



INTERMOUNTAIN COMMUNITY BANCORP

February 1, 2008

Dear Shareholder,

Many of you have been following the news in the financial markets, culminating with the Federal Reserve's unprecedented drop in interest rates of 1.25% over the last ten days. I have fielded recent questions on how this will impact our bank. When financial markets are strong and climbing, it's tempting to believe that the economy will never tighten; that somehow all past experience is negated, and that we will continue to rise on an unending tide of prosperity. And when the inevitable occurs and markets tilt back into rougher financial seas, it can be hard to see that this bleakness is also transitory. By learning from history we can expect and prepare for lean times while looking ahead to renewed strength and optimism.

Twenty years ago last October, the US stock market took a tumble, falling 22.6% in a single day during what is remembered as the Crash of '87. Soon after, however, both the economy and the equity markets rebounded, eventually leading to the prolonged expansion of the 1990s.

Today, the troubles besetting the market are the result of severe disruptions in credit markets as severe as those which hit equities back then. Credit markets are the source of operational liquidity, providing funds for trade and expansion. If they are not functioning effectively, the economy is threatened. The US government is responding aggressively to mitigate the disruptions and there are many other positive forces at work. Still, both national and global economies are likely to experience some rough times in the short term.

While there are many concerns about the stability of the banking industry right now, I am writing to allay concerns regarding IMCB's position for the future. I have attached a series of questions and answers that address many of the points raised by our customers, shareholders and the public. I invite you to review this information, and to contact me with any additional queries you may have.

We believe IMCB has positioned itself to weather the economic storm better than most, and that our strategic plan will continue to serve us well. I look forward to further communication with you in the near future.

Sincerely,

Curt Hecker
Chief Executive Officer



*Intermountain Community Bancorp Keeps a Steady Hand on the
Wheel to Weather the Financial Storm*

*Frequently Asked Questions and Answers with
Curt Hecker, CEO of Intermountain Community Bancorp*

The current financial forecast calls for storms on the horizon as a result of recent sub prime market woes and a global liquidity shortage. The government financial authorities are responding aggressively with rate cuts, money supply increases and stepped up regulations that are intended to protect the consumer and the overall market.

In response to the closing of the 2007 fourth quarter, Curt Hecker addresses questions that have been raised about the market from the perspective of Intermountain Community Bancorp, its branches, communities, customers and staff.

Question: IMCB is one of the dynamic business success stories in the Inland Northwest of the last 10 years. Why?

Response: We owe our success first and foremost to our dedicated employees. They have built and embraced the IMCB culture, which is focused on giving first and knowing that everything else will take care of itself. In good times and bad we're absolutely committed to our communities, and that reputation has allowed our bank to enjoy vigorous growth. IMCB chooses staff members carefully, and then commits to them fully. We invest in our people, and ensure that staff members can engage actively with our customers.

Every employee is a member of the marketing team, because we believe that how we treat our customers is the best marketing available. And the returns on this kind of one-on-one marketing investment are measurably superior to traditional broad brand campaigns. We know our customers and serve them with a knowledge, insight and caring unmatched by our competitors.

Public statistics from the FDIC reflect that IMCB has the number one deposit market share position among commercial banks in 4 of the 8 Idaho markets we operate within. This deposit market universe has total deposits of \$5.3 billion. Our deposits represent \$620MM, or 12%, of

that amount, which places us in the number two position out of 26 banks. In Oregon we currently operate in one market (Malheur County), where we enjoy a #1 market share position, outperforming 6 other national and local competitors. Our Washington market is progressing quickly and we anticipate ICB Washington will be one of our strongest contributors to 2008 deposit growth.

IMCB's Panhandle State Bank, Intermountain Community Bank and Magic Valley Bank branches continue to take market share from the giants by *earning* customers, versus growth through big-budget marketing and advertising.

Like every organization in business for the long-term, we are constantly cycling through good and bad economies. The ultimate success of companies is often measured by how they've been able to manage in tough times and capitalize on good times. All times can be good if you are true to your mission, your vision and your values.

Question: Today's economy is rough, and may get rougher. How has the economy impacted your business?

Response: The US and global economies are struggling and overall our industry will likely experience a downturn in earnings. Even banks like ours, which did not participate directly in the sub prime mortgage market, may feel affects from some of our customers who have been impacted, and from the difficulties of other financial institutions.

Fortunately, our region to date has suffered far less than some other parts of the country. There has been a steady increase of jobs in the past year, well above the national average. Agricultural markets are very positive. Our border communities and markets have benefited from the export and tourist trades created by a lower valued dollar. Commercial construction has remained strong and our industries and workforce are both diversified and healthy. The Inland Northwest continues to see an influx of intellectual capital, drawn by relatively low costs and our enviable quality of life.

All this is good news for IMCB and our communities, but it doesn't mean that we are unaffected. Many are feeling the pinch in the housing and mortgage markets and there is a trickle-down effect for many of our customers. In general, we are facing these economic times with an absolute

commitment to protecting our customers and their financial health. IMCB can only be as healthy as our customer base.

Question: How have increased Federal Regulations affected IMCB?

Response: I started my career in banking during the Reagan years, which was a time of deregulation and an opportunity for financial institutions to really differentiate themselves. Deposit interest rates became market driven, and interstate banking was first allowed. Now the environment has turned back toward tighter regulation, which means the industry can expect increased homogenization. IMCB has countered by centralizing backroom operations and keeping decision makers in local markets.

