth when needed.

Liquidity for the parent Company depends substantially on dividends from the Bank. As discussed more fully in "Risk Factors", the Bank is currently prohibited from paying dividends to the parent Company without prior regulatory approval. The other primary sources of liquidity for the Parent Company are capital or borrowings. In January 2012, the Company successfully completed a private capital raise, which netted approximately \$42 million in additional funds. The Company immediately transferred \$30 million of the funds to the subsidiary Bank, resulting in increased liquidity for both the Bank and the parent company. Management projects that available resources will be sufficient to

meet the parent Company's projected funding needs for quite some time, and is pursuing an additional \$8.7 million in capital in a shareholder rights offering in spring 2012, as noted in the "Capital Resources" section below.

Capital Resources

Intermountain's total stockholders' equity was \$61.6 million at December 31, 2011, compared with \$59.4 million at

December 31, 2010. The increase in total stockholders' equity reflected improvements in the unrealized gain on securities. Stockholders' equity was 6.6% of total assets at December 31, 2011 and 5.9% at December 31, 2010. Tangible stockholders' equity as a percentage of tangible assets was 6.6% for December 31, 2011 and 5.9% for December 31, 2010. Tangible common equity as a percentage of tangible assets was 3.8% for December 31, 2011 and 3.3% for December 31, 2010.

At December 31, 2011, Intermountain had unrealized gains of \$2.7 million (including cumulative OTTI recognized through other comprehensive income), net of related income taxes, on investments classified as available-for-sale and \$330,000 in unrealized losses on cash flow hedges, net of related income taxes, as compared to unrealized losses of \$797,000, net of related income taxes, on investments classified as available-for-sale and \$432,000 unrealized losses on cash flow hedges at December 31, 2010. Improvements in market valuations for most of its agency-guaranteed and municipal securities produced the improvement since 2010. Fluctuations in prevailing interest rates and turmoil in global debt markets continue to cause volatility in this component of accumulated comprehensive loss in stockholders' equity and will likely continue to do so in future periods.

On January 23, 2012, the Company announced that it had successfully closed a \$47.3 million private capital raise led by Castle Creek Capital Partners IV, L.P. ("Castle Creek") and affiliates of Stadium Capital Management, LLC ("Stadium") through the issuance and sale of shares of common stock at \$1.00 per share and a newly-created mandatorily convertible series of preferred stock which will automatically convert into shares of a new series of non-voting common stock at a conversion price of \$1.00 upon shareholder approval of such non-voting common stock. The Company also issued to each of Castle Creek and Stadium, for no additional consideration, warrants to purchase 850,000 shares of non-voting common stock at \$1.00 per share.

The Company also plans to conduct a rights offering in the spring of 2012 that will allow existing shareholders to purchase common shares at the same purchase price per share as the private placement investors. Certain private placement investors have agreed, subject to applicable regulatory limitations, to purchase shares that any existing shareholders do not purchase in the rights offering. It anticipates raising up to \$8.7 million in this offering.

The Company expects to use the proceeds from the capital raise and the planned rights offering to strengthen its balance sheet, reinvest in its communities and for other general corporate purposes.

On December 19, 2008, the Company entered into a definitive agreement with the U.S. Treasury. Pursuant to this Agreement, the Company sold 27,000 shares of Preferred Stock, no par value, having a liquidation amount equal to \$1,000 per share, including a warrant ("The Warrant") to purchase 653,226 shares of the Company's common stock, no par value, to the U.S. Treasury. The Warrant has a 10-year term and has an exercise price, subject to anti-dilution adjustments, equal to \$6.20 per share of common stock.

The preferred stock qualifies as Tier 1 capital and provides for cumulative dividends at a rate of 5% per year, for the first five years, and 9% per year thereafter. The preferred stock may be redeemed with the approval of the U.S. Treasury in the first three years with the proceeds from the issuance of certain qualifying Tier 1 capital or after three years at par value plus accrued and unpaid dividends. The original terms governing the Preferred Stock prohibited the Company from redeeming the shares during the first three years other than from proceeds received from a qualifying equity offering. However, subsequent legislation was passed that would now permit the Company to redeem the shares of preferred stock upon the approval of Treasury and the Company's primary federal regulator. Intermountain issued and has outstanding \$16.5 million of Trust Preferred Securities. The indenture governing the Trust Preferred Securities limits the ability of Intermountain under certain circumstances to pay dividends or to make other capital distributions. The Trust Preferred Securities are treated as debt of Intermountain. These Trust Preferred Securities can be called for redemption by the Company at 100% of the aggregate principal plus accrued and unpaid interest. See Note 9 of "Notes to Consolidated Financial Statements."

Intermountain and the Bank are required by applicable regulations to maintain certain minimum capital levels and ratios of total and Tier 1 capital to risk-weighted assets, and of Tier I capital to average assets. Intermountain and the Bank plan to maintain their capital resources and regulatory capital ratios through the retention of earnings and the management of the level and mix of assets. At December 31, 2011, Intermountain exceeded the minimum published regulatory capital requirements to be considered "well-capitalized" pursuant to Federal Financial Institutions Examination Council "FFIEC" regulations. However, the Bank executed an informal agreement with its primary

regulators in the first quarter of 2010 which among other conditions, requires the Bank to increase its capital by \$30 million by June 16, 2010 and maintain a 10% Tier 1 capital to average assets ratio. Although the Company was not able to meet the capital requirement by the June 16, 2010 deadline, the downstream of \$30 million in funds to the Bank as a result of the January 2012 capital raise noted above satisfies this condition of the agreement, and results in regulatory capital ratios that compare favorably to most of its peer group.

	Actual		Capital Requirements				Published Well-Capitalized Requirements			
	Amount	Ratio		Amount	Ratio		Amount	Ratio		
(Dollars in thousands)										
As of December 31, 2011										
Total capital (to risk-weighted assets):										
The Company	\$74,807	12.58	%	\$47,587	8	%	\$59,484	10	%	
Panhandle State Bank	81,614	13.74	%	47,524	8	%	59,405	10	%	
Tier I capital (to risk-weighted assets):										
The Company	67,316	11.32	%	23,793	4	%	35,690	6	%	
Panhandle State Bank	74,123	12.48	%	23,762	4	%	35,643	6	%	
Tier I capital (to average assets):										
The Company	67,316	7.32	%	36,775	4	%	45,968	5	%	
Panhandle State Bank	74,123	8.07	%	36,723	4	%	45,904	5	%	
As of December 31, 2010										
Total capital (to risk-weighted assets):										
The Company	\$76,090	11.32	%	\$53,766	8	%	\$67,207	10	%	
Panhandle State Bank	80,251	11.94	%	53,767	8	%	67,209	10	%	
Tier I capital (to risk-weighted assets):										
The Company	67,639	10.06	%	26,883	4	%	40,324	6	%	
Panhandle State Bank	71,800	10.68	%	26,884	4	%	40,325	6	%	
Tier I capital (to average assets):										
The Company	67,639	6.84	%	39,535	4	%	49,419	5	%	
Panhandle State Bank	71,800	7.26	%	39,535	4	%	49,419	5	%	

On a pro forma basis, using December 31, 2011 capital, average asset and risk-weighted balances as the base, the net increase in capital from the successfully completed private equity offering and the anticipated completion of the rights offering results in the totals and ratios in the following table. The pro forma information provided below assumes that no additional capital will be received as a result of the exercise of the warrants, since the warrants have a “cashless” exercise feature permitting the warrant holders to pay the exercise price in shares. However, if the warrants were exercised in full for cash, we would receive an additional \$1.7 million in capital.

Pro Forma Regulatory Capital Ratios
(Unaudited)
As of December 31, 2011
(Dollars in thousands)

	As	Adjustments from Initial Private Placements		Adjustments from Rights Offering		
	Reported	(1) (4)	Subtotal	(2)	Pro Forma	
INTERMOUNTAIN COMMUNITY BANCORP:						
Tier 1 Capital	\$67,316	\$42,159	\$109,475	\$8,334	\$117,809	
Tier 2 Capital	7,491		7,491		7,491	
Total Risk-Based Capital	74,807	42,159	116,966	8,334	125,300	
Average Assets for Leverage Capital	919,365	42,159	961,524	8,334	969,858	
Total Risk Weighted Assets (3)	594,836		594,836		594,836	
Tier 1 Capital/Average Assets (Leverage Ratio)	7.32	%	11.39	%	12.15	%
Tier 1 Capital to Risk-Weighted Assets	11.32	%	18.4	%	19.81	%
Total Risk-Based Capital to Risk-Weighted Assets	12.58	%	19.66	%	21.06	%
PANHANDLE STATE BANK:						
Tier 1 Capital	\$74,123	\$30,000	\$104,123		\$104,123	
Tier 2 Capital	7,491		7,491		7,491	
Total Risk-Based Capital	81,614	30,000	111,614		111,614	
Average Assets for Leverage Capital	918,086	30,000	948,086		948,086	
Total Risk Weighted Assets (3)	594,049		594,049		594,049	
Tier 1 Capital/Average Assets (Leverage Ratio)	8.07	%	10.98	%	10.98	%
Tier 1 Capital to Risk-Weighted Assets	12.48	%	17.53	%	17.53	%
Total Risk-Based Capital to Risk-Weighted Assets	13.74	%	18.79	%	18.79	%

1) Reflects the issuance and sale on January 23, 2012, of 12,350,352 shares of Common Stock at \$1.00 per share, 698,993 shares of Series B Preferred Stock at \$50.00 per share which are initially convertible into 34,949,648 shares of Non-Voting Common Stock at \$1.00 per share with net proceeds to the Company of approximately \$42.2 million after deducting placement agent fees and other estimated transaction expenses paid by the Company.

2) Reflects the proposed issuance and sale of 8,700,000 shares of Common Stock at \$1.00 per share. Net proceeds to the Company are estimated to be approximately \$8.3 million after deducting estimated transaction expenses paid by the Company, which takes into account potential placement agent fees in the event shares are sold in private placements to investors who have agreed to purchase shares not subscribed in the rights offering. Although the agreements require certain investors in the private offering to purchase shares not subscribed in the rights offering, regulatory ownership restrictions may result in the Company raising less than the \$8.7 million indicated in gross proceeds and \$8.3 million in net proceeds.

3) Assumes proceeds from the capital raise will initially be placed in cash and cash equivalents with the Federal Reserve Bank. Assets held in the Federal Reserve Bank carry a zero-percent risk-weighting under the regulatory calculation of risk-weighted assets.

4) Regulatory capital ratios of the Bank, as adjusted, reflect the contribution by the Company of a net \$30 million in capital to the Bank from the proceeds of the capital raise, net of costs.

