



Coming Home

Annual Report | 2007

INTERMOUNTAIN COMMUNITY BANCORP



Coming Home

PANHANDLE STATE BANK LOCATIONS

Bonnars Ferry, ID	6750 Main Street
Coeur d'Alene, ID	200 West Neider Avenue
Kellogg, ID	302 West Cameron Avenue
Ponderay, ID	300 Kootenai Cut-Off Road
Post Falls, ID	3235 East Mullan Avenue
Priest River, ID	301 East Albeni Road
Rathdrum, ID	6878 West Highway 53
Sandpoint, ID	231 North Third

INTERMOUNTAIN COMMUNITY BANK LOCATIONS

Caldwell, ID	506 South 10th Avenue
Fruitland, ID	1710 North Whitley Drive, Suite A
Nampa, ID	521 12th Avenue South Loan Production Office, 5620 East Franklin Road, Suite 120
Ontario, OR	98 South Oregon Street
Payette, ID	175 North 16th Street
Spokane, WA	801 West Riverside, Suite 400
Spokane Valley, WA	5211 East Sprague Avenue
Weiser, ID	440 East Main Street

MAGIC VALLEY BANK LOCATIONS

Gooding, ID	746 Main Street
Twin Falls, ID	113 Main Avenue West 1715 Pole Line Road East

Intermountain Community Bancorp



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“AGAINST THIS BACKDROP OF CHALLENGING ECONOMIC DYNAMICS, IMCB ENJOYS A STRONG POSITION THAT OFFERS A CLEAR COMPETITIVE EDGE. OUR CONSISTENT VISION AND THE EXCEPTIONAL PERFORMANCE OF OUR EMPLOYEES HAVE BROUGHT US TO A SIGNIFICANT MOMENT IN OUR HISTORY, POISED TO PARTICIPATE IN THE ABUNDANT FUTURE OPPORTUNITIES THAT WE SEE IN OUR REGION. ”

Letter from Curt



It's been a long year for the banking industry and a long road for many customers who are increasingly seeking a safe harbor for their financial preservation and growth. IMCB has been providing that secure banking home since 1981, and we are rock solid in our commitment to building personal relationships every customer values for life. I am pleased that our customers, employees, and shareholders have continued to value the unique vision that IMCB offers, particularly in these times of economic uncertainty.

NATIONAL FACTORS IMPACT BANKING, BUT OUR REGION REMAINS RELATIVELY STABLE

There is no doubt that downturns in credit and housing are affecting the economy on a national and international scale. But in the midst of much gloomy news, IMCB's local markets have enjoyed relative stability with positive indicators in some key sectors. Agriculture, long a vital component of our economy, is seeing record high returns with a bright forecast for the future. Our unemployment is below the national average. And, while the real estate market has cooled, our property values have not seen the slide experienced in other areas of our nation.

Against this backdrop of challenging economic dynamics, IMCB enjoys a strong position that offers a clear competitive edge. Our consistent vision and the exceptional performance of our employees have brought us to a significant moment in our history, poised to participate in the abundant future opportunities that we see in our region.

INVESTMENT IN SOLUTIONS

IMCB's super-community banking platform allows us to offer a comprehensive array of products and competitive pricing while providing personalized, knowledgeable services to each of our customers. These services extend to our in-depth, long-term understanding of

Intermountain Community Bancorp

the people and circumstances behind each account. Our branches are empowered to exercise local control and knowledge for timely and appropriate decision-making. We are actively engaged in the communities we serve, so we can identify opportunities and reduce risks for our customers and our bank.

By adhering to solid banking principles, by trusting in our carefully created culture, and by nimble response to emerging needs, IMCB has developed the financial strength and soundness that will see us through foreseeable fluctuations in the economy.

The banking industry has become increasingly complex over the past several years, and IMCB has moved proactively to incorporate state-of-the-art technology into all of our facilities. Thanks to these forward-looking decisions, IMCB is well positioned to manage increasingly complex systems with sophisticated, automated processes and to react quickly and responsibly to the demands of new industry regulations. Our investments in technology, training, and outreach allow us to address current and future regulations without jeopardizing ongoing initiatives for service. We anticipate that the expenditures made over the past several years will now serve as a fast track to future prosperity.

2007 BENCHMARKS AND ACHIEVEMENTS

I am pleased to report that our customer-centered culture and model have produced an average growth rate of 25.3% and an average increase in annual net income

of 34.4% over the past ten years. Although downward trending markets curtailed some profit margins, IMCB reported net income of \$9.4 million for the year ended December 31, 2007. During that same period, assets increased by 14% to bring IMCB over the top of the \$1 billion dollar mark, with total assets of \$1.05 billion.

IMCB has seen major forward movement on several key projects. The Spokane Valley branch was completed on time and opened its doors to the public on August 20th. This beautiful facility sets new standards in combining the art and science of banking in our region. The Sandpoint Center, our proposed new corporate headquarters, is taking shape as a centerpiece for downtown Sandpoint and we are enthusiastically anticipating its completion in 2008. Both of these facilities, along with our recently expanded center in Coeur d'Alene, operate as regional hubs to handle administrative functions such as managing increased regulatory demands as well as acting as centers for community and non-profit activities.

Nowhere is our stable, sustained progress more clearly seen than in our market position. IMCB is number one in deposit market share in many of our markets and the largest independent community bank headquartered in Idaho.

CHALLENGES AHEAD

During the past year, the entire banking industry experienced weakening stock values, reflecting the

collapse of the sub-prime mortgage market, and heightened credit quality risk. Lowered expectations for earnings coupled with difficulties in growing core deposits have depressed the stock value of most financial institutions. Our stock values followed the national trend by declining in immediate value.

We anticipate that 2008 will be one of the banking industry's most challenging years, with slowing growth, margin compression, depressed real estate valuations, and increasing regulatory burden all combining to create significant challenges.

However, with challenges come opportunities and we have no doubt IMCB's history of success and unique culture will foster recovery and ongoing growth in the long term. Even in times of economic downturns, our approach is working, as IMCB continues to expand organically, through the loyalty and referrals of current customers who have "come home" to IMCB.