The regulations are equally as costly for small to medium sized banks, like ours, as for very large “super-banks” in terms of much of the initial expense. While such costs can be absorbed with relative ease by enormous institutions, smaller banks may find that regulatory compliance is too expensive, and will be forced to either merge or combine with bigger banks. Those banks that can make it through this first start-up compliance phase will be more able to create economies of scale in the day-to-day business of regulation administration. IMCB has made the appropriate investment, and we are poised for the future.

Question: Have you made any changes in your focus?

Response: In response to the challenges of the market, we have changed our focus somewhat. Rather than setting as high a priority on attracting brand new customers, we are working with existing and self-identified customers who may need assistance to weather or avoid financial difficulties, or who may be in a position to capitalize on opportunities and expand their businesses.

IMCB continues to focus on maintaining a strong core deposit base; we have an enviable record in this area, which we attribute to our network of relationships. In fact, current customers who appreciate our philosophy of building banking relationships for life refer many of our new clients. We find that customers depend on us even more during the tough times, and we plan to be here for them.

Question: Is there anything that you will be doing differently, as CEO?

Response: I look forward to spending more time with customers, community and employees solving problems and promoting economic safety and balance.

Also, I plan to become much more politically active in promoting the vision and values of our bank. Smaller banks and rurally focused institutions need more of a voice in Washington DC, where the premise sometimes seems to be that all banks and bank customers are the same. I would like to see increased financial consumer advocacy for the needs of smaller communities and their service institutions.

Question: Your stock price is down 40% from its high point. Why?

Response: Our stock price downturn is a direct reflection of the industry, and the industry is reflecting both heightened credit quality risk and compressing margins. Lowered expectations for earnings coupled with difficulties in growing core deposits have depressed the value of most financial institutions.

On the other hand, our regional market is still one of the strongest in the country. The industrial base in our service areas is strong and diverse. Agriculture is doing as well as it has in twenty years with some commodity prices at an all-time high. The health, technology and service sectors are in growth mode and unemployment is low and stable. With these indicators, we feel confident in the future prosperity of our customers, our communities and our bank.

I welcome the challenges and even though times are tougher, the opportunity to help others make progressive contributions is a lot of fun.

Question: How do you plan to get through this period of economic downturn?

Response: IMCB has a strong core of seasoned professionals who have been through these cyclical changes before and are ready to guide the bank through current challenges. Tough times also create opportunities, and we are honing our strategy and processes to take advantage of these opportunities as they arise. For example, much of the competition in the mortgage market has

faded away due to poor practices, and we will benefit from that. We maintain a strong balance sheet, with a very conservative allowance for loan losses. Our model is considered to be sophisticated, able to project risks and losses to our portfolio, which allows us to manage that risk better than many other similar-sized companies.

We have worked hard for market share growth by partnering with customers to improve their growth and prosperity. Because our portfolio strength is based upon our customer knowledge and active outreach, we feel that we are well positioned for the future.

Question: Have you made major changes to your strategic plan?

Response: No, not long term. Although we have made some adjustments to our immediate business practices, we remain a growth company. While we expect to continue to grow over the long term, at least in the near term our growth rate could be impacted by a contracting economy. IMCB has been successful because we actively think, talk and breathe an unflagging commitment to being *Unbig On Purpose*. That means we are constantly evaluating opportunities in the market and weighing them against our strategic plan, so that we can make right-size decisions for our bank and our customers.

Question: You've built some pretty large buildings recently, including the Sandpoint Center, your new ICB bank in Spokane and the Coeur d'Alene building. Why? Are you going to build more in 2008?

Response: The three buildings mentioned were all designed to be "hub" banks: centers for community and non-profit activities. These regional centers also handle administrative functions, so our recent expansion has put us in a good position. We don't plan any new hubs in the next calendar year, although we will be looking for an opportunity to develop a regional center in Southern Idaho.

All our existing branches are capable of growing, as our strong market positions demonstrate. Our newest market, Spokane, holds the potential for significant growth. At this point we don't anticipate needing to build any new branches in new geography, but we will continue to look for opportunities to serve our customer base in more personal and customized ways.

We have charters for mobile branch services, through which we offer a scheduled courier service for customers conducting transactions on a regular basis; a specialty courier for intermittent transactional needs; an armed cash courier to pick up and deliver cash transactions; and remote deposit capture, which allows a merchant to deposit checks electronically from their own place of business. Banking solutions like these are another way to give our customers the services they need, where they need them.

Question: Many banks with your success and size sell. Is this a consideration for IMCB?

Response: IMCB is a publicly held company, and the Board of Directors and its shareholders could, theoretically, decide to sell or merge. However, another bank would have to prove that they could grow their earnings and assets better than we can. We're not looking to change our structure or ownership at this critical point.

Question: Is IMCB safe and secure?

Response: Yes. IMCB is considered a "well capitalized" bank by the FDIC and has made the investment to comply with existing and new regulations. We're fully involved in the culture and stability of our communities, and we're completely committed to the success of each of our customers. We can and expect to weather the storm of this economic squall with the prospect of fair skies ahead.

This information may contain forward-looking statements within the Private Securities Litigation Reform Act of 1995. Such forward-looking statements may include but are not limited to statements about the Company's plans, objectives, expectations and intentions and other statements contained in this document that are not historical facts. These forward-looking statements are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the Company's control. Actual results may differ materially from the results discussed in these forward-looking statements because of numerous possible risks and uncertainties. These include but are not limited to: the possibility of adverse economic developments that may, among other things, increase default and delinquency risks in the Company's loan portfolio; a continued decline in the housing market; a tightening of available credit; shifts in interest rates that may result in lower interest rate margins; shifts in the demand for the Company's loan and other products; changes in accounting policies; changes in the monetary and fiscal policies of the federal government; and changes in laws, regulations and the competitive environment.