Reflecting the Company's ongoing strategy to prudently manage through the current economic cycle, the decision to maximize equity and liquidity at the Bank level had correspondingly reduced cash available at the parent Company. Consequently, to conserve the liquid assets of the parent Company, the Company's Board of Directors decided to defer regularly scheduled interest payments on its outstanding Junior Subordinated Debentures related to its Trust Preferred Securities ("TRUPS Debentures"), and also defer regular quarterly cash dividend payments on its preferred stock held by the U.S. Treasury, beginning in December 2009. The Company is permitted to defer payments of interest on the TRUPS Debentures for up to 20 consecutive quarterly periods without default. During the deferral period, the Company may not pay any dividends or distributions on, or redeem, purchase or acquire, or make a liquidation payment with respect to the Company's capital stock, or make any payment of principal or interest on, or repay, repurchase or redeem any debt securities of the Company that rank equally or junior to the TRUPS Debentures. Under the terms of the preferred stock, if the Company does not pay dividends for six quarterly dividend periods (whether or not consecutive), Treasury would be entitled to appoint two members to the Company's board of directors. Deferred payments compound for both the TRUPS Debentures and preferred stock. Although these expenses will be accrued on the consolidated income statements for

the Company, deferring these interest and dividend payments has preserved approximately \$477,000 per quarter in cash for the Company.

Notwithstanding the pending deferral of interest and dividend payments, the Company fully intends to meet all of its obligations to the Treasury and holders of the TRUPS Debentures as quickly as it is prudent to do so. The Company is currently evaluating its position and future plans regarding these dividends in light of the recently completed capital raise.

Off Balance Sheet Arrangements and Contractual Obligations

The Company, in the conduct of ordinary business operations routinely enters into contracts for services. These contracts may require payment for services to be provided in the future and may also contain penalty clauses for the early termination of the contracts. The Company is also party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Management does not believe that these off-balance sheet arrangements have a material current effect on the Company's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources, but there is no assurance that such arrangements will not have a future effect.

Tabular Disclosure of Contractual Obligations

The following table represents the Company's on-and-off balance sheet aggregate contractual obligations to make future payments as of December 31, 2011.

	Payments Due by Period				
	Total	Less than 1 Year	1 to 3 Years	Over 3 to 5 Years	More than 5 Years
	(Dollars in thousands)				
Long-term debt(1)	\$58,564	\$26,122	\$5,348	\$1,136	\$25,958
Short-term debt	85,105	85,105	—	—	—
Operating lease obligations(2)	13,450	1,002	1,656	1,686	9,106
Direct financing obligations(3)	32,090	1,635	3,352	3,433	23,670
Total	\$189,209	\$113,864	\$10,356	\$6,255	\$58,734

(1) Includes interest payments related to long-term debt agreements.

Excludes recurring accounts payable, accrued expenses and other liabilities, repurchase agreements and customer

(2) deposits, all of which are recorded on the registrant's balance sheet. See Notes 4 and 15 of Notes to Consolidated Financial Statements.

(3) Sandpoint Center Building lease payments related to the direct financing transaction executed in August 2009.

Inflation

Substantially all of the assets and liabilities of the Company are monetary. Therefore, inflation has a less significant impact on the Company than does the fluctuation in market interest rates. Inflation can lead to accelerated growth in noninterest expenses and may be a contributor to interest rate changes, both of which may impact net earnings.

Inflation, as measured by the Consumer Price Index, was benign in 2009 and 2010 as the global recession muted economic growth and other traditional inflationary factors. Higher food and energy prices led to moderate increases in inflation in 2011 and may do so again in 2012, although restrained global economic growth is likely to continue to have moderating impact through the balance of the year. Inflation may increase at higher rates in future years, as global demand recovers and the large U.S. budget and trade deficits may weaken the dollar. The effects of inflation have not had a material direct impact on the Company over the past several years.

Critical Accounting Policies

The accounting and reporting policies of Intermountain conform to Generally Accepted Accounting Principles ("GAAP") and to general practices within the banking industry. The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Intermountain's management has identified the accounting policies described below as those that, due to the judgments, estimates and

assumptions inherent in those policies, are critical to an understanding of Intermountain's Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations. Investments. Assets in the investment portfolio are initially recorded at cost, which includes any premiums and discounts.

Intermountain amortizes premiums and discounts as an adjustment to interest income using the interest yield method over the life of the security. The cost of investment securities sold, and any resulting gain or loss, is based on the specific identification method.

Management determines the appropriate classification of investment securities at the time of purchase.

Held-to-maturity securities are those securities that Intermountain has the intent and ability to hold to maturity, and are recorded at amortized cost. Available-for-sale securities are those securities that would be available to be sold in the future in response to liquidity needs, changes in market interest rates, and asset-liability management strategies, among others. Available-for-sale securities are reported at fair value, with unrealized holding gains and losses reported in stockholders' equity as a separate component of other comprehensive income, net of applicable deferred income taxes.

Management evaluates investment securities for other-than-temporary declines in fair value on a periodic basis. If the fair value of an investment security falls below its amortized cost and the decline is deemed to be other-than-temporary, the security's fair value will be analyzed based on market conditions and expected cash flows on the investment security. The unrealized loss is considered an other-than-temporary impairment. The Company then calculates a credit loss charge against earnings by subtracting the estimated present value of estimated future cash flows on the security from its amortized cost. The other-than-temporary impairment less the credit loss charge against earnings is a component of other comprehensive income.

Allowance For Loan Losses. In general, determining the amount of the allowance for loan losses requires significant judgment and the use of estimates by management. This analysis is designed to determine an appropriate level and allocation of the allowance for losses among loan types and loan classifications by considering factors affecting loan losses, including: specific losses; levels and trends in impaired and nonperforming loans; historical bank and industry loan loss experience; current national and local economic conditions; volume, growth and composition of the portfolio; regulatory guidance; and other relevant factors. Management monitors the loan portfolio to evaluate the adequacy of the allowance. The allowance can increase or decrease based upon the results of management's analysis. The amount of the allowance for the various loan types represents management's estimate of probable incurred losses inherent in the existing loan portfolio based upon historical bank and industry loan loss experience for each loan type. The allowance for loan losses related to impaired loans is based on the fair value of the collateral for collateral dependent loans, and on the present value of expected cash flows for non-collateral dependent loans. For collateral dependent loans, this evaluation requires management to make estimates of the value of the collateral and any associated holding and selling costs, and for non-collateral dependent loans, estimates on the timing and risk associated with the receipt of contractual cash flows.

Management believes the allowance for loan losses was adequate at December 31, 2011. While management uses available information to provide for loan losses, the ultimate collectability of a substantial portion of the loan portfolio and the need for future additions to the allowance will be based on changes in economic conditions and other relevant factors. A further slowdown in economic activity could adversely affect cash flows for both commercial and individual borrowers, as a result of which the Company could experience increases in nonperforming assets, delinquencies and losses on loans. The allowance requires considerable judgment on the part of management, and material changes in the allowance can have a significant impact on the Company's financial position and results of operations.

Fair Value Measurements. ASC 820 "Fair Value Measurements" establishes a standard framework for measuring fair value in GAAP, clarifies the definition of "fair value" within that framework, and expands disclosures about the use of fair value measurements. A number of valuation techniques are used to determine the fair value of assets and liabilities in Intermountain's financial statements. These include quoted market prices for securities, interest rate swap valuations based upon the modeling of termination values adjusted for credit spreads with counterparties, and appraisals of real estate from independent licensed appraisers, among other valuation techniques. Fair value measurements for assets and liabilities where there exists limited or no observable market data are based primarily upon estimates, and are often calculated based on the economic and competitive environment, the characteristics of the asset or liability and other factors. Therefore, the results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset or liability. Additionally, there are inherent weaknesses

in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, could significantly affect the results of current or future values. Significant changes in the aggregate fair value of assets and liabilities required to be measured at fair value or for impairment will be recognized in the income statement under the framework established by GAAP. If impairment is determined, it could limit the ability of Intermountain's banking subsidiaries to pay dividends or make other payments to the Holding Company. See Note 19 to the Consolidated Financial Statements for more information on fair value measurements.

Derivative Financial Instruments and Hedging Activities. In various aspects of its business, the Company uses derivative financial instruments to modify its exposure to changes in interest rates and market prices for other financial instruments. Many of these derivative financial instruments are designated as hedges for financial accounting purposes. Intermountain's hedge accounting policy requires the assessment of hedge effectiveness, identification of similar hedged item groupings, and measurement of changes in the fair value of hedged items. If, in the future, the derivative financial instruments identified as hedges no longer qualify for hedge accounting treatment, changes in the fair value of these hedged items would be recognized in current period

earnings, and the impact on the consolidated results of operations and reported earnings could be significant.

Income Taxes. Income taxes are accounted for using the asset and liability method. Under this method a deferred tax asset or liability is determined based on the enacted tax rates which 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 Company's income tax returns. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are established to reduce the net carrying amount of deferred tax assets if it is determined to be more likely than not, that all or some portion of the potential deferred tax asset will not be realized. The Company uses an estimate of future earnings, an evaluation of its loss carryback ability and tax planning strategies to determine whether or not the benefit of its net deferred tax asset may be realized. The analysis used to determine whether a valuation allowance is required and if so, the amount of the allowance, is based on estimates of future taxable income and the effectiveness of future tax planning strategies. These estimates require significant management judgment about future economic conditions and Company performance.

At December 31, 2011, Intermountain assessed whether it was more likely than not that it would realize the benefits of its deferred tax asset. Intermountain determined that the negative evidence associated with a three-year cumulative loss for the period ended December 31, 2011, and challenging economic conditions continued to outweigh the positive evidence. Therefore, Intermountain maintained a valuation allowance of \$8.8 million against its deferred tax asset. The company analyzes the deferred tax asset on a quarterly basis and may recapture a portion or all of this allowance depending on future profitability. Including the valuation allowance, Intermountain had a net deferred tax asset of \$13.2 million as of December 31, 2011, compared to a net deferred tax asset of \$15.2 million as of December 31, 2010.

The completion of the \$47.3 million capital raise noted in the "Business Strategy & Opportunities" section above will trigger Internal Revenue Code Section 382 limitations on the amount of tax benefit from net operating loss carryforwards that the Company can claim annually. The effect of this limitation is currently being evaluated and is influenced by the level of market interest rates and the fair value of the Company's balance sheet at the time the planned offering was completed. This could impact the amount and timing of the release of the valuation allowance. The evaluation of this impact is currently in process and will likely not be known until the end of 2012. See Section 1A. Risk Factors.

For additional information on the Company's accounting policies, see the "Summary of Significant Accounting Policies" in the Notes to the Consolidated Financial Statements, which is included in Item 8 of this Report.

New Accounting Pronouncements

"Summary of Significant Accounting Policies, Recently Issued Accounting Pronouncements" in the Notes to the Consolidated Financial Statements, which is included in Item 8 of this Report, discusses new accounting pronouncements adopted by Intermountain and the expected impact of accounting pronouncements recently issued or proposed, but not yet required to be adopted.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Sensitivity Management

The largest component of the Company's earnings is net interest income, which can fluctuate widely when interest rate movements occur. The Bank's management is responsible for minimizing the Company's exposure to interest rate risk. This is accomplished by developing objectives, goals and strategies designed to enhance profitability and performance, while managing risk within specified control parameters. The ongoing management of the Company's interest rate sensitivity limits interest rate risk by controlling the mix and maturity of assets and liabilities. Management continually reviews the Bank's position and evaluates alternative sources and uses of funds. This includes any changes in external factors. Various methods are used to achieve and maintain the desired rate sensitive position, including the sale or purchase of assets and product pricing.