I thank you for your trust and support in all our endeavors. We will continue to make you proud to be a part of the IMCB family.



Curt Hecker, CEO



Coming Home to IMCB

IMCB was established as a financial home for people in small towns who wanted their money to stay local. It was a movement away from the culture of big bank mergers pulling more and more money out of local communities. Our founders wanted home-based control over the culture, method and practice of banking in their small town.

Since 1981, IMCB through its subsidiary, Panhandle State Bank, has grown to be the largest locally owned state bank in Idaho. We now number nineteen branches, each with local decision-making and a unique local perspective. Our growth has been strategic and necessary. Our philosophy and practice of banking remains “Unbig, On Purpose.” This isn’t just another marketing phrase; it defines exactly how and why we do business.

PEOPLE BEFORE PROFIT

We have found that by attracting the ‘right people,’ we can step into new markets and build an immediate market share presence, because IMCB offers something exceptional: a banking experience that puts people before short term profit. We believe in building and investing in our outstanding team of employees who provide the expertise and continuity that is desperately lacking in these days of rapid turnover and corporate profiteering.

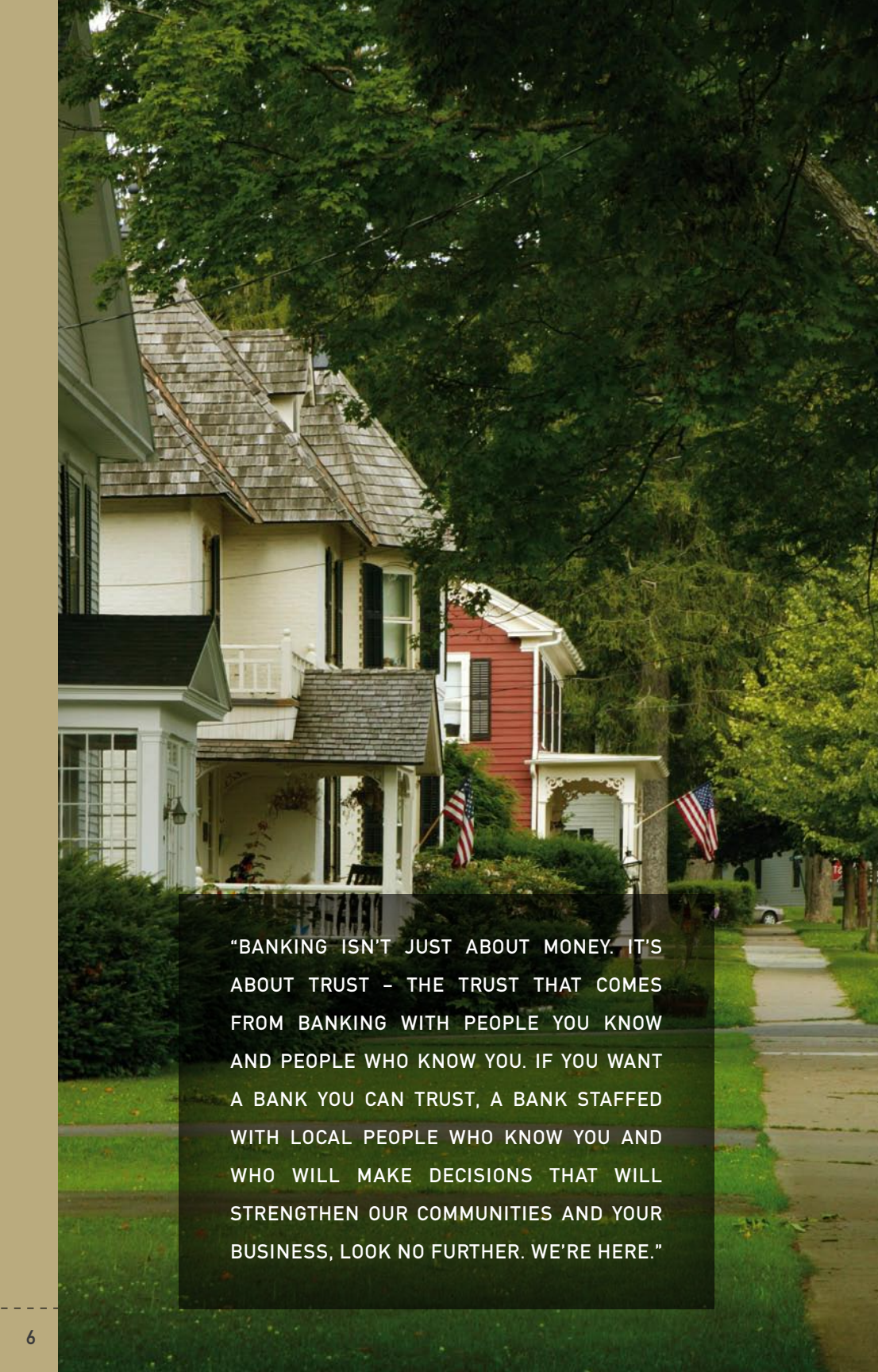
When target-marketing analysis includes lunch with local entrepreneurs or a visit to the stockyards or a chat at the parent teacher group, it’s a lot easier to understand what’s really important to customers. We learn about what’s happening on Main Street, not just through Wall Street.

MARKET SHARE GROWS

Thanks to our complete commitment to network relationship banking, IMCB has made impressive inroads in all of its markets even in times of intense competition. We are currently enjoying a number one market share position among commercial banks in four of the eight Idaho markets we operate within. In Oregon, we currently operate in Malheur County where we also hold the number one position, outperforming six other national and local competitors. Our new Washington market in Spokane is developing quickly, and we anticipate strong growth within the next year.

In fact, we have moved ahead or retained our market share in every community we serve.

Other expanding services include our Small Business Administration Loan Department, which opened its doors in 2005 and achieved immediate success. We are currently ranked



“BANKING ISN’T JUST ABOUT MONEY. IT’S ABOUT TRUST – THE TRUST THAT COMES FROM BANKING WITH PEOPLE YOU KNOW AND PEOPLE WHO KNOW YOU. IF YOU WANT A BANK YOU CAN TRUST, A BANK STAFFED WITH LOCAL PEOPLE WHO KNOW YOU AND WHO WILL MAKE DECISIONS THAT WILL STRENGTHEN OUR COMMUNITIES AND YOUR BUSINESS, LOOK NO FURTHER. WE’RE HERE.”

Intermountain Community Bancorp



second among all SBA lenders in our peer group in Northern Idaho.

Mortgage loans have always been vital to IMCB, and this business has taken on new importance as the sub-prime market collapse forces much of the competition to withdraw from the marketplace. As a local

community bank who knows their customers, we never felt it was appropriate to participate in the sub-prime market. IMCB is one of very few lenders that service some of its own loans in keeping with our philosophy of knowing your customers and having their best long-term interests in mind.

Our core deposits have remained strong, and we are in an enviable position in this area. We credit this success to our ability to create tremendous loyalty within our current customer base. They consider IMCB their banking home and help create that same loyalty from the many qualified referrals they bring us. Our growth has been from the grassroots, as deeply grounded in the community as we are.

DESIGNING THE BANK OF THE FUTURE

While it has never been our intention to try to be all things to all people, we are working hard to satisfy every banking need of our core customers with a broad range of solutions and expert service.

IMCB also believes that we need to provide value to every customer and establish a strong reciprocal relationship that is valued for life. We are exploring new methods to serve customers from their places of business and in ways that make sense to them. We offer transactional and cash courier services, and remote deposit capture through which merchants can deposit checks electronically from their own workplaces. Our banking hubs offer virtual services for business concerns of all sizes, which is an attractive incentive for those working from remote offices.

BRANDED BY LOYALTY

When it comes to marketing, IMCB hasn't just changed the rules -- we are changing the game completely. We believe that our employees are more effective marketing assets than any expensive advertising campaign, and that our money is best invested locally by the managers who understand what's important within each community. This strategy allows us to offer our best value to our customers: solutions plus personal relationship.

IMCB was first the brainchild of a community and then the reflection of a region. As we grow and change, so does the circle of stakeholders who provide active voices in the decisions that steer our future. We are gratified that so many of our founding Board members are still providing counsel, and we welcome the additional expertise offered by our Advisory Boards who provide insights and context within each region we serve.

Our Council of Excellence and Relationship Stars, made up of bank employees selected by their peers, remain a guiding force at IMCB. We are proud to follow their proactive efforts into their communities.

LOOKING TO THE FUTURE

2008 will bring the continuing effects of a financial downturn throughout our economy, and we have prepared ourselves to face new challenges. IMCB has instituted policies and procedures that focus on our capacity to meet the demands of regulations and internal controls. We are actively engaged in controlling costs through efficiencies. And, we are developing fresh strategies to build non-interest income streams.

Now that our Spokane Valley Hub is fully operational, we anticipate steady growth in Eastern Washington that will strengthen and expand our customer base. Our new headquarters, the Sandpoint Center, will be open for business in 2008, providing additional opportunities to capitalize on consolidated services and to showcase a new model of community involvement. IMCB is fully prepared to continue in its mission of relationship based banking, exactly like no other bank.

COMING HOME

There is a lot of discussion in financial circles today about a "Flight to Safety," reflecting investor movement away from risky strategies and towards more consolidated, secure relationships with institutions they can trust. IMCB is proud to be a safe place to land.

Jerry Smith, President,
Bank Administration



Coming Home: *What it means to our customers*

HOME IS WHERE YOU FEEL SAFE

Identity theft specialist Aspen Morrow knows the importance of playing it safe. Her practice puts her in front of her local business community where she provides the tools and expertise that help protect her community. She chose Intermountain Community Bank as her bank after a month-long association showed her two important things: dedication to the community and an uncompromising commitment to security.

"ICB believes in the power of working locally. The bank has sponsored the networking efforts of our local small businesses by hosting a monthly networking meeting called 'Lunch and Leads' at the Caldwell and Nampa branches," Aspen says. "We see 20-30 people every month, nearly all from micro and small businesses. The Lunch & Leads attendees are doing business with each other, with me, and with the bank, and the bank does business locally whenever it can."

Because of her work, Aspen is particularly concerned about security, and appreciates the care that ICB takes in handling customer information, in person and online. She appreciates that ICB's website has some of the best security features available.

"Too many big banks don't take these kinds of precautions – they put profit before privacy and relationships."

"At ICB, everyone is very friendly and personable, and at the same time, very professional. Staff are sensitive of the need to protect personal and financial information, and they provide state of the art tools to help keep their customers secure."

Aspen thinks this conscientious approach is part of ICB's philosophy of building banking relationships for life. "ICB has every customer's best interest in mind," she says.

"I'm just starting out in my practice, with sometimes only a few dollars in my business checking account, but they treat me like I have a hundred grand. If I ever do, ICB will still be my bank."

Aspen Morrow


President/Identity Theft Risk Management Specialist
Aspen Consulting & Associates



"AT ICB, EVERYONE IS VERY FRIENDLY AND PERSONABLE, AND AT THE SAME TIME, VERY PROFESSIONAL. STAFF ARE SENSITIVE OF THE NEED TO PROTECT PERSONAL AND FINANCIAL INFORMATION, AND THEY PROVIDE STATE OF THE ART TOOLS TO HELP KEEP THEIR CUSTOMERS SECURE."

Intermountain Community Bancorp

HOME IS WHERE YOU GO THE EXTRA MILE



New Year's Day is one of the busiest in the retail furniture business, and the big 2008 sale at Cain's Home Furnishings was bustling. The only problem that day was a long, long line of customers waiting for up to half-an-hour to check out. As fate would have it, Monica Youree, Branch Manager for the Canyon Rim Branch was part of the queue that day. Once Monica got to the counter, she asked about the delay.

Cain's President Jeff Bulkley remembers the occasion vividly. "When Monica heard that we were having troubles with our register, she took out her phone and made one quick phone call to Brad Solberg, Relationship Services Officer at Magic Valley Bank. On a day when any other banker would be watching football, he went in to open the

bank, get the ink that we needed, and come over to replace our cartridges on the spot. That's the kind of heads-up attention to detail and willingness to go the extra mile that makes Magic Valley Bank exceptional."