The Company views any asset or liability which matures, or is subject to repricing within one year to be interest sensitive even though an analysis is performed for all other time intervals as well. The difference between interest-sensitive assets and interest sensitive liabilities for a defined period of time is known as the interest sensitivity "gap", and may be either positive or negative. When the gap is positive, interest sensitive assets generally reprice

quicker than interest sensitive liabilities. When negative, the reverse occurs. Non-interest assets and liabilities have been positioned based on management's evaluation of the general sensitivity of these balances to migrate into rate-sensitive products. This analysis provides a general measure of interest rate risk but does not address complexities such as prepayment risk, basis risk and the Bank's customer responses to interest rate changes.

The Asset/Liability Management Committee of the Company also periodically reviews the results of a detailed and dynamic simulation model to quantify the estimated exposure of net interest income (NII) and the estimated economic value of the Company to changes in interest rates. The simulation model, which has been compared to and validated with an independent third-party

model and back-tested against actual results, illustrates the estimated impact of changing interest rates on the interest income received and interest expense paid on all interest bearing assets and liabilities reflected on the Company's statement of financial condition. This interest sensitivity analysis is compared to policy limits for risk tolerance levels of net interest income exposure over a one-and two- year time horizon, given a 300 and 100 basis point movement in interest rates. Trends in out-of-tolerance conditions are then addressed by the committee, resulting in the implementation of strategic management intervention designed to bring interest rate risk within policy targets. A parallel shift in interest rates over a one-year period is assumed as a base, with reasonable assumptions made regarding the timing and extent to which each interest-bearing asset and liability responds to the changes in market rates. The original assumptions were made based on industry averages and the Company's own experience, and have been modified based on the Company's continuing analysis of its actual versus expected performance, and after consultations with an outside consultant. The following table represents the estimated sensitivity of the Company's net interest income as of December 31, 2011 and 2010 compared to the established policy limits:

12 Month Cumulative% effect on NII	2011		2010	
	Policy Limit %	12/31/2011	Policy Limit %	12/31/2010
+100bp	+5.0 to -3.0	0.61 %	+5.0 to -3.0	6.09 %
+300bp	+10.0 to -8.0	4.46 %	+10.0 to -8.0	16.97 %
-100bp	+5.0 to -3.0	3.82 %	+5.0 to -3.0	2.97 %
-300bp	-10.0 to -8.0	N/A	-10.0 to -8.0	N/A

The model results for both years fall within the risk tolerance guidelines established by the committee for a rising rate environment, and are just outside the guidelines for a down 100 bps environment. Given the current market rates, a 300 basis point drop in market rates is not considered feasible.

The continuing low level of market rates, and particularly the Federal Funds target range of between 0.00 and 0.25% is unprecedented. This has created significant challenges for interest rate risk management over the past several years, and is reflected in the significant reduction in net interest income during this period. Given the highly unusual current market rate conditions and the potential for either a prolonged low-rate environment or rapidly rising rates at some point in the future, Company management continues to refine and expand its interest rate risk modeling, and is responding to the results by proactively managing its balance sheet. Based on the results of its continuing evaluations, management believes that its interest rate risk position is moderate and that it is well-prepared for future likely changes in market rates.

The following table displays the Bank's balance sheet based on the re-pricing schedule of 3 months, 3 months to 1 year, 1 year to 5 years and over 5 years.

Asset/Liability Maturity Repricing Schedule
12/31/2011

	Within Three Months	After Three Months but within One Year	After One Year but within Five Years	After Five Years	Total
	(Dollars in thousands)				
Loans receivable and held for sale	\$220,065	\$72,922	\$181,327	\$46,255	\$520,569
Securities	13,524	35,376	96,836	91,756	237,492
Federal funds sold	—	—	—	—	—
Time certificates and interest-bearing cash	82,242	—	—	—	82,242
Total earning assets	315,831	108,298	278,163	138,011	840,303
Allowance for loan losses	(5,365)	(1,778)	(4,420)	(1,127)	(12,690)
Total earning assets, net	\$310,466	\$106,520	\$273,743	\$136,884	\$827,613
Interest-bearing demand deposits(1)	\$308,713	\$—	\$—	\$—	\$308,713
Savings deposits and IRA(1)	57,518	5,813	10,162	—	73,493
Time certificates of deposit accounts	24,362	55,658	77,073	—	157,093
Total interest-bearing deposits	390,593	61,471	87,235	—	539,299
Repurchase agreements	85,104	—	—	—	85,104
FHLB advances	—	25,000	4,000	—	29,000
Other borrowed funds	16,527	—	—	—	16,527
Total interest-bearing liabilities	\$492,224	\$86,471	\$91,235	\$—	\$669,930
Net interest rate sensitivity gap	\$(181,758)	\$20,049	\$182,508	\$136,884	\$157,683
Cumulative gap	\$(181,758)	\$(161,709)	\$20,799	\$157,683	—

(1) Includes deposits with no stated maturity.

The following table displays expected maturity information and corresponding interest rates for all interest-sensitive assets and liabilities at December 31, 2011.

Expected Maturity Date at December 31, 2011

	2012	2013-14	2014-15	Thereafter	Total
	(Dollars in thousands)				
Interest-sensitive assets:					
Commercial loans	\$42,970	\$18,664	\$12,547	\$36,214	\$110,395
Average interest rate	5.65	% 6.07	% 6.10	% 5.85	%
Commercial real estate loans	32,515	26,540	30,311	78,220	167,586
Average interest rate	5.99	% 6.29	% 6.45	% 5.95	%
Commercial construction loans	5,923	160	25	227	6,335
Average interest rate	6.31	% 4.50	% 7.25	% 6.17	%
Land and land development loans	20,676	12,100	4,014	1,709	38,499
Average interest rate	6.12	% 6.47	% 6.07	% 7.10	%
Agriculture loans	51,828	7,567	10,181	11,740	81,316
Average interest rate	5.48	% 6.21	% 5.51	% 6.25	%
Multifamily loans	16,767	633	8,514	124	26,038
Average interest rate	4.44	% 4.89	% 5.45	% 7.21	%
Residential loans(1)	3,153	9,063	7,691	38,954	58,861
Average interest rate	6.92	% 6.70	% 5.23	% 5.92	%
Residential construction loans	2,498	—	—	244	2,742
Average interest rate	6.60	% —	% —	% 6.01	%
Consumer loans	5,068	3,852	1,665	1,262	11,847
Average interest rate	7.90	% 6.32	% 6.79	% 7.59	%
Municipal loans	792	5,723	567	3,981	11,063
Average interest rate	3.22	% 2.80	% 3.78	% 4.85	%
Investments	48,900	56,599	40,237	91,757	237,493
Average interest rate	3.91	% 3.69	% 3.51	% 3.83	%
Federal funds sold	—	—	—	—	—
Average interest rate	—	% —	% —	% —	%
Certificates and interest bearing cash	82,242	—	—	—	82,242
Average interest rate	0.27	% —	% —	% —	%
Total interest-sensitive assets	\$313,332	\$140,901	\$115,752	\$264,432	\$834,417
Deposits:					
Savings deposits and IRA	\$63,330	\$4,429	\$5,734	\$—	\$73,493
Average interest rate	0.25	% 1.52	% 2.01	% —	%
NOW and money market	308,713	—	—	—	308,713
Average interest rate	0.33	% —	% —	% —	%
Certificates of deposit accounts	80,020	53,813	23,260	—	157,093
Average interest rate	0.86	% 1.18	% 2.15	% —	%
Repurchase agreements	85,104	—	—	—	85,104
Average interest rate	0.35	% —	% —	% —	%
Other borrowed funds	25,000	\$4,000	—	16,527	45,527
Average interest rate	2.06	% 3.11	% —	% 3.15	%
Total interest-sensitive liabilities	\$562,167	\$62,242	\$28,994	\$16,527	\$669,930

(1) Includes loans held for sale.

Management will continue to refine its interest rate risk management by performing ongoing validity testing of the current model, expanding the number of scenarios tested, and enhancing its modeling techniques. Because of the importance of effective

interest-rate risk management to the Company's performance, management will also continue to obtain review and advice from independent external consultants.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The required information is contained on pages F-1 through F-53. of this Form 10-K.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There have been no changes in or disagreements with Intermountain's independent accountants on accounting and financial statement disclosures.

Item 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Intermountain's management, with the participation of Intermountain's principal executive officer and principal financial officer, has evaluated the effectiveness of Intermountain's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on such evaluation, Intermountain's principal executive officer and principal financial officer have concluded that, as of the end of such period, Intermountain's disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by Intermountain in the reports that it files or submits under the Exchange Act.

There were no changes in internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)), during the fourth fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Intermountain's management, including the principal executive officer and principal financial officer, is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of Intermountain's management, Intermountain conducted an evaluation of the effectiveness of its internal control over financial reporting based on the framework described in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO Framework"). Based on management's evaluation under the COSO Framework, Intermountain's management has concluded that Intermountain's internal control over financial reporting was effective as of December 31, 2011.

The effectiveness of Intermountain's internal control over financial reporting as of December 31, 2011 has been attested to by BDO USA, LLP, the independent registered public accounting firm that audited the financial statements included in Intermountain's Annual Report on Form 10-K, as stated in their report which is included herein.

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders

Intermountain Community Bancorp

Sandpoint, Idaho

We have audited Intermountain Community Bancorp's internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Intermountain Community Bancorp's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A, Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Intermountain Community Bancorp maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Intermountain Community Bancorp as of December 31, 2011 and 2010, and the related consolidated statements of operations, comprehensive income/(loss), changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2011 and our report dated March 13, 2012, expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

Spokane, Washington

March 13, 2012

Item 9B. OTHER INFORMATION
PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE
Directors and Executive officers

The following tables set forth certain information with respect to our directors.

Name	Age as of 2/15/12	Primary Occupation
Terms Expiring 2012		
Ford Elsaesser	60	Attorney - Firm of Elsaesser Jarzabek Anderson Elliott & Macdonald Chtd.
Curt Hecker	51	President & CEO of Intermountain; CEO of Panhandle State Bank
Michael J. Romine	71	Retired; Former Vice President & CFO of Inland Northwest Distributing, Inc.
Jerry Smith	55	President of Panhandle State Bank; Executive Vice President of Intermountain
Terms Expiring 2013		
James T. Diehl	57	Attorney - Firm of J.T. Diehl
Russell J. Kubiak	65	Chief Operating Officer of James Fenton Company, Inc.
John B. Parker	78	Retired Auto Dealer
Jim Patrick	66	Farm Owner/Operator; Idaho State Legislator
Nominated for Terms Expiring 2014		
Charles L. Bauer	77	Retired; Former President of Panhandle State Bank
Maggie Y. Lyons	54	Plan Administrator and Trustee for Metropolitan Creditors' Trusts
Ronald Jones	56	Chief Financial Officer of Ecolotree, Inc; Farm Owner/Operator
John L. Welborn, Jr.	34	Director and Co-Chief Investment Officer of Stadium Capital Management, LLC

Background of Directors

The business experience and any public company directorships of each of the directors for the past five years are described below. Directors of Intermountain also serve as directors of the Bank. Six of the directors (Messrs. Bauer, Diehl, Elsaesser, Hecker, Parker and Romine) have been directors of Intermountain since the Company's inception in 1997.