"It's the way every single MVB employee is," Jeff says. "The people are just extraordinary."

Jeff says that he decided to bank with MVB because of the great relationship he had built with Larry Hall. "It's not an easy decision to change commercial banking relationships because it's a lot of work. You really have to have compelling reasons. But I am glad I made the change, and I would refer any of my friends and business associates."

"I hope the people who work for me are as good as the people who work for MVB."

Jeff Bulkley

President

Cain's Home Furnishings

HOME IS WHERE YOU CAN TAKE A CHANCE

After a stint building cabinets, doors and windows in Western Washington, Tim Bradley took a look around for an entrepreneurial opportunity where he could use his connections with timber mills, work smarter and earn more with fewer headaches. The answer was on the ground in front of him.

Tim is the founder and CEO of Sound Industries, a Post Falls company that supplies wooden mats that protect the ground from heavy machinery tires and bulky equipment. The mats are made of oak and hickory timbers, 8 by 8 inches square, formed into sections that can be laid end to end in virtual wooden roads. Tim sells, rents and recycles mats to construction companies throughout the continent. Sound Industries will even arrange transportation and storage for their customers.

"I was trying to find a niche that made a positive environmental impact and provided a real service in the area of timber products. When I decided to make the big step into what is a basic commodity, I visited my friendly neighborhood bankers at Panhandle State Bank. Debbie Green and Dave Dean were ready to listen, and to take a chance that few other banks would."

Tim didn't have to shop around for his banking services. "I explained honestly what I wanted to do, and Dave just put the deal together. It was all done in about four days, and I have never looked back."

"The first year in business, we doubled our projected income, and every year it just keeps getting better. We hit \$25 million last year and at the start of 2008 we already had more than \$5 million booked."

Tim says he is mesmerized by his company's growth and success. "I just open my mail and pull out the checks."

Before his move to PSB, Tim had worked with another institution for eleven years. "I had to fill out paperwork for every little thing. But at PSB, everyone from the newest teller to the bank president knows my name, asks about my family, and takes care of my business. I have absolutely zero reason to ever change—PSB has spoiled me for any other bank."

Tim Bradley

CEO

Sound Industries



Coming Home to Panhandle State Bank **POST FALLS, IDAHO**

Coming Home: *What it means to our customers*

HOME IS WHERE YOU RANGE

Ranching has never been for the faint-hearted. It helps if it's part of your heritage, as Linda Hanley points out. "I came to the ranching life a little late when I decided that Mike was the guy for me." Her husband has been working on the family ranch since he was eight years old, and he is a notable innovator in how to make it all work.

At a time when BLM grazing rights costs are going up and long-time ranchers are leaving their fields, Mike and Linda Hanley have found ways to thrive in this traditional lifestyle. Mike is the author of *Owyhee Trails: The West's Forgotten Corner*, which tells the story of the triangle where Idaho, Oregon and Nevada meet. The Hanleys have taken historical preservation even further: Mike restores historic horse drawn vehicles and takes historical trips with full period gear. Linda says they used to dress up all the kids and grandkids for photographers who would come from around the globe to get a picture of the Old West.

While this educational sideline is an important part of their lives, Mike and Linda are, at heart and in practice, working ranchers. That means something different than it used to.

"Ranchers have to be able to make quick decisions and take chances on opportunities," Linda says. "When a neighbor calls late at night letting you know that they have property they have to sell, you need to be able to act quickly. That's just one of the reasons that bankers are so important to ranchers."

"Tom Hemenway has been our banker for many years. He's much more than that, he's a friend and someone we can really trust. Tom really knows the land, the people and what's going on in our neck of the woods. When he moved to Intermountain Community Bank, there was no question but that we'd follow him." Linda recalls that she was surprised, and very happy, to discover that everyone at ICB was equally ready to give them the help they needed. "We loved the concept of people who take care of you like really great friends. Tom convinced us that ICB was that kind of bank – and he has been proven so very right."

"When you're a rancher, you have a lot of money – and no money at all," Linda laughs. "Periodic large debt is just part of the picture." She says that it's always easy to walk into ICB because everyone is happy to see her and is willing to take care of whatever is needed. "I'd like to say that I get special attention because that's how I feel."

"Everyone gets the VIP treatment at Intermountain." Linda says that ICB has made the difference in keeping their place going. "If it hadn't been for ICB, trusting us and financing us in times of challenge and spur of the moment opportunity, we wouldn't be ranching right now." That would be a great loss to our community, and to living history.

Mike and Linda Hanley

Author, Rancher, and Historian

Jordan Valley, OR

"WHEN YOU'RE A RANCHER, YOU HAVE A LOT OF MONEY – AND NO MONEY AT ALL," LINDA LAUGHS. "PERIODIC LARGE DEBT IS JUST PART OF THE PICTURE." SHE SAYS THAT IT'S ALWAYS EASY TO WALK INTO ICB BECAUSE EVERYONE IS HAPPY TO SEE HER AND IS WILLING TO TAKE CARE OF WHATEVER IS NEEDED. "I'D LIKE TO SAY THAT I GET SPECIAL ATTENTION BECAUSE THAT'S HOW I FEEL."

Intermountain Community Bancorp



HOME IS WHERE WE CARE FOR OUR CHILDREN

Panhandle Bank knows what it takes to give children a head start in life. In Bonners Ferry it meant listening to a champion for children, Doug Kim-Brown.

Doug is a customer at the Bonners Ferry Branch. He is also on the local Head Start board, and knew the challenges the program had been dealing with for years. The early childhood learning center had been housed for two decades in makeshift rooms at the Fairgrounds, which had to be packed up and vacated every June when the Fair needed its space.

The old facility could manage less than a dozen four year olds, which left up to 40 youngsters on a waiting list.

A new building was desperately needed, and Doug was one of many community activists determined to make it happen. Thanks to a US Department of Agriculture loan and land donated by the County, it began to seem like a possible dream. Community fundraising began in earnest.

Doug, a major donor himself, approached Panhandle State Bank. “We decided this was the perfect cause for our Community Match efforts,” says Dave Walters, Bonners Ferry Branch Manager. “We had overwhelming community support and managed to raise \$17,125.”