Charles L. Bauer has been a director of Intermountain since 1997 and of the Bank since 1985. Mr. Bauer served as President of the Bank from 1985 to his retirement in 1996. Mr. Bauer has a Bachelor of Science degree from the University of Idaho where he majored in business administration and minored in agriculture. He is also an honors graduate from the Pacific Coast Banking School; and has both attended and instructed numerous American Institute of Banking classes. His career spans 39 years in bank management, 19 of which he served in the roles of president and/or chief executive officer, and provides the Board with extensive in-depth knowledge and valuable perspective of the financial industry.

James T. Diehl has served as Vice Chairman of the Board of Intermountain since its formation in 1997. Mr. Diehl has been a director of the Bank since 1990 and has served as Vice Chairman of the Board of the Bank since 2001. He is an

attorney and has been the sole proprietor of the law firm of J. T. Diehl since 1987. In addition to his law degree which he earned from Gonzaga University, Mr. Diehl also has a degree in Business Administration from the University of Montana. He brings to the Board a familiarity with the north Idaho market based on over 25 years of practicing real estate and business law in the local community, and has an extensive network of business and personal contacts within the Company's primary market.

Ford Elsaesser has been a director of Intermountain since 1997 and of the Bank since 1992. Mr. Elsaesser has a Bachelor of Science degree in forestry from Goodard College, Vermont, and a law degree from the University of Idaho Law School. Mr. Elsaesser is the managing and senior partner of the law firm of Elsaesser Jarzabek Anderson Elliott & Macdonald, Chtd. which he founded in 1980. Mr. Elsaesser has also served as the Idaho Chapter 7 Bankruptcy Trustee in all counties north of Grangeville

since 1984, Chapter 12 Bankruptcy Trustee in northern Idaho and eastern Washington since 1986, and as court appointed receiver, examiner and Chapter 11 Trustee in numerous cases. This broad experience in bankruptcy law brings a unique perspective to the Board from a risk management standpoint.

Curt Hecker has been a director and Intermountain's President and Chief Executive Officer since its inception. Mr. Hecker was hired in 1995 as an Executive Vice President of the Bank. He has served as Chief Executive Officer and director of the Bank since 1996. From 1996 until 2001, Mr. Hecker also served as the Bank's President. Mr. Hecker earned a Business Administration degree from Boise State University in 1983, and graduated from Pacific Coast Banking School in 1994. Mr. Hecker joined the Bank with 11 years of banking experience as a vice president and manager with a bank that experienced various expansions through numerous mergers and acquisitions. In addition to the experience and knowledge gained through his early career, Mr. Hecker has served on the Board of Directors of Coldwater Creek, Inc., a publicly traded retail company based in northern Idaho, since 1996, and in 2009 joined the Board of Pacific Coast Bankers' Bank. The Board believes that the CEO's service as a director is one of primary liaison between the Board and management and as the executive with overall responsibility for executing our strategic plan.

Ronald Jones was appointed to the Intermountain Board in November 2004, following Intermountain's merger with Snake River Bancorp, Inc./Magic Valley Bank. Mr. Jones served as Chairman of Magic Valley Bank from its opening in 1997 until April 2004. Mr. Jones has a Bachelor's degree in Agricultural Economics from South Dakota State University and a Master's degree in Business Administration from Colorado State University. His 13 years of experience as a bank director have included three capital expansions. As an independent consultant and expert witness in the bankruptcy system, he has experience in business modeling and analysis, especially related to agriculture. In the environmental engineering area, Mr. Jones develops life-cycle cost models for comparison of alternative treatment methods. Mr. Jones previously operated a business specializing in computerized accounting systems with an emphasis on clarity of management reports, sensitivity analysis, and risk recognition. Mr. Jones' prior director experience together with his experience and background in business analysis serves as a valuable resource.

Russell J. Kubiak was appointed a director to the Intermountain and Bank Boards in January 2012, following the closing of Intermountain's 2012 Capital Raise, pursuant to the securities purchase agreement with JRF, LLC. In 2007, Mr. Kubiak was appointed the Chief Operating Officer of James Fenton Company, Inc., located in Sandpoint, Idaho, and its affiliates, Barrett, LTD, and JRF, LLC. James Fenton Company is a diversified real estate and investment company holding various real estate assets in Idaho and California. It was founded by James Fenton, a former director of Intermountain and the Bank, who was also a founding shareholder until his death in 2005, and prior to the capital raise, was the Company's largest shareholder. Mr. Kubiak oversees all company assets, personnel supervision and long and short range planning. Prior to his appointment in 2007, Mr. Kubiak served as the President and Chief Executive Officer of Production Finance International, LLC, a company that he founded in 1994. Production Finance International provided transaction based trade financing for small businesses generally importing or exporting consumer and industrial products. Prior to that time, Mr. Kubiak founded Serac, Inc. in 1972, a prominent skiwear products company. Mr. Kubiak holds a degree in communications from the University of Washington.

Maggie Y. Lyons has been a director of Intermountain and the Bank since 2001. Ms. Lyons is currently the sole officer and director of Metropolitan Mortgage and Securities, Inc. and Summit Securities, Inc., and Plan Administrator and Trustee of Metropolitan and Summit Creditors' Trusts. From July 2004 until February 2006, Ms. Lyons served as the Chief Financial Officer and acting Chief Executive Officer for Metropolitan Mortgage and Securities, and President and Principal Financial Officer of Summit Securities, both located in Spokane, Washington and both of which are in Chapter 11 proceedings. Ms. Lyons was appointed to these positions in July 2004 by the Eastern District of Washington Bankruptcy Court. Ms. Lyons is a Certified Public Accountant and Microsoft Certified Systems Engineer and provided business consulting services prior to working on the Metropolitan and Summit bankruptcy cases. Ms. Lyons' experience also includes over 20 years dealing with operational and accounting functions in the

manufacturing and services industries, and over six years dealing with complex financial instruments in her roles stated above. Ms. Lyons has a Bachelor of Science degree from the University of Idaho where she majored in accounting. In addition, Ms. Lyons has been an active leader and participant in numerous civic and volunteer organizations in Kootenai County since 1989. Ms. Lyons' financial expertise together with her extensive business and personal network serves as a valuable resource.

John B. Parker has served as Chairman of the Board of Intermountain since its formation in 1997, and has been a director of the Bank since 1980 and Chairman of the Board of the Bank since 1995. Mr. Parker began his career as an auto dealer in Sandpoint in 1957, and retired in June 1999 from Taylor-Parker Motor Company as general manager. Mr. Parker has a degree in business with a major in marketing from the University of Idaho. In addition to his 42 year management career in the auto industry, Mr. Parker has also served and chaired local community boards in Bonner County including 38 years as chairman of the Bonner General Hospital Board, and currently as a member of the Bonner General Hospital Foundation Advisory Board. As a long time resident and businessman in Sandpoint, Mr. Parker provides an extensive network of business and personal contacts and a valuable perspective with regard to the Company's primary market.

Jim Patrick was appointed to the Intermountain Board in November 2004, following Intermountain's merger with Snake River Bancorp, Inc./Magic Valley Bank. Mr. Patrick was a founding director of Magic Valley Bank, and he served on the Snake River Bancorp, Inc. Board from the company's formation in 2002 until its merger with Intermountain. Mr. Patrick has been the owner/operator of a farm in south central Idaho since 1973 and has served on the boards of various state and national farm organizations. In 2006, Mr. Patrick was elected and continues to serve in the Idaho State Legislature as Representative for District 23. Mr. Patrick has a Bachelor of Science degree from the University of Idaho where he studied agricultural economics and business management. In his role as a member of the Budget Committee of the Idaho State legislature, his responsibilities include annual distribution of billions of dollars of state revenue, including a payroll budget for a government workforce of over 20,000 employees. Mr. Patrick's agricultural background includes extensive knowledge of water rights issues and their effects on agriculture in southern Idaho. Mr. Patrick's prior service as a bank director coupled with his extensive budgeting background and long standing in the community provides the Board with valuable resources.

Michael J. Romine has been a director of Intermountain since 1997 and the Bank since 1980. Mr. Romine served as the Vice President and Chief Financial Officer of Inland Northwest Distributing, Inc. from 1992 until his retirement in 2007. Mr. Romine has a Bachelor of Science degree in accounting from Montana State University. In addition, he is retired as a partner in PricewaterhouseCoopers, and worked as an auditor and consultant to various businesses, including banks, during his career. Mr. Romine's financial, accounting and auditing experience provides the Board with the experience and expertise needed as Audit Committee Chair.

Jerry Smith has been a director of Intermountain and the Bank since 2000. Mr. Smith joined the Bank in 1999 as President of Intermountain Community Bank, a division of the Bank. Since 2001, Mr. Smith has served as President of the Bank and Executive Vice President of Intermountain. Mr. Smith earned a bachelor's degree in Business Administration from Boise State University in 1979, graduated from Northwest Intermediate Banking School in 1984, and Pacific Coast Banking School in 1987. Mr. Smith brings over 30 years of banking experience, beginning with Idaho First National Bank in 1979, to his service on the Board. His experience prior to joining the Bank includes numerous mergers and acquisitions, experience as a Loan Officer, Branch Manager, and Regional Manager of an eastern Oregon and western Idaho bank with over \$15 billion in total assets. This prior experience and expertise has been an essential part of Mr. Smith's service as a director as the Bank has grown and expanded its operations.

John L. Welborn, Jr. was appointed a director to the Intermountain and Bank Boards in January 2012, following the closing of Intermountain's 2012 Capital Raise pursuant to the securities purchase agreement with Stadium Capital Partners, L.P. and Stadium Capital Qualified Partners, L.P. (collectively "Stadium"), which gives Stadium the right to designate a nominee so long as they own more than 5% of the Company's common stock (including all securities convertible into common stock). Mr. Welborn is a Director and Co-Chief Investment Officer of Stadium Capital Management, LLC, an investment firm with offices in Bend, Oregon and New Canaan, Connecticut. Stadium Capital Management, LLC is the sole general partner of Stadium Capital Partners, L.P. and Stadium Capital Qualified Partners, L.P. Mr. Welborn has been with Stadium Capital Management, LLC since 2000, and is responsible for sourcing, researching and monitoring publicly traded and privately negotiated investments for Stadium's investment partnerships. Mr. Welborn also leads Stadium's investments in the banking industry and acts as a non-voting observer on the Board of Directors of West Coast Bancorp. Prior to joining Stadium Capital, Mr. Welborn was a financial analyst at The Beacon Group, a \$2.0 billion principal investment and advisory firm that is now part of J.P. Morgan Chase & Co. At Beacon, Mr. Welborn was a member of The Mergers & Acquisitions Group, focusing on financial services companies and the Liquid Investments Committee. Mr. Welborn was also part of the deal team advising Chase Manhattan Corp. on its acquisition of J.P. Morgan & Co.