Panhandle State Bank executives agreed with Dave about the importance of this project and matched the funds raised dollar for dollar. The total contribution to the Head Start program was just over \$34,000 – more than 10% of the total cost of the project – and pushed the total just over the top of the goal.

“Everyone in the community stepped up to the plate, especially Panhandle State Bank,” says Lori Mayfield, Chairman of the Board for North Idaho Friends of Head Start. “This community helped make a dream become a reality. Thank you for believing in children and giving them a head start.”

Doug Kim-Brown

Board member of the Bonners Ferry Head Start Center

COMMUNITY MATCH 2007 LIGHTS CANDLES OF HOPE

Intermountain Community Bancorp branches select a community-related education or senior program each year where employees can direct time and effort to raise funds that will then be matched by IMCB. In 2007 the Bank matched \$81,370 for the following programs in our communities.

PANHANDLE STATE BANK Shining Star Reader Program
Clark Fork Jr/Sr High School
Trail Creek Program
Excel Program
Priest River Jr. High PTO
Clark Fork Jr.High School Boosters, Inc.
Head Start Building Project
North Idaho College
Priest River Jr. High PTO
Priest River National Astronaut
Fernan Elementary School
Post Falls Education Foundation

INTERMOUNTAIN COMMUNITY BANK, WA Spokane Valley Meals on Wheels
YMCA-Spokane Parks and Recreation Novice Swim Team
University High School
Local area elementary schools

INTERMOUNTAIN COMMUNITY BANK, ID Payette Sports
The Ontario Book Mobile
New Plymouth Senior Citizen Center
Nampa School District #131
Weiser High School Band
Payette and Weiser Meals on Wheels
Weiser Park Intermediate School
4 Rivers Healthcare – Kids Fair

MAGIC VALLEY BANK Twin Falls Public Library
Gooding Library



Coming Home: *What it means to our employees*

HOME IS WHERE PEOPLE CARE

Jeff Tunison is happy to let everybody know that Intermountain Community Bank is more than just “different.”

“It’s an incredibly cool bank.”

“When anyone asks me where I work, I love to tell them about ICB, a great hidden treasure right here in the Treasure Valley. Because we don’t do a lot of traditional advertising, there is a chance that our name is not the first one to come to mind when you think of banking. But when someone knows about ICB, all they know are good things.”

Jeff began his career in banking in 1986. When his institution became involved in a series of mergers, he decided that it was time to find a new job, at a place where he could really make a difference. “I didn’t want to work for a large bank and have limited, if any, local decision making authority. Two other partners and I started TitleOne Corporation in May of 2000 and I left the company in March of 2007 to join ICB.”

Jeff made the move to ICB because he had decided that his heart was truly in the business of building long-term business relationships. “Transactional business is not as satisfying to me. I missed the opportunity to create value for my customers, not just once, but over a period of years, even over a lifetime.”

ICB is a perfect fit for Jeff. He has found the kind of banking home that puts decisions in the hands of local officers and values one on one relationships above simple profit-taking. “It all pays off in the kind of customer who comes to us, usually through referrals from people they trust. We are a service company first and foremost; business comes because of the great service we offer, every day.”

“We are number one in the Tri-County market, and in other markets throughout the state because we hire the best people, provide the best service, and are committed to building the best community in every market.”

Jeff thinks customers are looking for that kind of commitment and trust.

“We don’t do things on the edge, we don’t engage in business practices that might harm our customers. We invite you to come home to the bank where we take care of you, where we do what’s right.”

**Jeff Tunison, Sr. Vice President and
Manager of Business & Professional Banking**



HOME IS WHERE YOU SLEEP AT NIGHT

“Large banks look at loans as a commodity,” says ICB Home Loan Center Manager Robin Harrison. “We look at a mortgage as somebody’s home.”

Although Robin considers herself a banker with a long history in lending, what she really does is customer and community counseling. “I always wanted to find a way to make a difference,” she says.

That difference has helped build citizens, families and communities over the years. Robin’s first mission was to try to find ways to do home improvement loans in Spokane’s economically challenged West Central neighborhood. It was a tough sell to the large financial institution where she was working, and it eventually helped her decide to move to Intermountain Community Bancorp as a lending officer because of the ways the bank’s commitment mirrored her own.

Robin says. “In ICB I found a bank where top mortgage professionals are empowered and supported with a great network of resources.”

Robin is passionate about what mortgages and home ownership mean to people. “I can help families restructure their financial lives so that they can face a crisis, or build for the future. Our community bank is in an advantageous position because we are not selling a single solution; we are looking at each customer’s larger financial picture to find the best fit for the long term.”

She points out that mortgages are a very challenging product with a tremendous responsibility involved. “It would be inappropriate to help people into a loan that was clearly not in their best interest. Home ownership involves so much more expense than the mortgage, and we help borrowers understand and plan for the complete obligation.”

Robin is distressed, but not surprised about the current subprime mortgage crisis. “In some other financial institutions, CEOs took advantage of relaxed regulation and cashed in on huge profits, turning their backs on history and common sense. Now the industry has returned to the way loans should be made – and the way ICB has always done business.”

Because ICB has never participated in the subprime loan market, Robin feels that the Bank is uniquely well situated for the future. “The newly mandated regulations for all banks only validate our standard operating procedures,” she says. “We are already in full compliance, and we are in a position of trust with our communities.”

Robin Harrison, Sr. Vice President & Home Loan Center Manager



Intermountain Community Bancorp

Coming Home: *What it means to Chairman Jack Parker*

PANHANDLE STATE BANK WAS BUILT FOR A COMMUNITY, BY A COMMUNITY.

Dear Neighbors and Friends,

The late 1970s were a very difficult time in our little town of Sandpoint, Idaho. A lot of people and businesses were hurting, and we couldn't get the help we needed from the bank branches that remained in our rural area. It seemed like every dollar we put into those banks went right out of town, never to be seen again. So, a few local business people got together to try to find a better way to bank.

We wanted our money used in our own community. We wanted banking decisions made locally, based on real knowledge of what was happening right here. And we knew that a bank should be part of the solution, not part of the problem.