Executive Officers

The following table sets forth information with respect to the executive officers during 2011 who are not directors of Intermountain, including employment history for the last five years. All executive officers are elected annually and serve at the discretion of the Board.

Name	Age	Position	Has Served as an Officer of the Company Since
David Dean	57	SVP & Chief Credit Officer of Bank	2011
John Nagel	61	SVP, Former EVP & Chief Credit Officer of Bank	2001
Douglas Wright	47	EVP, Chief Financial Officer and Treasurer of the Company and the Bank	2002
Pamela Rasmussen	51	EVP, Chief Operating Officer of Bank and Assistant Secretary of the Company and the Bank	2004

Background of Executive Officers

David Dean was appointed Chief Credit Officer of the Bank October 28, 2011, in connection with an internal reorganization of Intermountain and the Bank. Mr. Dean has been employed with the Bank for 11 years and most recently served to oversee the Special Assets Group and Credit Risk Management team. Mr. Dean replaced John Nagel, who had served as Executive Vice President of the Company and Chief Credit Officer of the Bank, and has been appointed to a non-management position with the Bank.

John Nagel joined the Company in 2001 and served as the Chief Credit Officer of the Bank until the internal reorganization in which he assumed a non-management position with the Bank effective October 28, 2011. Prior to that time Mr. Nagel served as Credit Approval Officer at Washington Trust Bank from December 1999 to May 2001.

Douglas Wright joined the Company in 2002. Prior to that time Mr. Wright served as Senior Vice President and Production Manager at Sterling Savings Bank from June 1996 to May 2002.

Pamela Rasmussen joined the Company in 2004 as Senior Vice President and Chief Operating Officer. In 2006, Ms. Rasmussen was promoted to Executive Vice President and Chief Operating Officer. Prior to joining the Company, Ms. Rasmussen was the Vice President of Operations and Cashier at Stockman Financial Corporation from March 2000 to April 2002, and the Operations Officer and Chief Financial Officer of Snake River Bancorp, Inc. (the former holding company of Magic Valley Bank) from April 2002 to November 2004.

Compliance with Section 16(a) Filing Requirements

Section 16(a) of the Securities Exchange Act of 1934 requires that all of our executive officers and directors and all persons who beneficially own more than 10 percent of our common stock file reports with the SEC regarding beneficial ownership of Company stock. We have adopted procedures to assist our directors and executive officers in complying with the Section 16(a) filings. Based solely on our review of the copies of the filings which we received for the fiscal year ended December 31, 2011, or written representations from certain reporting persons, we believe that the reporting persons made all filings required by Section 16(a) on a timely basis.

Code of Ethics

Intermountain has adopted a Code of Ethics that applies to all Intermountain employees and directors, including Intermountain's senior financial officers. The Code of Ethics is publicly available on Intermountain's website at <http://www.Intermountainbank.com>, and is included as Exhibit 14 to this report.

Audit Committee

During 2011, the Audit Committee was comprised of the following directors: Michael J. Romine (Chair), Charles Bauer, Maggie Y. Lyons (through April 2011), Ronald Jones (beginning April 2011), John B. Parker and Jim Patrick, each of whom was considered “independent” as defined by the NASDAQ listing standards and applicable SEC rules. The Board has determined that Michael J. Romine meets the definition of “audit committee financial expert” as defined by applicable SEC rules.

Item 11. EXECUTIVE COMPENSATION

The following section describes the compensation that Intermountain paid to its Chief Executive Officer, Chief Financial

Officer and the next four most highly compensated executive officers in 2011, each of whom is listed in the Summary Compensation Table (the "Named Executive Officers"). Under SEC rules both Mr. Nagel and Mr. Dean, who replaced Mr. Nagel in October 2011, are included in the Summary Compensation Table. This section includes:

• Compensation Discussion and Analysis ("CD&A");

• Report of the Compensation Committee;

• Detailed tables showing compensation of the Named Executive Officers; and

• Narrative disclosure about various compensation plans and arrangements and post-employment and termination benefits.

Compensation Discussion and Analysis

Compensation Philosophy and Objectives

We believe that the most effective executive compensation program is one that is designed to reward the achievement of specific annual, long-term and strategic goals by the Company, and that aligns the executive's interests with those of the shareholders by rewarding performance against established goals, with the ultimate objective of improving shareholder value. We evaluate both performance and compensation to ensure that we are able to attract, retain and motivate executives of superior ability who are critical to our future success. Under normal circumstances, we believe that the majority of each executive's annual total compensation opportunity should be directly aligned with our performance, and to this end a significant portion of an executive's compensation normally should be based on achievement of financial and operational goals and other factors that impact shareholder value. In addition, compensation opportunities provided to our executive officers must remain competitive relative to the compensation paid to similarly situated executives of peer companies. To accomplish these objectives, under normal circumstances, we believe executive compensation packages should include both cash and stock-based compensation with both short-term and long-term incentives in order to reward performance as measured against established goals. However, as discussed more fully below, in light of (i) the restrictions applicable to us as a participant in the U.S. Treasury's Capital Purchase Program ("CPP") implemented in connection with the Troubled Asset Relief Program ("TARP"), and (ii) the expiration of our former equity incentive plan, we did not offer the two key executive incentive programs we have historically offered: an annual cash incentive bonus opportunity and an annual restricted stock award. We design our executive compensation program to avoid creating incentives that are inconsistent with the Company's risk management policies and practices or that would motivate executives to take unnecessary and excessive risks that may threaten the value of the Company in order to achieve such goals. We believe the compensation programs we have traditionally employed are balanced, avoid undue risks to the Company, and have allowed us to retain top quality employees. Given the restrictions under TARP and the expiration of our equity incentive plan, our 2011 executive compensation program did not reflect our traditional balanced approach and, as a result, created additional retention risk. However, in light of the economic environment and the regulatory restrictions applicable to Intermountain, we believe the 2011 executive compensation program was adequate for the short term. In 2012 the Board has determined to adopt and seek shareholder approval of a new equity incentive plan at the annual meeting which will, if approved, enable us to re-introduce equity compensation as a key element of our overall compensation program.

Impact of TARP Capital Purchase Program Regulations on Executive Compensation

In December 2008, the Company issued and sold \$27.0 million of Series A Preferred Stock to the U.S. Treasury, together with a warrant to purchase the Company's common stock, as a voluntary participant in the CPP. As long as it is a participant in the CPP, the Company must comply with the compensation and corporate governance standards and restrictions under legislation and related Treasury Department rules applicable to CPP participants (the "CPP Rules"). When deciding to participate in the program, our Board evaluated the compensation and governance provisions under applicable law as the law existed at the time, and the impact those provisions would have on the Company, and considered them in light of the support this capital would provide to our lending programs. The CPP Rules, which were adopted after we entered into our agreement with the Treasury, have impacted Intermountain's executive compensation program, and the 2011 compensation of our Named Executive Officers, in the following key respects:

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The CPP Rules prohibit, and we did not pay or accrue, any cash incentive bonuses to Messrs. Hecker, Smith, Wright and Ms. Rasmussen in or for 2011. In order to treat all executive officers alike, the Board also determined not to provide a cash incentive bonus opportunity to Mr. Nagel; however, Mr. Dean was given a retention bonus in January 2011, payable in 2012, prior to his becoming an executive officer in October 2011.

Although there were no triggering events for any of our Named Executive Officers during 2011, the CPP Rules provide that no severance or change-in-control benefits can be paid or accrued to or for them until Intermountain has repaid the Treasury's investment in the Company. In December 2008, Messrs. Hecker, Smith, Wright, Nagel and Ms. Rasmussen signed agreements waiving their rights to these benefits for the duration of the Company's

participation in the TARP CPP Program.

In accordance with the CPP Rules, we maintained a policy that incentive compensation paid to our Named Executive Officers that later is determined to have been based on materially inaccurate financial information or other performance criteria is subject to recovery or "clawback."

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Overview of Executive Compensation Components in 2011

Our executive compensation program in 2011 consisted of several compensation elements, as illustrated in the table below.

Pay Element	What the Pay Element Rewards	Purpose of the Pay Element
Base Salary	Core competence in the executive role relative to skills, experience and contributions to the Company	Provide fixed compensation based on competitive market practices and experience and tenure of each executive
Long-Term Incentive	Stock Purchase Bonus Program Continued employment with the Company during a 3-10 year bonus payout period for purchasing shares under the Stock Purchase Bonus Program. The CPP Rules prohibit the grant of new awards under this program to covered executives, which for 2011 included Messrs. Hecker, Smith, Wright and Ms. Rasmussen. Retention Bonus Agreements Continued employment with the Company during a multi-year bonus payout period. The CPP Rules prohibit the grant of new awards under this program to covered executives, which for 2011 included Messrs. Hecker, Smith, Wright and Ms. Rasmussen. Executive officers are eligible to participate in employee benefit plans available to our eligible employees.	The combination of prior year restricted stock awards, prior awards under the Stock Purchase Bonus Program and pre-existing Retention Bonus Agreements provides a blended focus on Profitability and the creation of shareholder value Executive ownership of Company stock Retention in a challenging business environment and competitive labor market
Retirement Benefits	The Salary Continuation Agreement ("SCA") is a nonqualified, noncontributory and unfunded program. The SCA is intended to provide additional retirement benefits to certain Named Executive Officers. Executives participate in employee benefit plans generally available to our employees, including medical, health, life insurance and disability plans.	The SCA is designed to make total retirement benefits for certain Named Executive Officers commensurate with those in comparable companies
Welfare Benefits	Continuation of welfare benefits may occur as part of severance upon certain terminations of employment. Club memberships	These benefits are part of our broad-based total compensation program
Additional Benefits and Perquisites	Company provided auto or auto allowance Life Insurance Short-Term Disability	Provide additional benefits and perquisites commensurate with the competitive market

Change in Control and Termination Benefits	We have change in control agreements with certain officers, including our Named Executive Officers. The agreements provide severance benefits if an officer's employment is terminated following a change in control. As noted above, the CPP Rules prohibit the payment or accrual of any severance or change in control benefit to the Named Executive Officers until we have repaid Treasury's investment in Intermountain.	Change in control arrangements are designed to retain executives and provide continuity of management in the event of an actual or threatened change in control. The change in control agreements are described in more detail in the section "Post Employment and Termination Benefits."
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As noted above, we have historically offered a short-term cash incentive bonus opportunity and awards of restricted stock as key elements of our executive compensation program. Until we have repaid the Treasury's investment in Intermountain under the CPP, we will not be able to offer our most senior executives a short-term cash incentive bonus opportunity. Moreover, our former equity incentive plan expired in January 2009 and we did not propose a new equity incentive plan for shareholder approval in 2010 in light of the economic environment and the impact on our shareholders of the recession and Intermountain's financial

performance. Given the constraints of the CPP Rules and the absence of an equity incentive plan, we believe the executive compensation programs used in 2011 and the continuing effects of prior year compensation programs and awards were adequate for the short-term, but create retention risk over the medium- and long-term. To partially address this retention risk and consistent with our compensation philosophy of providing a portion of total compensation in the form of long-term equity compensation to align the interests of our executives and employees with shareholders, we are proposing a new equity incentive plan for shareholder approval at the 2012 annual meeting. If shareholders approve the plan, we expect to issue “long-term restricted stock,” as defined by the CPP Rules, to our executives subject to CPP restrictions on incentive compensation, and appropriate equity incentive awards to other key employees and directors. Generally, “long-term restricted stock” may be issued to covered executives with a value of no more than one-third of total compensation, may not vest in whole or in part sooner than two years after the grant date, and may not be sold except to the extent the Treasury's investment in Intermountain has been repaid (other than to pay applicable taxes due on vesting).