Starting Panhandle State Bank was one of the proudest accomplishments of our group of North Idaho leaders, and it continues to be a source of satisfaction to see how the Bank has remained true to our original intentions. Panhandle State Bank and its family of banks have established a culture and a business philosophy that seems to resonate with rural communities throughout our region.

It's a financially sound and solid Bank, built on the integrity and passion of some terrific leadership and sustained by the hard work of every employee. It has never been our intention to try to out-price our competitors across a full line of banking products, but we have always planned, and succeeded, in out-servicing them. Our focus has been, and will continue to be, on individuals and businesses that seek a long-term, personalized banking relationship, and recognize the value of that exceptional level of service.



That culture has branded every expansion of what is now Intermountain Community Bancorp, and it has been the privilege of the Board of Directors to oversee that growth. As time moves on and as the Bank continues to evolve, our Board is undergoing some changes as well.

Two of our founding members, Terry Merwin and Doug Ward, are retiring from the Board of Directors. Their vision, energy and determination were key to the creation of this bank and it is completely fair to say that without their leadership, Panhandle State Bank might not exist today. We are extremely grateful for their service.

The role of the Board has always been to challenge management. We have also had the distinct honor of helping to direct the tremendous energy that Curt Hecker and Jerry Smith bring to the Bank. With such a dynamic mission and structure, it's no wonder our Board is one of the best teams in the industry. Every member has given generously of his or her time and expertise to set and keep the Bank on our community-centered path.

It will be one of our greatest challenges in the coming years to make sure that we continue to attract the very best talent to our team of Directors. We are looking forward to an even broader representation from each of our markets, helping us understand the concerns of our communities from the inside out.

When it comes down to it, our Bank was created from the commitment and energy of ordinary people with an extraordinary idea. On behalf of the Board of Directors, I thank each of you for keeping faith with that founding principal and all that has been built upon it.

Jack Parker

Chairman of the Board



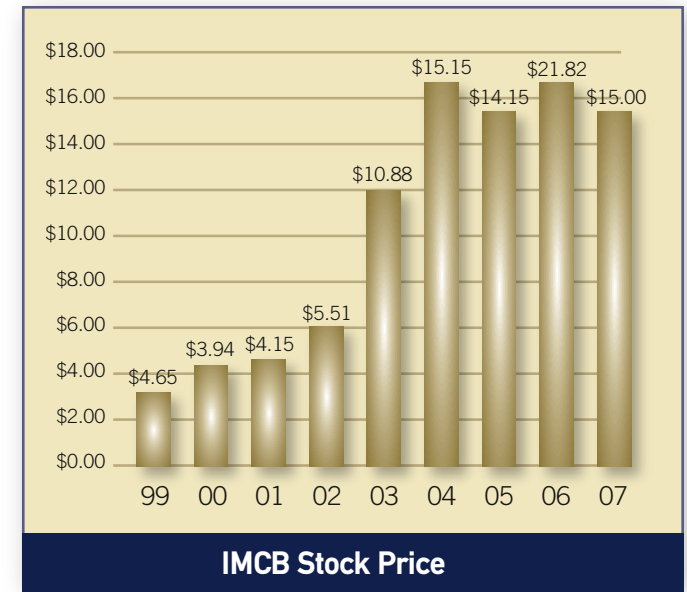
Financial Highlights

After a number of years of strong growth, Intermountain Community Bancorp experienced considerable challenges in 2007. As the economy slowed and the real estate market weakened considerably, interest rates became increasingly volatile. Because of the strong efforts of our local staff and the loyalty of our customers, your Company weathered this storm relatively well.

Despite the headwinds, IMCB exceeded \$1 billion in assets for the first time and posted record net income.

This performance was built on expanding loan and deposit volumes and a strong net interest margin that continues to rank near the top of its peer group nationally. Non-interest income growth also exceeded peer group averages, and expense growth slowed from prior years. In response to the weakening economy, however, the provision for loan losses doubled, offsetting some of the revenue increase. The company's diluted earnings per share increased from prior years, although the return on average assets and return on average equity declined.

We anticipate even more challenges in 2008 as the economy continues to weaken, short-term interest rates drop and



Stock price has been adjusted to reflect stock splits and dividends, including a 10% stock dividend effective May 31, 2007.

competition fights more aggressively for strong loan and deposit customers. However, the strong foundation of trust and loyalty that our staff has built in our communities positions us well to survive the current volatility and capitalize on expanded opportunities in the future.

FINANCIAL POSITION

Total assets of IMCB increased by \$128.3 million, or 14% during the fiscal year, driven by an increase in net loans receivable of \$92.7 million. At \$765.5 million, loans receivable continued to be the largest and most profitable component of our assets, generating strong and rising yields during 2007.

Investments in securities increased by 36% over 2006, totaling \$170.1 million at December 31, 2007, compared to \$125.2 million at December 31, 2006. Investments increased to 16% of total assets compared to 14% the previous year, as the Company purchased more investment securities primarily to protect its net interest income in a declining-rate environment. Management continues to manage the investment portfolio to achieve its return and interest rate risk objectives, while maintaining the liquidity necessary to support its core funding base.

Growth of \$16.6 million in office properties and equipment was driven by construction of IMCB's future headquarters, the Sandpoint Center, and the opening of a new branch, commercial banking and home loan center in Spokane Valley. The Company anticipates that fixed asset growth will subside in 2008 after completion of the headquarters.

To fund the asset growth, liabilities increased correspondingly by \$116.3 million, or 14% over 2006. The majority of the increase was in customer deposits, which grew \$64.2 million or 9% from year-end 2006 balances. Growth in lower cost checking, savings and money market balances contributed \$40.1 million of this growth, while certificates of deposit grew \$24.0 million. Bank staff continues to successfully garner a portion of the highly competitive deposit market through relationship building and target marketing, fueling increases that far exceeded the national average deposit growth rate.