Determination of Appropriate Pay Levels

Although we have historically targeted total compensation opportunities and base pay of our executive officers by reference to compensation levels at peer institutions, benchmarking was not a material factor in setting 2011 compensation. This was largely due to a salary freeze in 2010, which remained in place for the Named Executive Officers in 2011, and the absence of a short-term incentive opportunity and annual equity award for 2011. In addition, the Compensation Committee was aware of the results of the 2010 advisory vote on executive compensation, which was not a material factor in 2011 compensation decisions given the very high level of shareholder support and the restrictions on our compensation programs noted above.

2011 Base Salary

Our base salary levels reflect a combination of factors including competitive pay levels relative to comparable institutions, each executive's experience and tenure, our overall annual budget for merit increases, the executive's individual performance and changes in responsibility. We review salary levels annually to recognize these factors. The Named Executive Officers did not receive a base salary increase in 2011, consistent with a salary freeze in light of the financial challenges facing Intermountain, except for Mr. Dean who received a 2% salary increase prior to his appointment as Chief Credit Officer.

Long-Term Incentives in 2011

As noted above, we did not grant any equity awards to the Named Executive Officers in 2011. We also did not grant any new awards under our Stock Purchase Bonus Program, which the CPP Rules prohibit with respect to Messrs. Hecker, Smith, Wright and Ms. Rasmussen. As shown in the Summary Compensation Table under the “Bonus” column, Ms. Rasmussen received a payment in 2011 under a prior-year award.

Impact of Accounting and Tax Treatment of Compensation

The Committee and management have considered the accounting and tax impacts of various programs designed to balance the potential cost to the Company with the benefit/value to the executive. The Committee generally seeks to maximize deductibility of executive compensation under Internal Revenue Code Section 162(m) while retaining discretion to compensate executives in a manner commensurate with performance and the competitive market for executive talent. Differences in accounting expense for various forms of equity awards under FASB ASC Topic 718 (formerly FAS 123(R)) relative to the value of the awards to recipients have not had, and are not expected to have, a material effect on the selection of forms of equity compensation. As a participant in the CPP, so long as the preferred stock Intermountain sold to the Treasury continues to be held by the Treasury, the Company can deduct only up to \$500,000 in annual compensation paid to covered executives, including “performance-based” compensation (which is not subject to the standard \$1 million annual limit on tax deductible compensation). This \$500,000 limit has not had any impact on Intermountain, since none of our covered executives is compensated at that level. In addition, the change in control provisions described in the section “Post Employment and Termination Benefits” contemplate that the Company will reimburse the amount of excise tax due under Internal Revenue Code Section 280G. However, as discussed below, such termination benefits and related excise tax reimbursement are currently prohibited by the CPP Rules.

Report of Compensation Committee

The Compensation Committee of the Board of Directors makes the following report which, notwithstanding anything to the contrary set forth in any of Intermountain's filings under the Securities Act of 1933 or the Securities Exchange Act of 1934, will not be incorporated by reference into any such filings and will not otherwise be deemed to be proxy soliciting materials or to be filed under such Acts.

The Compensation Committee of the Board (the "Committee") met and discussed with management the Compensation Discussion and Analysis ("CD&A") required by Item 402(b) of Regulation S-K, and based on that review and discussion, the Committee recommended to the Board that the CD&A be included as part of this proxy statement and 2011 Annual 10-K Report.

Pursuant to the requirements of Sections 111(b)(3)(A), 111(b)(3)(E), 111(b)(3)(F) and 111(c) of the Emergency Economic Stabilization Act of 2008, and 31 CFR Part 30.4, the Committee hereby certifies that:

- It has reviewed with the Company's senior risk officers the "senior executive officer" ("SEO") compensation plans and
1. has made all reasonable efforts to ensure that these plans do not encourage SEOs to take unnecessary and excessive risks that threaten the value of Intermountain;
 2. It has reviewed with the Company's senior risk officers the Company's employee compensation plans and has made all reasonable efforts to limit any unnecessary risks these plans pose to Intermountain; and
 3. It has reviewed the Company's employee compensation plans to eliminate any features of these plans that would encourage the manipulation of reported earnings of Intermountain to enhance the compensation of any employee.
- The following SEO compensation plans do not contain any features that could reasonably be interpreted to encourage SEOs to take risks:

SEO Compensation Plan	How the Plan Does Not Encourage Taking Risks
Stock Purchase Bonus Program	Program encourages Company stock ownership of executive officers; no risk-taking incentives inherent in the plan.
Employment/Change in Control, and Severance Agreements	Agreements provide fixed cash compensation amounts under various circumstances; no incentive criteria included in the agreements.
Salary Continuation and Split Dollar Agreements	Agreements provide additional retirement benefits; no incentive criteria included in the agreements.
Retention Bonus Agreements	Agreements provide for fixed payments subject only to continued service; no incentive criteria included in the agreements.

The Company's other SEO compensation plan is listed in the table below, together with an explanation of how it does not encourage SEOs to take unnecessary and excessive risks that threaten the value of Intermountain.

SEO Compensation Plan	How the Plan Does Not Encourage Unnecessary and Excessive Risks that Threaten the Value of Intermountain
Employee Stock Option and Restricted Stock Plan (expired, but prior awards remain outstanding)	Award values are linked to the market price of the Company's stock; awards vest over a period of years; interests are aligned with shareholders; no risk-taking incentives inherent in the plan.

The following is a list of each general employee compensation plan not listed as an SEO compensation plan above. No general employee compensation plan has any features that could reasonably be expected to expose the Company to material risk. Accordingly, the Committee determined that no plan poses any unnecessary risks to the Company and therefore no plan features need to be limited on that basis. In addition, the Committee determined that no general employee compensation plan links the potential for any material payout to the Company's reported earnings, and so no such plan can reasonably be viewed as encouraging the manipulation of reported earnings to enhance the compensation of any employee.

General Employee Compensation Plans not Included Among SEO Plans Above

- General employee incentive bonus plans
- Guaranteed annual bonus program for certain key employees

2011 Compensation Committee Members

James T. Diehl (Chairperson) * Charles L. Bauer * Ford Elsaesser
Ronald Jones * John B. Parker

Compensation Tables

The following table shows compensation paid or accrued for the last three fiscal years to the Named Executive Officers.

2011 Summary Compensation Table

Name and Principal Position	Year	Change in Pension Value and Nonqualified Deferred Compensation					All Other Compensation	Total
		Salary	Bonus	Earnings				
		(\$)	(\$)	(\$)			(\$)	(\$)
		(1)	(2)	(3)			(4)(5)	
Curt Hecker, President and CEO of the Company and CEO of the Bank	2011	\$230,626	\$0	\$45,228			\$2,458	\$278,312
	2010	231,320	0	40,454			1,762	273,536
	2009	231,320	0	36,111			4,918	272,349
Jerry Smith President of the Bank, EVP of the Company	2011	197,055	0	56,433			3,662	257,150
	2010	197,640	0	50,476			3,886	252,002
	2009	197,640	0	45,057			10,833	253,530
Douglas Wright, EVP, Chief Financial Officer and Treasurer of the Company and the Bank	2011	174,709	0	0			5,179	179,888
	2010	175,271	0	0			5,366	180,637
	2009	175,271	0	0			10,561	185,832
John Nagel, (7) EVP, Chief Credit Officer of the Bank	2011	145,763	0	0			2,446	148,209
	2010	146,232	0	0			2,375	148,607
	2009	146,232	0	0			2,703	148,935
Pamela Rasmussen, EVP, Chief Operating Officer and Assistant Secretary of the Company and the Bank	2011	148,566	30,000	0			4,989	183,555
	2010	149,044	30,000	0			5,594	184,638
	2009	149,044	41,370	0			7,795	198,209
David Dean (6) SVP and Chief Credit Officer	2011	111,840	0	0			258	112,098

(1) Includes directors fees of \$15,000 paid to each of Messrs. Hecker and Smith during the fiscal year 2011.

(2) Includes a bonus amount that vested under Ms. Rasmussen's Stock Purchase Bonus Program Agreement. The terms of the Stock Purchase Bonus Program Agreement are discussed below.

(3) Represents the increase during 2011 in actuarial present values of each Named Executive Officer's accumulated benefits under the individual Salary Continuation and Split Dollar Agreements.

Amounts include premiums paid by Intermountain on behalf of Messrs. Hecker and Smith and for Ms. Rasmussen in the amounts of \$1,198, \$1,359 and \$189, respectively, pursuant to their respective split-dollar life insurance agreements.

(5) Represents amounts paid by the Company to the executive in the form of automobile allowance, club dues and miscellaneous awards

(6) Effective October 28, 2011, Mr. Dean was appointed to the position of Chief Credit Officer and Mr. Nagel assumed a non-management position with the Bank.

2011 Grants of Plan-Based Awards

There were no grants of equity or non-equity awards under compensatory plans during 2011.

Incentive and Stock Plans

General. Intermountain and the Bank have historically implemented two executive incentive and stock programs: the Executive Incentive Plan and the Stock Purchase Bonus Program, the material terms of which are summarized below.

The objectives of the Executive Incentive Plan are to provide the executive officers of Intermountain and the Bank with specific performance objectives and goals, and to motivate such executive officers to reach such objectives and goals. The objectives of the Stock Purchase Bonus Program are to encourage executive stock ownership and promote long term retention of executive officers. For 2011, the Company did not offer these two key incentive programs. The Company historically maintained an equity compensation plan; however, as described below, the plan expired in 2009 and was not effective in 2011. We are seeking shareholder approval of a new equity compensation plan at the 2012 annual meeting.

Cash Incentive Plans. The CPP Rules prohibit the payment of any bonus amounts to the top five most highly compensated employees, until the Treasury's investment in the Company has been repaid. The following description of the cash or stock incentive bonus amounts payable under the respective plans is provided to give shareholders an understanding of amounts that could be payable under these plans if they had been offered and if the employee met the prescribed performance goals and if the CPP Rules no longer applied.