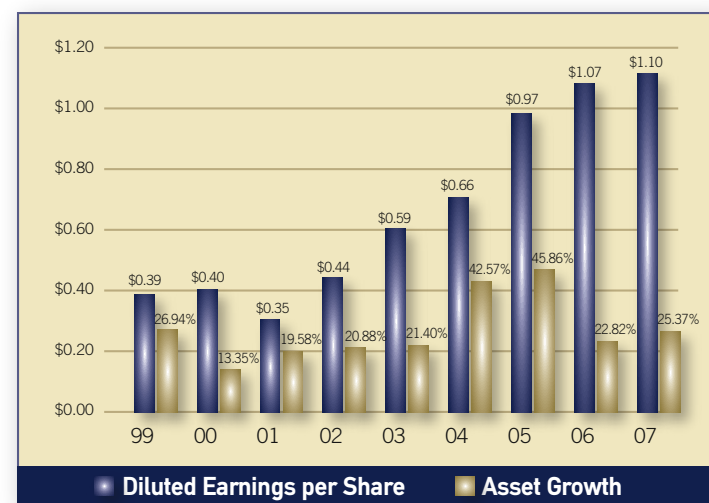
Successful expansion of local municipal customer relationships led to growth in repurchase agreements of \$17.9 million. Other borrowings and FHLB advances increased

by a combined total of \$38.4 million, as IMCB financed the Sandpoint Center construction and borrowed funds to purchase investment securities in order to decrease interest rate risk.

Total shareholder's equity increased by \$12.0 million from \$78.1 million at December 31, 2006 to \$90.1 million at December 31, 2007. This increase is due to the retention of net income and the move from an unrealized loss in the available-for-sale investment portfolio in 2006 to an unrealized gain position in 2007. Total shares outstanding increased to 8.2 million shares. IMCB continued to reward its shareholders with a 10% common stock dividend effective May 2007.

RESULTS OF OPERATIONS

IMCB reported net income of \$9.4 million for the year ended December 31, 2007, an increase of 3% compared to earnings of \$9.2 million for the prior year. In achieving this increase, IMCB experienced strong growth in interest income, deposit account charges and loan and other fee income during the year. The revenue growth was largely offset, however, by substantial increases in interest expense and the provision for loan losses. Earnings per diluted



Diluted earnings per share have been adjusted to reflect stock splits and dividends, including a 10% stock dividend effective May 31, 2007.



Financial Highlights

share increased by 3% to \$1.10 per diluted share, compared to \$1.07 in 2006 and \$0.97 per diluted share in 2005. Assets grew at a faster pace than income, causing return on average assets (ROA) to decrease from 1.13% in 2006 to 0.96% in 2007. Correspondingly, return on average equity (ROE) decreased from 12.9% in 2006 to 11.3% in 2007.

NET INTEREST INCOME

Net interest income represents the difference between the Company's interest income on its earning assets, primarily loans receivable and investment securities, and its interest expense on deposits, repurchase agreements and other borrowings. Balances of average interest-bearing assets increased 20% during 2007 while balances of average interest-costing liabilities increased 23%. Market interest rates were volatile during this period, but the lag effect of deposit rates moving more slowly than loan rates resulted in rates paid on liabilities increasing more than rates on loans and other asset yields. Volume and slight average yield increases caused interest income to rise by \$13.3 million during the year, while growth in both volumes and rates on interest-costing liabilities pushed interest expense up \$8.8 million. The net effect of the changes in interest income and interest expense produced a \$4.5 million increase in net interest income before provision for loan losses in 2007, an 11% increase over the prior year.

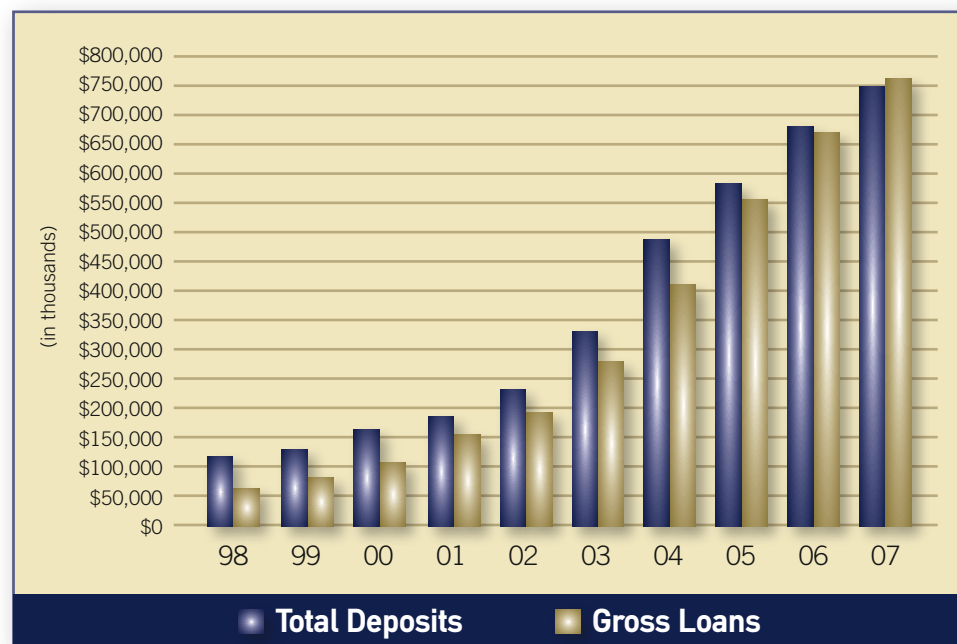
Short-term market rates, including the prime lending rate, were flat during the first eight months of 2007, and then dropped significantly in September through December. Careful lending, an emphasis on pricing, and some timely investment security purchases allowed the Company to boost its average asset yield slightly during 2007 even in the face of sharply lower rates in the fourth quarter. However, liability rates generally increased more during the year, as the lag effect of market rate increases in 2006 pushed deposit rates higher. Although IMCB's net interest margin of 5.21% was down 0.45% from the prior year, it continues to rank near the top of its national peer group.