Executive Incentive Plan. The Executive Incentive Plan has historically been designed to provide a cash incentive for management to achieve annual (as opposed to long-term) Company performance goals. The key executives who are eligible to

participate in the plan include all of the Named Executive Officers. Under the plan, prior to the beginning of each year, Intermountain's management selects appropriate performance criteria and develops annual performance goals for Intermountain for approval by the Compensation Committee. However, as discussed more fully in the CD&A, in light of certain restrictions under TARP, the Company did not implement a cash incentive program for 2011.

Stock Purchase Bonus Program. The Company has adopted a Stock Purchase Bonus Program for executive officers and other officers of Intermountain and the Bank. The program is implemented through the execution of individual stock purchase bonus agreements entered into by Intermountain and the officer. The purpose of the program is to encourage and incent officers to own Company stock, thereby further aligning the interests of management with those of Intermountain's shareholders. Under the agreement, these officers may purchase on the open market shares of Intermountain common stock. If the officer makes such a purchase within the required time frame, the officer will generally be paid a bonus equal to the lesser of (i) the actual dollar amount paid by the officer for Intermountain shares, including fees and/or commissions; or (ii) the maximum award amount. In certain circumstances, however, the Company may elect to pay a bonus greater than the value of the stock required to be purchased under the agreement in order to provide a supplemental bonus opportunity for retention purposes. The bonus is paid to the officer in either three, five or ten annual installments. In order to receive any payment installment, an officer must be a full-time employee on the date such installment is due and payable.

Former Equity Incentive Plan. Intermountain previously maintained an Employee Stock Option and Restricted Stock Plan ("Former Equity Incentive Plan") that provided for the grant of incentive and non-qualified stock options and restricted stock awards to key officers and employees of Intermountain and/or the Bank. Stock options under the Former Equity Incentive Plan expire ten years from the date of grant, and must have an exercise price of not less than the fair market value of Intermountain stock at the time of grant, as determined by the Board or the Compensation Committee. These awards typically vest over five years in order to motivate long-term performance and to serve as a retention tool for award recipients. However, in the event of a change in control, the agreements provide that all unvested options and restricted stock awards will become fully vested. At December 31, 2011, the number of shares subject to granted but unexercised options and unvested stock awards, as adjusted for subsequent stock splits and stock dividends, was 182,944 shares. The Former Equity Incentive Plan had a term of ten years. On January 14, 2009, the term of the Former Equity Incentive Plan expired and the Board determined that, due to the economic environment, a new plan would not be implemented at that time. As discussed in this proxy statement, at the 2012 annual meeting, shareholders are being asked to approve a new equity compensation plan whereby eligible employees and directors will have the opportunity to receive equity awards.

2011 Option Exercises and Stock Vested

Name	Stock Awards *	
	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)(1)
Curt Hecker	1,856	\$2,763
Jerry Smith	1,519	\$2,262
Douglas Wright	1,451	\$2,161
John Nagel	1,230	\$1,831
Pamela Rasmussen	1,672	\$2,473
David Dean	112	\$166

* The numbers have been adjusted to reflect all applicable stock splits and stock dividends. No options were exercised in fiscal year 2011. All granted but unvested awards are governed under the terms of the former Equity Incentive Plan and related award agreements.

(1) Value realized represents the fair market value based on the closing price of the shares at the time of vesting.

2011 Outstanding Equity Awards at Fiscal Year-End

Name	Option Awards *				Stock Awards *	
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)(1)
Curt Hecker	1,437	—	\$5.51	1/1/2013	572(2)	\$543
	5,750	—	\$5.51	1/1/2013	1,722(3)	\$1,636
Jerry Smith	3,536	—	\$5.51	1/1/2013	455(2)	\$432
	—	—	\$—	—	1,454(3)	\$1,381
Douglas Wright	15,263	—	\$4.82	5/31/2012	432(2)	\$410
	17,970	—	\$5.51	1/1/2013	1,395(3)	\$1,325
	3,952	—	\$6.12	6/4/2013	—	\$—
	17,097	—	\$4.79	2/3/2014	—	\$—
John Nagel	3,513	—	\$4.16	1/1/2012	371(2)	\$352
	5,990	—	\$5.51	1/1/2013	1,164(3)	\$1,106
	10,541	—	\$6.12	6/4/2013	—	\$—
	9,075	—	\$4.79	2/3/2014	—	\$—
Pamela Rasmussen	1,089	—	\$12.95	11/9/2014	371(2)	\$352
	—	—	\$—	—	1,186(3)	\$1,127
David Dean	182	—	\$12.95	2/3/2014	37(2)	\$35
	—	—	—	—	68(3)	\$65

* The numbers have been adjusted to reflect all applicable stock splits and stock dividends. All options are fully vested.

(1) Based on the closing market price of Intermountain common stock on December 30, 2011 (\$0.95).

(2) Restricted Stock awards became fully vested in February 2012.

(3) Restricted Stock awards become fully vested in February 2013.

Post Employment and Termination Benefits

The following is a discussion regarding the post employment and termination arrangements currently in place for the Named Executive Officers. The amounts stated are based on the maximum amounts that could be paid under these arrangements. As discussed in detail in the CD&A, compensation paid in the event of termination or change in control is limited by the CPP Rules. We have summarized the agreement provisions to provide shareholders with information about amounts to which the Named Executive Officers would be entitled if the CPP Rules did not apply.

2011 Pension Benefits

Name	Plan Name	Number of Years Credited Service (#)	Present Value of Accumulated Benefit (\$)
	(1)	(2)	(3)
Curt Hecker	SCA/SDA	10 years	\$603,591
Jerry Smith	SCA/SDA	10 years	594,568
Douglas Wright	N/A	N/A	N/A
John Nagel	N/A	N/A	N/A

Pamela Rasmussen	N/A	N/A	N/A
David Dean	N/A	N/A	N/A

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- (1) The terms of the Salary Continuation Agreement and Split Dollar Agreement (SCA/SDA) are described below.
- (2) Under the terms of the SCA/SDA, executives must, in addition to other conditions, be employed with Intermountain through January 1, 2012.
- (3) The estimated maximum annual retirement benefit payable under the SCA/SDA for Messrs. Hecker and Smith, payable at age 60 is as follows: Mr. Hecker \$148,000 and Mr. Smith \$111,000.

Salary Continuation Agreement and Split Dollar Agreement. Effective January 1, 2002, the Bank entered into Salary Continuation Agreements and Split Dollar Agreements with Curt Hecker and Jerry Smith. Each of these agreements was amended and restated on January 1, 2008. The purpose of these agreements is to provide Mr. Hecker and Mr. Smith with additional retirement benefits. The agreements are unsecured and unfunded and there are no plan assets. The Bank has purchased a single premium bank owned life insurance policy ("BOLI policy") on the lives of Mr. Hecker and Mr. Smith and intends to use income from the BOLI policy to offset benefit expenses. All amounts below have been rounded up to the nearest thousand dollars.

The CPP Rules prohibit the payment of any amounts to Messrs. Hecker or Smith for any accelerated vesting of payments on termination or change in control or reimbursement of taxes on payments, until the Treasury's investment in the Company has been repaid. The following description of the benefits provided in the Salary Continuation Agreement and Split Dollar Agreement that include such payments is provided to give shareholders an understanding of amounts that would be payable if the CPP Rules no longer applied.

Upon reaching age 60 the salary continuation agreements provide for maximum annual payments to Mr. Hecker and Mr. Smith of \$148,000 and \$111,000, respectively, for a period of ten years. So long as Mr. Hecker and Mr. Smith remain employed by the Bank until January 1, 2012, in the event that the employment of Mr. Hecker or Mr. Smith terminates for any reason and such individual is less than 60 years of age as of such termination (other than for death, disability, for cause or in connection with a change in control, as each term is defined in their respective salary continuation agreements), then Mr. Hecker would receive annual payments ranging from \$86,000 to \$148,000, and Mr. Smith would receive annual payments ranging from \$82,000 to \$111,000, depending on the date of their respective termination, during each of the 10 years beginning at age 60. If Mr. Hecker's or Mr. Smith's employment is terminated because of disability before the age of 60, each will receive an annual payment ranging from \$78,000 to \$148,000 (in the case of Mr. Hecker) and \$74,000 to \$111,000 (in the case of Mr. Smith), depending on the date of disability, during each of the 10 years beginning at age 60. Finally, if Mr. Hecker's or Mr. Smith's employment is terminated in connection with a change in control (so long as they are not terminated for cause, as defined), Mr. Hecker and Mr. Smith will be entitled to a lump sum payment of \$604,000 to \$1,110,000 (in the case of Mr. Hecker) and \$595,000 to \$834,000 (in the case of Mr. Smith), depending upon the date of the change in control. Furthermore, if Mr. Hecker or Mr. Smith is subject to any excise tax as a result of an acceleration of their respective benefits under his agreement in the event of a change in control, Mr. Hecker and Mr. Smith will receive a cash payment equal to the amount of their respective excise tax.

Under the salary continuation agreement and the split dollar agreement, Mr. Hecker's estate will receive a one-time payment of \$1,110,000 if Mr. Hecker dies before the age of 60, provided that the Bank employed him at the time of death; and, subject to the same conditions, Mr. Smith's estate will receive a one-time payment of \$834,000. The Bank will be the beneficiary of any death proceeds remaining after Mr. Hecker's or Mr. Smith's interest has been paid to their respective estates.

The CPP Rules prohibit the payment of any amounts to Messrs. Hecker or Smith for termination of employment or a change in control, including any accelerated vesting of payments or equity awards or the reimbursement of taxes on compensation, until the Treasury's investment in the Company has been repaid. The following description of the termination and change in control benefits provided in Messrs. Hecker's and Smith's respective agreements is provided to give shareholders an understanding of amounts that would be payable if the CPP Rules no longer applied.

Curt Hecker Employment Agreement

Mr. Hecker serves as President and Chief Executive Officer of Intermountain and Chief Executive Officer of the Bank under the terms of an employment agreement that was amended and restated effective January 1, 2008 to, among other things, incorporate and make such modifications as necessary to comply with Section 409A of the Internal Revenue

Code (the "Code"). The agreement renewed automatically for a new three-year term on January 1, 2012. The Compensation Committee retained Mr. Hecker's annual salary for 2011 at the 2008 amount of \$216,320. The agreement grants Mr. Hecker four weeks of paid vacation annually and miscellaneous fringe benefits, including use of an automobile, as well as his eligibility to participate in incentive and stock plans made available to executive officers.

If Mr. Hecker's employment terminates involuntarily without cause or if he voluntarily terminates for any reason, he will be entitled to severance in an amount calculated at twice the average of his annual base salary over the two most recent calendar years payable in one lump sum on the first day of the seventh month after the month following termination. But if Mr. Hecker's employment terminates involuntarily (i) other than for cause, disability, retirement or death within 24 months after a change in control, or (ii) within the period between the date of entering into a definitive agreement and the effective date of the change in control, or (iii) if he terminates for good reason (as defined in the agreement), his severance would instead be calculated at twice the sum of his average annual base salary and short-term bonus over the two preceding years. The difference between the change-in-control severance amount (twice the average annual base salary and short-term bonus) versus severance payable for employment termination in other contexts (twice the average annual base salary) would also be payable to Mr. Hecker if his employment

terminates involuntarily without cause or if he terminates for any reason within 12 months before an agreement for a change in control is entered into. The change-in-control severance is payable on the later of the date his employment terminated, the effective date of the change in control, or the first day of the seventh month after the month in which his employment was terminated.

The employment agreement also provides for reimbursement of certain taxes ("excise tax reimbursement") if the aggregate benefits payable to Mr. Hecker after a change in control are subject to excise tax under section 4999 of the Code. In general terms, IRC section 280G disallows an employer's compensation deduction for so-called "excess parachute payments" made to an executive after a change in control. Correspondingly, section IRC 4999 imposes a 20% excise tax on the executive receiving excess parachute payments. Payments made to an executive as the result of a change in control are excess parachute payments if they equal or exceed the executive's base amount multiplied by three. If the payments equal or exceed that threshold, the 20% excise tax is imposed on payments exceeding the executive's base amount, and the employer's compensation deduction is forfeited on those same dollars. The executive's base amount is his five-year average taxable compensation. The excise tax reimbursement benefit will reimburse Mr. Hecker for the 20% excise tax, but not for any additional excise tax on the reimbursement itself. He will be responsible for all other federal and state taxes (including income taxes) due on the excise tax reimbursement benefit. The excise tax reimbursement benefit would not be a deductible payment to Intermountain or the Bank. For purposes of the calculation under sections 280G and 4999 of benefits payable after a change in control, the total benefits include severance payable under a severance or employment agreement, accelerated payment or accelerated vesting of benefits under compensation arrangements such as stock option plans and salary continuation agreements, and other benefits whose payment or vesting accelerates because of the change in control. Taking into account Mr. Hecker's potential change-in-control severance benefit under the employment agreement and the benefit payable under his Salary Continuation Agreement, Intermountain does not believe that benefits payable to Mr. Hecker after a change in control would constitute excess parachute payments.

Mr. Hecker's employment agreement provides that he is entitled to reimbursement of up to \$500,000 of legal fees if his employment agreement is challenged after a change in control, regardless of whether Mr. Hecker prevails in such dispute.

Lastly, the employment agreement prohibits Mr. Hecker from competing with Intermountain or the Bank as a director, officer, shareholder, or otherwise during the term of his employment and for two years after termination of his employment. The prohibition against competition terminates immediately after a change in control occurs.

The table below shows the maximum amounts that could be paid to Mr. Hecker under his agreements, without giving effect to the restrictions under the CPP Rules and (i) is based on the executive's salary at December 31, 2011; and (ii) assumes that a triggering event occurred on December 31, 2011, as well as the aggregate amount allowed to be paid under the CPP Rules.

Termination/Change in Control Payments Under Employment Agreement		Termination /Change in Control Payments Under Salary Continuation Agreement and Split Dollar Agreement		
Voluntary or Involuntary Termination (without cause) (1)	Involuntary Termination (without cause) or constructive termination in connection with a CIC (2)	Payment Due to Death Prior to Age 60 (3)	Termination Due to Disability Prior to Age 60 (4)	Voluntary or Involuntary Termination (without cause) Due to CIC (5)(6)

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Base salary	\$432,640	\$432,640	\$1,110,000	\$77,714	\$603,589
Short-term bonus	—	—	—	—	—
Fair market values of accelerated equity vesting ⁽⁷⁾	—	2,179	—	—	2,179
Total	\$432,640	\$434,819	\$1,110,000	\$77,714	\$605,768
Total allowed under CPP Rules	\$ 0(8)	\$ 0(8)	\$ 1,110,000(8)	\$ 77,714 (8)	\$ 0(8)

(1) Represents two times Mr. Hecker's average base salary, payable in a lump sum payment.

(2) Represents two times Mr. Hecker's average base salary and short-term bonus over the two most recent years, payable in a lump sum payment.

(3) Represents amount payable to Mr. Hecker's beneficiaries under the Split Dollar Agreement in the event Mr. Hecker dies while still employed by the Company, payable in a lump sum payment.

(4) Represents the amount payable each year for a 10-year period based on the accrual balance at December 31, 2011.

(5) Represents the amount payable based on the accrual balance at December 31, 2011, payable in a lump sum payment.

(6) No payments will be made in the event of voluntary or involuntary termination outside of a change in control prior to 2012.

For the purposes of this table, the fair market value of the accelerated vesting of equity awards is based on \$0.95, (7) the closing price of Intermountain common stock at December 31, 2011. It is possible that in the event of a change of control, the per share settlement stock price would be substantially higher than that used in this table.

Represents the aggregate amount allowed to be paid under the CPP Rules and includes: \$1,110,000 payable due to (8) death prior to age 60, and \$77,714 payable each year for ten years beginning at age 60, if terminated due to disability prior to age 60.

Jerry Smith Employment Agreement

Mr. Smith serves as the Executive Vice President of Intermountain and President of the Bank under an employment agreement that was amended and restated effective January 1, 2008 to, among other things, incorporate and make such modifications as necessary to comply with Section 409A of the Code. The terms of Mr. Smith's agreement are essentially identical to those of Mr. Hecker's employment agreement. The term of Mr. Smith's employment agreement automatically renewed for a new three-year term on January 1, 2011. The Compensation Committee retained Mr. Smith's annual salary for 2011 at the 2008 amount of \$182,640. The agreement promises severance benefits and change-in-control severance benefits on the same terms and calculated in the same manner as Mr. Hecker's, a potential excise tax reimbursement in connection with a change in control, and reimbursement of up to \$500,000 of legal fees if the employment agreement is challenged after a change in control regardless of whether Mr. Smith prevails in such dispute. As with Mr. Hecker, Intermountain does not believe that benefits payable to Mr. Smith after a change in control would constitute excess parachute payments. Mr. Smith's employment agreement includes a prohibition against competition identical to the prohibition in Mr. Hecker's agreement, but like Mr. Hecker's agreement the prohibition against competition would not apply after a change in control occurs.

The table below shows the maximum amounts that could be paid to Mr. Smith under his agreements, without giving effect to the restrictions under the CPP Rules and (i) is based on the executive's salary at December 31, 2011; and (ii) assumes that a triggering event occurred on December 31, 2011, as well as the aggregate amount allowed to be paid under the CPP Rules.

	Termination /Change in Control Payments Under Employment Agreement		Termination/Change in Control Payments Under Salary Continuation Agreement and Split Dollar Agreement		
	Voluntary or Involuntary Termination (without cause) (1)	Involuntary Termination or constructive termination in connection with a CIC (2)	Payment Due to Death Prior to Age 60 (3)	Termination Due to Disability Prior to Age 60 (4)	Voluntary or Involuntary Termination (without cause) Due to CIC (5)(6)
Base salary	\$365,280	\$365,280	\$834,000	\$73,795	\$594,569
Short-term bonus	—	—	—	—	—
Fair market values of accelerated equity vesting (7)	—	1,814	—	—	1,814
Total	\$365,280	\$367,094	\$834,000	\$73,795	\$596,383
Total allowed under CPP Rules	\$ 0(8)	\$ 0(8)	\$ 834,000(8)	\$ 73,795(8)	\$ 0(8)

(1) Represents two times Mr. Smith's average base salary, payable in a lump sum payment.

(2)

Represents two times Mr. Smith's average base salary and short-term bonus over the two most recent calendar years, payable in a lump sum payment.

(3) Represents amount payable to Mr. Smith's beneficiaries under the Split Dollar Agreement in the event Mr. Smith dies while still employed by the Company, payable in a lump sum payment.

(4) Represents the amount payable each year for a 10-year period based on the accrual balance at December 31, 2011.

(5) Represents the amount payable based on the accrual balance at December 31, 2011, payable in a lump sum.

(6) No payments will be made in the event of voluntary or involuntary termination outside of a change in control prior to 2012.

For the purposes of this table, the fair market value of the accelerated vesting of equity awards is based on \$0.95, (7) the closing price of Intermountain common stock at December 31, 2011. It is possible that in the event of a change of control, the per share settlement stock price would be substantially higher than that used in this table.

(8) Represents the aggregate amount allowed to be paid under the CPP Rules and includes: \$834,000 payable due to death prior to age 60 and \$73,975 payable each year for ten years beginning at age 60, if terminated

due to disability prior to age 60.

Executive Severance Agreements for Douglas Wright and John Nagel

The CPP Rules prohibit the payment of any amounts to Messrs. Wright or Nagel for termination of employment or a change in control, including any accelerated vesting of payments or equity awards or, as applicable, the reimbursement of taxes on compensation, until the Treasury's investment in the Company has been repaid. The following description of the termination and change in control benefits provided in Messrs. Wright's and Nagel's respective agreements is provided to give shareholders an understanding of amounts that would be payable if the CPP Rules no longer applied.

The Executive Severance Agreements with Messrs. Wright and Nagel, respectively, amended and restated effective January 1, 2008 (as to Mr. Wright's agreement) and December 27, 2007 (as to Mr. Nagel's agreement) to, among other things, incorporate and make such modifications as necessary to comply with Section 409A of the Code, provide that each of Messrs. Wright and Nagel is entitled to severance if his employment terminates involuntarily (i) other than for cause, disability, retirement or death within 24 months after a change in control, (ii) within the period between the date of entering into a definitive agreement and the effective date of the change in control, or (iii) within 12 months before an agreement for a change in control is entered into, or if he terminates for good reason (as defined in the agreement). The severance payment would be an amount equal to twice the sum of his average annual base salary and short-term bonus over the two most recent calendar years, payable on the later of the date employment is terminated, the effective date of the change in control, or the first day of the seventh month after the month employment is terminated.

Mr. Wright's Executive Severance Agreement further provides for an excise tax reimbursement if the aggregate benefits payable to Mr. Wright after a change in control are subject to excise taxes under sections 280G and 4999 of the Code, payable under the same terms as described for Mr. Hecker and Mr. Smith. Mr. Wright's agreement also provides that he is entitled to reimbursement of up to \$300,000 of legal fees if his employment agreement is challenged after a change in control, regardless of whether Mr. Wright prevails in such dispute.

Under Mr. Nagel's Executive Severance Agreement, his severance benefit will be reduced as necessary to avoid application of sections 280G and 4999 of the Code. Mr. Nagel's agreement also provides that he is entitled to reimbursement of up to \$250,000 of legal fees if his employment agreement is challenged after a change in control, regardless of whether Mr. Nagel prevails in such dispute.

The table below shows the maximum amounts that could be paid to Messrs. Wright and Nagel under their respective agreements, without giving effect to the restrictions under the CPP Rules and (i) is based on the executive's salary at December 31, 2011; and (ii) assumes that a triggering event occurred on December 31, 2011, as well as the aggregate amount allowed to be paid under the CPP Rules.

Name	Termination in Connection with Change in Control (other than for cause, death, disability or retirement)			Total Payments to Executive (\$)	Total Allowed Under CPP Rules
	Salary \$(1)	Short-Term Bonus \$(1)	Equity Awards \$(2)		
Douglas Wright	\$350,542				