PROVISION FOR LOAN LOSSES & ASSET QUALITY

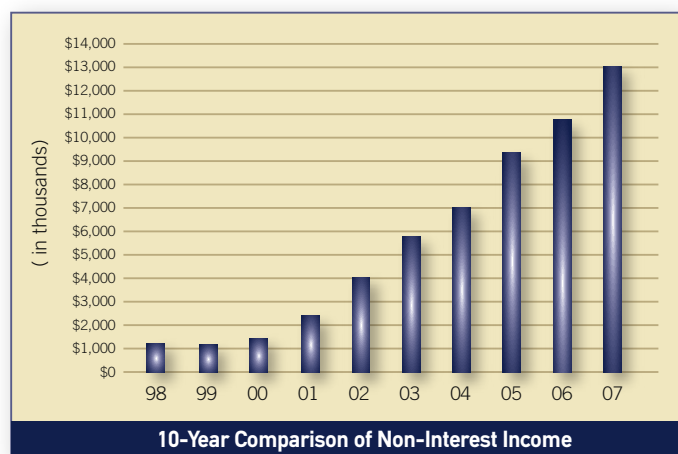
Management continually evaluates the quality of its loan portfolio to assess the adequacy of allowances for estimated loan losses and charge an appropriate provision

for loss against income. IMCB maintained solid credit quality during 2007, even with significant loan growth and weaker national economic and real estate lending conditions. The provision for loan losses totaled \$3.9 million in 2007, a \$1.7 million increase from the prior year. Net charge-offs totaled \$2.0 million versus \$346 thousand in 2006, as the Company carefully evaluated its collateral positions on weaker real estate loans and charged down balances to reflect declines in the underlying real estate values. The Company also refined its method of calculating its loan loss allowance. The new allowance methodology provides more accurate and reliable information and is in close alignment with revised bank regulatory guidance issued in early 2007. At December 31, 2007, the total allowance for loan losses was \$11.7 million, or 1.53% of total loans, versus \$9.8 million, or 1.46% of total loans at December 31, 2006.

Non-performing loans increased to \$6.4 million, or 0.84% of net loans as of December 31, 2007, up from \$1.3 million or 0.19% for the prior year. Classified assets totaled \$23.3



million or 2.22% of total assets at December 31, 2007 versus \$10.1 million, or 1.10% of total assets at the end of 2006. Real estate loans, particularly those associated with the residential land and construction sectors, comprised most of the increase in both areas. The Company is focused on managing these and other at-risk loans carefully to accomplish the best outcome possible for IMCB and our customers.



OTHER INCOME

IMCB continues to execute the strategy of diversifying its revenue stream through increasing sales of fee-producing products and services. This resulted in other income growth of \$2.4 million, or 22%, during 2007 to a total of \$13.2 million. Fees and services charge income

grew 29% as the Company significantly increased debit card, investment services and trust income. Growth in deposit account volumes, expanded cross-selling efforts and pricing changes also contributed to the increase, and offset a 17% decrease in mortgage banking income.

OPERATING EXPENSE

Operating expense for the year ended December 31, 2007 increased \$5.0 million, or 13.8% compared to the year ended December 31, 2006. The major contributor was personnel expense, which increased \$3.5 million, or 16.2% for the year. In keeping with its long-term goals, the Company exercised a number of opportunities in 2006 and early 2007 to enter new markets and add quality production staff to position IMCB for future

growth. These growth initiatives resulted in significant increases to both personnel and occupancy expense during the year, but are anticipated to generate additional revenue in future years. In addition, the Company bolstered its administrative and audit staff to successfully manage increasing internal control and regulatory compliance requirements. The Company slowed its expense growth during the last half of 2007 as it more aggressively implemented cost-saving strategies, and will continue to focus on controlling costs in 2008.

LIQUIDITY AND CAPITAL POSITION

IMCB maintained strong liquidity and regulatory capital positions during 2007. The Company increased loan balances at attractive yields during the year in a highly competitive market, and successfully funded this asset growth with increases in deposits and the development of additional funding sources.

The average total equity to total assets and tangible equity to tangible assets ratios decreased slightly from 8.76% and 7.34% in 2006 to 8.50% and 7.33%, respectively in 2007 as asset growth exceeded earnings growth. Regulatory ratios, including the core capital ratio of 11.61%, the Tier 1 risk-based capital ratio of 10.36% and the total risk-based capital ratio of 8.90% all met the requirements for a "well-capitalized" institution as determined by the FDIC.

In summary, IMCB struggled in 2007 against significant economic headwinds. The asset and earnings growth that were achieved reflect the commitment of our staff and the trust and loyalty of our customers. While we anticipate an even tougher environment in 2008, we believe that the Company and its balance sheet are positioned well to meet these challenges and capitalize on future opportunities.

Doug Wright

*Executive Vice President,
Chief Financial Officer*





Bank Management

BOARD OF DIRECTORS

John B. Parker *Chairman*

Retired Auto Dealer

James T. Diehl *Vice-Chairman*

Attorney at Law

Terry L. Merwin *Secretary*

Retired IMCB Board of Director, effective 12/31/07

Owner / Manager, Merwin's Hardware

Michael J. Romine *Audit Committee Chair*

Retired Vice President and CFO,

Inland Northwest Distributing, Inc.

Curt Hecker

President and CEO, Intermountain Community Bancorp

CEO, Panhandle State Bank

Jerry Smith

Executive Vice President, Intermountain Community Bancorp

President, Bank Administration

C.L. Bauer

Former President, Panhandle State Bank

Ford Elsaesser

Attorney at Law

Ronald Jones

CFO, Ecolotree, Inc. and Farm Owner / Operator

Maggie Y. Lyons

Certified Public Accountant, MCSE

Jim Patrick

Farm Owner / Operator

Barbara Strickfaden

Former President and CEO, Idaho Bankers Assoc.

Douglas P. Ward

Real Estate Broker and Investor

EXECUTIVE OFFICERS

Curt Hecker *Chief Executive Officer*

Jerry Smith *President, Bank Administration*

Doug Wright *Executive Vice President, Chief Financial Officer*

John Nagel *Executive Vice President, Chief Credit Officer*

Pam Rasmussen *Executive Vice President, Chief Operating Officer*

Susan Pleasant *Assistant Vice President, Shareholder Relations*

Rebecca Summer *Executive Assistant*

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Rick Youngblood *President, Intermountain Community Bank / Magic Valley Bank*

Rick Fisher *President, Intermountain Community Bank Washington*





Coming Home